

# SECURITIES AND EXCHANGE COMMISSION

## FORM S-1/A

General form of registration statement for all companies including face-amount certificate companies [amend]

Filing Date: **1996-08-26**  
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### FILER

#### **AMERICAN RESIDENTIAL SERVICES INC**

CIK: **1014187** | IRS No.: **760484996** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **S-1/A** | Act: **33** | File No.: **333-06195** | Film No.: **96620467**  
SIC: **1700** Construction - special trade contractors

Business Address  
*5850 SAN FELIPE  
SUITE 500  
HOUSTON TX 77057  
7137066177*

SECURITIES AND EXCHANGE COMMISSION

AMENDMENT NO. 2  
TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

AMERICAN RESIDENTIAL SERVICES, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

1711 76-0484996  
(STATE OR OTHER JURISDICTION OF (PRIMARY STANDARD  
INDUSTRIAL (I.R.S. EMPLOYER IDENTIFICATION NUMBER)  
INCORPORATION CLASSIFICATION CODE NUMBER)  
OR ORGANIZATION)

5850 SAN FELIPE -- SUITE 500  
HOUSTON, TEXAS 77057-8003  
(713) 706-6177

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,  
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

JOHN D. HELD, ESQ.  
SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY  
AMERICAN RESIDENTIAL SERVICES, INC.  
5850 SAN FELIPE -- SUITE 500  
HOUSTON, TEXAS 77057-8003  
(713) 706-6177

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE  
NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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NEW YORK, NEW YORK 10178  
(212) 309-6000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon  
as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933, check the following box. [ ]

If this Form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act, please check the following box  
and list the Securities Act registration statement number of the earlier  
effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434,  
please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR  
DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL  
FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION  
STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF  
THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME  
EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A),  
MAY DETERMINE.

Information contained herein is subject to completion or amendment. A  
registration statement relating to these securities has been filed with the

Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED AUGUST 26, 1996

PROSPECTUS

4,200,000 Shares

[LOGO ARS, INC.]

AMERICAN RESIDENTIAL SERVICES, INC.

Common Stock

All the shares of common stock, \$.001 par value per share (the "Common Stock"), offered hereby are being sold by American Residential Services, Inc. ("ARS"). Prior to this offering, there has not been a public market for the Common Stock of ARS. It is currently estimated that the initial public offering price will be between \$14.00 and \$16.00 per share. See "Underwriting" for information relating to the factors to be considered in determining the initial public offering price. The Common Stock has been approved for listing on the New York Stock Exchange under the symbol "ARS," subject to official notice of issuance.

SEE "RISK FACTORS" ON PAGE 9 OF THIS PROSPECTUS FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS (1)	PROCEEDS TO COMPANY (2)
Per Share	\$	\$	\$
Total (3)	\$	\$	\$

(1) For information regarding indemnification of the several Underwriters, see "Underwriting."

(2) Before deducting expenses estimated at \$ payable by ARS.

(3) ARS has granted the several Underwriters a 30-day option to purchase up to 630,000 additional shares of Common Stock solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$ , \$ and \$ , respectively.

The shares of Common Stock are being offered by the several Underwriters named herein, subject to prior sale, when, as and if accepted by them and subject to certain conditions. It is expected that certificates for the shares of Common Stock offered hereby will be available for delivery on or about September \_\_, 1996 at the office of Smith Barney Inc., 333 West 34th Street, New York, New York 10001.

Smith Barney Inc.

Montgomery Securities

September \_\_, 1996

[graphics -- gatefold, showing map of the United States with Company locations, service vehicles, facilities and personnel of the Founding Companies]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT

A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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#### PROSPECTUS SUMMARY

CONCURRENTLY WITH THE CLOSING OF THE OFFERING MADE HEREBY (THE "OFFERING"), ARS PLANS TO ACQUIRE, IN SEPARATE TRANSACTIONS (COLLECTIVELY, THE "ACQUISITIONS"), IN EXCHANGE FOR CONSIDERATION INCLUDING SHARES OF ITS COMMON STOCK, SEVEN RESIDENTIAL SERVICES BUSINESSES (COLLECTIVELY, THE "FOUNDING COMPANIES"), TWO OF WHICH ALREADY HAVE BEEN ACQUIRED BY AN AFFILIATE OF ARS. SEE "THE COMPANY." THE NUMBER OF SHARES OF COMMON STOCK TO BE ISSUED IN EACH ACQUISITION AND THE NUMBER OF SHARES ISSUED TO THE FOUNDERS OF ARS WILL DEPEND ON THE INITIAL PUBLIC OFFERING PRICE OF THE COMMON STOCK. ACCORDINGLY, THE DISCLOSURES HEREIN RELATING TO THE SHARES OF COMMON STOCK ISSUED TO THE FOUNDERS OF ARS AND TO BE ISSUED IN CONNECTION WITH THE ACQUISITIONS ARE ESTIMATED, BASED ON AN ASSUMED INITIAL PUBLIC OFFERING PRICE OF \$15.00 PER SHARE (THE MIDPOINT OF THE ESTIMATED INITIAL PUBLIC OFFERING PRICE RANGE). UNLESS OTHERWISE INDICATED BY THE CONTEXT, REFERENCES HEREIN TO (I) "ARS" MEAN AMERICAN RESIDENTIAL SERVICES, INC., (II) THE "COMPANY" MEAN ARS AND THE FOUNDING COMPANIES AND (III) "FISCAL 1993," "FISCAL 1994" AND "FISCAL 1995" MEAN, RESPECTIVELY, THE YEAR ENDED DECEMBER 31, 1993, 1994 AND 1995 WITH RESPECT TO THE COMPANY AND FIVE FOUNDING COMPANIES, JUNE 30, 1993 AND 1994 AND DECEMBER 31, 1995 WITH RESPECT TO ONE FOUNDING COMPANY AND APRIL 30, 1994, 1995 AND 1996 WITH RESPECT TO ONE OTHER FOUNDING COMPANY.

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE DETAILED INFORMATION AND FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, THE INFORMATION AND SHARE AND PER SHARE DATA IN THIS PROSPECTUS (I) GIVE EFFECT TO THE ACQUISITIONS, (II) ASSUME THE UNDERWRITERS' OVER-ALLOTMENT OPTION IS NOT EXERCISED AND (III) GIVE EFFECT TO CERTAIN STOCK SPLITS OF THE OUTSTANDING COMMON STOCK EFFECTED IN CONNECTION WITH THE OFFERING AND THE CONVERSION OF A CONVERTIBLE NOTE INTO COMMON STOCK.

#### THE COMPANY

ARS was founded in October 1995 to create the leading national provider of (i) comprehensive maintenance, repair and replacement services for heating, ventilating and air conditioning ("HVAC") systems, including indoor air quality services, and for plumbing, electrical and other systems in homes and small commercial buildings and (ii) new installation services of those systems in homes and small commercial facilities under construction (collectively, "residential services"). To achieve this goal, the Company intends to implement an aggressive acquisition program and a national operating strategy designed to increase internal revenue growth and capitalize on cost efficiencies. During fiscal 1995, the combined revenues of the Founding Companies totaled \$114.6 million, of which maintenance, repair and replacement services accounted for approximately 48% and new installation services accounted for approximately 52%. The Company believes the profitability of its maintenance, repair and replacement business benefits from its installation services operations as a result of (i) the significant volume of purchases of HVAC systems for its high-volume installation services and (ii) the addition of new customer and equipment information to the Company's marketing database. This database provides the Company with valuable information that can be used to expand the Company's future residential services revenue base. In addition, new installation services provide the Company with cooperative advertising credits from HVAC system manufacturers which it uses for promoting its maintenance, repair and replacement services for residential HVAC systems. Through leveraging these benefits, acquiring new service companies and internal development, the Company intends to emphasize the growth of its higher-margin maintenance, repair and replacement services business.

ARS has definitive agreements to acquire the seven Founding Companies simultaneously with the closing of this Offering. The Founding Companies have been in business an average of 31 years and provide various residential services in and around the Houston and Washington-Baltimore metropolitan areas, Richmond, Virginia, throughout South Carolina, southeast Florida and central Indiana (primarily Indianapolis). The Company is a leading provider of one or more residential services in each region in which it operates. During fiscal 1995, the Company's service and installation technicians (totaling

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approximately 1,000 as of June 30, 1996) responded to approximately 263,000 maintenance, repair and replacement service calls and installed approximately 15,100 HVAC systems in newly built homes, apartments and small commercial buildings. Three of the largest Founding Companies, representing approximately 63% of the Company's fiscal 1995 combined revenues, have been members of an industry-sponsored practice-sharing group for the past six years. Through this arrangement, they have developed common marketing plans, computer systems and

other operational practices in order to develop "best practices" in their respective markets. The Company believes building upon this arrangement to include all the Founding Companies will aid in the initial integration of the Founding Companies following the closing of this Offering.

The Company estimates that the HVAC, plumbing and electrical industries in the United States represent an annual market in excess of \$40 billion, of which maintenance, repair and replacement services account for in excess of \$25 billion. It believes this market is served by over 50,000 companies, consisting predominantly of small, owner-operated businesses operating in single local geographic areas and providing a limited range of services. It also believes the majority of owners in its industry have limited access to adequate capital for modernization, training and expansion and limited opportunities for liquidity in their businesses.

The Company believes significant opportunities are available to a well capitalized, national company employing professionally trained, customer-oriented service technicians and providing a full complement of high-quality residential services in an industry that has been characterized by inconsistent quality, reliability and pricing. It also believes the highly fragmented nature of the residential services industry will provide it with significant opportunities to consolidate the capabilities and resources of a large number of existing residential services businesses.

#### BUSINESS STRATEGY

The Company plans to achieve its goal of becoming the leading national provider of professional, high-quality residential services by emphasizing growth through acquisitions and implementing a national operating strategy that enhances internal revenue growth and profitability and achieves cost efficiencies.

**GROWTH THROUGH ACQUISITION.** The Company intends to implement an aggressive acquisition program targeting large metropolitan and high-growth suburban areas with attractive residential demographics. The Company's acquisition strategy involves entering new geographic markets and expanding within existing markets.

- o **ENTERING NEW GEOGRAPHIC MARKETS.** In each new market, the Company will initially target for acquisition one or more leading local or regional companies providing residential services and having the critical mass necessary to be a core business with which other residential service operations can be consolidated. An important criterion for these acquisition candidates will be superior operational management personnel, whom the Company generally will seek to retain.
- o **EXPANDING WITHIN EXISTING MARKETS.** Once the Company has entered a market, it will seek to acquire other well-established service companies operating within that region, in order to expand its market penetration and the range of services it offers in that market. The Company also will pursue "tuck-in" acquisitions of smaller residential services companies whose operations can be incorporated into the Company's existing operations without a significant increase in infrastructure.

**IMPLEMENTATION OF A NATIONAL OPERATING STRATEGY.** The Company intends to implement a national operating strategy employing "best practices" designed to increase internal growth and profitability through enhanced operations and the achievement of cost efficiencies.

- o **INTERNAL GROWTH.** The Company will review its operations at the local and regional operating levels (as well as examine other service industry practices) in order to identify certain "best practices" that will be implemented throughout its operations. For example, the Company intends

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to provide 24-hour emergency service at each of its locations and to monitor service call quality by attempting to contact each of its service customers promptly following a service call. In addition, the Company intends to utilize a national training program to improve and keep current the technical, selling and customer relations skills of its service technicians and will use specialized computer technology at each of its locations to improve communications, vehicle dispatch and service quality and responsiveness. Management believes these practices will enable the Company to provide superior customer service and maximize sales opportunities. This service-oriented strategy will also allow the Company to reinforce its brand images at the local level while fostering its efforts to develop a national brand name.

- o **COST EFFICIENCIES.** The Company believes it should be able to reduce the total operating expenses of the Founding Companies and other acquired businesses by eliminating duplicative administrative functions in tuck-in acquisitions and consolidating certain functions performed separately by each company prior to its acquisition. In

addition, the Company believes that, as a large, national residential services company, it should experience reduced costs (as a percentage of revenues) compared to those of the individual Founding Companies and other acquired companies in such areas as: the purchase of equipment for resale, service vehicles, parts and tools; vehicle and equipment maintenance; financing arrangements; employee benefits; and insurance and bonding.

THIS OFFERING

Common Stock offered by the Company.....	4,200,000
Common Stock to be outstanding after this Offering(1).....	8,449,652
Use of Proceeds.....	To pay the cash portion of the purchase price for the Founding Companies, to repay indebtedness of ARS, the Founding Companies and the parent of two Founding Companies (Enterprises Holding Company ("EHC")) and to redeem preferred stock of EHC. See "Use of Proceeds."
NYSE symbol.....	ARS

(1) The number of shares estimated to be outstanding on completion of this Offering consists of (i) 422,483 shares issued to the founders of ARS, (ii) 844,965 shares to be issued on conversion in part of an ARS convertible note issued in the organizational financing of ARS, (iii) 2,805,065 shares to be issued as consideration in the Acquisitions, (iv) 137,139 shares to be issued in exchange for \$2.1 million of preferred stock of EHC, (v) 40,000 shares to be awarded to certain employees and consultants of the Company under the Company's 1996 Incentive Plan on the closing of the EHC acquisition and (vi) the 4,200,000 shares being offered hereby. Such share number does not include (i) an aggregate of 1,430,000 shares subject to options granted under the Company's 1996 Incentive Plan, (ii) a warrant to purchase up to 100,000 shares of Common Stock, at a purchase price equal to the initial public offering price per share, issued by the Company to Equus II Incorporated in connection with the Company's start-up funding and (iii) a warrant to purchase shares of Common Stock having a value of \$125,000 on the closing date of this Offering, at a purchase price equal to \$.01 per share, to be issued to NationsBank of Texas, N.A. in connection with the EHC acquisition. See "Certain Transactions -- Organization of the Company" and "Management -- Option Grants." The number of shares to be outstanding on completion of this Offering will decrease if the initial public offering price is higher, and will increase if the initial public offering price is lower, than \$15.00 per share. For example, 8,230,373 shares would be outstanding if that price is \$16.00, while 8,700,258 shares would be outstanding if that price is \$14.00.

RISK FACTORS

The Common Stock offered hereby involves a high degree of risk. See "Risk Factors."

SUMMARY PRO FORMA FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ARS will acquire the Founding Companies simultaneously with and as a condition to the consummation of this Offering. For financial statement presentation purposes, however, Atlas Services, Inc., one of the Founding Companies, has been identified as the accounting acquiror. The following summary unaudited pro forma financial data presents certain data for the Company, as adjusted for (i) the effects of the Acquisitions on an historical basis, (ii) the effects of certain pro forma adjustments to the historical financial statements and (iii) the consummation of this Offering. See "Selected Financial Data" and the Unaudited Pro Forma Combined Financial Statements and the notes thereto included elsewhere in this Prospectus.

PRO FORMA (1)		
-----		
SIX MONTHS		
ENDED JUNE 30		
-----		
FISCAL 1995	1995	1996

## STATEMENTS OF OPERATIONS DATA

(UNAUDITED):

Revenues.....	\$114,636	\$ 52,585	\$ 61,536
Gross profit.....	29,416	13,216	16,042
Selling, general and administrative expenses(2)....	21,853	10,150	12,402
Goodwill amortization(3).....	1,296	648	648
Operating income.....	6,267	2,418	2,992
Interest income and other expense, net.....	613	273	245
Interest expense(4).....	(457)	(229)	(229)
Income from continuing operations.....	\$ 3,458	\$ 1,329	\$ 1,624
Income per share from continuing operations.....	\$ .41	\$ .16	\$ .19
Shares used in computing pro forma income per share from continuing operations(4).....	8,450	8,450	8,450

JUNE 30, 1996

	PRO FORMA(1)	AS ADJUSTED(5)
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## BALANCE SHEET DATA (UNAUDITED):

Working capital.....	\$ (39,519)	\$ 878
Total assets.....	88,435	88,001
Total debt, including current portion.....	26,848	6,999
Stockholders' equity.....	6,631	61,346

(1) The pro forma statements of operations data and the pro forma balance sheet data assume that the Acquisitions were closed on January 1 of each period presented and June 30, 1996, respectively, and are not necessarily indicative of the results the Company would have obtained had these events actually then occurred or of the Company's future results. The pro forma combined financial information (i) is based on preliminary estimates, available information and certain assumptions that management deems appropriate and (ii) should be read in conjunction with the other financial statements and notes thereto included elsewhere in this Prospectus.

(2) The pro forma combined statements include the effect of certain reductions in salary and benefits to the owners of six of the Founding Companies to which they have agreed prospectively, as follows: fiscal 1995, \$1,808; and six months ended June 30, 1995 and 1996, \$943 and \$1,272, respectively. Additionally, the pro forma combined statements include the effect of assets distributed to and the costs of certain leases assumed by the owners of certain of the Founding Companies.

(3) Reflects amortization of the goodwill to be recorded as a result of the Acquisitions over a 40-year period.

(4) Computed on a basis described in Note 5 of Notes to Unaudited Pro Forma Combined Financial Statements.

(5) Reflects the closing of this Offering and the Company's application of the net proceeds therefrom and the use of borrowings under the New Credit Facility to repay indebtedness of the Founding Companies and ARS and redeem certain EHC preferred stock. See "Use of Proceeds."

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SUMMARY INDIVIDUAL FOUNDING COMPANY FINANCIAL DATA  
(IN THOUSANDS)

The following table presents summary data for each of the Founding Companies (see "The Company" for the complete names of each) and EHC for the three most recent fiscal years as well as the most recent interim period and comparative period of the prior year, as applicable.

&lt;TABLE&gt;

&lt;CAPTION&gt;

	FISCAL			SIX MONTHS ENDED JUNE 30	
	1993	1994	1995	1995	1996

(UNAUDITED)

&lt;S&gt;

&lt;C&gt;

&lt;C&gt;

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GENERAL HEATING:

Revenues.....	\$ 34,642	\$ 36,334	\$ 35,159	\$ 16,214	\$ 17,211
Gross profit.....	7,249	6,406	6,293	2,883	3,278
Selling, general and administrative expenses(1)....	5,011	5,245	5,280	2,626	2,816
ATLAS (2):					
Revenues.....	\$ 10,210	\$ 15,625	\$ 22,048	\$ 10,354	\$ 14,092
Gross profit.....	2,027	2,948	4,237	1,945	2,735
Selling, general and administrative expenses(1)....	1,761	2,421	3,022	1,439	2,268
CROWN (3):					
Revenues.....	\$ 16,268	\$ 16,844	\$ 19,124	\$ 8,775	\$ 4,152
Gross profit.....	5,937	6,529	7,791	3,581	1,509
Selling, general and administrative expenses(1)....	5,698	5,837	6,165	2,941	1,519
FLORIDA HAC (4):					
Revenues.....	\$ 13,123	\$ 15,845	\$ 14,510	\$ 7,631	\$ 7,244
Gross profit.....	3,217	3,766	3,969	1,934	1,905
Selling, general and administrative expenses(1)....	2,807	3,321	3,738	1,883	1,816
MERIDIAN & HOOSIER (4):					
Revenues.....	\$ 5,864	\$ 8,066	\$ 10,133	\$ 4,420	\$ 6,992
Gross profit.....	1,800	2,269	2,852	1,247	2,241
Selling, general and administrative expenses(1)....	1,454	1,988	2,350	1,056	1,724
A-ABC (5):					
Revenues.....	\$ 10,900	\$ 8,676	\$ 8,707	\$ 3,983	\$ 3,445
Gross profit.....	3,978	3,101	2,998	1,262	1,298
Selling, general and administrative expenses(1)....	2,830	2,444	2,348	1,108	836
CLIMATIC (4) (6):					
Revenues.....	\$ 3,177	\$ 4,220	\$ 4,955	\$ 1,208	\$ 1,597
Gross profit.....	765	841	1,276	364	385
Selling, general and administrative expenses.....	739	847	1,287	265	287
EHC (7):					
Revenues.....				\$ 6,803	
Gross profit.....				2,691	
Selling, general and administrative expenses.....					1,784

</TABLE>

(FOOTNOTES ON FOLLOWING PAGE)

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(1) Does not reflect the effects of certain reductions in salaries and benefits to the owners of six of the Founding Companies, as follows:

<TABLE>

<CAPTION>

	SIX MONTHS ENDED				
	FISCAL			JUNE 30	
	1993	1994	1995	1995	1996
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
General Heating.....	\$ 39	\$ 31	\$ 41	\$ 20	\$ 20
Atlas.....	88	123	210	104	414
Crown.....	729	402	449	210	115
Florida HAC.....	58	712	868	494	634
Meridian & Hoosier.....	8	42	104	47	32
A-ABC.....	76	110	136	68	57

</TABLE>

(2) Results for fiscal years ended June 30, 1993 and 1994 and December 31, 1995.

(3) 1996 interim results for Crown represent results for the three months ended March 31, 1996. Results for the three months ended June 30, 1996 are included in the EHC results.

(4) The following summary financial data is unaudited: Florida HAC and Meridian & Hoosier for fiscal 1993; and Climatic for fiscal 1993, 1994 and 1995.

(5) 1996 interim results for A-ABC represent results for the five months ended May 31, 1996. Results for A-ABC for the period following its acquisition by EHC are included in the EHC results.



(6) Interim results for Climatic represent results for the three months ended July 31, 1995 and 1996.

(7) 1996 interim results for EHC for the six months ended June 30, 1996 include results of Crown from April 1, 1996 and results of A-ABC from June 1, 1996.

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#### RISK FACTORS

PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING FACTORS, AS WELL AS THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS. THIS PROSPECTUS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF ANY NUMBER OF FACTORS, INCLUDING THE RISK FACTORS SET FORTH BELOW AND ELSEWHERE IN THIS PROSPECTUS.

#### ABSENCE OF COMBINED OPERATING HISTORY

ARS, incorporated in Delaware in October 1995, has conducted no operations to date other than in connection with this Offering and its pending acquisitions in separate transactions (the "Acquisitions") of seven businesses (the "Founding Companies"), two of which already have been acquired by an affiliate of ARS. See "The Company." The Founding Companies have operated, and will continue to operate prior to the closing of the Acquisitions, as separate, independent businesses, and the Company will use the purchase method of accounting to record the Acquisitions. Consequently, the pro forma financial information herein may not be indicative of the Company's future operating results and financial condition. Until the Company establishes centralized accounting and other administrative systems, it will rely on the separate systems of the Founding Companies. The success of the Company will depend, in part, on the extent to which the Company is able to centralize these functions, eliminate the unnecessary duplication of other functions and otherwise integrate the Founding Companies and such additional businesses as the Company may acquire into a cohesive, efficient enterprise. No assurance can be given the Company's management group will be able to manage effectively the combined entity or implement the Company's acquisition or national operating strategy.

#### DEPENDENCE ON ACQUISITIONS FOR GROWTH

The Company intends to grow primarily by acquiring residential services businesses that maintain, repair, replace and install heating, ventilating and air conditioning ("HVAC"), plumbing, electrical and other systems and equipment in homes and small commercial buildings in its existing and in new markets. Its acquisition strategy presents risks that, singly or in any combination, could materially adversely affect the Company's business and financial performance. These risks include the possibility of the adverse effect on existing operations of the Company from the diversion of management attention and resources to acquisitions, the possible loss of acquired customer bases and key personnel, including service technicians, and the contingent and latent risks associated with the past operations and other unanticipated problems arising in the acquired businesses. The success of the Company's acquisition strategy will depend on the extent to which it is able to acquire, successfully absorb and profitably manage additional businesses, and no assurance can be given the Company's strategy will succeed. In this connection, if competition for acquisition candidates develops, the cost of acquiring businesses could increase materially. See "Business -- Business Strategy."

#### NEED FOR ADDITIONAL FINANCING

The Company currently intends to use shares of its Common Stock in making future acquisitions. The extent to which the Company will be able or willing to use the Common Stock for this purpose will depend on its market value from time to time and the willingness of potential sellers to accept it as full or partial payment. To the extent the Company is unable to use its Common Stock to make future acquisitions, its ability to grow may be limited by the extent to which it is able to raise capital for this purpose, as well as to expand existing operations, through debt or additional equity financings. The Company has obtained a commitment from NationsBank of Texas, N.A. ("NationsBank") to underwrite a new \$55 million bank credit facility (the "New Credit Facility") to be used for acquisitions, working capital and other corporate purposes. In addition, the Company plans to use a portion of this facility (currently estimated to be approximately \$6.0 million) to refinance indebtedness of the Founding Companies. No assurance can be given the Company will be able to obtain the capital it would need to finance a successful acquisition program and its other cash needs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

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#### DEPENDENCE ON HOUSING STARTS

The extent to which the Company is able to maintain or increase revenues from new installation services for homebuilders will depend on the levels of

housing starts from time to time in the markets in which it operates and likely will reflect the cyclical nature of the homebuilding industry. That industry is affected significantly by changes in general and local economic conditions, such as employment and income levels, the availability and cost of financing for home buyers (including the continued deductibility of mortgage interest in determining federal income tax), consumer confidence and housing demand. Unless and until the Company is able through implementation of its growth strategy to reduce the relative importance of new installation services to its overall operating results, downturns in the levels of housing starts could have a material adverse effect on its results of operations.

#### FACTORS AFFECTING INTERNAL GROWTH

The factors affecting the Company's ability to generate internal growth will include the extent to which it is able to expand the range of services offered to customers, increase existing customer bases through the development and implementation of cost-effective advertising and other marketing programs and reduce operating and overhead costs of acquired businesses. Factors affecting the ability of the Founding Companies to expand services will include the extent to which they are able to attract and retain qualified operational management and service and installation technicians in new areas of operation and leverage their relationships with existing customers to provide them services they currently obtain from others.

#### PROCEEDS OF OFFERING PAYABLE TO AFFILIATES AND ASSOCIATES

ARS will use the net proceeds of this Offering, the New Credit Facility and cash available from the Founding Companies to meet its cash requirements relating to the closing of the Acquisitions, and no portion of the net proceeds of this Offering should be considered available to meet the Company's cash requirements following closing of the Acquisitions and this Offering. In connection with the closing of the Acquisitions, ARS will pay, subject to upward or downward working capital and other possible adjustments, approximately \$30.3 million in cash for stock of the Founding Companies which is beneficially owned by individuals who will become directors of the Company and/or executive officers of subsidiaries of the Company. At the closing of the Acquisitions, the Company will make an aggregate net distribution to certain of these individuals and Equus II Incorporated ("Equus II") in respect of working capital (defined in the agreements relating to the Acquisitions generally as current assets less all liabilities ("Working Capital")) of approximately \$4.0 million, which payment will be subject to a final adjustment based on the balance sheets of the Founding Companies as of that closing. The Company also will use (i) \$19.7 million to pay or refinance debt of or relating to the Founding Companies, including approximately \$13.8 million of debt of Enterprises Holding Company ("EHC"), an affiliate of ARS and the owner of two of the Founding Companies and (ii) \$0.5 million to redeem EHC preferred stock held by Equus II. See "Use of Proceeds" and "Certain Transactions."

#### COMPETITION

The markets for the residential services the Company provides are highly competitive and are served principally by small, owner-operated private companies. Certain of these smaller competitors may have lower overhead cost structures and, consequently, may be able to provide their services at lower rates than the Company. The Company believes the residential services industry is subject to rapid consolidation on both a national and a regional scale. Other companies, including unregulated affiliates of electric and gas public utilities, which have objectives the same as or similar to the Company's objectives, may enter the industry. These entrants may have greater financial resources than the Company to finance acquisition and internal growth opportunities and might be willing to pay higher prices than the Company for the same opportunities. Consequently, the Company may encounter significant competition in its efforts to achieve its growth objectives. See "Business -- Competition."

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#### SEASONALITY

The Company's installation, maintenance, repair and replacement operations are subject to seasonal variations in the different lines of service. Except in southeast Florida and South Carolina, the demand for new installations can be substantially lower during the winter months. Demand for HVAC services is generally higher in the second and third quarters. Accordingly, the Company expects its revenues and operating results generally will be lower in its first and fourth quarters. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality."

#### DEPENDENCE ON KEY PERSONNEL

The Company's operations depend on the continuing efforts of its executive officers and the senior management of the Founding Companies, and the Company likely will depend on the senior management of any significant businesses it acquires in the future. The business or prospects of the Company could be affected adversely if any of these persons does not continue in his or her

management role after joining the Company and the Company is unable to attract and retain qualified replacements. The success of the Company's growth strategy, as well as the Company's current operations, will depend on the extent to which the Company is able to retain, recruit and train qualified service and installation technicians who meet the Company's standards of conduct and service to its customers. See "Business -- Hiring, Training and Safety."

#### CONTROL BY EXISTING MANAGEMENT AND STOCKHOLDERS

On closing of the Acquisitions and this Offering, 10 former owners of the Founding Companies, including the principal venture-capital financing source of ARS (Equus II) and three executive officers of ARS, will beneficially own in the aggregate approximately 46% of the outstanding Common Stock. If these persons were to act in concert, they would, as a practical matter, be able to exercise control over the Company's affairs, including the election of the entire Board of Directors and (subject to Section 203 of the Delaware General Corporation Law (the "DGCL")) any matter submitted to a vote of stockholders. See "Security Ownership of Certain Beneficial Owners and Management."

#### POTENTIAL EFFECT OF SHARES ELIGIBLE FOR FUTURE SALE ON PRICE OF COMMON STOCK

On closing of the Acquisitions and this Offering, 8,449,652 shares of Common Stock will be outstanding. The 4,200,000 shares sold in this Offering (other than shares that may be purchased by affiliates of the Company) will be freely tradable. The remaining shares outstanding may be resold publicly only following their effective registration under the Securities Act of 1933, as amended (the "Securities Act"), or pursuant to an available exemption (such as provided by Rule 144 following a holding period for previously unregistered shares) from the registration requirements of that Act. The holders of those remaining shares have certain rights to have their shares registered in the future under the Securities Act (see "Shares Eligible for Future Sale"), but may not exercise such registration rights, and have agreed with ARS that they will not sell, transfer or otherwise dispose of any of their shares, for two years following the closing of this Offering (or for such shorter period as the Securities and Exchange Commission (the "SEC") may prescribe as the holding period for restricted securities under Rule 144). Sales made pursuant to Rule 144 must comply with its applicable volume limitations and other requirements.

On closing of this Offering, the Company also will have outstanding options and warrants to purchase up to a total of 1,538,333 shares of Common Stock, of which only warrants to purchase 108,333 shares will be exercisable immediately after the Closing. The Company intends to register all the shares subject to these options and warrants under the Securities Act for public resale.

The Company and its directors and executive officers, Equus II and all persons who acquire shares of Common Stock in connection with the Acquisitions have agreed not to offer or sell any shares for a period of 180 days following the date of this Prospectus (the "Lockup Period") without the prior written consent of Smith Barney Inc., except that the Company may issue Common Stock in connection with acquisitions, pursuant to the Company's 1996 Incentive Plan (see "Management -- 1996 Incentive Plan") and pursuant to the exercise of warrants outstanding as of the closing of this Offering.

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The Company intends to register 5,000,000 additional shares of Common Stock under the Securities Act during the fourth quarter of 1996 for its use in connection with future acquisitions. These shares generally will be freely tradable after their issuance by persons not affiliated with the Company unless the Company contractually restricts their resale.

The effect, if any, the availability for sale, or sale, of the shares of Common Stock eligible for future sale will have on the market price of the Common Stock prevailing from time to time is unpredictable, and no assurance can be given that the effect will not be adverse.

#### NO PRIOR MARKET; POSSIBLE VOLATILITY OF STOCK PRICE

Prior to this Offering, no public market for the Common Stock has existed, and the initial public offering price, which will be determined by negotiation between the Company and representatives of the Underwriters, may not be indicative of the price at which the Common Stock will trade after this Offering. See "Underwriting" for the factors to be considered in determining the initial public offering price. The Common Stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, but no assurance can be given an active trading market for the Common Stock will develop or, if developed, continue after this Offering. The market price of the Common Stock after this Offering may be subject to significant fluctuations from time to time in response to numerous factors, including variations in the reported financial results of the Company and changing conditions in the economy in general or in the Company's industry in particular. In addition, the stock markets experience significant price and volume volatility from time to time which may affect the market price of the Common Stock for reasons unrelated to the Company's performance at that time.

#### IMMEDIATE, SUBSTANTIAL DILUTION

Purchasers of Common Stock in this Offering (i) will experience immediate, substantial dilution in the net tangible book value of their stock of \$13.88 per share (see "Dilution") and (ii) may experience further dilution in that value from issuances of Common Stock in connection with future acquisitions.

#### POTENTIAL ADVERSE EFFECTS OF AUTHORIZED PREFERRED STOCK

The Company's Restated Certificate of Incorporation authorizes the Board of Directors to issue, without stockholder approval, one or more series of preferred stock having such preferences, powers and relative, participating, optional and other rights (including preferences over the Common Stock respecting dividends and distributions and voting rights) as the Board of Directors may determine. See "Description of Capital Stock -- Preferred Stock."

#### POTENTIAL ANTI-TAKEOVER EFFECTS

The Company has adopted a stockholder rights plan. This plan and provisions of the Company's Restated Certificate of Incorporation and Bylaws and the DGCL may have the effect of delaying, discouraging, inhibiting, preventing or rendering more difficult an attempt to obtain control of the Company by means of a tender offer, business combination, proxy contest or otherwise. These provisions include the charter authorization of "blank check" preferred stock and classification of the Board of Directors, a By-law restriction on the ability of stockholders to take actions by written consent and a DGCL provision imposing restrictions on business combinations with certain interested parties. See "Description of Capital Stock."

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#### THE COMPANY

ARS: ARS was founded in October 1995 to create the leading national provider of residential services through the implementation of both an aggressive acquisition program and a national operating strategy. Concurrently with and as a condition to the closing of this Offering, ARS will acquire the seven Founding Companies. For a description of the transactions pursuant to which these businesses will be acquired, see "Certain Transactions -- Organization of the Company."

GENERAL HEATING: General Heating Engineering Company, Inc., which does business as "General Heating & Air Conditioning Co." ("General Heating"), was founded in 1947 and is a leading installer of HVAC systems and equipment and pre-fabricated gas and wood-burning fireplaces for residential and light commercial construction markets in the Washington-Baltimore metropolitan area, including northern Virginia, and Richmond. It also provides comprehensive HVAC maintenance, repair and replacement services to the residential and light commercial markets and sells and installs pre-fabricated gas and wood-burning fireplaces. In recognition of its commitment to customer service, General Heating has received CONTRACTING BUSINESS magazine's 1996 Residential Contractor of the Year Award. It maintains its headquarters in Manassas, Virginia and has branch facilities in Savage, Maryland and Richmond, Virginia. At its Manassas location, General Heating operates a facility that fabricates and assembles substantially all the sheet metal, duct work, fiberglass and flexible duct work items used in its installation operations. During fiscal 1995, General Heating had revenues of approximately \$35.2 million.

ATLAS: Atlas Services, Inc. ("Atlas") was founded in 1976 and is a leading provider of electric, HVAC and plumbing installation services to residential and light commercial construction markets throughout South Carolina. Atlas also provides comprehensive plumbing, HVAC and electrical, maintenance, repair and replacement services and retails and installs pre-fabricated gas and wood-burning fireplaces. It maintains its headquarters in Charleston, South Carolina and has branch facilities in Columbia, Greenville, Hilton Head, Clemson and Myrtle Beach, South Carolina. During fiscal 1995, Atlas had revenues of approximately \$22.0 million.

CROWN: Services Enterprises, Inc., which does business as "Crown Services" ("Crown"), began operations in 1956 and is the largest single provider of residential plumbing, HVAC and electrical maintenance, repair and replacement services to the residential and light commercial markets in the Houston metropolitan area. Crown does not provide new installation services. It maintains its headquarters in Houston. In March 1996, Crown was acquired by EHC, an affiliate of ARS, which will be acquired by the Company in one of the Acquisitions. See "Certain Transactions -- EHC." During fiscal 1995, Crown had revenues of approximately \$19.1 million.

FLORIDA HAC: Florida Heating and Air Conditioning, Inc. (together with three affiliated companies having common management, "Florida HAC") began operations in 1970 and is a leading installer of HVAC systems and equipment for the residential construction market, and a leading provider of HVAC maintenance, repair and replacement services to the residential and light commercial markets, in Southeast Florida, including Broward, Dade and Palm Beach counties. It maintains its headquarters in Margate, Florida, a suburb of Ft. Lauderdale, and

has a sales office in West Palm Beach. At Margate, Florida HAC operates a facility that fabricates substantially all fiberglass and flexible duct systems used in its installation operations. During fiscal 1995, Florida HAC had revenues of approximately \$14.5 million.

MERIDIAN & HOOSIER: DIAL ONE Meridian and Hoosier, Inc. ("Meridian & Hoosier") is the successor to a business founded in 1973 and is a leading provider of HVAC maintenance, repair and replacement services to the residential and light commercial markets, and also installs HVAC systems and equipment for the residential construction market, in central Indiana, including Indianapolis. Meridian & Hoosier is the only Founding Company that currently maintains, repairs and replaces commercial heating and air conditioning units in large commercial facilities. It maintains its headquarters in Indianapolis, a branch facility in Lafayette, Indiana and a sales office in Crawfordsville, Indiana. During fiscal 1995, Meridian & Hoosier had revenues of approximately \$10.1 million.

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A-ABC: ADCOT, Inc., which does business as "A-ABC Appliance" ("A-ABC"), was founded in 1972 and is among the leading providers of home appliance, HVAC and plumbing maintenance, repair and replacement services to the residential and light commercial markets in the greater Houston and surrounding areas. A-ABC does not provide new installation services. It maintains its headquarters in Houston. In May 1996, A-ABC was acquired by EHC, which will be acquired in one of the Acquisitions. In June 1996, EHC determined to discontinue and hold for sale the retail appliance operations of A-ABC, which included eight retail stores in the greater Houston area. See "Certain Transactions -- EHC." During fiscal 1995, A-ABC had revenues of approximately \$8.7 million (net of discontinued appliance store revenues of \$11.9 million).

CLIMATIC: Climatic Corporation of Vero Beach ("Climatic") is the successor to a business founded in 1956 and is a provider of HVAC maintenance, repair and replacement services (including internal air quality ("IAQ") services) to the residential and light commercial markets in the four-county area in Florida known as the Treasure Coast region (Indian River, St. Lucie, Martin and Palm Beach Counties). It also installs HVAC systems and equipment for the residential and light commercial construction markets. It maintains its headquarters in Vero Beach, Florida. During fiscal 1995, Climatic had revenues of approximately \$5.0 million.

SUMMARY OF TERMS OF ACQUISITIONS: The aggregate consideration that will be paid by ARS to acquire the Founding Companies consists of (i) approximately \$34.8 million in cash and (ii) 2,805,065 shares of Common Stock. The Company will also assume all the indebtedness and preferred stock redemption obligations of the Founding Companies and EHC (approximately \$23.3 million as of June 30, 1996, of which \$2.1 million represented EHC preferred stock obligations that will be converted into 137,139 shares of Common Stock) and then repay or refinance substantially all such indebtedness and redeem, for \$0.5 million, the EHC preferred stock not converted into shares of Common Stock. In addition, the purchase price of each of the Founding Companies (other than Crown and A-ABC) and EHC will be increased by an amount equal to the increase, or decreased by an amount equal to the decrease, in such company's net Working Capital from the date of a specified recent balance sheet of such company through the closing of the Acquisitions. At that closing, the Company will make an aggregate net distribution in respect of Working Capital of approximately \$4.0 million, which payment will be subject to a final adjustment based on the balance sheets of such companies as of the Closing. Prior to that closing, General Heating, which is an S corporation, will distribute cash and other current assets to its stockholders in an amount equal to the balance of its Accumulated Adjustment Account ("AAA account") as of the closing of the General Heating Acquisition (approximately \$8.0 million as of June 30, 1996). An AAA account generally represents undistributed retained earnings of an S corporation, upon which taxes have been paid by the stockholders. In addition, prior to the closing of the Acquisitions, certain Founding Companies will make distributions to their stockholders of certain assets and related liabilities. As of June 30, 1996, the net amount of these distributions would have been approximately \$0.5 million. See "Certain Transactions."

The consideration being paid by ARS for each Founding Company other than Crown and A-ABC was determined by arm's-length negotiations between ARS and a representative of that Founding Company. The consideration being paid by ARS for EHC (which previously acquired Crown and A-ABC) was determined using generally the same valuation method ARS used to negotiate the consideration being paid to the stockholders of the other Founding Companies. The Company valued EHC on a basis consistent with the other Acquisitions, using the same multiple of cash flow, as adjusted for owners' compensation and other non-recurring items. In addition, the purchase price for each Acquisition was increased by the fair market value of real estate to be acquired in the Acquisition, if any, and Working Capital. See "Certain Transactions."

The closing of each Acquisition is subject to customary conditions. These conditions include, among others: the accuracy on the closing date of the Acquisitions of the representations and warranties made by the Founding Companies, their principal stockholders and by ARS; the performance of each of

their respective covenants included in the agreements relating to the Acquisitions; and the nonexistence of a material adverse change in the results of operations, financial condition or business of each Founding Company.

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Any Founding Company's Acquisition agreement may be terminated, under certain circumstances, prior to the closing of this Offering: (i) by the mutual consent of the boards of directors of ARS and the Founding Company; (ii) if this Offering and the acquisition of that Founding Company are not closed by December 31, 1996; (iii) by ARS if the schedules to the acquisition agreement are amended to reflect a material adverse change in that Founding Company; or (iv) if a material breach or default under the agreement by one party occurs and is not waived.

No assurance can be given that the conditions to the closing of all the Acquisitions will be satisfied or waived or that each Acquisition will close.

For information regarding the employment agreements to be entered into by the chief executive officer of each Founding Company other than A-ABC and Crown (which include covenants not to compete), see "Management -- Employment Agreements."

American Residential Services, Inc. is a Delaware corporation. Its executive offices are located at 5850 San Felipe, Suite 500, Houston, Texas 77057-8003, and its telephone number at that address is (713) 706-6177.

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#### USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock offered hereby after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company are estimated to be approximately \$54.6 million (approximately \$63.4 million if the Underwriters exercise their over-allotment option in full), assuming an initial public offering price of \$15.00 per share (the midpoint of the estimated initial public offering price range). Of those net proceeds, \$34.8 million will be used to pay the cash portion of the purchase prices for the Acquisitions and the remaining net proceeds will be used, together with available cash balances and up to \$6.0 million of borrowings under the Company's New Credit Facility, concurrently for the following purposes: (i) repayment of outstanding indebtedness of the Founding Companies, EHC and ARS (approximately \$21.8 million); (ii) payment of net interim working capital adjustments as part of the purchase prices of the Acquisitions (approximately \$4.0 million); and (iii) redemption of certain EHC preferred stock (\$0.5 million). See "Certain Transactions -- Organization of the Company."

The Company expects to enter into the New Credit Facility effective concurrently with the closing of this Offering. NationsBank, which provided EHC with financing to acquire Crown and A-ABC, has underwritten the New Credit Facility subject to the terms and conditions of a commitment letter dated July 17, 1996. According to these terms, the New Credit Facility provides for up to \$55 million of unsecured revolving credit that may be used for general corporate purposes, including the refinancing of Founding Company indebtedness, post-Offering acquisitions and working capital. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Founding Companies -- Liquidity and Capital Resources -- Combined."

The indebtedness to be repaid from the proceeds of this Offering and the New Credit Facility (some of which has been guaranteed by stockholders of the Founding Companies and EHC) bears interest at rates ranging from 5.9% to 13.3%. Such indebtedness would otherwise mature at various dates through 2017.

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#### DIVIDEND POLICY

It is the Company's current intention to retain earnings to finance the expansion of its business. Any future dividends will be at the discretion of the Board of Directors after taking into account various factors, including, among others, the Company's financial condition, results of operations, cash flows from operations, current and anticipated cash needs and expansion plans, the income tax laws then in effect, the requirements of Delaware law, the restrictions imposed by the New Credit Facility and any restrictions that may be imposed by the Company's future credit facilities. It is currently anticipated that the New Credit Facility will prohibit the payment of dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

#### CAPITALIZATION

The following table sets forth the short-term debt and current maturities of long-term obligations and capitalization as of June 30, 1996 (July 31, 1996 in the case of Climatic) of (i) the Company on a pro forma combined basis to

give effect to the Acquisitions and (ii) the Company, pro forma as adjusted to give effect to the Acquisitions, this Offering and the application of the estimated net proceeds therefrom and the use of borrowings under the New Credit Facility to pay existing indebtedness. See "Use of Proceeds." This table should be read in conjunction with the Unaudited Pro Forma Financial Statements of the Company and the related notes thereto included elsewhere in this Prospectus.

	JUNE 30, 1996	
	----- PRO FORMA	AS ADJUSTED -----
	(IN THOUSANDS)	
Short-term debt and current maturities of long-term obligations.....	\$ 5,597	\$ --
	=====	=====
Long-term obligations, less current maturities.....	21,251	6,999
Preferred stock of EHC.....	500	--
Stockholders' equity:		
Preferred Stock: \$0.001 par value, 10,000,000 shares authorized; none issued or outstanding.....	--	--
Common Stock: \$0.001 par value, 50,000,000 shares authorized; 4,249,652 shares issued and outstanding, pro forma; and 8,449,652 shares issued and outstanding, pro forma as adjusted(1).....	4	8
Additional paid-in capital.....	15,836	70,847
Retained deficit.....	(9,209)	(9,509)
	-----	-----
Total stockholders' equity.....	6,631	61,346
	-----	-----
Total capitalization.....	\$28,382	\$ 68,345
	=====	=====

(1) Excludes (i) an aggregate of 1,430,000 shares of Common Stock subject to options granted pursuant to the Company's 1996 Incentive Plan, (ii) a warrant to purchase up to 100,000 shares of Common Stock, at a purchase price equal to the initial public offering price per share, issued by the Company to Equus II in connection with the Company's start-up funding and (iii) a warrant to purchase shares of Common Stock having a value of \$125,000 on the closing date of this Offering, at a purchase price equal to \$.01 per share, to be issued to NationsBank in connection with the EHC Acquisition. See "Management -- 1996 Incentive Plan," "Certain Transactions -- Organization of the Company" and "-- EHC."

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#### DILUTION

The deficit in pro forma net tangible book value of the Company as of June 30, 1996 was approximately \$(45,230,000), or approximately \$(10.64) per share, after giving effect to the Acquisitions. The deficit in pro forma net tangible book value per share represents the amount by which the Company's pro forma total liabilities exceed the Company's pro forma net tangible assets as of June 30, 1996, divided by the number of shares to be outstanding after giving effect to (i) the Acquisitions and (ii) the issuance of stock awards to employees of the Company in connection with the acquisition of EHC, (iii) the conversion in part of an ARS convertible note and EHC preferred stock held by Equus II and (iv) the assumed exercise of a warrant held by a bank lender of EHC. After giving effect to the sale of the 4,200,000 shares offered hereby and deducting estimated underwriting discounts and commissions and estimated offering expenses payable by the Company, the Company's pro forma net tangible book value as of June 30, 1996 would have been approximately \$9,485,000, or approximately \$1.12 per share, based on an assumed initial public offering price of \$15.00 per share (the midpoint of the estimated initial public offering price range). This represents an immediate increase in pro forma net tangible book value of approximately \$11.76 per share to existing stockholders and an immediate dilution of approximately \$13.88 per share to new investors purchasing shares in this Offering. The following table illustrates this pro forma dilution:

<TABLE> <CAPTION> <S>	<C>	<C>
Assumed initial public offering price per share.....		\$ 15.00
Pro forma deficit in net tangible book value per share before this Offering.....	\$	(10.64)

Increase in pro forma net tangible value per share attributable to new investors.....	11.76
Pro forma net tangible book value per share after this Offering.....	1.12
Dilution per share to new investors.....	\$ 13.88

</TABLE>

The dilution to new investors purchasing shares in this Offering will increase if the initial public offering price is higher, and will decrease if the initial public offering price is lower, than \$15.00 per share.

The following table sets forth, on a pro forma basis to give effect to the Acquisitions as of June 30, 1996, the number of shares of Common Stock purchased from the Company, the total consideration to the Company and the average price per share paid to the Company by existing stockholders and the new investors purchasing shares from the Company in this Offering (before deducting underwriting discounts and commissions and estimated offering expenses):

<TABLE>

<CAPTION>

	SHARES PURCHASED		TOTAL CONSIDERATION (1)		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
<S>	<C>	<C>	<C>	<C>	<C>
Existing stockholders.....	4,249,652	50.3%	\$ (45,230,000)	(254.5)%	\$(10.64)
New investors.....	4,200,000	49.7	63,000,000	354.5	15.00
Total.....	8,449,652	100.0%	\$ 17,770,000	100.0%	

</TABLE>

-----

(1) Total consideration paid by existing stockholders represents the combined stockholders' equity of the Founding Companies before this Offering, adjusted to reflect: (i) the payment of \$34.8 million in cash as part of the consideration for the Acquisitions; (ii) the transfer of selected assets to and the assumption of certain liabilities by certain stockholders of the Founding Companies in the net amount of \$0.5 million in connection with the Acquisitions; and (iii) the payment of an aggregate interim Working Capital adjustment of approximately \$4.0 million in cash as part of the consideration for the Acquisitions. See "Use of Proceeds" and "Capitalization."

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SELECTED FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ARS will acquire the Founding Companies simultaneously with and as a condition to the consummation of this Offering. For financial statement presentation purposes, however, Atlas has been identified as the accounting acquiror. The following selected historical financial data of Atlas as of June 30, 1994 and 1995 and December 31, 1995 and for each of the three years in the periods ended June 30, 1993, 1994 and 1995 and for the year ended December 31, 1995, have been derived from the audited financial statements of Atlas included elsewhere in this Prospectus. The following selected historical financial data for Atlas as of June 30, 1991, 1992 and 1993, and for the years ended June 30, 1991 and 1992, have been derived from unaudited financial statements of Atlas, which have been prepared on the same basis as the audited financial statements and, in the opinion of Atlas, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such data. The following summary unaudited pro forma financial data presents certain data for the Company, as adjusted for (i) the effects of the Acquisitions on an historical basis, (ii) the effects of certain pro forma adjustments to the historical financial statements and (iii) the consummation of this Offering. See the Unaudited Pro Forma Combined Financial Statements and the notes thereto included elsewhere in this Prospectus.

<TABLE>

<CAPTION>

	YEAR ENDED JUNE 30					YEAR ENDED	SIX MONTHS	
	1991	1992	1993	1994	1995	DECEMBER 31, 1995	ENDED JUNE 30 1995	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:								
ATLAS:								
Revenues.....	\$ 6,037	\$ 7,865	\$ 10,210	\$ 15,625	\$ 21,229	\$ 22,048	\$ 10,354	\$ 14,092
Gross profit.....	999	1,448	2,027	2,948	3,514	4,237	1,945	2,735
Selling, general and administrative expenses.....	1,003	1,252	1,761	2,421	2,985	3,022	1,439	2,268
Income (loss) from operations....	(4)	196	266	527	529	1,215	506	467
Interest income and other								



expense, net.....	18	(3)	(16)	39	179	37	44	49
Interest expense.....	(152)	(154)	(190)	(129)	(143)	(134)	(81)	(96)
Net income (loss).....	\$ (134)	\$ 35	\$ 35	\$ 267	\$ 342	\$ 684	\$ 280	\$ 270

</TABLE>

PRO FORMA(1):

Revenues.....	\$114,636	\$ 52,585	\$ 61,536
Gross profit.....	29,416	13,216	16,042
Selling, general and administrative expenses (2).....	21,853	10,150	12,402
Goodwill amortization(3).....	1,296	648	648
Operating income.....	6,267	2,418	2,992
Interest income and other expense, net.....	613	273	245
Interest expense(4).....	(457)	(229)	(229)
Income from continuing operations.....	\$ 3,458	\$ 1,329	\$ 1,624
Income per share from continuing operations.....	\$ .41	\$ .16	\$ .19
Shares used in computing pro forma income per share from continuing operations(4).....	8,450	8,450	8,450

<TABLE>  
<CAPTION>

	JUNE 30, 1996					DECEMBER 31, 1995	JUNE 30	
	1991	1992	1993	1994	1995		ACTUAL	PRO FORMA(1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ATLAS BALANCE SHEET DATA:								
Working capital.....	\$ (397)	\$ (376)	\$ (575)	\$ (604)	\$ (564)	\$ (288)	\$ (526 )	\$ (39,519)
Total assets.....	3,868	3,992	4,328	6,335	7,141	7,092	8,481	88,435
Total debt, including current portion.....	2,688	2,423	2,486	2,846	2,530	2,371	2,646	26,848
Stockholders' equity.....	463	500	405	681	1,058	1,503	1,772	6,631

</TABLE>

JUNE 30  
AS ADJUSTED (5)

ATLAS BALANCE SHEET DATA:	
Working capital.....	\$ 878
Total assets.....	88,001
Total debt, including current portion.....	6,999
Stockholders' equity.....	61,346

(FOOTNOTES ON FOLLOWING PAGE)

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(1) The pro forma statements of operations data and the pro forma balance sheet data assume that the Acquisitions were closed on January 1 of each period presented and June 30, 1996, respectively, and are not necessarily indicative of the results the Company would have obtained had these events actually then occurred or of the Company's future results. The pro forma combined financial information (i) is based on preliminary estimates, available information and certain assumptions that management deems appropriate and (ii) should be read in conjunction with the other financial statements and notes thereto included elsewhere in this Prospectus.

(2) The pro forma combined statements include the effect of certain reductions in salary and benefits to the owners of six of the Founding Companies to which they have agreed prospectively, as follows: fiscal 1995, \$1,808; and six months ended June 30, 1995 and 1996, \$943 and \$1,272, respectively. Additionally, the pro forma combined statements include the effect of assets distributed to and the costs of certain leases assumed by the owners of certain of the Founding Companies.

(3) Reflects amortization of the goodwill to be recorded as a result of the Acquisitions over a 40-year period.

(4) Computed on a basis described in Note 5 of Notes to Unaudited Pro Forma Combined Financial Statements.

(5) Reflects the closing of this Offering and the Company's application of the net proceeds therefrom and the use of borrowings under the New Credit Facility to repay indebtedness of the Founding Companies and ARS and redeem certain EHC preferred stock. See "Use of Proceeds."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Founding Companies' Financial Statements and related notes thereto and "Selected Financial Data" appearing elsewhere in this Prospectus.

INTRODUCTION

The Company's revenues are primarily derived from (i) owners and occupants of homes and small commercial buildings and (ii) builders and developers of new homes, residential developments and small commercial buildings. Cost of services consists primarily of salaries and benefits of service and installation technicians, parts and materials, subcontracted services, depreciation, maintenance, fuel and equipment rentals. Selling, general and administrative expenses consist primarily of compensation and related benefits for owners, administrative salaries and benefits, advertising, office rent and utilities, communications and professional fees.

The Founding Companies have been managed throughout the periods presented as independent private companies, and, as such, their results of operations reflect different tax structures (S corporations and C corporations), which have influenced, among other things, their historical levels of owners' compensation. These owners and certain key employees have agreed to certain reductions in their compensation and benefits in connection with the organization of the Company.

ARS, which has conducted no operations to date, intends to integrate these businesses, their operations and administrative functions over a period of time. This integration process may present opportunities to reduce costs through the elimination of duplicative functions and through economies of scale, particularly in obtaining additional contracts through shared customer lists and greater volume discounts from material suppliers, but may necessitate additional costs and expenditures for corporate management and administration, corporate expenses related to being a public company, systems integration and facilities expansion. These various costs and possible cost-savings may make comparison of historical operating results not comparable to, or indicative of, future performance. Accordingly, neither the anticipated savings nor the anticipated costs have been included in the unaudited pro forma financial information presented herein.

Atlas has been identified as the accounting acquiror for financial statement presentation purposes. See the "Combined Founding Companies -- Results of Operations -- Combined" elsewhere herein.

ATLAS

Founded in 1976, Atlas is a leading provider of electric, HVAC and plumbing installation services to the residential and light commercial construction markets throughout South Carolina. Atlas also provides comprehensive plumbing, HVAC and electrical maintenance, repair and replacement services and repairs and installs pre-fabricated gas and wood-burning fireplaces.

RESULTS OF OPERATIONS -- ATLAS

The following table sets forth certain selected financial data and data as a percentage of revenues for the periods indicated (dollars in thousands):

<TABLE>

<CAPTION>

	YEAR ENDED JUNE 30				YEAR ENDED		SIX MONTHS	
	-----				DECEMBER 31,		ENDED	
	1993		1994		1995		JUNE 30	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Revenues.....	\$ 10,210	100.0%	\$ 15,625	100.0%	\$ 22,048	100.0%	\$ 10,354	100.0%
Cost of services.....	8,183	80.1	12,677	81.1	17,811	80.8	8,409	81.2
Gross profit.....	2,027	19.9	2,948	18.9	4,237	19.2	1,945	18.8
Selling, general and administrative expenses.....	1,761	17.2	2,421	15.5	3,022	13.7	1,439	13.9

(UNAUDITED)

Income from operations.....	266	2.7	527	3.4	1,215	5.5	506	4.9
Interest income and other expense, net.....	(16)	(0.2)	39	0.2	37	0.2	44	0.4
Interest expense.....	(190)	(1.9)	(129)	(0.8)	(134)	(0.6)	(81)	(0.8)
Pretax income.....	60	0.6	437	2.8	1,118	5.1	469	4.5
Income taxes.....	25	0.2	170	1.1	434	2.0	189	1.8
Net income.....	\$ 35	0.4	\$ 267	1.7	\$ 684	3.1	\$ 280	2.7

</TABLE>

	1996	
	-----	-----
Revenues.....	\$ 14,092	100.0%
Cost of services.....	11,357	80.6
Gross profit.....	2,735	19.4
Selling, general and administrative expenses.....	2,268	16.1
Income from operations.....	467	3.3
Interest income and other expense, net.....	49	0.4
Interest expense.....	(96)	(0.7)
Pretax income.....	420	3.0
Income taxes.....	150	1.1
Net income.....	\$ 270	1.9

UNAUDITED INTERIM RESULTS

REVENUES -- Revenues increased \$3.7 million, or 35.6%, from \$10.4 million for the six months ended June 30, 1995 to \$14.1 million for the six months ended June 30, 1996. The increase was attributable to several large new installation projects and the addition of approximately \$0.9 million of revenues resulting from the acquisition of three companies in early 1996.

COST OF SERVICES -- Cost of services increased \$3.0 million, or 35.7%, from \$8.4 million for the six months ended June 30, 1995 to \$11.4 million for the six months ended June 30, 1996. The increase in cost of services was consistent with the percentage increase in revenue. As a percentage of revenues, cost of services declined 0.6% from 81.2% to 80.6% in 1996.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.9 million, or 64.3%, from \$1.4 million for the six months ended June 30, 1995 to \$2.3 million for the six months ended June 30, 1996. The increase in selling, general and administrative expenses was primarily attributable to added administrative staff at several operating locations, the added administrative staff resulting from the 1996 acquisitions and approximately \$0.3 million of additional owner's compensation in 1996.

INTEREST INCOME AND OTHER EXPENSE, NET -- Interest income and other expense, net was virtually unchanged for the six months ended June 30, 1995 and 1996.

INTEREST EXPENSE -- Interest expense increased slightly from \$0.08 million for the six months ended June 30, 1995 to \$0.1 million for the six months ended June 30, 1996.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED JUNE 30, 1994

REVENUES -- Revenues increased \$6.4 million, or 41.0%, from \$15.6 million in 1994 to \$22.0 million in 1995. Part of this increase was attributable to the new operating facility in Hilton Head, South Carolina (opened in April 1994). The addition of several large new home builder customers accounted for the majority of the remaining increase.

COST OF SERVICES -- Cost of services increased \$5.1 million, or 40.2%, from \$12.7 million in 1994 to \$17.8 million in 1995. The increase in cost of services was consistent with the increase in revenue, and as a percentage of revenues, cost of services declined 0.3% from 81.1% to 80.8%.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.6 million, or 25.0%, from \$2.4 million in 1994 to \$3.0 million in 1995. As a percentage of revenues, selling, general and administrative expenses decreased 1.8% from 15.5% in 1994 to 13.7%

in 1995. The dollar increase in selling, general and administrative expense in 1995 was primarily attributable to the addition of an administrative infrastructure in Hilton Head and the expansion of office space at an additional



accepted accounting principles, but represent merely a summation of the revenues, gross profit and selling, general and administrative expenses of the individual Founding Companies on a historical basis, and exclude the effects of pro forma adjustments. This data will not be comparable to and may not be indicative of the Company's post-combination results of operations because (i) the Founding Companies were not under common control or management and had different tax structures (S corporations and C corporations) during the periods presented and (ii) the Company will use the purchase method to establish a new basis of accounting to record the Acquisitions.

The following table sets forth certain unaudited combined data of the Founding Companies on a historical basis and exclude the effects of pro forma adjustments for the periods indicated (in thousands):

<TABLE>  
<CAPTION>

	FISCAL YEAR ENDED			SIX MONTHS ENDED JUNE 30	
	1993	1994	1995	1995	1996
<S>	<C>	<C>	<C>	<C>	<C>
Combined Founding Companies					
Statements of Operations Data					
(Unaudited):					
Revenues.....	\$ 94,184	\$ 105,610	\$ 114,636	\$ 52,585	\$ 61,536
Gross profit.....	24,973	25,860	29,416	13,216	16,042
Selling, general and administrative expenses.....	20,300	22,104	24,190	11,318	13,050

</TABLE>  
UNAUDITED INTERIM RESULTS

REVENUES. Revenues increased \$8.9 million, or 16.9%, from \$52.6 million for the six months ended June 30, 1995 to \$61.5 million for the six months ended June 30, 1996. This increase was primarily due to an increase in Atlas revenues of \$3.7 million, or 35.6%, from \$10.4 million for the six months ended June 30, 1995 to \$14.1 million for the six months ended June 30, 1996, due to several large new installation projects and the addition of \$0.9 million of revenues resulting from the acquisition of three companies added during the six months ended June 30, 1996. The remaining increase in revenues was primarily attributable to an increase in Crown's residential service revenues of \$1.2 million resulting from increased plumbing and renovation services, an increase in Meridian & Hoosier's revenues of \$2.6 million resulting from the acquisition of Sagamore Heating and Cooling ("Sagamore"), an increase in General Heating's revenue of \$1.0 million resulting from increased new installation activity and replacement services and increases in repair and replacement services and an increase in A-ABC's revenues of \$0.4 million.

COST OF SERVICES. Cost of services increased \$6.1 million, or 15.5%, from \$39.4 million for the six months ended June 30, 1995 to \$45.5 million for the six months ended June 30, 1996, but decreased as a percentage of revenues from 74.9% for the six months ended June 30, 1995 to 74.0% for the six months ended June 30, 1996. The dollar increase in cost of services was primarily attributable to a \$3.0 million increase at Atlas, from \$8.4 million for the six months ended June 30, 1995 to \$11.4 million for the six months ended June 30, 1996, which is consistent with its percentage increase in revenues. The remaining dollar increase was primarily attributable to a \$1.0 million increase at Crown resulting primarily from an increase in volume of services provided resulting from a reduction in pricing to increase market share, a \$1.6 million increase at Meridian & Hoosier resulting primarily from the Sagamore acquisition and a \$0.6 million increase at General, which is consistent with its percentage increase in revenues. The increase was offset by a \$0.4 million decrease at Florida HAC. The decrease in cost of services as a percentage of sales was primarily attributable to increases in volume purchase discounts and more effective employee utilization at A-ABC and changes in the mix of services and increases in volume purchase discounts at Meridian & Hoosier.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$1.8 million, or 15.9%, from \$11.3 million for the six months ended June 30, 1995 to \$13.1 million for the six months ended June 30, 1996, and remained relatively constant as a percentage of revenues between the two periods. The dollar increase in selling, general and administrative expenses was primarily attributable to slight changes at all the Founding Companies.

FISCAL 1995 COMPARED TO FISCAL 1994

REVENUES. Revenues increased \$9.0 million, or 8.5%, from \$105.6 million in fiscal 1994 to \$114.6 million in fiscal 1995. This increase was largely due to: (i) an increase in Atlas revenues of \$6.4 million, or 41.0%, from \$15.6 million

in fiscal 1994 to \$22.0 million in fiscal 1995, primarily attributable to its new operating facility in Hilton Head (opened in April 1994) and the addition of several new large home builder customers; (ii) an increase in Crown's revenues of \$2.3 million, or 13.7%, from \$16.8 million in fiscal 1994 to \$19.1 million in fiscal 1995, primarily attributable to an increase in plumbing and HVAC services; and (iii) an increase in Meridian & Hoosier's revenue of \$2.0 million, or 24.7%, from \$8.1 million in fiscal 1994 to \$10.1 million in fiscal 1995, primarily attributable to increased residential replacement sales. This increase was partially offset by a decrease in General Heating's revenues of \$1.1 million, or 3.0%, from \$36.3 million in fiscal 1994 to \$35.2 million in fiscal 1995 due to a reduction in new home starts in the Washington-Baltimore metropolitan area, as well as a decrease in revenues of Florida HAC of \$1.3 million, or 8.2%, from \$15.8 million in fiscal 1994 to \$14.5 million in fiscal 1995 due to a decrease in apartment complex installations.

**COST OF SERVICES.** Cost of services increased by \$5.4 million, or 6.8%, from \$79.8 million in fiscal 1994 to \$85.2 million in fiscal 1995, but decreased as a percentage of revenues from 75.5% in fiscal 1994 to 74.3% in fiscal 1995. The dollar increase in cost of services was primarily attributable to: (i) a \$5.1 million increase in the cost of services of Atlas from \$12.7 million in fiscal 1994 to \$17.8 million in fiscal 1995, which was consistent with its percentage increase in revenues; (ii) a \$1.0 million increase in Crown's cost of service from \$10.3 million in fiscal 1994 to \$11.3 million in fiscal 1995 as discussed below; and (iii) a \$1.5 million increase in cost of services at Meridian & Hoosier from \$5.8 million in fiscal 1994 to \$7.3 million in fiscal 1995, which was consistent with its percentage increase in revenues. The increases were partially offset by a \$1.0 million decrease in cost of services of General Heating from \$29.9 million in fiscal 1994 to \$28.9 million in fiscal 1995, which was consistent with its percentage decrease in revenues, and a \$1.6 million decrease in Florida HAC's cost of service from \$12.1 million in fiscal 1994 to \$10.5 million in fiscal 1995. The reduction in cost of services as a percentage of revenues was primarily attributable to the decrease in apartment complex installations in fiscal 1995 and improvement in volume rebates at Florida HAC and a change in the mix of services from lower-margin services to higher-margin services and increased use of contractors at Crown.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$2.1 million, or 9.5%, from \$22.1 million in fiscal 1994 to \$24.2 million in fiscal 1995 and increased slightly as a percentage of revenues from 20.9% in fiscal 1994 to 21.1% in fiscal 1995. The dollar increase was primarily attributable to: (i) a \$0.6 million increase at Atlas resulting primarily from the addition of an administrative infrastructure for the Hilton Head location and other office expansions; (ii) a \$0.4 million increase at Crown resulting from increased advertising; (iii) a \$0.3 million increase at Meridian & Hoosier resulting from increased marketing efforts; and (iv) a \$0.4 million increase at Florida HAC resulting from a \$0.2 million increase in owner compensation.

#### FISCAL 1994 COMPARED TO FISCAL 1993

**REVENUES.** Revenues increased \$11.4 million, or 12.1%, from \$94.2 million in fiscal 1993 to \$105.6 million in fiscal 1994. This increase was primarily due to: (i) an increase in Atlas revenues of \$5.4 million, or 52.9%, primarily attributable to the opening of a new location in Greenville, South Carolina and the addition of several new home building customers; (ii) an increase of \$2.7 million, or 20.7%, at Florida HAC, as a result of an increase in the number of new home starts and the addition of several large apartment complexes; (iii) an increase at General Heating of \$1.7 million, or 4.9%, resulting from an increase in new

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home installation volume and replacement services; and (iv) an increase of \$2.2 million, or 37.3%, at Meridian & Hoosier primarily attributable to increased residential replacement services and the start-up of a construction division. These increases were partially offset by a decrease in revenues of \$2.2 million, or 20.2%, at A-ABC resulting from a \$0.7 million decrease in HVAC installations and a \$0.4 million decrease in plumbing services, respectively.

**COST OF SERVICES.** Cost of services increased \$10.6 million, or 15.3%, from \$69.2 million in fiscal 1993 to \$79.8 million in fiscal 1994 and increased as a percentage of revenue for fiscal 1994 to 75.5% from 73.5% for fiscal 1993. The dollar increase in cost of services was primarily attributable to: (i) a \$4.5 million increase at Atlas; (ii) a \$2.2 million increase at Florida HAC, which was consistent with its percentage increase in revenues; (iii) a \$2.5 million increase at General Heating; and (iv) a \$1.7 million increase at Meridian & Hoosier resulting from the start-up of its construction division. The increase in cost of services as a percentage of revenues was primarily attributable to: (i) increased turnover and underutilized assets at Atlas; and (ii) increased truck and delivery costs and payroll and related employee benefits at General Heating.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Total selling, general and administrative expenses increased \$1.8 million, or 8.9%, from \$20.3 million in fiscal 1993 to \$22.1 million in fiscal 1994. The increase was primarily

attributable to: (i) a \$0.6 million increase at Atlas resulting from the addition of an administrative infrastructure in Greenville; and (ii) a \$0.5 million increase at Meridian & Hoosier resulting from increased sales commission and advertising costs.

#### LIQUIDITY AND CAPITAL RESOURCES -- COMBINED

On a combined basis, the Founding Companies generated \$6.8 million and \$1.5 million of net cash from operating activities during fiscal 1995 and the six months ended June 30, 1996, respectively. Net cash used in investing activities by the Founding Companies on a combined basis was \$1.9 million and \$0.4 million during fiscal 1995 and the six months ended June 30, 1996, respectively. Most of the cash used in investing activities during these periods was used for purchases of property and equipment. Net cash used in financing activities by the Founding Companies on a combined basis was \$1.8 million and \$6.0 million during fiscal 1995 and the six months ended June 30, 1996, respectively. Most of the cash used in financing activities during these periods was used for net payments on long-term debt and distributions to stockholders. The combined cash and cash equivalents of the Founding Companies decreased by \$4.9 million from \$7.9 million at December 31, 1995 to \$3.0 million at June 30, 1996. Atlas and A-ABC each had a working capital deficit of \$0.5 million at June 30, 1996.

On the closing of this Offering, the Company intends to repay or refinance an aggregate of approximately \$22.3 million of indebtedness and other obligations of the Founding Companies, ARS and EHC and to pay approximately \$4.0 million of net interim Working Capital adjustments as part of the purchase prices of the Acquisitions. See "Use of Proceeds."

Prior to the closing of the Acquisitions, General Heating will make distributions to its stockholders in respect of its estimated S corporation Accumulated Adjustment Account as of the date of the closing. These distributions (approximately \$8.0 million as of June 30, 1996) are expected to be funded primarily through working capital, cash provided by General Heating's operating activities and, to the extent necessary, a borrowing by General Heating of approximately \$1.5 million.

The Company expects to enter into the New Credit Facility effective concurrently with the closing of this Offering. NationsBank has underwritten the New Credit Facility, subject to the terms and conditions of a commitment letter dated July 17, 1996. According to these terms, the Company will have an unsecured revolving line of credit of up to \$55 million, which may be used for general corporate purposes, including the refinancing of Founding Company indebtedness, post-Offering acquisitions, capital expenditures and working capital. Loans under the New Credit Facility will bear interest at a designated variable base rate plus margins ranging from 0 to 25 basis points depending on the ratio of the Company's interest-bearing debt to its trailing earnings before interest, taxes, depreciation and amortization. At the Company's option, the loans may bear interest based on a designated London interbank offering rate plus a margin ranging

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from 75 to 175 basis points depending on the same ratio. Commitment fees equal to from 25 to 50 basis points per annum will be payable on the unused portion of the line of credit. The New Credit Facility will contain a sublimit for standby letters of credit of up to \$5.0 million. The New Credit Facility will terminate and all amounts outstanding, if any, thereunder will be due and payable in August 1999. The Company's subsidiaries will guarantee the repayment of all amounts due under the New Credit Facility.

The New Credit Facility will prohibit the payment of dividends by the Company, will not permit the Company to incur or assume other indebtedness in excess of \$2.5 million and will require the Company to comply with certain financial covenants.

The commitment of the bank to provide the New Credit Agreement is subject to the satisfaction of certain conditions, including the execution of appropriate loan documentation. There can be no assurance that the terms of the New Credit Agreement, if implemented, will not vary from the terms described above. In the event the New Credit Agreement is not available after this Offering, the Company believes that sufficient alternative sources of financing should be available on reasonable terms to the Company.

The Company anticipates that its cash flow from operations will provide cash in excess of the Company's normal working capital needs, debt service requirements and planned capital expenditures for property and equipment. On a combined basis, the Founding Companies made capital expenditures of \$2.6 million and \$2.1 million in fiscal 1995 and the six months ended June 30, 1996, respectively.

The Company intends to continue pursuing attractive acquisition opportunities. The timing, size or success of any acquisition effort and the associated potential capital commitments are unpredictable. The Company expects to fund future acquisitions primarily through a combination of working capital,

cash flow from operations and borrowings, including the unborrowed portion of the New Credit Facility, as well as issuances of additional equity.

Due to the relatively low levels of inflation experienced in fiscal 1993, 1994 and 1995, inflation did not have a significant effect on the results of the combined Founding Companies in those fiscal years.

SEASONALITY

The Founding Companies have in the past experienced, and the Company expects that it will in the future experience, quarterly fluctuations in revenues, operating income and cash flows as a result of changes in weather conditions. Except in Florida and South Carolina, the demand for new installations is lower in the winter months because new construction activity is lower as a result of colder weather. Demand for HVAC services is generally higher in the second and third quarters.

INDIVIDUAL FOUNDING COMPANIES

The selected historical financial information presented in the tables below for the fiscal years of the individual Founding Companies (excluding Atlas, which is presented above) is derived from the respective audited financial statements of the individual Founding Companies included elsewhere herein. The selected historical financial information presented in the tables below for the quarterly periods of the Founding Companies is derived from the respective unaudited interim financial statements of the Founding Companies, which include all adjustments the Company considers necessary for a fair presentation of the results of operations and cash flows of those companies for those periods. The following discussion should be read in conjunction with the "Summary Individual Founding Company Financial Data" and the separate company financial statements and related notes thereto appearing elsewhere in this Prospectus.

GENERAL HEATING

Founded in 1947, General Heating is a leading installer of HVAC systems and equipment and pre-fabricated gas and wood-burning fireplaces for residential and light commercial construction markets in the Washington-Baltimore metropolitan area, including northern Virginia, and Richmond.

RESULTS OF OPERATIONS -- GENERAL HEATING

The following table sets forth certain historical selected financial data and data as a percentage of revenues for the periods indicated (dollars in thousands):

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31						SIX MONTHS ENDED JUNE 30	
	1993		1994		1995		1995	
								(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues.....	\$ 34,642	100.0%	\$ 36,334	100.0%	\$ 35,159	100.0%	\$ 16,214	100.0%
Cost of services.....	27,393	79.1	29,928	82.4	28,866	82.1	13,331	82.2
Gross profit.....	7,249	20.9	6,406	17.6	6,293	17.9	2,883	17.8
Selling, general and administrative expenses.....	5,011	14.5	5,245	14.4	5,280	15.0	2,626	16.2
Income (loss) from operations.....	\$ 2,238	6.4	\$ 1,161	3.2	\$ 1,013	2.9	\$ 257	1.6

</TABLE>

1996	
Revenues.....	\$ 17,211 100.0%
Cost of services.....	13,933 81.0
Gross profit.....	3,278 19.0
Selling, general and administrative expenses.....	2,816 16.4
Income (loss) from operations.....	\$ 462 2.6

UNAUDITED INTERIM RESULTS



REVENUES -- Revenues increased \$1.0 million, or 6.2%, from \$16.2 million for the six months ended June 30, 1995, to \$17.2 million for the six months ended June 30, 1996. This increase was attributable to a \$0.5 million increase in new installation activity primarily in the Maryland area and a \$0.5 million increase in replacement revenues.

COST OF SERVICES -- Cost of services increased \$0.6 million, or 4.5%, from \$13.3 million for the six months ended June 30, 1995 to \$13.9 million for the six months ended June 30, 1996. This increase was consistent with General Heating's percentage increase in revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.2 million, or 7.7%, from \$2.6 million for the six months ended June 30, 1995 to \$2.8 million for the six months ended June 30, 1996. This increase was primarily attributable to increases in selling commissions corresponding to the increased revenues.

1995 COMPARED TO 1994

REVENUES -- Revenues decreased \$1.1 million, or 3.0%, from \$36.3 million in 1994 to \$35.2 million in 1995. This decrease was attributable to a reduction in the number of new home starts in the Washington-Baltimore metropolitan area.

COST OF SERVICES -- Cost of services decreased \$1.0 million, or 3.3%, from \$29.9 million in 1994 to \$28.9 million in 1995. This decrease was consistent with the percentage decrease in revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses were unchanged at \$5.3 million for 1994 and 1995.

1994 COMPARED TO 1993

REVENUES -- Revenues increased \$1.7 million, or 4.9%, from \$34.6 million in 1993 to \$36.3 million in 1994. This increase was attributable to a \$1.0 million increase in new installation volume and a \$0.7 million increase in HVAC system replacement services.

COST OF SERVICES -- Cost of services increased \$2.5 million, or 9.1%, from \$27.4 million in 1993 to \$29.9 million in 1994. As a percentage of revenues, cost of services increased to 82.4% in 1994 from 79.1% in 1993. This increase was primarily attributable to: (i) an \$0.5 million adjustment to write off certain obsolete inventory; (ii) increased depreciation on replacement of fully depreciated trucks; (iii) an increase in payroll and related employee benefits; and (iv) an increase in the cost of delivery of parts and materials, as the Company's operations were spread over a larger geographic region.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.2 million, or 4.0%, from \$5.0 million in 1993 to \$5.2 million in 1994. This increase was

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consistent with the percentage increase in revenues and was attributable to increases in payroll and related employee benefits.

LIQUIDITY AND CAPITAL RESOURCES -- GENERAL HEATING

The following table sets forth selected information from General Heating statements of cash flows (dollars in millions):

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31			SIX MONTHS ENDED JUNE 30	
	1993	1994	1995	1995	1996
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
Net cash provided by (used in)					
operating activities.....	\$ 0.9	\$ 2.1	\$ 2.9	\$ 1.2	\$ (0.3)
Net cash provided by (used in)					
investing activities.....	(1.0)	(3.1)	(0.3)	1.2	0.8
Net cash used in financing					
activities.....	(1.7)	(0.2)	(1.5)	(0.5)	(2.7)
Net increase (decrease) in cash and					
cash equivalents.....	\$ (1.8)	\$ (1.2)	\$ 1.1	\$ 1.9	\$ (2.2)
	=====	=====	=====	=====	=====

</TABLE>

From 1993 through the six months ended June 30, 1996, General Heating generated \$7.7 million in cash from operating activities and used \$2.1 million of this cash to fund increases in working capital, resulting in a net cash generation of \$5.6 million.

Cash used in investment activities was primarily attributable to the

purchase and replacement of trucks in General Heating's fleet. In addition, in 1994, General Heating invested approximately \$2.5 million in short-term investment securities.

Cash used in financing activities consists primarily of S corporation distributions to General Heating's stockholders.

Prior to the closing of the Acquisitions, General Heating will make distributions to its stockholders in respect of its estimated S corporation Accumulated Adjustment Account as of the date of the closing. These distributions (approximately \$8.0 million as of June 30, 1996) are expected to be funded primarily through working capital, cash provided by General Heating's operating activities and, to the extent necessary, additional debt. See "Certain Transactions -- Organization of the Company."

General Heating had working capital of \$5.6 million as of June 30, 1996. General Heating has historically funded its operations with cash flows from operations. While there can be no assurance, management of General Heating believes it has adequate cash flow to fund its operations through the third quarter of 1997.

CROWN

Founded in 1956, Crown is the largest single provider of residential plumbing, HVAC, electrical maintenance, repair and replacement services to the residential and light commercial markets in the Houston metropolitan area.

RESULTS OF OPERATIONS -- CROWN

The following table sets forth certain historical selected financial data and data as a percentage of revenues for the periods indicated (dollars in thousands):

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31						SIX MONTHS ENDED JUNE 30	
	1993		1994		1995		1995	
	(UNAUDITED)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues.....	\$ 16,268	100.0%	\$ 16,844	100.0%	\$ 19,124	100.0%	\$ 8,775	100.0%
Cost of services.....	10,332	63.5	10,314	61.2	11,333	59.3	5,194	59.2
Gross profit.....	5,936	36.5	6,530	38.8	7,791	40.7	3,581	40.8
Selling, general and administrative expenses.....	5,698	35.0	5,837	34.7	6,165	32.2	2,941	33.5
Income from operations.....	\$ 238	1.5	\$ 693	4.1	\$ 1,626	8.5	\$ 640	7.3

</TABLE>

	1996	
Revenues.....	\$ 10,019	100.0%
Cost of services.....	6,244	62.3
Gross profit.....	3,775	37.7
Selling, general and administrative expenses.....	2,980	29.7
Income from operations.....	\$ 795	8.0

UNAUDITED INTERIM RESULTS

REVENUES -- Revenues increased \$1.2 million, or 13.6%, from \$8.8 million for the six months ended June 30, 1995 to \$10.0 million for the six months ended June 30, 1996. This increase was attributable to increases of \$0.6 million each in plumbing and HVAC revenues.

COST OF SERVICES -- Cost of services increased \$1.0 million, or 19.2%, from \$5.2 million for the six months ended June 30, 1995 to \$6.2 million for the six months ended June 30, 1996, and increased as a percentage of revenues from 59.2% in the six months ended June 30, 1995 to 62.3% in the six months ended June 30, 1996. The increase in cost of services as a percentage of revenue was primarily attributable to a reduction in the pricing of services in order to increase market share.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.1 million, or 3.4%, from \$2.9 million for

the six months ended June 30, 1995 to \$3.0 million for the six months ended June 30, 1996, but declined as a percentage of revenues from 33.5% in the six months ended June 30, 1995 to 29.7% in the six months ended June 30, 1996. This percentage reduction was primarily attributable to a \$0.1 million reduction in owner compensation.

1995 COMPARED TO 1994

REVENUES -- Revenues increased \$2.3 million, or 13.7%, from \$16.8 million in 1994 to \$19.1 million in 1995. The increase in revenues was primarily attributable to increases of \$1.3 million and \$0.9 million in HVAC and plumbing revenues, respectively.

COST OF SERVICES -- Cost of services increased \$1.0 million, or 9.7%, from \$10.3 million in 1994 to \$11.3 million in 1995, but decreased as a percentage of revenues from 61.2% in 1994 to 59.3% in 1995. The percentage decrease was attributable to a change in the mix of services provided from lower-margin services to higher-margin services and an increase in the use of contractors.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.4 million, or 6.9%, from \$5.8 million in 1994 to \$6.2 million in 1995, but decreased as a percentage of revenues from 34.7% in 1994 to 32.2% in 1995. The dollar increase was primarily attributable to increased advertising.

1994 COMPARED TO 1993

REVENUES -- Revenues increased \$0.5 million, or 3.1%, from \$16.3 million in 1993 to \$16.8 million in 1994. The increase in revenues was attributable to a \$0.5 million increase in HVAC revenues.

COST OF SERVICES -- Cost of services was unchanged at \$10.3 million for 1993 and 1994, but decreased 2.3% as a percentage of sales from 63.5% in 1993 to 61.2% in 1994.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.1 million, or 1.8%, from \$5.7 million in 1993 to \$5.8 million in 1994.

LIQUIDITY AND CAPITAL RESOURCES -- CROWN

The following table sets forth selected information from Crown statements of cash flows (in millions):

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31			SIX MONTHS ENDED JUNE 30	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
Net cash provided by operating activities.....	\$ 0.5	\$ 0.7	\$ 1.3	\$ 0.7	\$ 0.8
Net cash provided by (used in) investing activities.....	(0.7)	0.1	(0.6)	(0.5)	1.1
Net cash provided by (used in) financing activities.....	0.2	0.2	0.3	(0.5)	(3.7)
Net increase (decrease) in cash and cash equivalents.....	\$ --	\$ 1.0	\$ 1.0	\$ (0.3)	\$ (1.8)

</TABLE>

From 1993 through the six months ended June 30, 1996, Crown generated \$3.3 million in net cash from operating activities, primarily generated from net income plus depreciation and amortization. For the year ended December 31, 1993, Crown recorded a loss on the sale of certain assets of \$0.5 million.

The change in net cash provided by (used in) investing activities was primarily attributable to purchases/sales of investments and marketable securities and proceeds from the sale of property and equipment.

The change in net cash provided by (used in) financing activities was attributable to net borrowings and repayments of debt obligations and advances/payments to/from the sole shareholder of Crown.

Crown had working capital of \$3.7 million as of June 30, 1996. It historically has funded its operations with cash flows from operations and borrowings from lenders and its sole shareholder. While there can be no assurance, management of Crown believes it has adequate cash flows and financing alternatives to fund its operations through the third quarter of 1997.

Founded in 1970, Florida HAC is a leading installer of HVAC systems and equipment for the residential construction market and a leading provider of HVAC maintenance, repair and replacement services to the residential and light commercial markets in southeast Florida, including Broward, Dade and Palm Beach counties.

RESULTS OF OPERATIONS -- FLORIDA HAC

The following table sets forth certain historical selected financial data and data as a percentage of revenues for the periods indicated (dollars in thousands):

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31				SIX MONTHS ENDED JUNE 30			
	1994		1995		1995		1996	
	(UNAUDITED)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues.....	\$ 15,845	100.0%	\$ 14,510	100.0%	\$ 7,631	100.0%	\$ 7,244	100.0%
Cost of services.....	12,079	76.2	10,541	72.6	5,697	74.7	5,339	73.7
Gross profit.....	3,766	23.8	3,969	27.4	1,934	25.3	1,905	26.3
Selling, general and administrative expenses.....	3,321	21.0	3,738	25.8	1,883	24.7	1,816	25.1
Income from operations.....	\$ 445	2.8	\$ 231	1.6	\$ 51	0.6	\$ 89	1.2

</TABLE>  
UNAUDITED INTERIM RESULTS

REVENUES -- Revenues decreased \$0.4 million, or 5.3%, from \$7.6 million for the six months ended June 30, 1995, to \$7.2 million for the six months ended June 30, 1996. The decrease in revenue was attributable to a decrease in apartment complex installations.

COST OF SERVICES -- Cost of services decreased \$0.4 million, or 7.0%, from \$5.7 million for the six months ended June 30, 1995 to \$5.3 million for the six months ended June 30, 1996 and decreased 1.0% as a percentage of revenues from 74.7% for the six months ended June 30, 1995 to 73.7% for the six months ended June 30, 1996. These decreases were primarily attributable to a decrease in apartment complex installations and improvements in vendor pricing.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses decreased \$0.1 million, or 5.3%, from \$1.9 million for the six months ended June 30, 1995 to \$1.8 million for the six months ended June 30, 1996.

1995 COMPARED TO 1994

REVENUES -- Revenues decreased \$1.3 million, or 8.2%, from \$15.8 million in 1994 to \$14.5 million in 1995. The decrease in revenues was primarily attributable to a decrease in apartment complex installations.

COST OF SERVICES -- Cost of services decreased \$1.6 million, or 13.2%, from \$12.1 million in 1994 to \$10.5 million in 1995 and decreased 3.6% as a percentage of revenues from 76.2% for 1994 to 72.6% for 1995. These decreases were primarily attributable to a change in the mix of services from lower margin apartment complexes to higher margin residential homes and improvements in vendor pricing.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.4 million, or 12.1%, from \$3.3 million in 1994 to \$3.7 million in 1995. This increase resulted primarily from increases in compensation paid to shareholders.

LIQUIDITY AND CAPITAL RESOURCES -- FLORIDA HAC

The following table sets forth selected information from Florida HAC's statements of cash flows (dollars in millions):

YEAR ENDED DECEMBER 31		SIX MONTHS ENDED JUNE 30	
1994	1995	1995	1996

(UNAUDITED)

Net cash provided by operating activities.....	\$ 0.6	\$ 0.5	\$ 0.2	\$ 0.0
Net cash used in investing activities.....	(0.2)	(0.2)	(0.2)	
Net cash provided by (used in) financing activities.....	(0.1)	0.0	(0.5)	
-----				
Net increase (decrease) in cash and cash equivalents.....	\$ 0.3	\$ 0.3	\$ (0.5)	\$
=====				

Net cash provided by operating activities consisted primarily of net income plus depreciation and amortization. Net cash used in investing activities consisted of capital expenditures for property and equipment. Net cash provided by (used in) financing activities resulted from borrowing and repayments of long-term obligations and capital lease obligations and advances to/from the shareholders of the Company.

Florida HAC had working capital of \$0.3 million as of June 30, 1996. Florida HAC has historically funded its operations with cash flows from operations and borrowings from lenders and its stockholders. While there can be no assurance, management of Florida HAC believes it has adequate cash flows and financing alternatives to fund its operations through the third quarter of 1997.

MERIDIAN & HOOSIER

Founded in 1973, Meridian & Hoosier is a leading provider of HVAC maintenance, repair and replacement services to the residential and commercial markets (including large commercial facilities) in central Indiana, including Indianapolis, and also installs HVAC systems and equipment for the residential construction market in those areas. On January 1, 1996, Meridian & Hoosier acquired Sagamore Heating and Cooling ("Sagamore"), which provides HVAC repair and replacement services.

RESULTS OF OPERATIONS -- MERIDIAN & HOOSIER

The following table sets forth certain historical selected financial data and data as a percentage of revenues for the periods indicated (dollars in thousands):

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31				SIX MONTHS ENDED JUNE 30			
	1994		1995		1995		1996	
	-----							
	1994		1995		1995		1996	
	-----							
	(UNAUDITED)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues.....	\$ 8,066	100.0%	\$ 10,133	100.0%	\$ 4,420	100.0%	\$ 6,992	100.0%
Cost of services.....	5,797	71.9	7,281	71.9	3,173	71.8	4,751	67.9
	-----							
Gross profit.....	2,269	28.1	2,852	28.1	1,247	28.2	2,241	32.1
Selling, general and administrative expenses.....	1,988	24.6	2,350	23.2	1,056	23.9	1,724	24.7
	-----							
Income from operations.....	\$ 281	3.5	\$ 502	4.9	\$ 191	4.3	\$ 517	7.4
	=====							

</TABLE>

UNAUDITED INTERIM RESULTS

REVENUES -- Revenues increased \$2.6 million, or 59.1%, from \$4.4 million for the six months ended June 30, 1995, to \$7.0 million for the six months ended June 30, 1996. Approximately \$1.0 million of this increase was attributable to the acquisition of Sagamore and a majority of the remaining increase was due to increased sales of residential replacement services.

COST OF SERVICES -- Cost of services increased \$1.5 million, or 46.9%, from \$3.2 million for the six months ended June 30, 1995 to \$4.7 million for the six months ended June 30, 1996, but declined 3.9% as a percentage of revenues from 71.8% for the six months ended June 30, 1995 to 67.9% for the six months ended June 30, 1996. The increase in cost of services was primarily attributable to the increased sales for the six months ended June 30, 1996. The decrease as a percentage of revenues was primarily attributable to improvements in equipment

purchasing resulting from the Sagamore acquisition and changes in the mix of services provided.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.6 million, or 54.5%, from \$1.1 million for the six months ended June 30, 1995 to \$1.7 million for the six months ended June 30, 1996. This increase was primarily attributable to added administrative staff resulting from the acquisition of Sagamore and increased marketing and selling expenses.

1995 COMPARED TO 1994

REVENUES -- Revenues increased \$2.0 million, or 24.7%, from \$8.1 million in 1994 to \$10.1 million in 1995. The increase in revenues was primarily attributable to increased residential equipment replacement sales of approximately \$1.2 million and the start-up of a new construction division.

COST OF SERVICES -- Cost of services increased \$1.5 million, or 25.9%, from \$5.8 million in 1994 to \$7.3 million in 1995 and was consistent with the increase in sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses increased \$0.3 million, or 15.0%, from \$2.0 million in 1994 to \$2.3 million in 1995. This increase resulted from increased marketing efforts to improve market share.

LIQUIDITY AND CAPITAL RESOURCES -- MERIDIAN & HOOSIER

The following table sets forth selected information from Meridian & Hoosier's statements of cash flows (dollars in millions):

	YEAR ENDED DECEMBER 31		SIX MONTHS ENDED JUNE 30	
	1994	1995	1995	1996
	(UNAUDITED)			
Net cash provided by operating activities.....	\$ 0.4	\$ 0.7	\$ 0.2	\$ 0.2
Net cash used in investing activities..... (0.9)	(0.5)	(0.2)	0.0	
Net cash provided by (used in) financing activities.....	0.3	(0.1)	(0.1)	0.8
Net increase (decrease) in cash and cash equivalents.....	\$ 0.2	\$ 0.4	\$ 0.1	\$ 0.1

Net cash provided by operating activities consisted primarily of net income plus depreciation and amortization. Net cash used in investing activities consisted of capital expenditures for property and equipment and the acquisition in 1996 of Sagamore. Net cash provided by (used in) financing activities resulted from borrowing and repayments of long-term obligations and capital lease obligations.

Meridian & Hoosier had working capital of \$1.1 million as of June 30, 1996. It historically has funded its operations with cash flows from operations and borrowings from lenders and its sole stockholder. While there can be no assurance, management of Meridian & Hoosier believes it has adequate cash flows and financing alternatives to fund its operations through the third quarter of 1997.

A-ABC

Founded in 1972, A-ABC is among the leading providers of home appliances, HVAC and plumbing maintenance, repair and replacement services to the residential and light commercial markets in the Houston metropolitan area.

RESULTS OF OPERATIONS -- A-ABC

The following table sets forth certain historical selected financial data and data as a percentage of revenues for the periods indicated (dollars in thousands):

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31	SIX MONTHS ENDED JUNE 30
--	------------------------	--------------------------------

	1993		1994		1995		1995	
							(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues.....	\$ 10,900	100.0%	\$ 8,676	100.0%	\$ 8,707	100.0%	\$ 3,983	100.0%
Cost of services.....	6,921	63.5	5,574	64.2	5,709	65.6	2,721	68.3
Gross profit.....	3,979	36.5	3,102	35.8	2,998	34.4	1,262	31.7
Selling, general and administrative expenses.....	2,830	26.0	2,444	28.2	2,348	27.0	1,108	27.8
Income from continuing operations....	\$ 1,149	10.5	\$ 658	7.6	\$ 650	7.4	\$ 154	3.9
Loss from discontinued operations....	\$ (1,452)		\$ (142)		\$ (115)		\$ (92)	

</TABLE>

	1996	
Revenues.....	\$ 4,380	100.0%
Cost of services.....	2,658	60.7
Gross profit.....	1,722	39.3
Selling, general and administrative expenses.....	1,094	25.0
Income from continuing operations....	\$ 628	14.3
Loss from discontinued operations....	\$ (244)	

#### UNAUDITED INTERIM RESULTS

REVENUES -- Revenues increased \$0.3 million, or 7.5%, from \$4.0 million for the six months ended June 30, 1995 to \$4.4 million for the six months ended June 30, 1996. The increase in revenue was attributable to a \$0.3 increase in HVAC installations and a \$0.1 million increase in appliance service.

COST OF SERVICES -- Cost of services was \$2.7 million for the six months ended June 30, 1995 and 1996, but decreased as a percentage of revenues from 68.3% to 60.7%. The percentage decrease in cost of services was primarily due to an increase in volume purchase discounts and better utilization of employees resulting in reduced labor costs as a percentage of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses were \$1.1 million for the six months ended June 30, 1995 and 1996.

#### 1995 COMPARED TO 1994

REVENUES -- Revenues remained constant at \$8.7 million for 1994 and 1995.

COST OF SERVICES -- Cost of services increased \$0.1 million, or 1.8%, from \$5.6 million in 1994 to \$5.7 million in 1995.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses decreased \$0.1 million, or 4.2%, from \$2.4 million in 1994 to \$2.3 million in 1995.

#### 1994 COMPARED TO 1993

REVENUES -- Revenues decreased \$2.2 million, or 20.2%, from \$10.9 million for 1993 to \$8.7 million for 1994. The decrease in revenue was primarily attributable to a \$0.9 million decrease in appliance service, a \$0.7 million decrease in HVAC installations and a \$0.4 million decrease in plumbing service, respectively.

COST OF SERVICES -- Cost of services decreased \$1.3 million, or 18.8%, from \$6.9 million to \$5.6 million in 1994 and was consistent as a percentage of revenue with the reduction in revenue.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES -- Selling, general and administrative expenses decreased \$0.4 million, or 14.3%, from \$2.8 million in 1993 to \$2.4 million in 1994. This decrease resulted from a \$0.4 million reduction in advertising expense.

INCOME (LOSS) FROM DISCOUNTED OPERATIONS -- Loss from discontinued operations decreased \$1.4 million, or 93.3%, from a \$1.5 million loss for 1993 to a \$0.1 million loss for 1994. The decrease in the loss was primarily attributable to a \$0.6 million reduction in salary and benefit cost, a \$0.1 million reduction in rent and property tax expense related to certain store closings and a \$0.3 million reduction in advertising expense.

The following table sets forth selected information from A-ABC's statements of cash flows (in millions):

&lt;TABLE&gt;

&lt;CAPTION&gt;

	YEAR ENDED DECEMBER 31			SIX MONTHS ENDED JUNE 30	
	1993	1994	1995	1995	1996
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
Net cash provided by (used in) by operating activities.....	\$ 0.8	\$ 0.3	\$ 0.6	\$ 0.1	\$ 0.3
Net cash provided by (used in) investing activities.....	(1.2)	0.2	(0.4)	0.1	(0.4)
Net cash used in financing activities.....	0.4	(0.4)	(0.1)	(0.3)	(0.1)
Net increase (decrease) in cash and cash equivalents.....	\$ 0.0	\$ 0.1	\$ 0.1	\$ (0.1)	\$ (0.2)
	=====	=====	=====	=====	=====

&lt;/TABLE&gt;

From 1993 through the six months ended June 30, 1996, A-ABC generated \$2.0 million in net cash from operating activities.

Cash used in investment activities was primarily attributable to purchasing additional trucks and the net change in the cash provided by (used in) discontinued operations.

Cash used in financing activities consists primarily of S corporation distributions to the Company's sole shareholder and net borrowings and repayments of long-term obligations.

A-ABC had a working capital deficit of \$0.5 million at June 30, 1996. It historically has funded its operations with cash flows from operations and borrowings from lenders and its shareholder. While there can be no assurance, management of A-ABC believes it has adequate cash flows and financing alternatives to fund its operations through the third quarter of 1997.

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## BUSINESS

## GENERAL

ARS was founded in October 1995 to create the leading national provider of (i) comprehensive maintenance, repair and replacement services for HVAC systems, including IAQ, and for plumbing, electrical and other systems in homes and small commercial buildings and (ii) new installation services of those systems in homes and small commercial facilities under construction (collectively, "residential services"). To achieve this goal, the Company intends to implement an aggressive acquisition program and a national operating strategy designed to increase internal revenue growth, improve profitability and capitalize on cost efficiencies. During fiscal 1995, the combined revenues of the Founding Companies totaled \$114.6 million, of which maintenance, repair and replacement services accounted for approximately 48% and new installation services accounted for approximately 52%. The Company believes the profitability of its maintenance, repair and replacement business benefits from its installation services operations as a result of (i) the significant volume of purchases of HVAC systems for its high-volume installation services and (ii) the addition of new customer and equipment information in the Company's marketing database. This database provides the Company with valuable information that can be used to expand the Company's future residential services revenue base. In addition, new installation services provide the Company with cooperative advertising credits from the HVAC system manufacturers which it uses for promoting its maintenance, repair and replacement services for residential HVAC systems. Through leveraging these benefits, acquiring new service companies and internal development, the Company intends to emphasize the growth of its higher-margin maintenance, repair and replacement services business.

ARS has definitive agreements to acquire the seven Founding Companies simultaneously with the closing of this Offering. The Founding Companies have been in business an average of 31 years and provide various residential services in and around the Houston and Washington-Baltimore metropolitan areas, Richmond, Virginia, throughout South Carolina, southeast Florida and central Indiana (primarily Indianapolis). The Company is a leading provider of one or more residential services in each region in which it operates. During fiscal 1995, the Company's service and installation technicians (totaling approximately 1,000 as of June 30, 1996) responded to approximately 263,000 maintenance, repair and replacement service calls and installed approximately 15,100 HVAC systems in



newly built homes, apartments and commercial buildings. Three of the largest Founding Companies, representing approximately 63% of the Company's fiscal 1995 combined revenues, have been members of an industry-sponsored practice-sharing group for the past six years. Through this arrangement, they have developed common marketing plans, computer systems and other operational practices in order to develop "best practices" in their respective markets. The Company believes building upon this arrangement to include all of the Founding Companies will aid in the initial integration of the Founding Companies following the closing of this Offering.

#### INDUSTRY OVERVIEW

The Company estimates that the HVAC, plumbing and electrical industries in the United States represent an annual market in excess of \$40 billion, of which maintenance, repair and replacement services account for in excess of \$25 billion. It also believes this market is served by over 50,000 companies, consisting predominantly of small, owner-operated businesses operating in single local geographic areas and providing a limited range of services. It believes the majority of owners in its industry have limited access to adequate capital for modernization, training and expansion and limited opportunities for liquidity in their businesses.

The Company believes significant opportunities are available to a well capitalized, national company employing professionally trained, customer-oriented service technicians and providing a full complement of high-quality residential services in an industry that has been characterized by inconsistent quality, reliability and pricing. It also believes the highly fragmented nature of the residential services industry will provide it with significant opportunities to consolidate the capabilities and resources of a large number of existing residential services businesses.

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#### BUSINESS STRATEGY

The Company plans to achieve its goal of becoming the leading national provider of professional, high-quality residential services by emphasizing growth through acquisitions and implementing a national operating strategy that enhances internal revenue growth and profitability and achieves cost efficiencies.

**GROWTH THROUGH ACQUISITION.** The Company intends to implement an aggressive acquisition program targeting large metropolitan and high-growth suburban areas with attractive residential demographics. The Company's acquisition strategy involves entering new geographic markets and expanding within existing markets.

- o **ENTERING NEW GEOGRAPHIC MARKETS.** In each new market, the Company will initially target for acquisition one or more leading local or regional companies providing residential services and having the critical mass necessary to be a core business with which other residential service operations can be consolidated. An important criterion for these acquisition candidates will be superior operational management personnel, whom the Company generally will seek to retain.
- o **EXPANDING WITHIN EXISTING MARKETS.** Once the Company has entered a market, it will seek to acquire other well-established service companies operating within that region, in order to expand its market penetration and range of services it offers in that market. The Company also will pursue "tuck-in" acquisitions of smaller residential services companies whose operations can be incorporated into the Company's existing operations without any significant increase in infrastructure.

**IMPLEMENTATION OF A NATIONAL OPERATING STRATEGY.** The Company intends to implement a national operating strategy employing "best practices" designed to increase internal growth and profitability through enhanced operations and the achievement of cost efficiencies.

- o **INTERNAL GROWTH.** The Company will review its operations at the local and regional operating levels (as well as examining practices in other service industries) in order to identify certain "best practices" that will be implemented throughout its operations. For example, the Company intends to provide 24-hour emergency service at each of its locations and to monitor service call quality by attempting to contact each of its service customers promptly following a service call. In addition, the Company intends to utilize a national training program to improve and keep current the technical, selling and customer relations skills of its service technicians and will use specialized computer technology at each of its locations to improve communications, vehicle dispatch and service quality and responsiveness. Management believes these practices will enable the Company to provide superior customer service and maximize sales opportunities. This service-oriented strategy will also allow the Company to reinforce its brand image at the local level while fostering its efforts to develop a national brand name.

- o COST EFFICIENCIES. The Company believes it should be able to reduce the total operating expenses of the Founding Companies and other acquired businesses by eliminating duplicative administrative functions in tuck-in acquisitions and consolidating certain functions performed separately by each company prior to its acquisition. In addition, the Company believes that, as a large, national residential services company, it should experience reduced costs (as a percentage of revenues) compared to those of the individual Founding Companies and other acquired companies in such areas as: the purchase of equipment for resale, service vehicles, parts and tools; vehicle and equipment maintenance; financing arrangements; employee benefits; and insurance and bonding.

#### ACQUISITION STRATEGY

Given the large size and fragmentation of the residential services industry, the Company believes there are numerous potential acquisition candidates both within the markets currently served by the Company and in other large metropolitan and high-growth suburban markets. The Company intends to implement an aggressive acquisition program to expand into these new markets and to enhance its position in existing markets.

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In new markets, the Company will target for acquisition one or more leading local or regional residential services companies. Generally, these companies will be run by successful entrepreneurs whom the Company will endeavor to retain and will be of sufficient size to provide the basis for future Company expansion within a given market. Through implementation of its national operating strategy, the Company will aid the acquired companies (operating on a decentralized basis) in increasing their revenues and improving their profitability. Once the Company has entered a market, it will seek to acquire other residential services providers in order to expand its share of that market and increase the range of services offered in that market. Some of the acquisitions within existing markets will be large enough to warrant their own operating and management structure while other acquisitions will be small enough to be folded into an existing operation without significantly increasing the Company's infrastructure. If an acquisition is large enough to warrant its own operating structure, the Company will develop a regional operating plan whereby these companies can benefit from regional operating efficiencies such as shared marketing efforts, centralized maintenance, local purchasing power, expanded service line management expertise and other economies of scale.

Each of the Company's acquisition candidates will be expected to demonstrate potential for revenue growth and profitability. The Company will also evaluate certain qualitative characteristics of acquisition candidates, including their reputations in their respective geographic regions, the size and other characteristics of customer bases, the quality and experience levels of operational management and service technicians, the amount, type and condition of their equipment and facilities and their operating histories. The Company believes there are numerous acquisition candidates that meet the Company's acquisition criteria.

The Company believes it will be regarded by many owners of residential services businesses as an attractive acquirer because of: (i) the Company's strategy for creating a large, professionally managed company with national name recognition and a reputation for quality service and customer satisfaction; (ii) management's experience in consolidations; (iii) the Company's decentralized operating strategy; (iv) the Company's increased visibility and access to financial resources as a public company; (v) the potential for increased profitability due to centralized administrative functions, enhanced systems capabilities and access to increased marketing resources; and (vi) depending on the size of the acquisition, the ability of the business being acquired to participate in the Company's growth and expansion, while realizing liquidity.

The Company has analyzed various data on the residential services industry and individual businesses within the industry and believes it is well positioned to implement its acquisition program promptly following this Offering. Based on the Company's experience in connection with the acquisitions of the Founding Companies, the Company believes the senior executives of the Founding Companies will be instrumental in identifying and completing future acquisitions. Several of these executives have had leadership roles in both national and regional residential services trade associations, which have allowed these principals to become personally acquainted with other owners of residential services businesses across the country. The Company believes that the visibility of these individuals within these associations will increase the industry's awareness of the Company and its acquisition program, thereby attracting interest from owners of other residential services companies. In addition, several members of the Company's executive management team have worked together for a number of years and have significant experience in negotiating, closing and integrating acquisitions in various industries. Within the past several months, the Company has contacted the owners of a number of residential services businesses, several of whom have expressed interest in having their businesses acquired by the Company. The Company currently has no binding agreements to effect any

acquisition other than in connection with the Founding Companies. The timing, size and success of the Company's acquisition efforts and the associated potential capital commitments cannot be readily predicted.

As consideration for future acquisitions, the Company intends to use various combinations of its Common Stock, cash and notes. The consideration for each future acquisition will vary on a case-by-case basis, with the major factors being historical operating results, the future prospects of the business to be acquired and the ability of that business to complement the services offered by the Company. The Company

intends to register 5,000,000 additional shares of Common Stock under the Securities Act during the fourth quarter of 1996 for its use in connection with future acquisitions. See "Risk Factors -- Dependence on Acquisitions for Growth," "-- Need for Additional Financing" and "-- Potential Effect of Shares Eligible for Future Sale on Price of Common Stock."

SERVICES PROVIDED

The Company provides a variety of maintenance, repair and replacement services for HVAC, plumbing, electrical and other systems in homes and small commercial buildings. It also installs such operating systems in new homes and small commercial buildings under construction. The Company's maintenance, repair and replacement services include: checkups, cleaning, repair and replacement of HVAC systems and associated parts; maintenance, repair and replacement of electrical switches, outlets, lines, panels and fixtures; repair and replacement of bathroom fixtures, water filters and water heaters; cleaning, repair and replacement of pipes, sewer lines and residential sanitary systems; and maintenance, repair and replacement of other residential systems, including home appliances and fireplaces. In connection with its repair and replacement services, the Company sells on a retail basis a wide range of HVAC, plumbing, electrical and other equipment, including complete heating and air conditioning systems and a variety of HVAC, plumbing and electrical parts and system components. As a subcontractor to builders, it installs complete central heating and air conditioning systems, electrical systems, plumbing systems and other systems, including fireplaces, in newly constructed homes and small commercial buildings.

The following table shows, by region, the approximate percentages of the combined Founding Companies' revenue for fiscal 1995 represented by maintenance, repair and replacement services and new installation services, respectively.

<TABLE>  
<CAPTION>

	HVAC	PLUMBING	ELECTRICAL	OTHER SERVICES
	----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
MAINTENANCE, REPAIR AND REPLACEMENT SERVICES:				
Houston Metropolitan Area.....	8%	10%	1%	6%
Washington-Baltimore Metropolitan Area and Richmond, Virginia.....	6	-	-	-
South Carolina.....	3	-	-	-
Southeast Florida.....	6	-	-	-
Indianapolis and Central Indiana.....	8	-	-	-
	----	-----	-----	-----
	31%	10%	1%	6%
	=====	=====	=====	=====
NEW INSTALLATION SERVICES:				
Houston Metropolitan Area.....	-%	-%	-%	-%
Washington-Baltimore Metropolitan Area and Richmond, Virginia.....	20	-	-	5
South Carolina.....	6	4	5	-
Southeast Florida.....	11	-	-	-
Indianapolis and Central Indiana.....	1	-	-	-
	----	-----	-----	-----
	38%	4%	5%	5%
	=====	=====	=====	=====

</TABLE>

An important element of the Company's growth strategy is to increase the range of residential services, particularly the maintenance, repair and replacement services it provides, in each of its regions through acquisitions and internally generated growth. Accordingly, the percentages in the foregoing table are expected to change over time as the Company implements its growth strategy. In addition, the Company intends to provide a full range of these services in new geographic areas into which it will expand, principally by acquisitions. See "-- Business Strategy."

One strategy by which the Company will attempt to increase the reach of its residential services is through the utilization of its ARS Energy Services Company ("ARS Energy") subsidiary. This subsidiary has been organized for the purpose of formulating and implementing strategic alliances with major national and regional companies that may be able to integrate the Company's residential services with their own products or services and thereby make the Company's services available to their customers. These participants may include utilities, equipment manufacturers, home remodeling companies, home supply distributors, realtors, insurance companies, restaurant chains and other multi-location retailers.

Meridian & Hoosier is the only Founding Company that currently maintains, repairs and replaces commercial heating and air conditioning units in large commercial facilities. As a result of acquisitions or otherwise, the Company's provision of these and other services to such facilities may be expanded.

#### OPERATIONS

The Company intends to operate on a decentralized basis, with the management of each operating location responsible for its day-to-day operations, profitability and growth. Local management will be supported by the Company's marketing and advertising strategies and programs and will be provided appropriate support in developing optimal pricing strategies. Financial resources for improved systems and expansion of services, training programs, financial controls, purchasing information and operating expertise will be shared among locations to improve productivity, lower operating costs and improve customer satisfaction to stimulate internal growth. While the local management will operate with a high degree of autonomy and be empowered to make the necessary operating decisions, adherence to Company training, safety, customer satisfaction, accounting and internal control policies will be required. Frequent communication with the Company's executive management team will be integral to the Company's achieving the benefits that are anticipated by the consolidation of these businesses into a single company.

The Company's residential service operations are coordinated by local operations centers, which are staffed by order entry and customer service personnel, operations or service coordinators, and inventory, vehicle maintenance and office personnel. All of these centers use specialized computer and communications technology to process orders, arrange service calls, ensure timely delivery of required repair parts or new equipment, communicate with customers and service technicians, and invoice customers. A typical maintenance, repair or replacement service call begins with either the customer telephoning a local operations center and requesting an estimate or placing an order for repair service or the Company calling the customer to make an appointment for periodic service agreement maintenance. Coordination and deployment of service technicians are managed by the operations center through communications systems linked to the center's computer system, cellular telephone, pager or radio.

Service personnel work out of service vehicles, which are equipped with an inventory of equipment and commonly required tools, parts and supplies needed to complete a variety of jobs. The service technician assigned to a service call is generally responsible for driving to the service location, initiating the customer contact, analyzing the problem and job requirements, providing the price quotation, overseeing the work and collecting payment for the service. Payment for maintenance, repair and replacement services not covered by a service contract is generally made in cash or by check or credit card at the job site, except for certain well-established customers.

During fiscal 1995, the Company's service technicians responded to approximately 263,000 maintenance, repair and replacement service calls, of which approximately 54,000 were requests for services under the Company's monitoring service contracts; approximately 22,000 were requests for service under the Company's warranty service contracts; and approximately 187,000 were requests for emergency or other services not under contract. These calls covered a wide variety of services including the replacement of approximately 9,000 HVAC systems. Service histories on past customers are generally available to the customer service representatives in a continuously updated computer database matched to addresses in the local service area.

The Company's new installation services are generally provided to builders of new homes and small commercial facilities. During 1995, the Company was involved in the installation of approximately 15,100 HVAC systems in new homes and commercial facilities.

Typically, new installation service begins with the customer providing the architectural plans or mechanical drawings for the particular home or an entire tract of homes or other facility to be constructed and either requesting a bid or entering into direct negotiation for the work required. The Company's new installation personnel analyze the plans to determine the labor, materials and

equipment type and size required for the installation of the system specified, price the job and either bid for or negotiate the written contract for the job. In HVAC installations, most of the required air ducts are fabricated and, together with the other equipment to be installed, partially pre-assembled in the Company's facilities and readied for delivery to the job site. The equipment and supplies necessary for the particular job are ordered from the suppliers or manufacturers, and delivery generally is timed according to the builder's schedule. The installation work is coordinated with the builder's construction supervisors. Scheduled draw payments for these services generally are obtained within 30 days of completing the installation, at which time any mechanics' and materialmen's liens securing the rights to such payments are released. Interim payments are often obtained to cover the Company's labor and materials costs on large installation projects.

Except for the air ducts fabricated by the Company for use in its installation services operations, substantially all the equipment and component parts the Company sells or installs are purchased from manufacturers and other outside suppliers. The Company is not materially dependent on any of these outside sources. See " -- Sources of Supply."

#### SALES AND MARKETING

In the Founding Companies, the Company believes it has acquired well known and established businesses that are leading providers of one or more residential services in their geographic markets. The Company intends to build on this foundation through the use of advertising to expand name recognition and the adoption of best practices to increase the quality of services provided. For example, the Company intends to implement the uniform practice whereby the Company's customers each receive prompt follow-up inquiries to determine customer-satisfaction levels and to arrange for follow-up service calls if necessary. The Company believes this practice can be uniformly implemented at each of its service locations without material cost to the Company.

In each of the market areas in which the Company provides residential maintenance, repair and replacement services, vigorous advertising campaigns have traditionally been emphasized by the Founding Companies. These campaigns have used mailouts, yellow pages, newspapers, radio and television to promote the services offered under their particular trade names or service marks. These advertising campaigns have been effective in creating name recognition and customer identification with the Founding Companies for the quality of the services they offer in their local areas. The Company expects for the foreseeable future to retain the trade names and service marks of the Founding Companies in its advertising and promotional materials in their local areas, but intends over time to promote and establish the Company's name and service marks nationally. See "-- Intellectual Property."

The Company also views its existing service contracts as an important way of retaining its customer base. The Company has several general types of service contracts: "maintenance and repair" contracts whereby the Company maintains and repairs selected residential HVAC, plumbing, electrical and other systems for a period of time for a fixed fee and "maintenance only" or "repair only" contracts whereby the Company makes periodic inspections of a residential system and provides certain preventative maintenance for a period of time for a fixed fee. The Company had approximately 31,000 service contracts in effect as of June 30, 1996, which generally have one-year terms. The Company believes that such service contracts provide the Company with flexibility in determining the timing for delivery of its services, thereby generating greater stability in the level of demand for services throughout different seasons of the year. See " -- Seasonality." Certain states regulate the provision of service under residential services warranty contracts. See "-- Governmental Regulation and Environmental Matters."

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With respect to its new installation business, the Company's marketing strategy focuses on cultivating long-term relationships with its national, regional and local home builder and general contractor customers. The Company's marketing efforts with these customers primarily involve direct sales contacts emphasizing the Company's quality of services and reliability. In addition, labels with the Company's name and phone number are applied to newly installed equipment, and direct telemarketing sales efforts for service contracts are timed to closely coincide with the expiration of manufacturer warranties on Company installed equipment. Therefore, the Company believes new installation business generally leads to maintenance, repair and replacement business.

The Company has numerous customers. No single customer accounted for more than 10% of the Company's revenues during fiscal 1995.

#### HIRING, TRAINING AND SAFETY

The Company will seek to ensure through its hiring procedures and continuous training programs that all service technicians it uses meet safety standards established by the Company, its insurance carriers and federal, state and local laws and regulations. The Company reviews prospective permanent service technicians to ensure they are trained thoroughly in their trades, the

Company's procedures and customer satisfaction standards, possess the required trade licenses and have acceptable driving records. In addition, the Company intends to require certain employees to take a physical exam and pass periodic drug tests.

The Company intends to have continuous training programs in place to provide initial, refresher and upgrade training programs to trainees, apprentices and service and installation technicians. These programs typically are presented by the Company's senior master plumbers, electricians, heating and air conditioning service technicians and safety supervisors. For example, in Houston, the Company operates a 150-seat classroom and training facility incorporating "hands on" training stations where service personnel, apprentices and new trainees can work on functioning HVAC, plumbing, electrical and other systems under the supervision of skilled tradesmen. A safety supervisor at this facility conducts both initial and continuous comprehensive training classes for all personnel and works with operating management to observe and evaluate safety procedures in an effort to constantly improve the effectiveness of the Company's safety programs.

#### VEHICLES AND FACILITIES

The Company operates a fleet of approximately 825 owned or leased service trucks, vans and support vehicles in its operations. It believes these vehicles generally are well-maintained, ordinary wear and tear excepted, and adequate for the Company's current operations.

The Company has 25 facilities at its 16 service locations, six of which it owns and 19 of which are leased under leases with remaining terms ranging from 18 months to 10 years from the date hereof on terms the Company believes to be commercially reasonable. Some of these leases are with affiliates of the Founding Companies. See "Certain Transactions -- Real Estate and Other Transactions." Total rental expense for the Company's facilities leases in fiscal 1995 (excluding certain discontinued retail appliance operations) was approximately \$1.6 million. The Company currently plans to consolidate a small number of its leased facilities in the Houston and southeast Florida markets. The Company does not expect to incur any material costs in connection with these consolidations.

The Company's facilities consist principally of offices, garages and maintenance and warehouse facilities. The Company's principal operating facilities include (i) a 60,000 square foot facility owned by the Company and located in Houston, Texas, which is the operational base for Crown, (ii) a 36,000 square foot leased facility in Manassas, Virginia, which serves as the principal fabrication and production facility for General Heating, (iii) a 36,000 square foot leased facility in Savage, Maryland, which serves as a distribution, fabrication, production and administrative facility for General Heating, (iv) a 62,500 square foot leased facility in Charleston, South Carolina, which is the headquarters for Atlas and (v) a 29,000 square foot leased facility in Margate, Florida, which serves as the principal office and fabrication facility

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for Florida HAC. The Company believes its facilities are well-maintained and adequate for the Company's existing and planned operations at each operating location.

After completion of this Offering, the Company will lease its principal executive and administrative offices in Houston, Texas, and is currently in the process of obtaining office space for this purpose.

#### INTELLECTUAL PROPERTY

The Company owns various trademarks, service marks and trade names, which it uses in its local operations, advertising and promotions. Initially, the Founding Companies and subsequently acquired businesses will continue to use their respective trade names and service marks in their local areas. Meridian & Hoosier currently is using the "DIAL ONE" name and related logos and marks under a franchise agreement. See "Certain Transactions -- Real Estate and Other Transactions." The Company intends to adopt and implement throughout its operations uniform service names and markings for use on its vehicles and in its advertising and promotional materials. See "Business -- Sales and Marketing."

#### EMPLOYEES

As of June 30, 1996, the Company had approximately 1,400 employees (excluding sales personnel from A-ABC's discontinued retail appliance operations), of which approximately 1,000 were service and installation technicians, approximately 270 were clerical and administrative personnel, approximately 46 were sales personnel and approximately 75 were management personnel. The Company does not anticipate any significant reductions in staff as a result of consolidation of the operations of the Founding Companies. Rather, as it implements its internal growth and acquisition strategies, the Company expects that the number of employees will increase. The Company is not a party to any collective bargaining agreements. The Company has not experienced any strikes or work stoppages and believes its relationship with its employees

is good.

The residential services business is characterized by, among other things, high turnover rates among service technicians. A substantial majority of the service technician turnover experienced by the Founding Companies in recent years has been during the extended screening period in the first year of employment. The Company's future success will depend, in part, on its ability to continue to attract, retain and motivate qualified service technicians and operational management personnel. One way by which the Company hopes to attract, retain and motivate such personnel is by offering them a more comprehensive benefits package at less cost to the employee than is typical in the industry. The Company expects to be able to offer such a package in a cost effective manner because of the large number of persons it will employ on closing of this Offering.

#### SOURCES OF SUPPLY

The raw materials used in the Company's operations, such as HVAC system components, sheet metal, electrical components and copper and PVC tubing, are generally available from domestic suppliers at competitive prices. The Company believes that the combined entity will be able to obtain a price savings on raw materials through volume purchases. The Company does not currently have any significant company-wide contracts relating to the supply of equipment or materials. The Company has not experienced any significant difficulty in obtaining adequate supplies to conduct its operations.

#### SEASONALITY

The Company's installation, maintenance, repair and replacement operations are subject to seasonal variations in the different lines of service. Except in southeast Florida and South Carolina, the demand for new installations is lower during the winter months because new construction activity is lower as a result of colder weather. Demand for HVAC services is generally higher in the second and third quarters. Accordingly, the Company expects its revenues and operating results generally will be correspondingly lower in its first and fourth quarters.

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#### COMPETITION

The market for residential services is highly competitive. The Company believes that the principal competitive factors in the residential services industry are (i) timeliness, reliability and quality of services provided, (ii) range of services provided, (iii) market share and visibility and (iv) price. The Company believes its strategy of creating a leading national provider of comprehensive residential services directly addresses these factors. The ability of the Company to recruit, train and retain highly motivated service technicians to provide quality services should be enhanced by its ability to utilize professionally managed recruiting and training programs. In addition, the Company expects to offer compensation, health and savings benefits that are more comprehensive than most offered in the industry. See "Business -- Hiring, Training and Safety." Quality of service should be enhanced by the implementation and continuous reinforcement of customer satisfaction policies, retraining and follow-up with the customer. Competitive pricing is possible through the implementation of the cost saving opportunities that exist across each of the service lines offered and from productivity improvements.

Most of the Company's competitors are small, owner-operated companies that typically operate in a single local geographic area. Certain of these smaller competitors may have lower overhead cost structures and, consequently, may be able to provide their services at lower rates. Moreover, many homeowners have traditionally relied on individual persons or small repair service firms with whom they have long-established relationships for a variety of home repairs. The Company believes there are currently only three public companies, Roto-Rooter, Inc., Service Experts, Inc. and Baltimore Gas & Electric Company (through a subsidiary), focused on providing residential services in some of the same services lines provided by the Company. There are a number of national chains, such as Home Depot, Sears and Builders Square, that sell a variety of plumbing fixtures and equipment, and heating and air conditioning equipment for residential use and offer, either directly or through various subcontractors, installation, warranty and repair services. Other companies or trade groups engage in franchising their names and marketing programs in some residential services lines. In the future, competition may be encountered from, among others, the unregulated business segments of regulated gas and electric utilities or from newly deregulated utilities in those industries entering into various residential service areas. Certain of the Company's competitors and potential competitors have greater financial resources than the Company to finance residential services acquisition and development opportunities, to pay higher prices for the same opportunities or to develop and support their own residential services operations if they decide to enter the field.

#### GOVERNMENTAL REGULATION AND ENVIRONMENTAL MATTERS

Many aspects of the Company's operations are subject to various federal,

state and local laws and regulations, including, among others, (i) permitting and licensing requirements applicable to service technicians in their respective trades, (ii) building, HVAC, plumbing and electrical codes and zoning ordinances, (iii) laws and regulations relating to consumer protection, including laws and regulations governing service contracts for residential services, and (iv) laws and regulations relating to worker safety and protection of the environment.

The Company believes it has all required permits and licenses to conduct its operations and is in substantial compliance with applicable regulatory requirements relating to its operations. Failure of the Company to comply with the applicable regulations could result in substantial fines or revocation of the Company's operating permits.

A large number of state and local regulations governing the residential services trades require various permits and licenses to be held by individuals. In some cases, a required permit or license held by a single individual may be sufficient to authorize specified activities for all the Company's service technicians who work in the geographic area covered by the permit or licenses. The Company intends to implement a policy to ensure that, where allowed, any such permits or licenses that may be material to the Company's operations in a particular geographic region are held by at least two persons within that region.

The Company's operations are affected by numerous federal, state and local environmental laws and regulations, including those governing vehicle emissions and the use and handling of refrigerants. The

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technical requirements of these laws and regulations are becoming increasingly expensive, complex and stringent. Federal and state environmental laws include statutes intended to allocate the cost of remedying contamination among specifically identified parties. The Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA" or "Superfund") imposes strict, joint and several liability on owners or operators of facilities at, from, or to which a release of hazardous substances has occurred, on parties who generated hazardous substances that were released at such facilities, and on parties who arranged for the transportation of hazardous substances to such facilities. A majority of states have adopted "Superfund" statutes comparable to and, in some cases, more stringent than CERCLA. If the Company were to be found to be a responsible party under CERCLA or a similar state statute, the Company could be held liable for all investigative and remedial costs associated with addressing such contamination. In addition, claims alleging personal injury or property damage may be brought against the Company as a result of alleged exposure to hazardous substances resulting from the Company's operations. None of the Founding Companies has been notified that it is a potentially responsible party under CERCLA or any similar state statute.

The Company's operations are subject to the federal Clean Air Act, as amended (the "Clean Air Act"), which governs air emissions and imposes specific requirements on the use and handling of chlorofluorocarbons and certain other refrigerants ("CFCs"). Clean Air Act regulations require the certification of service technicians involved in the service or repair of systems, equipment and appliances containing these refrigerants and also regulate the containment and recycling of these refrigerants. These requirements have increased the Company's training expenses and expenditures for containment and recycling equipment. The Clean Air Act is intended to ultimately eliminate the use of CFCs in the United States and require alternative refrigerants to be used in replacement HVAC systems. The implementation of the Clean Air Act restrictions has also increased the cost of CFCs in recent years and is expected to continue to increase such costs in the future. As a result, the number of conversions of existing HVAC systems which use CFCs to systems using alternative refrigerants is expected to increase.

The Company's operations in certain geographic regions are subject to laws that will, over the next few years, require specified percentages of vehicles in large vehicle fleets to use "alternative fuels," such as compressed natural gas ("CNG") or propane, and to meet reduced emissions standards. A significant proportion of the vehicles in the Crown fleet that are currently in service have been converted to use either CNG or gasoline. The Company does not anticipate that the cost of additional fleet conversion that may be required under current laws will be material. Future costs of compliance with these laws will be dependent upon the number of vehicles purchased in the future for use in the covered geographic regions, as well as the number and size of future business acquisitions by the Company in these regions. The Company cannot determine to what extent its future operations and earnings may be affected by new regulations or changes in existing regulations relating to vehicle emissions.

Prior to entering into the agreements relating to the Acquisitions, the Company evaluated the properties to be acquired and property leases to be assumed in the Acquisitions, and engaged an independent environmental consulting firm to conduct or review assessments of environmental conditions at certain properties owned or operated by the Founding Companies. No material environmental problems were discovered in these reviews, and the Company is not



otherwise aware of any actual or potential environmental liabilities of the Founding Companies that would be material to the Company. The Company intends to implement various programs to promote compliance with applicable health and worker safety regulations and to increase employee safety awareness.

Capital expenditures for property, plant and equipment for environmental control facilities during fiscal 1995 were not material. The Company does not currently anticipate any material adverse effect on its business or consolidated financial position as a result of future compliance with existing environmental laws and regulations controlling the discharge of materials into the environment. Future events, however, such as changes in existing laws and regulations or their interpretation, more vigorous enforcement policies of regulatory agencies or stricter or different interpretations of existing laws and regulations may require additional expenditures by the Company which may be material.

LITIGATION AND INSURANCE

The Company is, from time to time, a party to litigation arising in the normal course of its business, most of which involves claims for personal injury and property damage incurred in connection with its operations. The Company is not currently involved in any litigation the Company believes will have a material adverse effect on its financial condition or results of operations.

The Company maintains various worker safety and quality control programs in an attempt to reduce the risk of potential damage to persons and property. In addition, the Company maintains insurance in such amounts and against such risks as it deems prudent. No assurance can be given such insurance will be sufficient under all circumstances to protect the Company against significant claims for damages. The occurrence of a significant event not fully insured against could materially and adversely affect the Company's financial condition and results of operations. Moreover, no assurance can be given the Company will be able to maintain adequate insurance in the future at commercially reasonable rates or on acceptable terms.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information concerning each of the Company's current directors, the eight persons nominated to become directors on closing of this Offering and the executive officers of the Company (ages are as of June 30, 1996):

NAME	AGE	POSITION
C. Clifford Wright, Jr.	43	Director, President and Chief Executive Officer
Howard S. Hoover, Jr.	57	Director, Chairman of the Board
Gorden H. Timmons	47	Director* and Chief Operating Officer*; President of Atlas
William P. McCaughey	38	Director, Executive Vice President - Planning and Development
John D. Held	34	Senior Vice President, General Counsel and Secretary
Frank N. Menditch	44	Director*; President of General Heating
Elliot Sokolow	53	Director*; President of Florida HAC
A. Jefferson Walker III	34	Treasurer
Michael Mamaux	30	Controller
Thomas N. Amonett	53	Director*
Robert J. Cruikshank	65	Director*
Randall B. Hale	33	Director*
Nolan Lehmann	52	Director*
Don D. Sykora	65	Director*

\* Appointment will become effective on closing of this Offering.

C. CLIFFORD WRIGHT, JR. has been President and Chief Executive Officer and a director of the Company since November 1995. Since February 1996, Mr. Wright has also served as President and Chief Executive Officer of EHC. From 1991 to 1995, Mr. Wright was Vice President and Chief Financial Officer of American Ecology Corporation. From 1990 to 1991, Mr. Wright was a Director of Corporate Finance with KPMG Peat Marwick. Prior thereto, he was a divisional vice president in finance and planning of Browning-Ferris Industries, Inc. ("BFI"). Mr. Wright is a Certified Public Accountant.

HOWARD S. HOOVER, JR. has been Chairman of the Board of the Company since November 1995. Since February 1996, Mr. Hoover has also served as Chairman of EHC. From 1970 until 1991, Mr. Hoover was employed by BFI and served during his tenure as a director and in various management capacities as a member of the Senior Management Committee, Senior Vice President, General Counsel and Secretary. From 1992 until 1995, Mr. Hoover was engaged in various business development and consulting activities.

GORDEN H. TIMMONS founded Atlas in 1976 and has served as its President since that time. Mr. Timmons was a founder of the Charleston Chapter of the Air Conditioning Contractors of America ("ACCA") and is a past President of that Chapter. Mr. Timmons has been active in computer systems development for HVAC companies and is a frequent speaker at national industry conventions.

WILLIAM P. MCCAUGHEY has been Executive Vice President - Planning and Development and a director of the Company since November 1995. Since February 1996, Mr. McCaughey has also served as Executive Vice President of EHC. From 1992 to 1995, Mr. McCaughey was Treasurer of American Ecology Corporation. From 1991 to 1992, he was President of Environmental Financial Services, Inc., a research and consulting firm. He served as Vice President and Corporate Treasurer of Republic Waste Industries, Inc. from 1990 to 1991 and, prior thereto, was employed by BFI in several financial positions from 1982 to 1990. Mr. McCaughey is a Chartered Financial Analyst.

JOHN D. HELD has been Senior Vice President, General Counsel and Secretary of the Company since March 1996. Mr. Held also has served as Vice President and Secretary of EHC since March 1996. From October 1995 to March 1996, he was an associate at the law firm of Liddell, Sapp, Zivley, Hill and LaBoon, LLP. Mr. Held was Associate General Counsel of American Ecology Corporation from 1994 to 1995 and was an associate at the law firm of Baker & Botts, L.L.P. prior thereto.

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FRANK N. MENDITCH has been President of General Heating for more than the past five years. Mr. Menditch is a past president of the National Capital Chapter of ACCA and of the Metro Washington Heat Pump Association. Mr. Menditch holds Master Air Conditioning licenses in various jurisdictions.

ELLIOT SOKOLOW was a founder of Florida HAC in 1970 and has served as its president since 1977. Mr. Sokolow served as national President of ACCA in 1992 and 1993, and is the President-Elect of the Florida Air Conditioning Contractors Association.

A. JEFFERSON WALKER III joined the Company in April 1996 as Treasurer and was a consultant to the Company from January 1996 to March 1996. Mr. Walker has also served as Treasurer of EHC since March 1996. From 1993 to January 1996, he was employed by American Ecology Corporation as a Manager-Financial Analysis and Assistant Treasurer. From 1990 to 1993, Mr. Walker served as a Senior Financial Analyst and Assistant Banking Officer of Mellon Bank Corporation in Houston, Texas. Mr. Walker was a financial analyst at BFI from 1988 to 1989.

MICHAEL MAMAUX joined the Company and EHC in April 1996 as Controller. From 1995 until April 1996, Mr. Mamaux was an assistant corporate controller at U.S. Delivery Systems, Inc. Prior thereto, he was a Senior Auditor at Arthur Andersen LLP. Mr. Mamaux is a Certified Public Accountant.

THOMAS N. AMONETT has served as President and a director of Reunion Resources Company (previously known as Buttes Gas and Oil Company), a Houston-based company primarily engaged in manufacturing high volume, precision plastic products; providing engineered plastic services; oil and gas exploration, development and production; and wine grape vineyard development, since 1992 and as acting Chief Executive Officer of Weatherford Enterra, Inc. since July 1996. Previously, he was Of Counsel with the law firm of Fulbright & Jaworski L.L.P. from 1986 to 1992. Prior thereto, he was President and a director of Houston Oil Fields Company, an oil and gas exploration and production company, from 1982 to 1986. Mr. Amonett also currently serves as a director of Air-Cure Technologies, Inc., PetroCorp Incorporated and Weatherford Enterra, Inc.

ROBERT J. CRUIKSHANK is primarily engaged in managing his personal investments in Houston. Prior to his retirement in 1993, he was a Senior Partner in the accounting firm of Deloitte & Touche. Mr. Cruikshank serves as a director of Houston Industries Incorporated, MAXXAM Inc., Kaiser Aluminum Corporation, Compass Bank-Houston and Texas Biotechnology Corporation.

RANDALL B. HALE has been a Vice President of Equus Capital Management Corporation ("ECMC") and Equus II (see "Certain Transactions" and "Security Ownership of Certain Beneficial Owners and Management") since 1992 and a director of ECMC since February 1996. Mr. Hale currently serves as an officer or director of several private businesses. From 1985 to 1992, he was employed by Arthur Andersen LLP, where he served in an accounting and financial advisory capacity to a number of publicly traded and private companies. Mr. Hale is a Certified Public Accountant. Mr. Hale is being appointed to the Company's Board of Directors pursuant to the provisions of a funding agreement between ARS and Equus II, which will terminate pursuant to its terms upon completion of this Offering. See "Certain Transactions -- Organization of the Company."

NOLAN LEHMANN has been the President of ECMC since its formation in 1983 and of Equus II since its formation in 1991 (see "Certain Transactions" and "Security Ownership of Certain Beneficial Owners and Management"). Prior thereto, Mr. Lehmann was employed by Service Corporation International, where he held various positions, including vice president - regional manager and vice president - corporate development. Mr. Lehmann currently serves as a director of a number of public and private companies, including Allied Waste Industries, Inc., Champion Healthcare Corporation, Drypers Corporation and Garden Ridge Corporation. Mr. Lehmann is a Certified Public Accountant. Mr. Lehmann is being appointed to the Company's Board of Directors pursuant to the provisions of a funding agreement between ARS and Equus II, which will terminate pursuant to its terms upon completion of this Offering. See "Certain Transactions -- Organization of the Company."

DON D. SYKORA is currently a consultant to Houston Industries Incorporated. Prior to his retirement in 1995, he served as President and Chief Operating Officer of Houston Industries Incorporated since 1993.

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From 1990 to 1993, Mr. Sykora was President and Chief Operating Officer of Houston Industries Incorporated's principal operating subsidiary, Houston Lighting & Power Company. Mr. Sykora is currently serving as a director of each of Powell Industries, Inc., Pool Oilfield Services, Inc. and TransTexas Gas Corp.

On closing of this Offering, the Board of Directors will be divided into three classes with staggered terms of office. The term of the Class I directors, consisting of Messrs. Wright, Sokolow and Amonett, will expire at the annual stockholders' meeting in 1997. The term of the Class II directors, consisting of Messrs. Hoover, Menditch, Cruikshank and Hale, will expire at the annual stockholders' meeting in 1998. The term of the Class III directors, consisting of Messrs. Timmons, McCaughey, Lehmann and Sykora, will expire at the annual stockholders' meeting in 1999. After 1997 for the Class I directors, after 1998 for the Class II directors and after 1999 for the Class III directors, each class will hold office until the third annual stockholders' meeting following the most recent election of such class. Classification of the Board could have the effect of increasing the length of time necessary to change the composition of a majority of the Board. In general, at least two annual meetings of stockholders will be necessary for stockholders to effect a change in a majority of the members of the Board. Executive officers serve at the discretion of the Board.

On closing of this Offering, there will be five committees of the Board: Audit, Compensation, Executive, Nominating and Industry Relations. The initial members of the Audit Committee will be Messrs. Cruikshank (chairman), Amonett and Hale. The initial members of the Compensation Committee will be Messrs. Amonett (chairman), Sykora and Lehmann. The initial members of the Executive Committee will be Messrs. Wright (chairman), Hoover, Sykora and Timmons. The initial members of the Nominating Committee will be Messrs. Hoover (chairman), Wright, Cruikshank and McCaughey. The initial members of the Industry Relations Committee will be Messrs. Sokolow (chairman), Hoover and Menditch. The members of the Audit and Compensation Committees will not be employees of the Company.

#### DIRECTOR COMPENSATION

Directors who are employees of the Company do not receive additional compensation for serving as directors. Each director who is not an employee of the Company (a "Nonemployee Director") initially will receive a fee of \$1,500 for each Board meeting attended and \$1,000 for each Board committee meeting attended (unless held on the same day as a Board meeting) and will periodically be granted options to purchase Common Stock pursuant to the Company's 1996 Incentive Plan (the "Incentive Plan"). See "-- 1996 Incentive Plan -- Nonemployee Director Awards." All directors will be reimbursed for out-of-pocket expenses incurred in attending meetings of the Board or Board committees and for other expenses incurred in their capacity as directors.

#### EXECUTIVE COMPENSATION

The Company was incorporated in October 1995 and, prior to this Offering, has not conducted any operations other than activities related to the Acquisitions and this Offering. The Company did not pay any compensation to its senior executive officers in 1995. In 1996, the Company paid Mr. Wright 75% of his annual base salary accrued from November 1, 1995 to August 1, 1996 at an annual rate of \$175,000. The Company anticipates that during 1996 its most highly compensated executive officers and their annualized base salaries will be: Mr. Wright -- \$175,000; Mr. Hoover -- \$160,000; Mr. Timmons -- \$150,000; Mr. Menditch -- \$150,000; and Mr. Sokolow -- \$150,000. On the closing of this Offering, Mr. Wright will be paid the balance of his accrued 1995 and 1996 compensation, while Mr. Hoover will be paid his accrued 1995 and 1996 compensation through a series of payments beginning on October 1, 1996. Pursuant to the terms of their employment agreements with ARS, the annual base salaries of each of the executive officers named above are subject to upward adjustment effective one year from the effective date of his employment agreement. The

effective date of the employment agreements of Messrs. Wright and Hoover is November 1, 1995 and of Messrs. Timmons, Menditch and Sokolow is the date this Offering closes. See "-- Employment Agreements." Each of the executive officers named above is eligible to earn additional performance-based incentive compensation for 1996. See "-- 1996 Incentive Plan."

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Messrs. Wright, Hoover, McCaughey, Held and the current chief executive officer of each of the Founding Companies other than Crown and A-ABC, which generally will continue their existing employment arrangements with operational management. The following summary of these agreements, which will be effective on the closing of the Acquisitions and this Offering, does not purport to be complete and is qualified by reference to them, copies of which have been filed as exhibits to the Registration Statement of which this Prospectus is a part. Each of these agreements provides for an annual base salary in an amount not less than the initial specified amount and entitles the employee to participate in all the Company's compensation plans (as defined) in which other executive officers of the Company participate. Each of these agreements also has a continuous three-year term subject to the right of the Company and the employee to terminate the employee's employment at any time. If the employee's employment is terminated by the Company without cause (as defined) or by the employee with good reason (as defined), the employee will be entitled, during each of the years in the three-year period beginning on the termination date, to (i) periodic payments equal to his average annual cash compensation (as defined) from the Company, including bonuses, if any, during the two years (or such shorter period of employment) preceding the termination date, and (ii) continued participation in all the Company's compensation plans (other than the granting of new awards under the Incentive Plan or any other performance-based plan). Except in the case of a termination for cause, any stock options previously granted to the employee under the Incentive Plan that have not been exercised and are outstanding as of the time immediately prior to the date of his termination will remain outstanding (and continue to become exercisable pursuant to their respective terms) until exercised or the expiration of their term, whichever is earlier. If a change of control (as defined) of the Company occurs, the employee will be entitled to terminate his employment at any time during the 365-day period following that change of control and receive a lump sum payment equal to three times his highest annual base salary under the agreement (plus such amounts as may be necessary to hold the employee harmless from the consequences of any resulting excise or other similar purpose tax relating to "parachute payments" under the Internal Revenue Code of 1986, as amended (the "Code"). Each employment agreement contains or will contain a covenant limiting competition with the Company for a period of one year following termination of employment.

The Company also has entered into employment agreements with Messrs. Walker and Mamaux.

OPTION GRANTS

Pursuant to the Company's 1996 Stock Option Plan (the "Option Plan") and the Incentive Plan, the Company has granted to its directors, officers and certain employees (including officers of the Founding Companies) 10-year options to purchase 1,430,000 shares of Common Stock. The Incentive Plan amended and restated the Option Plan and all options granted under the Option Plan will be governed by the Incentive Plan. The following table sets forth certain information concerning the options granted under the Option Plan and the Incentive Plan:

<TABLE>  
<CAPTION>

NAME	DATE OF GRANT	NUMBER OF SHARES UNDERLYING OPTIONS GRANTED OR TO BE GRANTED	PERCENT OF TOTAL OPTIONS OUTSTANDING OR TO BE GRANTED	EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>
C. Clifford Wright, Jr.....	January 31, 1996	200,000	14.0%	\$8.00
Howard S. Hoover, Jr.....	January 31, 1996	150,000	10.5%	\$8.00
William P. McCaughey.....	January 31, 1996	120,000	8.4%	\$8.00
A. Jefferson Walker III.....	January 31, 1996	25,000	1.7%	\$8.00
Certain other officers and employees.....	March-April 1996	150,000	10.5%	\$9.60-\$10.80
All other employees, outside directors and officers of Founding Companies, as a group*.....	June-July 1996	785,000	54.9%	Initial public offering price per share

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</TABLE>

\* Conditioned on the closing of the Acquisitions and this Offering.

The options granted to Messrs. Wright, Hoover, McCaughey, Walker and one other executive officer are exercisable in 50% increments six and 18 months, respectively after the closing of this Offering. Other than the options for outside directors which are exercisable as set forth in "-- Director Compensation," the other outstanding options generally are exercisable in 20% increments six months after the date this Offering closes and thereafter on each of the first four anniversaries of that date.

#### BONUS AWARDS

In June 1996, the Board of Directors granted Messrs. Wright, Hoover, McCaughey and Held incentive cash bonus awards for 1996 which are based, subject to the overall performance of the Company, on the performance of the Common Stock after the Offering as compared to the performance of each of the stocks included in the Standard & Poor's 500 Stock Index (the "S&P 500"). The amount of each award will be determined by multiplying the officer's salary earned between the closing of this Offering and December 31, 1996 by a percentage determined by ranking the Common Stock's price performance including reinvested dividends, if any ("Total Stockholder Return"), among Total Stockholder Returns of all the stocks in the S&P 500, as follows:

PERCENTILE RANKING OF COMPANY'S TOTAL STOCKHOLDER RETURN	PERCENTAGE OF BASE SALARY AS BONUS AWARD
50% or less.....	0%
51% - 65%.....	50%
66% - 74%.....	100%
75% - 89%.....	150%
90% - 95%.....	200%
96% - 100%.....	250%

For 1996, the incentive bonus award calculation will be made from the closing of this Offering through December 31. The officers granted these will not be eligible to participate in any other Company cash bonus award program in 1996. The 1996 bonus for Mr. Timmons, if any, will be determined in accordance with 50% of the above formula and paid in January 1997 and the balance of such officer's 1996 bonus award, if

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any, will be based upon performance standards established by the Compensation Committee of the Board of Directors. The 1996 bonuses for other officers and key employees of the Company will be based upon the performance standards established by the Compensation Committee. The Company expects the Compensation Committee to establish such performance standards for the remainder of the 1996 year following the closing of this Offering.

#### 1996 INCENTIVE PLAN

The description set forth below summarizes the principal terms and conditions of the Incentive Plan, does not purport to be complete and is qualified in its entirety by reference to the Incentive Plan, a copy of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part.

GENERAL. The objectives of the Incentive Plan, which was approved by the Company's Board of Directors and stockholders, are to (i) attract and retain the services of key employees, qualified independent directors and qualified consultants and other independent contractors and (ii) encourage the sense of proprietorship in and stimulate the active interest of those persons in the development and financial success of the Company by making awards ("Awards") designed to provide participants in the Incentive Plan with a proprietary interest in the growth and performance of the Company.

The Company has reserved 1,550,000 shares of Common Stock for use in connection with the Plan (which includes 1,430,000 shares subject to options previously granted and 40,000 shares to be awarded to certain employees of the Company on the closing of the EHC Acquisition). Beginning with the Company's first fiscal quarter after the closing of this Offering and continuing each fiscal quarter thereafter, the number of shares available for use in connection with the Incentive Plan will be the greater of 1,550,000 or 15% of the number of shares of Common Stock outstanding on the last day of the preceding calendar quarter. Shares subject to Awards that are forfeited or terminated, exchanged for Awards that do not involve Common Stock or expire unexercised, or are settled in cash in lieu of Common Stock, or otherwise such that the shares covered thereby are not issued, again become available for Awards.

Persons eligible for Awards are (i) employees holding positions of responsibility with the Company or any of its subsidiaries and whose performance can have a significant effect on the success of the Company as well as

individuals who have agreed to become employees within six months of the date of grant ("Employees"), (ii) Nonemployee Directors and (iii) nonemployee consultants and other independent contractors providing, or who will provide, services to the Company or any of its subsidiaries ("Independent Contractors"). Awards to Employees ("Employee Awards") and Awards to Independent Contractors ("Independent Contractor Awards") generally are treated alike under the Incentive Plan, and the following discussion of Employee Awards applies, except as noted, equally to Independent Contractor Awards. For purposes of Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which could impose so-called short-swing trading liabilities on the directors and executive officers of the Company in connection with their purchases and sales of Common Stock within any six-month period, the Incentive Plan is intended to qualify for the exemptions from that Section which are provided by Rule 16b-3 under the Exchange Act ("Rule 16b-3").

The Compensation Committee of the Company's Board of Directors (the "Committee") will administer the Incentive Plan, except as it applies to Nonemployee Directors, and, to the extent required for the Rule 16b-3 exemptions, the Committee will at all times consist of at least two Nonemployee Directors. The Committee has the exclusive power to administer the Incentive Plan and take all actions specifically contemplated thereby or necessary or appropriate in connection with the administration thereof. Except insofar as the Incentive Plan relates to Nonemployee Directors, the Committee also has the exclusive power to interpret the Incentive Plan and to adopt such rules, regulations and guidelines for carrying out its purposes as the Committee may deem necessary or proper in keeping with the objectives thereof. The Committee may, in its discretion, extend or accelerate the exercisability of, accelerate the vesting of or eliminate or make less restrictive any restrictions contained in any Employee Award, waive any restriction or other provision of the Incentive Plan or in any Employee Award or otherwise amend or modify any Employee Award in any manner that is either (i) not adverse to that Employee holding the Employee Award or (ii) consented to by that Employee. The Committee also may delegate to the chief executive officer and

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other senior officers of the Company its duties under the Incentive Plan, except that no such delegation may be made in the case of actions respecting participants subject to Section 16 of the Exchange Act.

**EMPLOYEE AWARDS.** Employee Awards may be in the form of (i) rights to purchase a specified number of shares of Common Stock at a specified price ("Options") which may be denominated in one or both of Common Stock or units denominated in Common Stock, (ii) rights to receive a payment, in cash or Common Stock, equal to the fair market value or other specified value of a number of shares of Common Stock on the rights exercise date over a specified strike price ("SARs"), (iii) restricted or unrestricted grants of Common Stock or units denominated in Common Stock ("Stock Awards"), (iv) grants denominated in cash ("Cash Awards") and (v) grants denominated in cash, Common Stock, units denominated in Common Stock or any other property which are made subject to the attainment of one or more performance goals ("Performance Awards"). Subject to the limitations described below, the Committee will determine the recipients of Employee Awards and the terms, conditions and limitations applicable to each Employee Award, which conditions may, but need not, include continuous service with the Company, achievement of specific business objectives or goals, increases in specified indices or other comparable measures of performance. The Committee may grant Employee Awards (i) singly, (ii) in combination or tandem with other Employee Awards, (iii) in replacement of or as alternatives to prior Employee Awards or (iv) in combination or tandem with, in replacement of or as alternatives to rights under any other employee plan of the Company or any acquired entity. The exercise price of an Option may be paid with cash or, according to methods determined by the Committee, with Common Stock or any other Employee Award the exerciser has owned for at least six months. Performance Awards may include more than one performance goal, and a performance goal may be based on one or more business criteria applicable to the grantee, the Company as a whole or one or more of the Company's business units and may include any of the following: increased revenue, net income, stock price, market share, earnings per share, return on equity or assets or decreased costs or other liabilities.

The Incentive Plan contains limitations respecting Employee Awards, including the following:

(i) an Option may be either an incentive stock option ("ISO") that qualifies, or a nonqualified stock option ("NSO") that does not qualify, with the requirements of Section 422 of the Code, and must have an exercise price of not less than the fair market value of a Common Stock share on the date of grant;

(ii) the Committee must establish the performance goal or goals for each Performance Award prior to the earlier to occur of (a) 90 days after the commencement of the performance measurement period for that Award and (b) the lapse of 25% of that period, and in any event while it is substantially uncertain whether the goal or goals will be met;

(iii) no employee may be granted, during any one-year period, (a) Options or SARs covering more than 150,000 shares of Common Stock or (b) Stock Awards covering or relating to more than 10,000 shares of Common Stock (the limitations referred to in this clause (iii) being the "Stock-based Awards Limitations"); and

(iv) no Employee may be granted Cash Awards (including Performance Awards denominated in cash) having a value determined on the date of grant in excess of \$1 million.

Only the limitations described in clause (i) above apply to Independent Contractor Awards.

NONEMPLOYEE DIRECTOR AWARDS. Nonemployee Director Awards will be granted either automatically or at the option of Nonemployee Directors in lieu of director's fees, as described below.

On the date this Offering closes, each Nonemployee Director automatically will be granted NSOs to purchase 10,000 shares of Common Stock. In addition, on the first business day of the month following the date on which each annual meeting of the Company's stockholders is held (each an "Annual Director Award Date"), each Nonemployee Director automatically will be granted NSOs to purchase 5,000 shares of Common Stock. The Board may increase subsequent annual Director Awards to not more than 15,000 shares. Any person who first becomes a Nonemployee Director after the date this Offering closes otherwise than by election at an annual meeting of stockholders automatically will be granted, on the date of his or her election, NSOs to purchase the number of shares of Common Stock equal to the product of (i) 10,000 and

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(ii) a fraction, the numerator of which is the number of days between the election of that Nonemployee Director and the next scheduled Annual Director Award Date (or, if that date then has not been scheduled, the date that is the first anniversary of the then immediately preceding Annual Director Award Date, if any) and the denominator of which is 365. For purposes of any Director Awards granted prior to the scheduling of the 1997 annual meeting of stockholders, June 1, 1997 will be deemed the initial Annual Director Award Date. Each NSO granted to Nonemployee Directors will (i) have a 10-year term, (ii) have an exercise price per share equal to the fair market value of a Common Stock share on the date of grant (the initial public offering price in the case of NSOs granted on the closing of this Offering) which must be paid in full in cash at the time of exercise to the extent exercised and (iii) become exercisable in increments of one-third of the total number of shares of Common Stock subject thereto on the first, second and third anniversaries of the date of grant. If a Nonemployee Director resigns from the Board without the consent of a majority of the other directors, his or her NSOs may be exercised only to the extent they were exercisable on the resignation date.

A Nonemployee Director may make an annual election to receive, in lieu of all or any portion of the director's fees he or she would otherwise receive in the next year (including both annual retainer fees, if any, and meeting fees), a restricted Stock Award covering a number of shares of Common Stock having a fair market value equal to the quotient obtained by dividing (i) the dollar amount of fees the Nonemployee Director elects to forego in the next year in exchange for restricted Stock Awards by (ii) the fair market value of a Common Stock share on the date of the election.

OTHER PROVISIONS. With the approval of the Committee, payments in respect of Employee Awards may be deferred, either in the form of installments or a future lump sum payment, by any Employee. At the discretion of the Committee, an Employee may be offered an election to substitute an Award for another Award or Awards of the same or different type.

The Company will have the right to deduct applicable taxes from any Employee Award payment and withhold, at the time of delivery or vesting of cash or shares of Common Stock under the Incentive Plan, an appropriate amount of cash or number of shares of Common Stock, or combination thereof, for the payment of taxes. The Committee may (i) permit withholding to be satisfied by the transfer to the Company of shares of Common Stock previously owned by the holder of the Employee Award for which withholding is required and (ii) cause the Company to make a short-term or demand loan to any Employee or Independent Contractor to permit the payment of taxes required by law.

The Board of Directors may amend, modify, suspend or terminate the Incentive Plan for the purpose of addressing any changes in legal requirements or for any other lawful purpose, except that (i) no change that would impair the rights of any holder of an Award with respect to that Award may be made without the consent of that holder and (ii) no change requiring stockholder approval to maintain the Rule 16b-3 exemptions will be effective until that approval has been obtained.

If any subdivision, split or consolidation of outstanding shares of Common Stock, or any declaration of a stock dividend payable in shares of Common Stock, occurs, the Board will make appropriate adjustments to (i) the number of shares

of Common Stock reserved under the Incentive Plan, (ii) the number of shares of Common Stock covered by outstanding Awards in the form of Common Stock or units denominated in Common Stock, (iii) the exercise or other price in respect of such Awards, (iv) the appropriate fair market value and other price determinations for Awards in order to reflect such transactions, (v) the number of shares of Common Stock covered by Options automatically granted to Nonemployee Directors, (vi) the number of shares covered by restricted Stock Awards automatically granted to Nonemployee Directors and (vii) the Stock Based Awards Limitations. If any recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, any adoption by the Company of any plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends) occurs, the Board will make appropriate adjustments to the amounts or other items referred to in clauses (ii), (iii), (iv), (v), (vi) and (vii) above to give effect to such transactions, but only to the extent necessary to maintain the proportionate interest of the holders of the Awards and to preserve, without exceeding, the value thereof.

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**TAX IMPLICATIONS OF AWARDS.** The following summarizes the United States federal income tax consequences to Employees, Nonemployee Directors and the Company as a result of the grant and exercise of Awards under the Incentive Plan. It does not address the consequences of the Incentive Plan under any other tax laws.

No grant of any Option or SAR will constitute realized taxable income to the grantee. Each exerciser of an SAR or NSO will (i) recognize ordinary income in an amount equal to the excess of (a) the amount of cash and the fair market value of the Common Stock received over (b) the exercise price (if any) paid therefor and (ii) generally have a tax basis in any shares of Common Stock received pursuant to the exercise of an SAR or the cash exercise of an NSO which equals the fair market value of those shares on the date of exercise.

An Employee will not have taxable income as a result of exercising an ISO, but the excess of the fair market value of the shares of Common Stock received on that exercise ("ISO Stock") over the exercise price may cause the Employee to incur alternative minimum tax ("AMT"). The payment of AMT by an Employee attributable to an ISO exercise would be allowed as a credit against his regular tax liability in a later year to the extent his regular tax liability exceeds his AMT for that year.

On the disposition of ISO Stock that has been held for the requisite holding period (generally, at least two years from the date of grant and one year from the date of exercise of the ISO), the Employee generally will recognize capital gain (or loss) equal to the difference between the amount received in the disposition and the exercise price paid by the Employee for the ISO Stock. If an Employee disposes of ISO Stock he has not held for the requisite holding period (a "disqualifying disposition"), he will (i) recognize ordinary income to the extent that the fair market value of the ISO Stock at the time of exercise of the ISO (or, if less, the amount realized in the case of an arm's-length disqualifying disposition to an unrelated party) exceeds the exercise price paid by the Employee for such ISO Stock and (ii) recognize capital gain to the extent the amount realized in the disqualifying disposition exceeds the fair market value of the ISO Stock on the exercise date. If the exercise price paid for the ISO Stock exceeds the amount realized in the disqualifying disposition (in the case of an arm's-length disposition to an unrelated party), that excess generally would constitute a capital loss.

Under current rulings, if a holder of an Option uses shares of Common Stock he already owns (other than ISO Stock that has not been held for the requisite holding period) to pay all or any part of the exercise price of that Option, (i) he will recognize income respecting the Common Stock received in the manner described above, (ii) no additional gain will be recognized as a result of the transfer of shares used as payment and (iii) shares so received, up to the number of shares so used, will have a tax basis that equals, and a holding period that includes, the tax basis and holding period of the shares of Common Stock surrendered in satisfaction of that exercise price. Any additional shares of Common Stock received on exercise will have a tax basis that equals the amount of cash (if any) paid by the exerciser.

When cash is paid or first made available to the recipient of a Cash Award or Performance Award, that cash will constitute ordinary compensation income to the recipient which is taxable at that time. When Common Stock is delivered pursuant to a Stock Award or a Performance Award, or when Common Stock or cash is delivered pursuant to a Stock Award denominated in units of Common Stock, the recipient generally will recognize ordinary compensation income at that time which is equal to the amount received (that amount being, in the case of Common Stock, its fair market value when received), except that: if an Incentive Plan participant receives Common Stock pursuant to a Stock Award or Performance Award and that stock then is both nontransferable and subject to a substantial risk of forfeiture, the participant may elect to recognize ordinary compensation income equal to the then fair market value of the stock received or to defer such recognition until such time, if ever, as the stock received first becomes both transferable and no longer subject to a substantial risk of forfeiture, at which



time the participant would recognize ordinary compensation income equal to the fair market value at that time of the stock previously received. If dividends are paid or accrued on Common Stock included in a Stock Award or Performance Award prior to the time the recipient of that Award recognizes ordinary compensation income in respect of that stock, those dividends will be taxable as compensation income rather than as dividend income. The tax basis of Common Stock received by an Incentive Plan participant pursuant to a Stock Award or Performance Award

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will be the amount the participant recognizes as compensation income in respect of that stock, and the holding period of that stock will begin on the date of that recognition.

When an Employee recognizes compensation income from the exercise of an SAR or NSO or in respect of Common Stock, cash or other property received pursuant to a Cash Award, Performance Award or Stock Award, he will be subject to withholding by the Company for federal (and generally for state and local) income tax at that time.

Subject to the Code limitations described below, the Company (or a subsidiary) generally will be entitled to a deduction for federal income tax purposes which corresponds as to amount and timing with the compensation income realized by Incentive Plan participants in respect of Awards made to them. The Code limits deductions to amounts constituting both reasonable compensation for services rendered or to be rendered and ordinary, necessary business expenses. Code Sections 280G, which disallows deductions of amounts constituting excess parachute payments made or deemed made in connection with a change in control of an employer, and 162(m), which generally limits to \$1 million the deductibility of compensation paid to certain employees of the Company in any one taxable year, could limit the ability of the Company (or a subsidiary) to deduct amounts taxable as compensation income to Incentive Plan participants. In the case of performance-based compensation, exceptions to Code Section 162(m) currently apply if certain requirements are met. The Company intends generally to satisfy these requirements in connection with the grant and payment of performance-based Awards (including certain Options and SARs), but no assurance can be given the Company will be able to satisfy these requirements in all cases and the Company may, in its sole discretion, determine in one or more cases that it is in its best interests not to satisfy these requirements even if it is able to do so.

#### OTHER PLANS

The Company has adopted or intends to adopt deferred compensation, supplemental disability, supplemental life and retirement or other benefit or welfare plans in which executive officers of the Company will be eligible to participate. Copies of the plans that have been adopted as of the date of this Prospectus are filed as exhibits to the Registration Statement of which this Prospectus is a part.

#### CERTAIN TRANSACTIONS

##### ORGANIZATION OF THE COMPANY

**START-UP FUNDING.** ARS was initially capitalized in October 1995 with \$1,000 provided by Messrs. Wright, Hoover and McCaughey. As a result of stock splits, the 1,000 shares initially issued by ARS to its founders will total 422,483 shares on the closing of this Offering. Since early 1996, Equus II has advanced funds to ARS pursuant to a \$2.6 million commitment to enable ARS to pay various expenses incurred in connection with its efforts to create the Company and effect this Offering. The Equus II advances are evidenced by an ARS convertible note for \$1.6 million and an ARS note for \$1.0 million. As of August 23, 1996, \$1.9 million was outstanding under such notes. Depending on the amount of further ARS advances, the entire \$2.6 million may be outstanding prior to the closing of this Offering. On the closing of this Offering, \$0.5 million of this note will be converted into 844,965 shares of Common Stock, and ARS will pay the balance of the note with proceeds from this Offering. As a part of its funding arrangements with Equus II, ARS issued a warrant to Equus II in March 1996 that will become exercisable in whole on the closing of this Offering to purchase up to 100,000 shares of Common Stock at the initial public offering price per share. This warrant will expire in 2001 to the extent not exercised.

Simultaneously with the closing of this Offering, ARS will acquire by merger all the issued and outstanding capital stock of the Founding Companies, at which time each Founding Company will become a wholly owned subsidiary of the Company. The aggregate consideration that will be paid by ARS to acquire the Founding Companies consists of (i) approximately \$34.8 million in cash and (ii) 2,805,065 shares of Common Stock. In addition, the purchase price of certain of the Founding Companies and EHC will be increased by an amount equal to the increase, or decreased by an amount equal to the decrease, in such company's Working Capital from the date of a specified recent balance sheet of such company through the closing of the Acquisitions. Subject to adjustment based on the balance sheets as of that closing, the

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Company will make an aggregate net distribution estimated to be approximately \$4.0 million at that closing in respect of Working Capital. The Company will also assume all the indebtedness of the Founding Companies and EHC (approximately \$20.7 million as of June 30, 1996) and then repay substantially all such indebtedness. A portion of the foregoing indebtedness has been guaranteed by the following stockholders of the Founding Companies and EHC: Equus II (EHC), Gorden Timmons (Atlas), Elliot Sokolow and Robert Rogoff (Florida HAC), Gary Daymon (Meridian & Hoosier) and Howard and Patricia Hauser (Climatic). The Company has agreed to have such guarantees released within 60 days after the closing of the Offering. In addition, the Company consented to the distribution of cash and certain receivables to stockholders of General Heating, which is an S corporation, in an amount equal to the balance of its AAA account as of the closing of the General Heating Acquisition (approximately \$8.0 million as of June 30, 1996). An AAA account generally represents undistributed retained earnings of an S corporation, upon which taxes have been paid by the stockholders. In addition, prior to the closing of the Acquisitions, certain Founding Companies will make distributions to their stockholders of certain assets and related liabilities. As of June 30, 1996, the aggregate amount of these distributions would have been approximately \$0.5 million.

The following table sets forth for each Founding Company the consideration to be paid the holders of its common stock (and, in the case of EHC, the holder of its preferred stock) (i) in cash and (ii) in shares of Common Stock.

	CASH(1)	SHARES OF COMMON STOCK
	-----	-----
	(DOLLARS IN THOUSANDS)	
General Heating(2).....	\$15,000	666,666
Atlas(3).....	5,000	1,066,666
EHC (including Crown and A-ABC) (4)...	--	378,400
Florida HAC(5).....	11,000	333,333
Meridian & Hoosier(6).....	3,250	250,000
Climatic(7).....	550	110,000
	-----	-----
Total.....	\$34,800	2,805,065
	=====	=====

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(1) Excluding possible increases or decreases for changes in Working Capital.

(2) Bruce L. Menditch, Frank N. Menditch and Howard C. Menditch, the sole stockholders of General Heating, each will receive 33 1/3% of the cash and Common Stock being paid for General Heating.

(3) Gorden H. Timmons and a trust established for the benefit of his family, respectively, will receive 80% and 19.6% of the cash and 39.8% and 37.1% of the Common Stock being paid for Atlas. Nineteen other Atlas stockholders will receive in the aggregate 0.4% and 23.1%, respectively, of the cash and Common Stock being paid for Atlas.

(4) Howard S. Hoover, Jr., two trusts established for the benefit of Mr. Hoover's family members, William P. McCaughey and C. Clifford Wright, Jr. are the owners of EHC's common stock and will receive, respectively, 25,104, 9,763, 52,300 and 52,300 of the shares of Common Stock being paid for EHC, representing 139,467 of the shares shown above in the table. The remaining 238,933 shares shown above in the table are being paid as partial consideration for the outstanding EHC preferred stock, all of which is owned by Equus II. The Company's additional payments for the EHC preferred stock will consist of 137,139 shares of Common Stock, \$0.5 million in cash and cash in an amount equal to cash dividends accrued on the preferred stock since April 1, 1996 at the rate of \$50,000 per calendar quarter.

(5) Florida HAC consists of four separate companies, two of which are wholly owned by Elliot Sokolow and two of which are owned 50% by Mr. Sokolow and 50% by Robert Rogoff. Messrs. Sokolow and Rogoff, respectively, will receive 59.1% and 40.9% of the cash and 80% and 20% of the Common Stock being paid for Florida HAC.

(6) Gary Daymon is the sole stockholder of and will receive the entire consideration being paid for Meridian & Hoosier.

(7) Howard Hauser and his wife, Patricia Hauser, each owns 50% of the outstanding stock of and will receive 50% of the consideration being paid for Climatic.

The consummation of each Acquisition is subject to customary conditions. These conditions include, among others, the accuracy on the closing date of the Acquisitions of the representations and warranties by the Founding Companies, their principal stockholders and by ARS; the performance of each of their

respective covenants included in the agreements relating to the Acquisitions; and the nonexistence of a material adverse change in the results of operations, financial condition or business of each Founding Company.

The agreements relating to the Acquisitions may be terminated, under certain circumstances, prior to the consummation of this Offering. Specifically, the agreements may be terminated (i) by the mutual consent of the board of directors of the Company and each Founding Company; (ii) if this Offering and the Acquisitions are not consummated by December 31, 1996; (iii) if the schedules to any acquisition agreement are amended to reflect a material adverse change in a Founding Company; or (iv) if a material breach or default under the agreements shall exist and is not waived.

There can be no assurance that the conditions to the closing of the Acquisitions will be satisfied or waived or that the agreements relating to the Acquisitions will not be terminated prior to closing.

Pursuant to the agreements relating to the Acquisitions, all stockholders of each of the Founding Companies (other than Equus II and the minority interest owners in Atlas) have agreed not to compete with the Company for a period of three years commencing on the date of closing of the Acquisitions.

#### ACQUISITIONS INVOLVING CERTAIN OFFICERS, DIRECTORS AND STOCKHOLDERS

Individuals who are or will become directors of the Company will receive the following consideration in the Acquisitions for their interests in the Founding Companies, subject to upward or downward adjustment for changes in working capital.

	CASH ----- (DOLLARS IN THOUSANDS)	SHARES OF COMMON STOCK -----
General Heating:		
Frank N. Menditch.....	\$ 5,000	222,222
Atlas:		
Gorden H. Timmons(1).....	4,000	424,605
EHC:		
C. Clifford Wright, Jr.....	--	52,300
Howard S. Hoover, Jr.(2).....	--	25,104
William P. McCaughey.....	--	52,300
Florida HAC:		
Elliot Sokolow.....	6,500	266,666

(1) In addition, a Timmons family trust will receive approximately \$981,000 in cash and 395,422 shares of Common Stock.

(2) In addition, two trusts established for the benefit of certain members of Mr. Hoover's family will receive an aggregate of 9,763 shares of Common Stock.

Equus will receive 137,139 shares of Common Stock, \$500,000 in cash and accrued cash dividends in exchange for its EHC preferred stock.

#### EHC

EHC was organized in February 1996 to acquire, for a total purchase price of \$17.5 million, all the capital stock of Crown and certain real estate used in its business. The purchase price was funded by a loan from NationsBank secured by the capital stock and certain assets of Crown, by a loan from Equus II, credit enhancements provided to NationsBank by Equus II secured by all of the capital stock of ARS and through the purchase by Equus II of \$2.5 million of EHC 8% preferred stock. In May 1996, EHC acquired all the capital stock of A-ABC for a total purchase price of \$2.0 million, which was provided by borrowings from

NationsBank, which are secured by the capital stock of A-ABC and credit enhancements provided by Equus II, and the assumption of certain liabilities. See "The Company." EHC is being acquired by the Company for consideration of 378,400 shares of Common Stock and the assumption and/or repayment of approximately \$17.3 million of indebtedness and other obligations (including \$2.6 million of EHC preferred stock being converted into 137,139 shares of Common Stock and \$0.5 million in cash), approximately \$14.3 million of which will be repaid either out of a portion of the net proceeds of this Offering or through bank borrowings. In addition, the Company will issue to NationsBank a warrant to purchase shares of Common Stock having a value of \$125,000 on the closing of this Offering at a purchase price equal to \$.01 per share in exchange for the warrant previously issued by EHC to NationsBank. The Company valued EHC on a basis consistent with the other Acquisitions, using the same multiple of cash flow, as adjusted for owners' compensation and other non-recurring items. In addition, the purchase price for each Acquisition was increased by the fair market value of real estate to be acquired in the Acquisition, if any, and

Working Capital. Messrs. Wright, Hoover and McCaughey, who, prior to the completion of this offering are the sole stockholders of ARS, and Equus II are the sole stockholders of EHC.

Simultaneously with the closing of the Acquisitions, the Company will issue 40,000 shares of Common Stock pursuant to the Company's 1996 Incentive Plan to employees, three officers (other than Messrs. Wright, Hoover and McCaughey) and consultants of ARS and its affiliates and will recognize \$300,000 of compensation expense.

#### REAL ESTATE AND OTHER TRANSACTIONS

Atlas leases office and warehouse space in Hilton Head and Greenville, South Carolina from a company in which Gordon H. Timmons has a 50% ownership interest. One lease extends to May 2005 and currently provides for total annual rentals of \$105,000. The other lease has a 10-year term when Atlas takes possession of the leased property in mid-1996 and provides for initial total annual rentals of \$73,800. Rentals under both leases will increase if a specified prime interest rate increases to 11% or above. Atlas also leases office and warehouse space in Clemson, South Carolina from a partnership in which members of Mr. Timmons' immediate family have a 50% ownership interest. This lease extends to February 2006 and provides for total annual rentals of \$42,000. A realtor of which Mr. Timmons is a 75% owner and the broker-in-charge acts as leasing agent of a portion of Atlas's office and warehouse space in North Charleston, South Carolina. During the five years ended December 31, 1995, Atlas paid this company an average annual amount of approximately \$2,000.

In November 1995, Mr. Timmons purchased the capital stock of Golden Triangle Mechanical, Inc. from a third party for approximately \$85,000. In January 1996, Mr. Timmons conveyed that stock to Atlas for the same purchase price.

Atlas has a receivable from Mr. Timmons, its majority shareholder, in the amount of approximately \$195,000 as of December 31, 1995. See Note 9 to "Notes to Consolidated Financial Statements" of Atlas.

General Heating leases office and warehouse space in Manassas, Virginia and Laurel, Maryland under four leases from a limited partnership owned by Frank N. Menditch, his brothers and trusts for the benefit of their children. Annual rentals under the leases, which expire at the end of 2005, currently total \$491,373 and will increase a minimum of 4% each year.

General Heating has receivables from Frank Menditch in the aggregate amount of approximately \$308,139 as of December 31, 1995. See Note 7 to "Notes to Financial Statements" of General Heating.

Florida HAC leases its principal office and warehouse space in Margate, Florida from a limited partnership 80% owned by Elliot Sokolow. ARS and Mr. Sokolow have agreed to extend the lease term by five years to May 31, 2005. The annual rental currently is \$224,856 and will increase 5% each year.

Florida HAC has borrowings outstanding from Mr. Sokolow in the aggregate amount of approximately \$641,804 as of December 31, 1995. See Note 8 to "Notes to Combined Financial Statements" of Florida HAC.

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Meridian & Hoosier leases its principal office and warehouse space in Indianapolis from Gary Daymon and his wife. The annual rental currently is \$90,000 and will increase 5% annually. The lease expires in 2001, and the Company has obtained an option to purchase the building at its appraised fair market value. Meridian & Hoosier leases office space in Indianapolis to DIAL ONE of Central Indiana, Inc., a corporation wholly owned by Mr. Daymon ("DOCI"). This lease extends to June 30, 1997 and provides for total annual rentals of \$24,000.

In October 1993, Meridian & Hoosier renewed a four-year franchise agreement with DOCI under which Meridian & Hoosier uses the "DIAL ONE" name, logo and various materials in its business within a designated franchise territory it shares with other DOCI franchisees that also provide various residential services under the "DIAL ONE" name. DOCI provides its franchisees a common telephone number for customer calls, as well as promotional and training materials and training seminars. Meridian & Hoosier's current annual payment obligation under its franchise agreement is \$60,000, and Meridian & Hoosier may terminate the agreement at any time. If it does so, it will owe DOCI the balance of the payments due to the end of the agreement's stated term and must cease using the "DIAL ONE" name and materials.

Meridian & Hoosier shares certain costs with DOCI for personnel and overhead, for which it bills DOCI monthly based on DOCI's pro rata share of those expenses.

The Company believes the rentals provided under the leases described above are fair market rentals. It also believes the other agreements described above are fair to the Company.

In the future, any transactions with directors, officers, employees or affiliates of the Company are anticipated to be minimal and will, in any case, be approved in advance by a majority of the Board of Directors, including a majority of disinterested members of the Board of Directors.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT

The following table shows, as of June 30, 1996, information respecting the then "beneficial owners" (as defined by the SEC) of more than 5% of the Common Stock:

NAME	SHARES BENEFICIALLY OWNED	
	NUMBER	PERCENT
C. Clifford Wright, Jr.....	158,431	37.5%
Howard S. Hoover, Jr.....	105,621	25.0%
William P. McCaughey.....	158,431	37.5%

The following table shows, immediately after giving effect to the closing of the Acquisitions and this Offering, the then "beneficial ownership" of the Common Stock of (i) Equus II, (ii) each director and person nominated to become a director on closing of this Offering; (iii) each executive officer; (iv) certain executive officers of each of the Founding Companies; and (v) all executive officers and directors of the Company as a group.

NAME	SHARES BENEFICIALLY OWNED AFTER OFFERING (1)	
	NUMBER	PERCENT
Equus II Incorporated(2)..... 2929 Allen Parkway, 25th Floor Houston, Texas 77019	1,321,037	15.6%
Gorden H. Timmons(3).....	820,027	9.7%
Gorden H. Timmons, as Trustee under Gorden H. Timmons Retained Annuity Trust.....	395,422	4.7%
Elliot Sokolow.....	266,666	3.2%
Gary Daymon.....	250,000	3.0%
Frank N. Menditch.....	222,222	2.6%
Howard C. Menditch.....	222,222	2.6%
Bruce L. Menditch.....	222,222	2.6%
C. Clifford Wright, Jr.....	210,731	2.5%
William P. McCaughey.....	210,731	2.5%
Howard S. Hoover, Jr.(4).....	140,725	1.7%
Howard W. Hauser.....	110,000	1.3%
John D. Held.....	5,333	*
A. Jefferson Walker III.....	3,166	*
Michael Mamaux.....	2,500	*
All executive officers and directors as a group(3) (14 persons).....	1,882,101	22.3%

\* Less than 1%.

(1) Shares shown do not include shares that could be acquired upon exercise of currently outstanding stock options which do not vest within 60 days hereof.

(2) Shares shown include 100,000 shares obtainable on exercise of a warrant exercisable at the IPO price per share. See "Certain Transactions -- Organization of the Company." Nolan Lehmann, who will become a director of the Company on closing of this Offering, is the President of Equus II and thus may be deemed to be the beneficial owner of shares held by Equus II. Mr. Lehmann disclaims beneficial ownership of all those shares.

(3) Includes shares held by the Gorden H. Timmons Retained Annuity Trust, of which Mr. Timmons is the trustee. Mr. Timmons may be deemed the beneficial owner of the shares held by that trust.

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(4) Shares shown include 10,000 shares that Mr. Hoover intends to acquire directly from the Underwriters in connection with this Offering. The table assumes no other person listed intends to acquire shares from the Underwriters.

Except as otherwise indicated, the address of each person listed in the above tables is c/o American Residential Services, Inc., 5850 San Felipe, Suite 500, Houston, Texas 77057. All persons listed have sole voting and investment power with respect to their shares unless otherwise indicated.

#### SHARES ELIGIBLE FOR FUTURE SALE

On closing of the Acquisitions and this Offering, 8,449,652 shares of Common Stock will be outstanding. The shares sold in this Offering (other than to affiliates of the Company) will be freely tradable by the public. The remaining outstanding shares of Common Stock (collectively, the "Restricted Shares") have not been registered under the Securities Act and may be resold publicly only following their effective registration under that act or pursuant to an available exemption from the registration requirements of that act (such as Rule 144 thereunder).

The Company intends to file a registration statement on Form S-8 under the Securities Act to register the shares of Common Stock reserved or to be available for issuance pursuant to the Incentive Plan. Shares of Common Stock issued pursuant to the Incentive Plan after the effective date of that registration statement generally will be available for sale in the open market by holders who are not affiliates of the Company and, subject to the volume and other limitations of Rule 144, by holders who are affiliates of the Company.

In general, under Rule 144 as currently in effect, if a minimum of two years has elapsed since the later of the date of acquisition of the restricted securities from the issuer or from an affiliate of the issuer, a person (or persons whose shares of Common Stock are aggregated), including persons who may be deemed "affiliates" of the Company, would be entitled to sell within any three-month period a number of shares of Common Stock that does not exceed the greater of (i) 1% of the then outstanding shares of Common Stock (I.E., 84,496 shares immediately on closing of this Offering) and (ii) the average weekly trading volume during a preceding period of four calendar weeks. Sales under Rule 144 are also subject to certain provisions as to the manner of sale, notice requirements and the availability of current public information about the Company. In addition, under Rule 144(k), if a period of at least three years has elapsed since the later of the date restricted securities were acquired from the Company or the date they were acquired from an affiliate of the Company, a stockholder who is not an affiliate of the Company at the time of sale and has not been an affiliate for at least three months prior to the sale would be entitled to sell shares of Common Stock in the public market immediately without compliance with the foregoing requirements under Rule 144. Rule 144 does not require the same person to have held the securities for the applicable periods. The foregoing summary of Rule 144 is not intended to be a complete description thereof. The SEC has proposed an amendment to Rule 144 that would shorten the three- and two-year holding periods described above to two years and one year, respectively.

The Company has agreed not to offer or sell any shares of Common Stock for a period of 180 days (the "Lockup Period") following the date of this Prospectus without the prior written consent of Smith Barney Inc., except that the Company may issue Common Stock in connection with acquisitions or on the exercise of options or warrants outstanding as of the closing of this Offering. Further, all the current stockholders of ARS, including the former owners of the Founding Companies and Equus II, will be contractually prohibited from selling the shares they own for a period of 180 days following the consummation of the Acquisitions. The Company has agreed that it will not waive such prohibition during the Lock-up Period without the prior written consent of Smith Barney Inc. of the Underwriters. In addition, the holders of the shares of Common Stock acquired in connection with the Acquisitions have agreed with the Company that they will not sell, transfer or otherwise dispose of any of their shares for two years following the closing of this Offering (or for such shorter period as the SEC may prescribe as the holding period for restricted securities under Rule 144).

In connection with the Acquisitions, the Company will enter into a registration rights agreement with former stockholders of the Founding Companies (the "Registration Rights Agreement"), which will

provide certain registration rights with respect to the Common Stock issued to such stockholders in the Acquisitions. The Registration Rights Agreement will provide for a single demand registration right, exercisable by the holders of a majority of the shares of Common Stock subject to the agreement, pursuant to which the Company will file a registration statement under the Securities Act to register the sale of shares by those requesting stockholders and any other holders of Common Stock subject to the agreement who desire to sell pursuant to such registration statement. The demand request may not be made until the

expiration of two years after the date of this Prospectus (subject to a corresponding reduction if the two-year holding period for restricted securities under Rule 144 is reduced by the Commission). In addition, subject to certain conditions and limitations, the Registration Rights Agreement will provide the holders of Common Stock subject to the agreement with the right to participate in registrations by the Company of its equity securities in underwritten offerings. The registration rights conferred by the Registration Rights Agreement will terminate on December 31, 2000. In addition, pursuant to separate registration rights agreements with Equus II and NationsBank, both Equus II and NationsBank have the right, in the event the Company proposes to register under the Securities Act any Common Stock for its own account or for the account of others, subject to certain exceptions, to require the Company to include shares owned by them (or, in the case of NationsBank, issuable to it pursuant to a warrant that was originally issued by EHC) in the registration.

In the case of each registration rights agreement described above, the Company is generally required to pay the costs associated with such an offering other than underwriting discounts and commissions and transfer taxes attributable to the shares sold on behalf of the selling stockholders. In addition, in the case of the separate registration rights agreements with Equus II and NationsBank, the Company is obligated to pay the fees and expenses of legal counsel for the selling stockholders thereunder. Each registration rights agreement provides that the number of shares of Common Stock that must be registered on behalf of the selling stockholders is subject to limitation if the managing underwriter determines that market conditions require such a limitation. Under each agreement, the Company will indemnify the selling stockholders thereunder, and such stockholders will indemnify the Company, against certain liabilities in respect of any registration statement or offering covered by the registration rights agreement.

The Company intends to register 5,000,000 shares of Common Stock under the Securities Act during the fourth quarter of 1996 for its use in connection with future acquisitions. These shares generally will be freely tradable after their issuance by persons not affiliated with the Company unless the Company contractually restricts their sale, and sales of these shares during the Lockup Period would require the prior written consent of Smith Barney Inc.

#### DESCRIPTION OF CAPITAL STOCK

The Company's authorized capital stock consists of 50,000,000 shares of Common Stock, par value \$.001 per share, and 10,000,000 shares of preferred stock, par value \$.001 per share (the "Preferred Stock"). At June 30, 1996, 422,483 shares of Common Stock were issued and outstanding. On closing of the Acquisitions and this Offering, the Company will have outstanding 8,449,652 shares of Common Stock (9,079,652 if the Underwriters' over-allotment option is exercised in full) and no shares of Preferred Stock. The following summary is qualified in its entirety by reference to the Company's Restated Certificate of Incorporation (the "Certificate of Incorporation"), which is filed as an exhibit to the Registration Statement of which this Prospectus is a part.

#### COMMON STOCK

The Common Stock possesses ordinary voting rights for the election of directors and in respect of other corporate matters, and each share has one vote. The Common Stock affords no cumulative voting rights, and the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so. The Common Stock carries no preemptive rights, is not convertible, redeemable, assessable or entitled to the benefits of any sinking fund. The holders of Common Stock are entitled to dividends in such amounts and at such times as may be declared by the Board of Directors out of funds legally available therefor. See "Dividend Policy" for information regarding dividend policy.

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#### PREFERRED STOCK

The Preferred Stock may be issued from time to time by the Board of Directors as shares of one or more classes or series. Subject to the provisions of the Certificate of Incorporation and limitations prescribed by law, the Board of Directors is expressly authorized to adopt resolutions to issue the shares, to fix the number of shares and to change the number of shares constituting any series and to provide for or change the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (including whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), redemption prices, conversion rights and liquidation preferences of the shares constituting any class or series of the Preferred Stock, in each case without any further action or vote by the holders of Common Stock.

Although the Company has no present intention to issue shares of Preferred Stock, the issuance of shares of Preferred Stock, or the issuance of rights to purchase such shares, could be used to discourage an unsolicited acquisition proposal. For example, the issuance of a series of Preferred Stock might impede

a business combination by including class voting rights that would enable the holders to block such a transaction; or such issuance might facilitate a business combination by including voting rights that would provide a required percentage vote of the stockholders. In addition, under certain circumstances, the issuance of Preferred Stock could adversely affect the voting power of the holders of the Common Stock. Although the Board of Directors is required to make any determination to issue such stock based on its judgment as to the best interests of the stockholders of the Company, the Board of Directors could act in a manner that would discourage an acquisition attempt or other transaction that some or a majority of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-market price of such stock. The Board of Directors does not at present intend to seek stockholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or the rules of any market on which the Company's securities are traded.

#### STOCKHOLDER RIGHTS PLAN

Each share of Common Stock offered hereby includes one right ("Right") to purchase from the Company a unit consisting of one one-hundredth of a share (a "Fractional Share") of Series A Junior Participating Preferred Stock, par value \$.001 per share (the "Series A Preferred Stock"), at a purchase price of \$40.00 per Fractional Share, subject to adjustment in certain events (the "Purchase Price"). The following summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement between the Company and a Rights Agent (the "Rights Agreement"), the form of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part and is incorporated herein by reference.

Initially, the Rights will attach to all certificates representing outstanding shares of Common Stock, including the shares of Common Stock offered hereby, and no separate certificates for the Rights ("Rights Certificates") will be distributed. The Rights will separate from the Common Stock and a "Distribution Date" will, with certain exceptions, occur upon the earlier of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of Common Stock (the date of the announcement being the "Stock Acquisition Date") or (ii) 10 business days following the commencement of a tender offer or exchange offer that would result in a person's becoming an Acquiring Person. Notwithstanding the foregoing, so long as Equus II, together with all affiliates and associates thereof, remains the beneficial owner of 15% or more of the outstanding shares of Common Stock, Equus II shall not be or become an Acquiring Person unless and until it, together with all affiliates and associates thereof, becomes the beneficial owner of additional shares of Common Stock constituting 1% or more of the then-outstanding shares of Common Stock or any other person who is the beneficial owner of at least 1% of the then outstanding shares of Common Stock shall become an affiliate or associate of Equus II. In certain circumstances the Distribution Date may be deferred by the Board of Directors. Certain inadvertent acquisitions will not result in a person's becoming an Acquiring Person if the person promptly divests itself

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of sufficient Common Stock. Until the Distribution Date, (a) the Rights will be evidenced by the Common Stock certificates and will be transferred with and only with those certificates, (b) Common Stock certificates will contain a notation incorporating the Rights Agreement by reference and (c) the surrender for transfer of any certificate for Common Stock also will constitute the transfer of the Rights associated with the stock represented by such certificate.

The Rights are not exercisable until the Distribution Date and will expire at the close of business on June 30, 2006, unless earlier redeemed or exchanged by the Company as described below.

As soon as practicable after the Distribution Date, Rights Certificates will be mailed to holders of record of Common Stock as of the close of business on the Distribution Date and, from and after the Distribution Date, the separate Rights Certificates alone will represent the Rights. All shares of Common Stock issued prior to the Distribution Date will be issued with Rights. Shares of Common Stock issued after the Distribution Date in connection with certain employee benefit plans or upon conversion of certain securities will be issued with Rights. Except as otherwise determined by the Board of Directors, no other shares of Common Stock issued after the Distribution Date will be issued with Rights.

In the event (a "Flip-In Event") that a person becomes an Acquiring Person (except pursuant to a tender or exchange offer for all outstanding shares of Common Stock at a price and on terms that a majority of the independent members of the Board of Directors determines to be fair to and otherwise in the best interests of the Company and its stockholders (a "Permitted Offer")), each holder of a Right will thereafter have the right to receive, on exercise of that Right, a number of shares of Common Stock (or, in certain circumstances, cash, property or other securities of the Company) having a Current Market Price



(as defined in the Rights Agreement) equal to two times the exercise price of the Right. Notwithstanding the foregoing, following the occurrence of any Triggering Event, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by any Acquiring Person (or by certain related parties) will be null and void in the circumstances set forth in the Rights Agreement. Rights are not exercisable following the occurrence of any Flip-In Event until such time as the Rights are no longer redeemable by the Company as set forth below.

In the event (a "Flip-Over Event") that, at any time from and after the time an Acquiring Person becomes such, (i) the Company is acquired in a merger or other business combination transaction (other than certain mergers that follow a Permitted Offer) or (ii) 50% or more of the Company's assets or earning power is sold or transferred, each holder of a Right (except Rights that previously have been voided as set forth above) shall thereafter have the right to receive, on exercise of such Right, a number of shares of common stock of the acquiring company having a Current Market Price equal to two times the exercise price of the Right. Flip-In Events and Flip-Over Events are collectively referred to as "Triggering Events."

The Purchase Price payable, and the number of Fractional Shares of Series A Preferred Stock or other securities or property issuable, on exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Series A Preferred Stock, (ii) if holders of the Series A Preferred Stock are granted certain rights or warrants to subscribe for Series A Preferred Stock or certain convertible securities at less than the current market price of the Series A Preferred Stock or (iii) on the distribution to holders of the Series A Preferred Stock of evidences of indebtedness or assets (excluding regular quarterly cash dividends) or of subscription rights or warrants (other than those referred to above).

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments amount to at least 1% of the Purchase Price. No fractional shares of Series A Preferred Stock that are not integral multiples of a Fractional Share are required to be issued and, in lieu thereof, an adjustment in cash will be made based on the market price of the Series A Preferred Stock on the last trading date prior to the date of exercise. Pursuant to the Rights Agreement, the Company reserves the right to require prior to the occurrence of a Triggering Event that, on any exercise of Rights, a number of Rights be exercised so that only whole shares of Series A Preferred Stock will be issued.

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At any time until 10 days following the first date of public announcement of the occurrence of a Flip-In Event, the Company may redeem the Rights in whole, but not in part, at a price of \$.01 per Right, payable, at the option of the Company, in cash, shares of the Common Stock or such other consideration as the Board of Directors of the Company may determine. Immediately upon the effectiveness of the action of the Board of Directors ordering redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the \$.01 redemption price.

At any time after the occurrence of a Flip-In Event and prior to a person's becoming the beneficial owner of 50% or more of the shares of Common Stock then outstanding, the Company may, at its option, exchange the Rights (other than Rights owned by an Acquiring Person or an affiliate or an associate of an Acquiring Person, which will have become void), in whole or in part, at an exchange ratio of one share of Common Stock, and/or other equity securities deemed to have the same value as one share of Common Stock, per Right, subject to adjustment.

Other than the redemption price, any of the provisions of the Rights Agreement may be amended by the Board of Directors as long as the Rights are redeemable. Thereafter, the provisions of the Rights Agreement other than the redemption price may be amended by the Board of Directors only in order to cure any ambiguity, defect or inconsistency, to make changes that do not materially adversely affect the interests of holders of Rights (excluding the interests of any Acquiring Person), or to shorten or lengthen any time period under the Rights Agreement; provided, however, that no amendment to lengthen the time period governing redemption shall be made at such time as the Rights are not redeemable. Until a Right is exercised, the holder thereof, as such, will have no rights to vote or to receive dividends or any other rights as a stockholder of the Company.

The Rights will have certain antitakeover effects. They will cause substantial dilution to any person or group that attempts to acquire the Company without the approval of the Company's Board of Directors. As a result, the overall effect of the Rights may be to render more difficult or discourage any attempt to acquire the Company, even if such acquisition may be favorable to the interests of the Company's stockholders. Because the Board of Directors can redeem the Rights or approve a Permitted Offer, the Rights should not interfere with a merger or other business combination approved by the Board. The Rights are being issued to protect the Company's stockholders from coercive or abusive

takeover tactics and to afford the Company's Board of Directors more negotiating leverage in dealing with prospective acquirers.

#### STATUTORY BUSINESS COMBINATION PROVISION

The Company is a Delaware corporation and is subject to Section 203 of the DGCL. In general, Section 203 prevents an "interested stockholder" (defined generally as a person owning 15% or more of a corporation's outstanding voting stock) from engaging in a "business combination" (as defined) with a Delaware corporation for three years following the date such person became an interested stockholder unless: (i) before such person became an interested stockholder, the board of directors of the corporation approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination; (ii) upon consummation of the transaction that resulted in the interested stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding stock held by directors who are also officers of the corporation and by employee stock plans that do not provide employees with the rights to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or (iii) following the transaction in which such person became an interested stockholder, the business combination was approved by the board of directors of the corporation and authorized at a meeting of stockholders by the affirmative vote of the holders of 66 2/3% of the outstanding voting stock of the corporation not owned by the interested stockholder. Under Section 203, the restrictions described above also do not apply to certain business combinations proposed by an interested stockholder following the announcement or notification of one of certain extraordinary transactions involving the corporation and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of the corporation's directors, if such extraordinary transaction is approved or not opposed by a majority of the directors who

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were directors prior to any person becoming an interested stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors.

#### OTHER MATTERS

Delaware law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach of a director's fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, directors' must exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by Delaware law, directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Delaware law enables corporations to limit available relief to equitable remedies such as injunction or rescission. The Certificate of Incorporation limits the liability of directors of the Company to the Company or its stockholders to the fullest extent permitted by Delaware law. Specifically, directors of the Company will not be personally liable for monetary damages for breach of a director's fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit.

The inclusion of this provision in the Certificate of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited the Company and its stockholders. The Company's Bylaws provide indemnification to the Company's officers and directors and certain other persons with respect to certain matters, and the Company has entered into agreements with each of its directors and executive officers providing for indemnification with respect to certain matters.

The Certificate of Incorporation provides that stockholders may act only at an annual or special meeting of stockholders and may not act by written consent. The Bylaws provide that special meetings of the stockholders can be called only by the Chairman of the Board, the President or a majority of the Board of Directors.

The Certificate of Incorporation provides that the Board of Directors shall consist of three classes of directors serving for staggered terms. As a result, it is currently contemplated that approximately one-third of the Company's Board of Directors will be elected each year. The classified board provision could prevent a party who acquires control of a majority of the outstanding voting stock of the Company from obtaining control of the Board of Directors until the

second annual stockholders meeting following the date the acquirer obtains the controlling interest. See "Management -- Directors and Executive Officers."

The Certificate of Incorporation provides that the number of directors shall be as determined by the Board of Directors from time to time, but shall not be less than three. It also provides that directors may be removed only for cause, and then only by the affirmative vote of the holders of at least a majority of all outstanding voting stock entitled to vote. This provision, in conjunction with the provisions of the Certificate of Incorporation authorizing the Board of Directors to fill vacant directorships, will prevent stockholders from removing incumbent directors without cause and filling the resulting vacancies with their own nominees.

#### STOCKHOLDER PROPOSALS

The Company's Bylaws contain provisions (i) requiring that advance notice be delivered to the Company of any business to be brought by a stockholder before an annual meeting of stockholders and (ii) establishing certain procedures to be followed by stockholders in nominating persons for election to the Board of Directors. Generally, such advance notice provisions provide that written notice must be given to the Secretary of the Company by a stockholder (i) in the event of business to be brought by a stockholder before an annual meeting, not less than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders (with certain exceptions if the date of the annual meeting is different by more than specified amounts from the anniversary date), and (ii) in the event of nominations of persons for

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election to the Board of Directors by any stockholder, (a) with respect to an election to be held at the annual meeting of stockholders, not less than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders (with certain exceptions if the date of the annual meeting is different by more than specified amounts from the anniversary date), and (b) with respect to an election to be held at a special meeting of stockholders for the election of directors, not later than the close of business on the 10th day following the day on which notice of the date of the special meeting was mailed to stockholders or public disclosure of the date of the special meeting was made, whichever first occurs. Such notice must set forth specific information regarding such stockholder and such business or director nominee, as described in the Company's Bylaws. The foregoing summary is qualified in its entirety by reference to the Company's Bylaws, which are filed as an exhibit to the Registration Statement of which this Prospectus is a part.

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is ChaseMellon Shareholder Services, L.L.C.

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#### UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, each of the Underwriters named below has severally agreed to purchase from the Company, and the Company has agreed to sell to such Underwriter, the respective number of shares of Common Stock set forth opposite the name of such Underwriter.

UNDERWRITER	NUMBER OF SHARES
-----	-----
Smith Barney Inc.....	
Montgomery Securities.....	
	-----
Total.....	4,200,000
	=====

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares of Common Stock are subject to approval of certain legal matters by their counsel and to certain other conditions. The Underwriters are obligated to take and pay for all shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any such shares are taken.

The Underwriters, for whom Smith Barney Inc. and Montgomery Securities are acting as representatives (the "Representatives"), propose to offer part of the shares of Common Stock directly to the public at the offering price set forth on the cover page of this Prospectus and part of the shares to certain dealers at a price which represents a concession not in excess of \$ per share under the public offering price. The Underwriters may allow, and such dealers may reallow, a concession not in excess of \$ per share to certain other dealers. The Representatives of the Underwriters have advised the Company that the Underwriters do not intend to confirm any shares to any accounts over which

they exercise discretionary authority. After the initial public offering, the offering price and other selling terms may be changed by the Representatives.

The Company has granted to the Underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase up to an additional 630,000 shares of Common Stock at the price to the public set forth on the cover page of this Prospectus, minus the underwriting discounts and commissions. The Underwriters may exercise such option solely for the purpose of covering over-allotments, if any, in connection with this Offering. To the extent such option is exercised, each Underwriter will be obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number of shares set forth opposite each Underwriter's name in the preceding table bears to the total number of shares listed in such table.

The Company, its officers and directors, and certain stockholders of the Company designated by the Representatives have agreed that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell or otherwise dispose of any shares of Common Stock of the Company or any securities convertible into, or exercisable or exchangeable for, Common Stock of the Company, except that the Company may issue shares of Common Stock (i) in connection with acquisitions, (ii) pursuant to exercise of options granted under the Incentive Plan and (iii) pursuant to the exercise of warrants outstanding as of the closing of this Offering.

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Prior to this Offering, there has not been any public market for the Common Stock of the Company. Consequently, the initial public offering price for the shares of Common Stock included in this Offering will be determined by negotiations between the Company and the Representatives. Among the factors to be considered in determining such price are the history of and prospects for the Company's business and the industry in which it competes, an assessment of the Company's management and the present state of the Company's development, the past and present revenues and earnings of the Company, the prospects for the growth of the Company's revenues and earnings, the current state of the economy in the United States and the current level of economic activity in the industry in which the Company competes and in related or comparable industries, and currently prevailing conditions in the securities markets, including current market valuations of publicly traded companies that are comparable to the Company.

The Company has agreed to indemnify the Underwriters and certain related persons against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Underwriters may be required to make in respect thereof.

#### LEGAL MATTERS

Certain legal matters in connection with the sale of the Common Stock offered hereby are being passed upon for the Company by Baker & Botts, L.L.P., 3000 One Shell Plaza, Houston, Texas 77002, and for the Underwriters by Morgan, Lewis & Bockius LLP, 101 Park Avenue, New York, New York 10178.

#### EXPERTS

The audited financial statements included in this Prospectus and elsewhere in the Registration Statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

#### ADDITIONAL INFORMATION

The Company has not previously been subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. The Company has filed a Registration Statement on Form S-1 (the "Registration Statement") under the Securities Act with the SEC with respect to this Offering. This Prospectus, filed as a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement, or the exhibits and schedules thereto, in accordance with the rules and regulations of the SEC, and reference is hereby made to such omitted information. The statements made in this Prospectus concerning documents filed as exhibits to the Registration Statement accurately describe the material provisions of such documents and are qualified in their entirety by reference to such exhibits for complete statements of their provisions. The Registration Statement and the exhibits and schedules thereto may be inspected, without charge, at the public reference facilities of the SEC at its principal office at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and its regional offices at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and at 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of all or any portion of the Registration Statement can be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. The SEC maintains an Internet web site that contains reports, proxy and information

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
 UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS  
 BASIS OF PRESENTATION  
 (UNAUDITED)

The following unaudited pro forma combined financial statements give effect to the acquisitions by American Residential Services, Inc. (ARS), of substantially all of the net assets of (a) General Heating Engineering Company, Inc. (General Heating), (b) Atlas Services, Inc. and subsidiary (Atlas), (c) Service Enterprises, Inc. and subsidiaries (Crown), (d) Florida Heating and Air Conditioning, Inc. and Related Companies (Florida HAC), (e) DIAL ONE Meridian and Hoosier, Inc. (Meridian & Hoosier), (f) ADCOT, Inc. (A-ABC), and (g) Climatic Corporation of Vero Beach (Climatic), (together, the Founding Companies). ARS and the Founding Companies are hereinafter referred to as the Company. In addition, ARS will acquire EHC. These acquisitions (the Acquisitions) will occur simultaneously with the closing of ARS's initial public offering (the Offering) and will be accounted for using the purchase method of accounting. Atlas, one of the Founding Companies, has been identified as the acquiror for financial statement presentation purposes. The unaudited pro forma

combined financial statements also give effect to the issuance of Common Stock, which will be issued by ARS to the sellers of the Founding Companies upon the effectiveness of the Offering. These statements are based on the historical financial statements of the Founding Companies included elsewhere in this Prospectus (except Climatic) and the estimates and assumptions set forth below and in the notes to the unaudited pro forma combined financial statements.

The unaudited pro forma combined balance sheet gives effect to these transactions (the Acquisitions and the Offering) as if they had occurred on June 30, 1996. The unaudited pro forma combined statements of operations give effect to these transactions as if they had occurred at the beginning of each period presented.

The pro forma adjustments are based on preliminary estimates, available information and certain assumptions that management deems appropriate. The pro forma adjustments do not reflect amounts related to the working capital adjustments, which may affect goodwill and debt. In addition, the pro forma combined statement of operations does not include adjustments for non-recurring, non-cash charges of \$4.0 million related to shares of Common Stock to be issued to the shareholders of EHC in connection with the acquisition of EHC by Atlas (including a \$1.2 million estimated working capital adjustment) and \$0.3 million for the issuance of 40,000 shares of Common Stock to employees, three officers and consultants of ARS and its affiliates which will be recorded subsequent to the completion of the Offering. The unaudited pro forma combined financial data presented herein do not purport to represent what the Company's financial position or results of operations would have actually been had such events occurred at the beginning of the periods presented, as assumed, or to project the Company's financial position or results of operations for any future period or the future results of the Founding Companies. The unaudited pro forma combined financial statements should be read in conjunction with the other financial statements and notes thereto included elsewhere in this Prospectus. Also see "Risk Factors" included elsewhere herein.

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
 PRO FORMA COMBINED BALANCE SHEET  
 JUNE 30, 1996  
 (UNAUDITED)  
 (IN THOUSANDS)

<S>	ARS ----- <C>	GENERAL HEATING ----- <C>	EHC ----- <C>	ATLAS ----- <C>	FLORIDA HAC ----- <C>	MERIDIAN & HOOSIER ----- <C>	CLIMATIC ----- <C>	PRO FORMA ADJUSTMENTS ----- <C>
<b>ASSETS</b>								
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents.....	\$ 235	\$ 1,183	\$ 324	\$ 200	\$ 261	\$ 986	\$ 26	\$ 217
Investments.....	--	1,000	--	--	--	--	--	(1,000)
Accounts receivable --								
Trade, net of allowance.....	--	4,339	501	2,946	1,284	2,135	948	(4,339)
Shareholder and affiliates.....	--	--	--	15	--	19	--	--
Other receivables.....	--	66	322	--	311	26	--	--
Notes receivable --								
Shareholders.....	--	484	--	--	--	--	--	--
Other.....	--	--	--	--	--	--	--	--
Inventories.....	--	2,430	1,473	753	276	448	50	--
Prepaid expenses and other current assets.....	47	129	264	256	182	59	64	251
Costs and estimated earnings in excess of billings on uncompleted contracts.....	--	--	--	309	--	14	--	--
Total current assets.....	282	9,631	2,884	4,479	2,314	3,687	1,088	(4,871)
PROPERTY AND EQUIPMENT, net.....	45	2,015	5,056	3,557	566	1,589	167	(70)
OTHER NONCURRENT ASSETS.....	3,298	408	322	445	12	115	23	(468)
GOODWILL.....	--	--	12,636	--	--	--	--	39,225
Total assets.....	\$ 3,625	\$12,054	\$ 20,898	\$ 8,481	\$2,892	\$ 5,391	\$ 1,278	\$ 33,816
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT):</b>								
Current maturities of long-term debt.....	\$ --	\$ --	\$ 1,832	\$ 746	\$ 143	\$ 431	\$ 45	\$ --
Short-term debt.....	1,200	--	--	300	--	--	--	900
Accounts payable and accrued expenses.....	3,437	3,088	2,184	3,211	1,412	1,145	584	--
Unearned revenue on service and warranty contracts, current.....	--	810	305	62	--	439	--	--
Billings in excess of cost and estimated earnings on uncompleted								

contracts.....	--	145	--	686	219	566	36	--
Deferred income taxes.....	--	--	--	--	287	--	--	--
Pro forma cash consideration due to Founding Companies.....	--	--	--	--	--	--	--	34,800
<b>Total current liabilities.....</b>	<b>4,637</b>	<b>4,043</b>	<b>4,321</b>	<b>5,005</b>	<b>2,061</b>	<b>2,581</b>	<b>665</b>	<b>35,700</b>
<b>LONG-TERM DEBT, net of current maturities.....</b>	<b>--</b>	<b>--</b>	<b>12,948</b>	<b>1,600</b>	<b>42</b>	<b>1,223</b>	<b>40</b>	<b>5,398</b>
UNEARNED REVENUE ON EXTENDED WARRANTY CONTRACTS NONCURRENT.....	--	--	613	--	--	--	--	--
DEFERRED INCOME TAXES.....	--	--	114	104	42	32	43	--
NET LIABILITIES OF DISCONTINUED OPERATIONS.....	--	--	92	--	--	--	--	--
PREFERRED STOCK.....	--	--	2,557	--	--	--	--	(2,057)
SHAREHOLDERS' EQUITY (DEFICIT):								
Common stock.....	1	55	1	24	10	7	4	(98)
Additional paid-in capital.....	1	667	--	105	4	35	46	14,978
Retained earnings (deficit).....	(1,014)	8,882	252	1,643	733	1,513	480	(21,698)
Treasury stock.....	--	(1,593)	--	--	--	--	--	1,593
<b>Total shareholders' equity (deficit).....</b>	<b>(1,012)</b>	<b>8,011</b>	<b>253</b>	<b>1,772</b>	<b>747</b>	<b>1,555</b>	<b>530</b>	<b>(5,225)</b>
<b>Total liabilities and shareholders' equity (deficit).....</b>	<b>\$ 3,625</b>	<b>\$12,054</b>	<b>\$ 20,898</b>	<b>\$ 8,481</b>	<b>\$2,892</b>	<b>\$ 5,391</b>	<b>\$ 1,278</b>	<b>\$ 33,816</b>

</TABLE>

	PRO FORMA	POST MERGER ADJUSTMENTS	AS ADJUSTED
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents.....	\$ 3,432	\$ --	\$ 3,432
Investments.....	--	--	--
Accounts receivable --			
Trade, net of allowance.....	7,814	--	7,814
Shareholder and affiliates.....	34	--	34
Other receivables.....	725	--	725
Notes receivable --			
Shareholders.....	484	--	484
Other.....	--	--	--
Inventories.....	5,430	--	5,430
Prepaid expenses and other current assets.....	1,252	--	1,252
Costs and estimated earnings in excess of billings on uncompleted contracts.....	323	--	323
<b>Total current assets.....</b>	<b>19,494</b>	<b>--</b>	<b>19,494</b>
PROPERTY AND EQUIPMENT, net.....	12,925	--	12,925
OTHER NONCURRENT ASSETS.....	4,155	(434)	3,721
GOODWILL.....	51,861	--	51,861
<b>Total assets.....</b>	<b>\$88,435</b>	<b>\$ (434)</b>	<b>\$88,001</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT):</b>			
Current maturities of long-term debt.....	\$ 3,197	\$ (3,197)	\$ --
Short-term debt.....	2,400	(2,400)	--
Accounts payable and accrued expenses.....	15,061	--	15,061
Unearned revenue on service and warranty contracts, current.....	1,616	--	1,616
Billings in excess of cost and estimated earnings on uncompleted contracts.....	1,652	--	1,652
Deferred income taxes.....	287	--	287
Pro forma cash consideration due to Founding Companies.....	34,800	(34,800)	--
<b>Total current liabilities.....</b>	<b>59,013</b>	<b>(40,397)</b>	<b>18,616</b>
LONG-TERM DEBT, net of current maturities.....	21,251	(14,252)	6,999
UNEARNED REVENUE ON EXTENDED WARRANTY CONTRACTS NONCURRENT.....	613	--	613
DEFERRED INCOME TAXES.....	335	--	335
NET LIABILITIES OF DISCONTINUED OPERATIONS.....	92	--	92
PREFERRED STOCK.....	500	(500)	--



SHAREHOLDERS' EQUITY (DEFICIT):			
Common stock.....	4	4	8
Additional paid-in capital.....	15,836	55,011	70,847
Retained earnings (deficit).....	(9,209)	(300)	(9,509 )
Treasury stock.....	--	--	--
	-----	-----	-----
Total shareholders' equity (deficit).....	6,631	54,715	61,346
	-----	-----	-----
Total liabilities and shareholders' equity (deficit).....	\$88,435	\$ (434)	\$88,001
	=====	=====	=====

See accompanying notes to unaudited pro forma combined financial statements.

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
PRO FORMA COMBINED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1995  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE> <CAPTION>	ARS	GENERAL HEATING	ATLAS	CROWN	FLORIDA HAC	MERIDIAN & HOOSIER	A-ABC	CLIMATIC
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
REVENUES.....	\$ --	\$35,159	\$22,048	\$19,124	\$14,510	\$10,133	\$8,707	\$4,955
COST OF SERVICES.....	--	28,866	17,811	11,333	10,541	7,281	5,709	3,679
	-----	-----	-----	-----	-----	-----	-----	-----
Gross profit.....	--	6,293	4,237	7,791	3,969	2,852	2,998	1,276
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	159	5,280	3,022	6,165	3,738	2,350	2,348	1,287
GOODWILL AMORTIZATION.....	--	--	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS.....	(159)	1,013	1,215	1,626	231	502	650	(11)
OTHER INCOME (EXPENSE):								
Interest income.....	--	299	17	119	--	24	--	3
Interest expense.....	--	--	(134)	(58)	(12)	(86)	(84 )	--
Other.....	--	58	20	(10)	(8)	10	66	15
	-----	-----	-----	-----	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	(159)	1,370	1,118	1,677	211	450	632	7
PROVISION FOR INCOME TAXES.....	--	--	434	630	14	179	43	--
	-----	-----	-----	-----	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS.....	\$ (159)	\$1,370	\$ 684	\$ 1,047	\$ 197	\$ 271	\$ 589	\$ 7
	=====	=====	=====	=====	=====	=====	=====	=====
PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS.....								
SHARES USED IN COMPUTING PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS.....								

</TABLE>

	PRO FORMA ADJUSTMENTS	PRO FORMA
	-----	-----
REVENUES.....	\$--	\$114,636
COST OF SERVICES.....	--	85,220
	-----	-----
Gross profit.....	--	29,416
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	(204) (l) (1,808) (m) (484) (n)	21,853
GOODWILL AMORTIZATION.....	1,296 (o)	1,296
	-----	-----
INCOME (LOSS) FROM OPERATIONS.....	1,200	6,267
OTHER INCOME (EXPENSE):		
Interest income.....	--	462
Interest expense.....	(83) (p)	(457 )
Other.....	--	151
	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	1,117	6,423
PROVISION FOR INCOME TAXES.....	1,665 (q)	2,965
	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS.....	\$ (548)	\$ 3,458

PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS.....	\$ .41
SHARES USED IN COMPUTING PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS.....	8,450 (r)

See accompanying notes to unaudited pro forma combined financial statements.

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
PRO FORMA COMBINED STATEMENT OF OPERATIONS  
SIX MONTHS ENDED JUNE 30, 1995  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	ARS	GENERAL HEATING	ATLAS	CROWN	FLORIDA HAC	MERIDIAN & HOOSIER	A-ABC	CLIMATIC	PRO FORMA ADJUSTMENTS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
REVENUES.....	\$ --	\$16,214	\$10,354	\$8,775	\$7,631	\$ 4,420	\$3,983	\$1,208	\$--
COST OF SERVICES.....	--	13,331	8,409	5,194	5,697	3,173	2,721	844	
Gross profit.....	--	2,883	1,945	3,581	1,934	1,247	1,262	364	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	--	2,626	1,439	2,941	1,883	1,056	1,108	265	(102) (l) (943) (m) (123) (n) 648 (o)
GOODWILL AMORTIZATION.....	--	--	--	--	--	--	--	--	
INCOME (LOSS) FROM OPERATIONS.....	--	257	506	640	51	191	154	99	520
OTHER INCOME (EXPENSE):									
Interest income.....	--	103	6	49	--	5	--	2	--
Interest expense.....	--	--	(81)	(27)	(8)	(43)	(31 )	(2)	(37) (p)
Other.....	--	33	38	(10)	--	13	27	7	--
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	--	393	469	652	43	166	150	106	483
PROVISION FOR INCOME TAXES.....	--	--	189	250	6	65	7	--	616 (q)
INCOME (LOSS) FROM CONTINUING OPERATIONS.....	\$ --	\$ 393	\$ 280	\$ 402	\$ 37	\$ 101	\$ 143	\$ 106	\$ (133)
PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS.....									
SHARES USED IN COMPUTING PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS...									

	PRO FORMA
REVENUES.....	\$52,585
COST OF SERVICES.....	39,369
Gross profit.....	13,216
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	10,150
GOODWILL AMORTIZATION.....	648
INCOME (LOSS) FROM OPERATIONS.....	2,418
OTHER INCOME (EXPENSE):	
Interest income.....	165
Interest expense.....	(229)
Other.....	108
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	2,462
PROVISION FOR INCOME TAXES.....	1,133
INCOME (LOSS) FROM	

CONTINUING OPERATIONS.....	\$ 1,329
	=====
PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS.....	\$ .16
	=====
SHARES USED IN COMPUTING PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS...	8,450 (r)
	=====

See accompanying notes to unaudited pro forma combined financial statements.

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
PRO FORMA COMBINED STATEMENT OF OPERATIONS  
SIX MONTHS ENDED JUNE 30, 1996  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	ARS	GENERAL HEATING	PRO FORMA EHC (1)	ATLAS	FLORIDA HAC	MERIDIAN & HOOSIER	CLIMATIC	PRO FORMA ADJUSTMENTS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
REVENUES.....	\$ --	\$17,211	\$ 14,400	\$ 14,092	\$7,244	\$ 6,992	\$1,597	\$
COST OF SERVICES.....	--	13,933	8,902	11,357	5,339	4,751	1,212	--
Gross profit.....	--	3,278	5,498	2,735	1,905	2,241	385	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	834	2,816	4,052	2,268	1,816	1,724	287	(1,272) (m) (123) (n) 561 (o)
GOODWILL AMORTIZATION.....	--	--	87	--	--	--	--	--
INCOME (LOSS) FROM OPERATIONS.....	(834)	462	1,359	467	89	517	98	834
OTHER INCOME (EXPENSE):								
Interest income.....	--	109	22	4	--	17	4	--
Interest expense.....	(20)	--	(415 )	(96)	(13)	(72)	(2)	389 (p)
Other.....	--	17	5	45	11	12	(1)	--
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	(854)	588	971	420	87	474	99	1,223
PROVISION (BENEFIT) FOR INCOME TAXES.....	--	--	246	150	6	190	--	792 (q)
INCOME (LOSS) FROM CONTINUING OPERATIONS.....	\$ (854)	\$ 588	\$ 725	\$ 270	\$ 81	\$ 284	\$ 99	\$ 431
PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS.....								
SHARES USED IN COMPUTING PRO FORMA INCOME PER SHARE FROM CONTINUING OPERATIONS.....								

	PRO FORMA
	-----
REVENUES.....	\$61,536
COST OF SERVICES.....	45,494
Gross profit.....	16,042
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	12,402
GOODWILL AMORTIZATION.....	648
INCOME (LOSS) FROM OPERATIONS.....	2,992
OTHER INCOME (EXPENSE):	
Interest income.....	156
Interest expense.....	(229)
Other.....	89
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	3,008
PROVISION (BENEFIT) FOR INCOME TAXES.....	1,384
INCOME (LOSS) FROM CONTINUING OPERATIONS.....	\$ 1,624
PRO FORMA INCOME PER SHARE FROM	

CONTINUING OPERATIONS..... \$ .19  
=====

SHARES USED IN COMPUTING PRO FORMA  
INCOME PER SHARE FROM CONTINUING  
OPERATIONS..... 8,450 (r)  
=====

-----

(1) EHC is presented on a pro forma basis to include Crown and A-ABC from January 1, 1996 through their dates of acquisition by EHC as set forth on F-8.

See accompanying notes to unaudited pro forma combined financial statements.

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AMERICAN RESIDENTIAL SERVICES, INC.  
ENTERPRISES HOLDING COMPANY'S PRO FORMA  
CONSOLIDATED STATEMENT OF OPERATIONS  
SIX MONTHS ENDED JUNE 30, 1996  
(UNAUDITED)  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	EHC	CROWN JANUARY 1, 1996 THROUGH MARCH 31, 1996	A-ABC JANUARY 1, 1996 THROUGH MAY 31, 1996	PRO FORMA EHC
<S>	<C>	<C>	<C>	<C>
REVENUES.....	\$6,803	\$ 4,152	\$ 3,445	\$14,400
COST OF SERVICES.....	4,112	2,643	2,147	8,902
Gross Profit.....	2,691	1,509	1,298	5,498
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,697	1,519	836	4,052
GOODWILL AMORTIZATION.....	87	--	--	87
INCOME (LOSS) FROM OPERATIONS.....	907	(10)	462	1,359
OTHER INCOME (EXPENSE):				
Interest income.....	6	16	--	22
Interest expense.....	(384)	(16)	(15)	(415)
Other.....	3	(9)	11	5
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	532	(19)	458	971
PROVISION (BENEFIT) FOR INCOME TAXES.....	229	(4)	21	246
INCOME (LOSS) FROM CONTINUING OPERATIONS.....	\$ 303	\$ (15)	\$ 437	\$ 725

</TABLE>

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS  
(UNAUDITED)

1. AMERICAN RESIDENTIAL SERVICES, INC. BACKGROUND:

American Residential Services, Inc. (ARS) was formed to create a leading national provider of (i) comprehensive maintenance, repair and replacement services for heating, ventilating and air conditioning, plumbing, electrical and other systems in homes and commercial buildings and (ii) new installation services of those systems in homes and commercial facilities under construction. ARS has conducted no operations to date and will acquire the Founding Companies simultaneously with the consummation of the Offering.

2. HISTORICAL FINANCIAL STATEMENTS:

The historical financial statements represent the financial position and results of operations of the Founding Companies and were derived from the respective financial statements where indicated. All Founding Companies have a December 31 year-end or they have been converted to a December 31 year-end, except for Climatic which has an April 30 year-end. Quarterly statements of operations for Climatic for the three months ended July 31, 1996 have been included in the pro forma statements of operations for the six months ended June 30, 1995 and 1996. The audited historical financial statements included elsewhere in this Prospectus have been included in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 80.

3. ACQUISITION OF FOUNDING COMPANIES:

Concurrent with the closing of the Offering, ARS will acquire substantially all of the net assets of the Founding Companies. The Acquisitions will be accounted for using the purchase method of accounting, with Atlas being treated as the acquirer.

The following table sets forth for each Founding Company the consideration to be paid its common stockholders (i) in cash and (ii) in shares of Common Stock.

	COMMON STOCK		
	CASH	SHARES	FAIR VALUE OF SHARES (1)
		(DOLLARS IN THOUSANDS)	
General Heating.....	\$ 15,000	666,666	\$ 5,000
Atlas.....	5,000	1,066,666	8,000
EHC (including Crown and A-ABC).....	--	378,400	2,838
Florida HAC.....	11,000	333,333	2,500
Meridian & Hoosier.....	3,250	250,000	1,875
Climatic.....	550	110,000	825
Total.....	\$ 34,800	2,805,065	\$ 21,038

(1) Based on the estimated fair market value.

The estimated purchase price for the Acquisitions is subject to certain purchase price adjustments at and following closing. See "Certain Transactions -- Organization of the Company."

The holders of 2.8 million shares of Common Stock issued in partial payment of the Acquisitions have agreed not to offer, sell or otherwise dispose of any of those shares for a period of two years after the Offering (or for such shorter period as the SEC may prescribe as the holding period for registered securities under Rule 144). The fair value of these shares reflects this restriction.

Of the estimated total purchase price of \$55.8 million (based on the fair value of the shares to be issued) of the Acquisitions, \$53 million has been allocated to the assets acquired and liabilities assumed.

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The remaining amount of \$2.8 million, the value of shares of Common Stock to be issued to acquire the outstanding common stock of Enterprises Holding Company (EHC) represents the purchase price paid to EHC in excess of its cost of Crown and A-ABC. The Company valued EHC on a basis consistent with the other Acquisitions using the same multiple of cash flow, as adjusted for owners' compensation and other nonrecurring items. This amount will be recorded as compensation and finance costs. In addition, the stockholders of each Founding Company and EHC will be entitled to receive, or obligated to pay, an amount equal to the increase or decrease in such company's net working capital from the date of a specified recent balance sheet date for such company through the closing of the Acquisitions. Subject to adjustments, the Company estimates, and the pro forma financial statements reflect, a \$4.0 million distribution for such Working Capital adjustments. Included in this amount is an estimated \$1.2 million payment to the shareholders of EHC, which will be recorded as compensation and financing costs.

Based upon management's preliminary analysis, it is anticipated that the historical carrying value of the Founding Companies' assets and liabilities will approximate fair value. The amount allocated to goodwill is \$51.9 million. Management of ARS has not identified any other material tangible or identifiable intangible assets of the Founding Companies to which a portion of the purchased price could reasonably be allocated.

4. UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS:

(a) Records the additional cash to be borrowed.

(b) Records distribution of a Founding Company's S Corporation Accumulated Adjustment Account.

(c) Records the distribution of General's and Atlas' cash surrender value of life insurance policies in the amounts of \$387,000 and \$124,000, respectively to shareholders and the distribution of certain equipment and the related obligations to certain shareholders of the Founding Companies.

(d) Records the purchase of ARS by Atlas and records a capital distribution to Atlas shareholders.

(e) Records the purchase of the Founding Companies (excluding EHC and ARS), including the cash consideration due to the Founding Companies and Common Stock portions and the related deferred income tax assets.

(f) Records the purchase of EHC by Atlas including the recognition of compensation and finance costs.

(g) Records the proceeds from the issuance of 4,200,000 shares of ARS Common Stock, net of estimated offering costs of \$8,410,000 (based on an assumed initial public offering price of \$15 per share, the midpoint of the estimated price range). Offering costs primarily consist of underwriting discounts and commissions, accounting fees, legal fees and printing expenses.

(h) Records the repayment of certain debt obligations with proceeds from the Offering.

(i) Records the cash portion to be paid to the Founding Companies in connection with the Acquisitions.

(j) Records the retirement of EHC's preferred stock.

(k) Records the exercise of a warrant held by a bank lender of EHC and the issuance of shares to employees, three officers and certain consultants of ARS and its affiliates.

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The following tables summarize unaudited pro forma combined balance sheet adjustments:

<TABLE>

<CAPTION>

	(A)	(B)	(C)	(D)	(E)	(F)	PRO FORMA ADJUSTMENTS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Cash and cash equivalents.....	\$ 2,854	\$ (2,637)	\$	\$	\$	\$	\$ 217
Investments.....		(1,000)					(1,000)
Accounts receivable - trade.....		(4,339)					(4,339)
Prepaid expenses and other current assets.....					251		251
Property and equipment, net.....			(70)				(70)
Other noncurrent assets.....			(511)		43		(468)
Goodwill.....					39,225		39,225
Short-term debt.....	(1,400)					500	(900)
Pro forma cash consideration due to Founding Companies.....				(5,000)	(29,800)		(34,800)
Long-term debt, net of current maturities.....	(1,454)		56	(800)	(2,000)	(1,200)	(5,398)
Preferred stock.....					2,057	2,057	
Common stock.....				24	76	(2)	98
Additional paid-in capital.....		7,976	525	(24)	(17,810)	(5,645)	(14,978)
Retained earnings (deficit).....				5,800	11,608	4,290	21,698
Treasury stock.....							
				(1,593)		(1,593)	
	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

</TABLE>

<TABLE>

<CAPTION>

	(G)	(H)	(I)	(J)	(K)	POST MERGER ADJUSTMENTS
<S>	<C>	<C>	<C>	<C>	<C>	
Cash and cash equivalents.....	\$ 55,149	\$ (19,849)	\$ (34,800)	\$ (500)	\$	\$ 0
Other noncurrent assets.....		(559)			125	(434)
Current maturities of long-term debt.....		3,197				3,197
Short-term debt.....		2,400				2,400
Pro forma cash consideration due to Founding Companies.....			34,800			34,800
Long-term debt, net of current maturities.....		14,252				14,252
Preferred stock.....				500		500
Common stock.....	(4)					(4)
Additional paid-in capital.....	(54,586)				(425)	(55,011)
Retained earnings (deficit).....				300	300	

Treasury						0
stock.....	-----	-----	-----	-----	-----	-----
	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	=====	=====	=====	=====	=====	=====

</TABLE>

5. UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS ADJUSTMENTS:

- (l) Adjusts rent expense incurred due to the purchase of the facility used by Crown, net of pro forma depreciation expense.
- (m) Adjusts compensation to the level the owners of certain of the Founding Companies have agreed to receive subsequent to the Acquisitions.
- (n) Adjusts for the effect of assets distributed to and the costs of certain leases assumed by the owners of certain Founding Companies.
- (o) Records the pro forma goodwill amortization expense using a 40 year estimated life.
- (p) Records change in interest expense for pro forma adjustments to debt.

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AMERICAN RESIDENTIAL SERVICES, INC., AND FOUNDING COMPANIES  
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

- (q) Records the incremental provision for federal and state income taxes relating to the compensation differential, S corporation income and other pro forma adjustments.
- (r) The number of shares estimated to be outstanding on completion of the Offering includes the following, but excludes warrants to purchase 108,333 shares immediately after the Offering and an aggregate 1,430,000 shares subject to options granted under the Company's 1996 Incentive Plan as the effect of such options is less than three percent of total shares outstanding.

Outstanding (to be adjusted for a planned stock split).....	422,483	
Issued in Initial Public Offering.....	4,200,000	
Issued to acquire Founding Companies.....	2,805,065	
Conversion of a portion of the Equus Note Payable.....	844,965	
Conversion of a portion of the EHC Preferred Stock.....	137,139	
Shares awarded under Company's 1996 Incentive Plan.....	40,000	
	-----	
Shares estimated to be outstanding.....	8,449,652	=====

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To American Residential Services, Inc.:

We have audited the accompanying balance sheets of American Residential Services, Inc. (a Delaware corporation), as of December 31, 1995 and June 30, 1996, and the related statements of operations, shareholders' deficit and cash flows from Inception (October 24, 1995) through December 31, 1995 and for the six months ended June 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 financial position of American Residential Services, Inc. as of December 31, 1995 and June 30, 1996 and the results of its operations and its cash flows from Inception through December 31, 1995 and for

the six months ended June 30, 1996 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas  
August 21, 1996

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AMERICAN RESIDENTIAL SERVICES, INC.  
BALANCE SHEETS

	DECEMBER 31, 1995	JUNE 30, 1996
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 9,784	\$ 235,088
Prepaid expenses and other current assets.....	3,327	46,957
	-----	-----
Total current assets.....	13,111	282,045
PROPERTY AND EQUIPMENT, net.....	--	45,141
OTHER NONCURRENT ASSETS.....	19,325	3,297,698
	-----	-----
Total assets.....	\$ 32,436	\$ 3,624,884
	=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Short-term debt.....	\$ 50,000	\$ 1,200,000
Accounts payable and accrued expenses.....	141,077	3,437,334
	-----	-----
Total current liabilities.....	191,077	4,637,334
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' DEFICIT:		
Preferred Stock: \$.001 par value, 10,000,000 shares authorized; none issued or outstanding.....	--	--
Common stock, \$.001 par value, 50,000,000 shares authorized, 449,471 shares issued and outstanding.....	449	449
Additional paid-in capital.....	551	551
Deficit.....	(159,641)	(1,013,450)
	-----	-----
Total shareholders' deficit.....	(158,641)	(1,012,450)
	-----	-----
Total liabilities and shareholders' deficit.....	\$ 32,436	\$ 3,624,884
	=====	=====

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

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AMERICAN RESIDENTIAL SERVICES, INC.  
STATEMENTS OF OPERATIONS

	INCEPTION (OCTOBER 24, 1995) THROUGH DECEMBER 31, 1995	SIX MONTHS ENDED JUNE 30, 1996
	-----	-----
REVENUES.....	\$--	\$ --
COST OF SERVICES.....	--	--
	-----	-----
Gross profit.....	--	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	159,641	833,997
	-----	-----
OPERATING LOSS.....	(159,641)	(833,997)
INTEREST EXPENSE.....	--	(19,812)
	-----	-----
NET LOSS.....	\$ (159,641)	\$ (853,809)
	=====	=====



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

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AMERICAN RESIDENTIAL SERVICES, INC.  
STATEMENTS OF SHAREHOLDERS' DEFICIT

<TABLE>  
<CAPTION>

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFICIT	TOTAL SHAREHOLDERS' DEFICIT
	SHARES	AMOUNT			
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, Inception, October 24, 1995.....	--	\$ --	\$ --	\$ --	\$ --
Stock Issuance.....	449,471	449	551	--	1,000
Net loss.....	--	--	--	(159,641)	(159,641)
BALANCE, December 31, 1995.....	449,471	449	551	(159,641)	(158,641)
Net loss.....	--	--	--	(853,809)	(853,809)
BALANCE, June 30, 1996.....	449,471	\$ 449	\$ 551	\$ (1,013,450)	\$ (1,012,450)

</TABLE>

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

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AMERICAN RESIDENTIAL SERVICES, INC.  
STATEMENTS OF CASH FLOWS

	INCEPTION (OCTOBER 24, 1995) THROUGH DECEMBER 31, 1995	SIX MONTHS ENDED JUNE 30, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$ (159,641)	\$ (853,809)
Adjustments to reconcile net loss to net cash used in operating activities --		
Depreciation and amortization...	--	2,606
Changes in operating assets and liabilities --		
Increase in --		
Prepaid expenses and other current assets.....	(3,327)	(43,630)
Other noncurrent assets.....	(19,325)	(3,278,373)
Increase in --		
Accounts payable and accrued expenses.....	141,077	3,296,257
Net cash used in operating activities.....	(41,216)	(876,949)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions of property and equipment.....	--	(47,747)
Net cash used in investing activities.....	--	(47,747)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of short-term debt.....	50,000	1,150,000
Proceeds from issuance of common stock.....	1,000	--
Net cash provided by financing activities.....	51,000	1,150,000
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	9,784	225,304
CASH AND CASH EQUIVALENTS, beginning of period.....	--	9,784
CASH AND CASH EQUIVALENTS, end of period.....	\$ 9,784	\$ 235,088

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

AMERICAN RESIDENTIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

American Residential Services, Inc. (ARS or the Company), was founded on October 24, 1995 to create a leading national provider of (i) comprehensive maintenance, repair and replacement services for heating, ventilating and air conditioning, plumbing, electrical, and other systems in homes and commercial buildings and (ii) new installation services of those systems in homes and commercial facilities under construction. ARS intends to acquire seven local and regional residential services companies (the Acquisitions), complete an initial public offering (the Offering) of its common stock and, subsequent to the Offering, continue to acquire, through merger or purchase, similar companies to expand its national and regional operations. In June 1996, ARS filed a registration on Form S-1 for the sale of its common stock.

ARS's primary assets at December 31, 1995, and June 30, 1996 are cash and deferred offering costs. ARS has not conducted any operations, and all activities to date have related to the Acquisitions and the Offering. Cash of \$1,000 was generated from the initial capitalization of the Company (see Note 4). There is no assurance that the Acquisitions discussed below will be completed and that ARS will be able to generate future operating revenues. Funding for the deferred offering costs has been provided by Equus II Incorporated (Equus II). ARS is dependent upon the Offering to fund the amounts due to Equus II, the pending acquisitions and future operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are received or settled.

The Company has recorded a full valuation allowance against all deferred tax assets due to the uncertainty of ultimate realizability. Accordingly, no income tax benefit has been recorded for current year losses.

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 and 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.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

AMERICAN RESIDENTIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value was necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the

Company.

As of January 1, 1996, SFAS No. 123, "Accounting for Stock-Based Compensation," will be effective for the Company. SFAS No. 123 permits, but does not require, a fair value-based method of accounting for employee stock option plans which results in compensation expense recognition when stock options are granted. As permitted by SFAS No. 123, the Company will provide pro forma disclosure of net income and earnings per share, as applicable, in the notes to future consolidated financial statements.

3. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Prepaid expenses and other current assets consists of the following:

	DECEMBER 31, 1995	JUNE 30, 1996
Prepaid insurance.....	\$ --	\$ 39,291
Other.....	3,327	7,666
	-----	-----
	\$ 3,327	\$ 46,957
	=====	=====

Other noncurrent assets consists of the following:

	DECEMBER 31, 1995	JUNE 30, 1996
Deferred offering costs.....	\$ 19,325	\$ 3,225,040
Other.....	--	72,658
	-----	-----
	\$ 19,325	\$ 3,297,698
	=====	=====

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31, 1995	JUNE 30, 1996
Accrued accounting and legal expense.....	\$ --	\$ 3,134,310
Accrued compensation and benefits....	79,167	249,643
Other accrued expenses.....	61,910	53,381
	-----	-----
	\$141,077	\$ 3,437,334
	=====	=====

Short-term debt:

The Company had borrowings from Equus II under a \$2.6 million credit facility totaling \$50,000 and \$1,200,000 at December 31, 1995 and June 30, 1996, respectively. The borrowings are unsecured, bear interest at prime plus .25 percent (8.5 percent at June 30, 1996) and mature December 31, 1996. A portion of this facility is convertible into 10 percent of the outstanding common stock of ARS upon completion of the Offering.

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AMERICAN RESIDENTIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. SHAREHOLDERS' DEFICIT:

In connection with the organization and initial capitalization of ARS, the Company issued 1,000 shares of common stock for \$1,000 (see Note 7).

5. COMMITMENTS AND CONTINGENCIES:

BONUS AWARDS

In June 1996, the Board of Directors granted certain key employees incentive cash bonus awards for 1996 which are based, subject to the overall performance of the Company, on the performance of the Common Stock after the Offering as compared to the performance of each of the stocks included in the Standard & Poor's 500 Stock Index (the S&P 500). The amount of each award will be determined by multiplying the officer's annual base salary by a percentage determined by ranking the Common Stock's price performance, including reinvested dividends, if any (Total Stockholder Return), among Total Stockholder Returns of all the stocks in the S&P 500.

6. RELATED PARTY TRANSACTION:

The Company has signed a definitive agreement to acquire Enterprises Holding Company (EHC), a related company through common ownership, to be effective with the Offering. EHC will be acquired for a total consideration, subject to a working capital adjustment, consisting of 378,400 shares of Common Stock and the assumption and/or repayment of approximately \$17.3 million of indebtedness and other obligations (including \$2.6 million of EHC preferred stock being converted into 137,139 shares of Common Stock and \$0.5 million cash), approximately \$14.3 million of which will be repaid either out of a portion of the net proceeds of the Offering or through bank borrowings.

7. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS:

ARS effected a 333-for-one-stock split on February 2, 1996, and an approximately 1.35 for-one-stock split on June 14, 1996 of its common stock for each share of common stock then outstanding. In addition, on February 2, 1996, authorized shares were increased from 1,000 to 50,000,000. The effects of the common stock dividends have been retroactively reflected on the balance sheet and in the accompanying notes.

The Company has approved the 1996 Incentive Plan (the Plan), which amends and restates the 1996 Stock Option Plan and provides for the granting or awarding of stock options and stock appreciation rights to nonemployee directors, officers and other key employees (including officers of the Founding Companies) and independent contractors. The number of shares authorized and reserved for issuance under the Plan is limited to the greater of 1,550,000 shares or 15 percent of the number of shares of Common Stock outstanding on the last day of the preceding calendar quarter. In general, the terms of the option awards (including vesting schedules) will be established by the Compensation Committee of the Company's Board of Directors. As of July 15, 1996, the Company has granted 10 year options covering an aggregate of 1,430,000 shares of common stock. Management believes the option price of the options granted is equal to or in excess of the market value of the stock at the date of grant.

DATE OF GRANT	OPTIONS GRANTED	OPTION PRICE
January 31, 1996.....	495,000	\$ 8.00
March 6, 1996.....	75,000	9.60
March 29, 1996.....	25,000	10.20
April 30, 1996.....	50,000	10.80
June 12, 1996.....	700,000	Offering Price
July 15, 1996.....	85,000	Offering Price
	1,430,000	
	=====	

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AMERICAN RESIDENTIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

ARS and separate wholly owned subsidiaries have signed definitive agreements to acquire by merger seven companies (the Founding Companies) to be effective with the Offering. The Founding Companies are General Heating Engineering Company, Inc.; Atlas Services, Inc., and Subsidiary; Service Enterprises, Inc. and subsidiaries (Crown); Florida Heating and Air Conditioning, Inc., and Related Companies; DIAL ONE Meridian and Hoosier, Inc.; ADCOT, Inc. (A-ABC); and Climatic Corporation of Vero Beach. Crown and A-ABC will be acquired indirectly through the direct acquisition of their parent corporation, EHC. The aggregate consideration that will be paid by ARS to acquire the Founding Companies is, subject to working capital adjustments, approximately \$34.8 million in cash and 2,805,065 shares of ARS common stock (based on an assumed initial public offering price of \$15 per share, the midpoint of the estimated initial public offering price range).

On March 19, 1996, the Company issued to Equus II a warrant to purchase 100,000 shares of Common Stock exercisable at the Offering price. The warrants are exercisable at any time after the closing of the Offering of the Company until five years from such date. The number of shares represented by the warrant is subject to adjustment for stock dividends and stock splits.

Subsequent to December 31, 1995, the Company has incurred additional costs, including professional fees and travel, associated with the acquisition of the Founding Companies and the Offering. Accordingly, accrued liabilities and amounts due to Equus II have increased to approximately \$1.2 million as of June 30, 1996. A portion of this note will be converted into 844,965 shares of ARS Common Stock in connection with the Offering.

8. SUBSEQUENT EVENT (UNAUDITED):

The Company obtained a commitment letter dated July 17, 1996 from NationsBank of Texas, N.A. to underwrite a new \$55 million bank credit facility

to be used for acquisitions, working capital and other corporate purposes. This commitment will be unsecured, will bear interest at a variable rate and will be due and payable in August 1999.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To General Heating Engineering Company, Inc.:

We have audited the accompanying balance sheets of General Heating Engineering Company, Inc. (a Delaware corporation), as of December 31, 1994 and 1995, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 financial position of General Heating Engineering Company, Inc., as of December 31, 1994 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas  
May 24, 1996

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GENERAL HEATING ENGINEERING COMPANY, INC.  
BALANCE SHEETS

<TABLE>

<CAPTION>

	DECEMBER 31		JUNE 30, 1996
	1994	1995	
			(UNAUDITED)
<S>	<C>	<C>	<C>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 2,258,467	\$ 3,369,929	\$ 1,183,429
Investments.....	2,475,000	2,000,000	1,000,000
Accounts receivable --			
Trade, net of allowance of			
\$159,910, \$126,650 and			
\$138,911.....	4,129,536	3,740,406	4,339,344
Other receivables.....	129,308	47,588	65,602
Notes receivable --			
Shareholders.....	92,500	308,139	483,742
Other.....	--	39,870	--
Inventories.....	2,375,590	2,215,659	2,429,880
Prepaid expenses and other			
current assets.....	17,331	13,871	129,481
Total current			
assets.....	11,477,732	11,735,462	9,631,478
PROPERTY AND EQUIPMENT, net.....	1,941,076	2,100,638	2,015,058
OTHER NONCURRENT ASSETS.....	376,017	483,014	407,625
Total assets.....	\$ 13,794,825	\$ 14,319,114	\$12,054,161

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued			
expenses.....	\$ 2,736,479	\$ 3,248,968	\$ 3,087,815
Unearned revenue on service and			
warranty contracts.....	797,820	894,766	809,599
Billings in excess of costs and			
estimated earnings on			

uncompleted contracts.....	319,323	139,764	145,088
Total current liabilities.....	3,853,622	4,283,498	4,042,502
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock, \$20 par value, 5,000 shares authorized, 2,752 shares issued, 462 shares outstanding.....	55,040	55,040	55,040
Additional paid-in capital.....	666,913	666,913	666,913
Retained earnings.....	10,811,994	10,906,407	8,882,450
Treasury stock, 2,290 shares at cost.....	(1,592,744)	(1,592,744)	(1,592,744)
Total shareholders' equity.....	9,941,203	10,035,616	8,011,659
Total liabilities and shareholders' equity.....	\$ 13,794,825	\$ 14,319,114	\$12,054,161

</TABLE>  
The accompanying notes are an integral part of these financial statements.

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GENERAL HEATING ENGINEERING COMPANY, INC.  
STATEMENTS OF OPERATIONS

<TABLE> <CAPTION>	YEAR ENDED DECEMBER 31			SIX MONTHS ENDED JUNE 30	
	1993	1994	1995	1995	1996
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES.....	\$ 34,642,267	\$ 36,333,827	\$ 35,159,389	\$ 16,213,702	\$ 17,210,646
COST OF SERVICES.....	27,393,298	29,927,352	28,866,207	13,330,955	13,932,504
Gross profit.....	7,248,969	6,406,475	6,293,182	2,882,747	3,278,142
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	5,011,270	5,244,776	5,280,402	2,626,353	2,815,572
Income from operations.....	2,237,699	1,161,699	1,012,780	256,394	462,570
OTHER INCOME:					
Interest income.....	189,223	177,149	299,116	102,593	107,742
Other.....	7,891	66,724	58,517	33,336	17,731
NET INCOME.....	\$ 2,434,813	\$ 1,405,572	\$ 1,370,413	\$ 392,323	\$ 588,043

</TABLE>  
The accompanying notes are an integral part of these financial statements.

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GENERAL HEATING ENGINEERING COMPANY, INC.  
STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE> <CAPTION>	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK		TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT			SHARES	AMOUNT	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, December 31, 1992.....	2,752	\$55,040	\$ 648,912	\$ 9,811,451	(2,290)	\$ (1,592,744)	\$ 8,922,659
Dividends.....	--	--	--	(1,744,798)	--	--	(1,744,798)
Net income.....	--	--	--	2,434,813	--	--	2,434,813
BALANCE, December 31, 1993.....	2,752	55,040	648,912	10,501,466	(2,290)	(1,592,744)	9,612,674
Capital contributions.....	--	--	18,001	--	--	--	18,001
Dividends.....	--	--	--	(1,095,044)	--	--	(1,095,044)
Net income.....	--	--	--	1,405,572	--	--	1,405,572
BALANCE, December 31, 1994.....	2,752	55,040	666,913	10,811,994	(2,290)	(1,592,744)	9,941,203
Dividends.....	--	--	--	(1,276,000)	--	--	(1,276,000)
Net income.....	--	--	--	1,370,413	--	--	1,370,413
BALANCE, December 31, 1995.....	2,752	55,040	666,913	10,906,407	(2,290)	(1,592,744)	10,035,616
Dividends (unaudited).....	--	--	--	(2,612,000)	--	--	(2,612,000)
Net income (unaudited).....	--	--	--	588,043	--	--	588,043

BALANCE, June 30, 1996 (unaudited)...	2,752	\$55,040	\$ 666,913	\$ 8,882,450	(2,290)	\$ (1,592,744)	\$ 8,011,659
---------------------------------------	-------	----------	------------	--------------	---------	----------------	--------------

</TABLE>

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

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GENERAL HEATING ENGINEERING COMPANY, INC.  
STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31			SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income.....	\$ 2,434,813	\$ 1,405,572	\$ 1,370,413	\$ 392,323	\$ 588,043
Adjustments to reconcile net income to net cash provided by (used in) operating activities --					
Depreciation and amortization....	465,076	495,396	508,497	268,396	263,500
Loss on sale of investments.....	--	--	13,626	--	--
(Gain) loss on sale of property and equipment.....	4,811	(38,978)	56,152	--	(17,731)
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable.....	(1,427,017)	210,329	470,850	755,082	(616,952)
Inventories.....	(416,216)	49,258	159,931	(535,480)	(214,221)
Prepaid expenses and other current assets.....	(37,843)	(1,907)	3,460	(190,525)	(115,610)
Other noncurrent assets.....	(83,112)	(22,741)	(106,997)	9,865	75,389
Increase (decrease) in --					
Accounts payable and accrued expenses.....	631,061	143,263	512,489	482,472	(161,153)
Unearned revenue on service and warranty contracts....	17,782	31,739	96,946	55,337	(85,167)
Billings in excess of costs and estimated earnings on uncompleted contracts....	(732,654)	(152,605)	(179,559)	--	5,324
Net cash provided by (used in) operating activities.....	856,701	2,119,326	2,905,808	1,237,470	(278,578)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of property and equipment.....	5,000	112,530	42,533	10,682	20,925
Additions of property and equipment.....	(941,748)	(786,863)	(766,744)	(324,177)	(181,114)
Purchase of investments.....	--	(2,475,000)	(4,193,948)	(1,725,000)	(1,000,000)
Proceeds from sale of investments.....	--	--	4,655,322	3,225,000	2,000,000
Net cash provided by (used in) investing activities.....	(936,748)	(3,149,333)	(262,837)	1,186,505	839,811
CASH FLOWS FROM FINANCING ACTIVITIES:					
(Increase) decrease in notes receivable.....	--	882,500	(255,509)	3,996	(135,733)
Dividends.....	(1,744,798)	(1,095,044)	(1,276,000)	(532,000)	(2,612,000)
Capital contributions.....	--	18,001	--	--	--
Net cash used in financing activities.....	(1,744,798)	(194,543)	(1,531,509)	(528,004)	(2,747,733)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(1,824,845)	(1,224,550)	1,111,462	1,895,971	(2,186,500)
CASH AND CASH EQUIVALENTS, beginning of period.....	5,307,862	3,483,017	2,258,467	2,258,467	3,369,929
CASH AND CASH EQUIVALENTS, end of period.....	\$ 3,483,017	\$ 2,258,467	\$ 3,369,929	\$ 4,154,438	\$ 1,183,429

</TABLE>

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

GENERAL HEATING ENGINEERING COMPANY, INC.  
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

General Heating Engineering Company, Inc. (a Delaware corporation) (the Company), is primarily engaged in the installation and maintenance, repair and replacement of air conditioning, heating and fireplace systems in new and preexisting residential and commercial buildings in Washington, D.C. and the surrounding area.

The Company and its shareholders intend to enter into a definitive agreement with American Residential Services, Inc. (ARS), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of ARS's common stock concurrent with the consummation of the initial public offering (the Offering) of the common stock of ARS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1996, and for the six months ended June 30, 1995 and 1996, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are valued at the lower of cost or market using the average cost method.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, and depreciation is computed using the straight-line method over the estimated useful lives of assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

REVENUE RECOGNITION

The Company recognizes revenue when the services are performed except when work is being performed under a construction contract. Revenues from the sale of residential and commercial service and maintenance contracts are recognized over the life of the contract on a straight-line basis.

Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating units. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal



purposes. Under S Corporation status, each shareholder reports his share of the Company's taxable earnings or losses in his personal federal and state tax returns.

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 and 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.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1995, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value was necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31	
		1994	1995
Transportation equipment.....	7	\$ 3,258,907	\$ 3,376,461
Furniture and fixtures.....	7	159,227	169,453
Leasehold improvements.....	20	800,370	879,938
Machinery and equipment.....	10	858,033	919,393
Computer and telephone equipment.....	5	442,853	467,219
		5,519,390	5,812,464
Less -- Accumulated depreciation and amortization.....		3,578,314	3,711,826
Property and equipment, net.....		\$ 1,941,076	\$ 2,100,638

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GENERAL HEATING ENGINEERING COMPANY, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Effective January 1, 1994, the Company adopted the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Adoption of this standard did not materially impact the Company's financial statements. The following is a summary of investment securities:

	DECEMBER 31	
	1994	1995
Certificates of deposit.....	\$ --	\$ 2,000,000
U.S. Treasury notes.....	2,475,000	--
	\$ 2,475,000	\$ 2,000,000

Activity in the Company's allowance for doubtful accounts consist of the following:

DECEMBER 31		
1993	1994	1995

Balance at beginning of year.....	\$ 146,848	\$ 127,443	\$ 159,910
Additions charged to costs and expenses.....	45,996	104,613	71,930
Deductions for uncollectible receivables written off.....	(67,954)	(103,848)	(127,810)
Bad debt recoveries.....	2,553	31,702	22,620
	-----	-----	-----
	\$ 127,443	\$ 159,910	\$ 126,650
	=====	=====	=====

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31	
	-----	-----
	1994	1995
	-----	-----
Accounts payable, trade.....	\$ 1,586,930	\$ 1,998,941
Accrued compensation and benefits....	823,476	916,013
Warranty accrual.....	292,895	292,895
Other accrued expenses.....	33,178	41,119
	-----	-----
	\$ 2,736,479	\$ 3,248,968
	=====	=====

Installation contracts in progress are as follows:

	DECEMBER 31	
	-----	-----
	1994	1995
	-----	-----
Costs incurred on contracts in progress.....	\$ 19,975,656	\$ 18,705,791
Estimated earnings, net of losses....	9,912,429	8,989,404
	-----	-----
	29,888,085	27,695,195
Less -- Billings to date.....	30,207,408	27,834,959
	-----	-----
Billings in excess of costs and estimated earnings on uncompleted contracts.....	\$ (319,323)	\$ (139,764)
	=====	=====

5. EMPLOYEE BENEFIT PLANS:

The Company has adopted a retirement plan which qualifies under Section 401(k) of the Internal Revenue Code. The plan provides for 50 percent matching contributions by the Company, up to a maximum liability of 1 percent of each participating employee's annual compensation. The Company has the right to make additional discretionary contributions. Total contributions by the Company under this plan to provide

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GENERAL HEATING ENGINEERING COMPANY, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

contributions and pay expenses were approximately \$42,000, \$67,000 and \$78,000 during 1993, 1994 and 1995, respectively. Amounts due to this plan were approximately \$50,000 and \$30,000 for the years ended December 31, 1994 and 1995, respectively.

The Company has also adopted a cafeteria plan pursuant to Section 125 of the Internal Revenue Code that covers all employees from 90 days after the commencement of employment. Under this plan, the employees may reduce their compensation to fund medical or life insurance, dental and short-term disability benefits. The funds withheld are used to pay actual claims, administrative expenses and stop-loss insurance protection premiums. Such stop-loss insurance covers claims to a maximum aggregate liability of \$1,000,000 and \$35,000 per participant. For the years ended December 31, 1993, 1994 and 1995, the Company contributed approximately \$57,000, \$91,000 and \$129,000, respectively, to this plan in addition to amounts withheld from employees. Contributions due to this plan were approximately \$91,000 and \$216,000 for the years ended December 31, 1994 and 1995, respectively.

6. LEASES:

The Company conducts a portion of its operations in leased facilities under operating lease agreements with a company primarily owned by the shareholders. Total amounts paid under these related-party leases were approximately \$261,000, \$387,000 and \$384,000 for the years ended December 31, 1993, 1994 and 1995, respectively. In January 1996, the Company extended each of these leases, commencing January 1, 1996, for 10 years. The following schedule shows the future minimum rentals to be made under these leases:

Year ending December 31 --	
1996.....	\$ 517,281
1997.....	517,505
1998.....	531,468
1999.....	552,728
2000.....	574,837
Thereafter.....	3,367,564
	-----
	\$ 6,061,383
	=====

7. RELATED-PARTY TRANSACTIONS:

The Company has notes receivable from its shareholders in the amounts of \$92,500 and \$308,139 as of December 31, 1994 and 1995, respectively. These notes are unsecured, bear interest at 7 percent per annum and are due upon demand. Interest income recognized by the Company on these notes during the years ended December 31, 1994 and 1995, was approximately \$1,000 and \$12,000, respectively.

8. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in various legal actions arising in the ordinary course of business. Management does not believe that the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

LETTER OF CREDIT

At December 31, 1995, the Company had an outstanding letter of credit of \$75,000 to secure the purchase of certain inventories.

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GENERAL HEATING ENGINEERING COMPANY, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

9. SALES TO SIGNIFICANT CUSTOMERS:

During 1993, 1994 and 1995, one customer accounted for approximately 13 percent, 16 percent and 21 percent, respectively, of the Company's revenue.

10. EVENTS SUBSEQUENT TO DATE OF REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED):

In June 1996, the Company and its shareholders entered into a definitive agreement with ARS, providing for the acquisition of the Company by ARS.

In connection with the acquisition, the Company will distribute certain assets to the shareholders, consisting of the cash surrender value of life insurance, with a total carrying value of approximately \$387,000, as of June 30, 1996. In addition, prior to the closing of the acquisition, the Company will make distributions in respect of the Company's estimated S Corporation accumulated adjustment account at the time of closing. Had these transactions been recorded at June 30, 1996, the effect on the accompanying balance sheet would be a decrease in assets of approximately \$6,909,000, an increase in liabilities of \$1,454,000 and a decrease in shareholders' equity of \$8,363,000.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Atlas Services, Inc.:

We have audited the accompanying consolidated balance sheets of Atlas Services, Inc. (a South Carolina corporation), and subsidiary as of June 30, 1994 and 1995, and December 31, 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended June 30, 1995, and the year ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are

free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atlas Services, Inc., and subsidiary as of June 30, 1994 and 1995, and December 31, 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1995, and the year ended December 31, 1995, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas  
May 24, 1996

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ATLAS SERVICES, INC., AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

	JUNE 30		DECEMBER 31,	JUNE 30,
	1994	1995	1995	1996
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents.....	\$ 204,883	\$ 383,190	\$ 241,263	\$ 199,515
Accounts receivable --				
Trade, net of allowance of				
\$29,989, \$39,866, \$39,866 and				
\$59,448.....	1,634,219	2,098,213	2,163,990	2,946,258
Affiliates.....	188,829	178,554	211,939	15,106
Inventories.....	478,447	474,093	531,819	753,016
Prepaid expenses and other current				
assets.....	20,763	112,207	146,283	255,576
Costs and estimated earnings in				
excess of billings on				
uncompleted contracts.....	323,901	382,653	254,039	309,319
Total current assets.....	2,851,042	3,628,910	3,549,333	4,478,790
PROPERTY AND EQUIPMENT, net.....	3,203,143	3,169,128	3,136,363	3,556,608
OTHER NONCURRENT ASSETS.....	280,321	342,776	406,316	445,042
Total assets.....	\$ 6,334,506	\$ 7,140,814	\$ 7,092,012	\$ 8,480,440
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Current maturities of long-term				
debt.....	\$ 577,545	\$ 619,851	\$ 596,941	\$ 746,415
Short-term debt.....	220,807	207,335	209,948	300,000
Accounts payable and accrued				
expenses.....	2,328,709	2,859,998	2,391,955	3,209,851
Unearned revenue on service and				
warranty contracts.....	135,487	150,628	162,755	62,418
Billings in excess of costs and				
estimated earnings on				
uncompleted contracts.....	192,408	355,186	475,731	685,753
Total current				
liabilities.....	3,454,956	4,192,998	3,837,330	5,004,437
LONG-TERM DEBT, net of current				
maturities.....	2,047,763	1,702,324	1,564,309	1,599,601
DEFERRED INCOME TAXES.....	150,506	187,806	187,237	103,936
<b>COMMITMENTS AND CONTINGENCIES</b>				
<b>SHAREHOLDERS' EQUITY:</b>				
Common stock, \$1 par value; 100,000				
shares authorized, 2,254, 2,345,				
24,303 and 24,303 shares issued				
and outstanding.....	2,254	2,345	24,303	24,303
Additional paid-in capital.....	48,011	81,877	105,040	105,040
Retained earnings.....	631,016	973,464	1,373,793	1,643,123
Total shareholders'				
equity.....	681,281	1,057,686	1,503,136	1,772,466
Total liabilities and				

shareholders' equity..... \$ 6,334,506 \$ 7,140,814 \$7,092,012 \$ 8,480,440

</TABLE>

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

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ATLAS SERVICES, INC., AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	YEAR ENDED JUNE 30			YEAR ENDED	SIX MONTHS ENDED	
	1993	1994	1995	DECEMBER 31, 1995	1995	1996
	(UNAUDITED)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
REVENUES.....	\$ 10,209,885	\$ 15,625,211	\$ 21,228,756	\$22,048,103	\$ 10,354,146	\$ 14,092,372
COST OF SERVICES.....	8,182,867	12,676,789	17,714,515	17,810,928	8,409,272	11,356,977
Gross profit.....	2,027,018	2,948,422	3,514,241	4,237,175	1,944,874	2,735,395
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,760,805	2,421,016	2,985,258	3,021,692	1,439,226	2,267,973
Income from operations.....	266,213	527,406	528,983	1,215,483	505,648	467,422
OTHER INCOME (EXPENSE):						
Interest income.....	12,086	12,742	13,004	16,671	6,022	4,318
Interest expense.....	(189,927)	(129,303)	(143,123)	(134,236)	(80,656)	(96,450)
Other.....	(27,690)	26,814	165,821	20,327	38,251	44,240
INCOME BEFORE INCOME TAXES.....	60,682	437,659	564,685	1,118,245	469,265	419,530
PROVISION FOR INCOME TAXES.....	24,914	170,478	222,237	434,258	189,222	150,200
NET INCOME.....	\$ 35,768	\$ 267,181	\$ 342,448	\$ 683,987	\$ 280,043	\$ 269,330

</TABLE>

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

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ATLAS SERVICES, INC., AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT			
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, June 30, 1992.....	2,191	\$ 2,191	\$ 32,611	\$ 328,067	\$ 362,869
Stock issuance.....	30	30	6,850	--	6,880
Net income.....	--	--	--	35,768	35,768
BALANCE, June 30, 1993.....	2,221	2,221	39,461	363,835	405,517
Stock issuance.....	33	33	8,550	--	8,583
Net income.....	--	--	--	267,181	267,181
BALANCE, June 30, 1994.....	2,254	2,254	48,011	631,016	681,281
Stock issuance.....	91	91	33,866	--	33,957
Net income.....	--	--	--	342,448	342,448
BALANCE, June 30, 1995.....	2,345	\$ 2,345	\$ 81,877	\$ 973,464	\$1,057,686
BALANCE, December 31, 1994.....	2,345	\$ 2,345	\$ 81,877	\$ 689,806	\$ 774,028
Stock split (10 for 1).....	21,105	21,105	(21,105)	--	--
Stock issuance.....	853	853	44,268	--	45,121
Net income.....	--	--	--	683,987	683,987
BALANCE, December 31, 1995.....	24,303	24,303	105,040	1,373,793	1,503,136
Net income (unaudited).....	--	--	--	269,330	269,330
BALANCE, June 30, 1996 (unaudited)...	24,303	\$24,303	\$ 105,040	\$1,643,123	\$1,772,466

</TABLE>

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

ATLAS SERVICES, INC., AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30			YEAR ENDED	SIX MONTHS ENDED	
	-----			DECEMBER 31,	JUNE 30	
	1993	1994	1995	1995	1995	1996
	-----					
	(UNAUDITED)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income.....	\$ 35,768	\$ 267,181	\$ 342,448	\$ 683,987	\$ 280,043	\$ 269,330
Adjustments to reconcile net income to net cash provided by operating activities --						
Depreciation and amortization....	271,683	375,186	501,796	490,554	239,432	352,874
Deferred income taxes (benefit).....	(1,144)	20,022	(22,265)	(50,894)	52,152	42,345
Loss on sale of property and equipment.....	54,786	--	--	--	--	--
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable.....	(13,227)	(822,197)	(453,719)	(505,195)	(406,030)	(571,524)
Inventories.....	(175,733)	(134,837)	4,354	(139,118)	(81,392)	(141,856)
Prepaid expenses and other current assets.....	13,350	(1,800)	(31,878)	7,150	(84,238)	(234,939)
Costs and estimated earnings in excess of billings on uncompleted contracts.....	(27,506)	(276,261)	(58,752)	539,181	410,567	(55,280)
Other noncurrent assets.....	(62,020)	(63,362)	(101,110)	(66,703)	16,242	(8,368)
Increase (decrease) in --						
Accounts payable and accrued expenses.....	211,091	1,233,347	531,289	(219,215)	271,815	778,896
Unearned revenue on service and warranty contracts.....	49,963	53,271	15,141	(10,274)	(22,401)	(110,905)
Billings in excess of costs and estimated earnings on uncompleted contracts.....	(10,909)	51,603	162,778	52,327	(68,218)	183,801
Net cash provided by operating activities...	346,102	702,153	890,082	781,800	607,972	504,374
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Proceeds from sale of property and equipment.....	173,037	--	--	--	--	12,567
Additions to property and equipment.....	(439,920)	(980,761)	(429,127)	(258,257)	(55,693)	(707,442)
Cash paid for acquisitions, net of cash acquired.....	--	--	--	--	--	(126,065)
Net cash used in investing activities...	(266,883)	(980,761)	(429,127)	(258,257)	(55,693)	(820,940)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Proceeds of long- and short-term debt.....	478,187	887,990	347,001	442,394	118,578	728,010
Principal payments of long- and short-term debt.....	(513,870)	(529,624)	(663,606)	(843,201)	(361,073)	(453,192)
Proceeds from stock issuance.....	6,880	8,583	33,957	45,121	--	--
Net cash provided by (used in) financing activities.....	(28,803)	366,949	(282,648)	(355,686)	(242,495)	274,818
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>50,416</b>	<b>88,341</b>	<b>178,307</b>	<b>167,857</b>	<b>309,784</b>	<b>(41,748)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period.....</b>	<b>66,126</b>	<b>116,542</b>	<b>204,883</b>	<b>73,406</b>	<b>73,406</b>	<b>241,263</b>
<b>CASH AND CASH EQUIVALENTS, end of period.....</b>	<b>\$ 116,542</b>	<b>\$ 204,883</b>	<b>\$ 383,190</b>	<b>\$ 241,263</b>	<b>\$ 383,190</b>	<b>\$ 199,515</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
Cash paid for --						
Interest.....	\$ 286,112	\$ 210,549	\$ 225,374	\$ 177,031	\$ 81,316	\$ 96,450
Income taxes.....	\$ --	\$ 56,477	\$ 271,924	\$ 251,750	\$ 133,750	\$ 473,234

&lt;/TABLE&gt;

The accompanying notes are an integral part of these consolidated financial

ATLAS SERVICES, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BUSINESS AND ORGANIZATION:

Atlas Services, Inc., (a South Carolina corporation) and subsidiary (the Company), are primarily engaged in the installation and maintenance, repair and replacement of plumbing, air conditioning and heating and electrical systems in new and preexisting residential and commercial buildings throughout South Carolina.

The Company and its shareholders intend to enter into a definitive agreement with American Residential Services, Inc. (ARS), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of ARS's common stock concurrent with the consummation of the initial public offering (the Offering) of the common stock of ARS.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

## BASIS OF PRESENTATION

The consolidated financial statements include the accounts and results of operations of Atlas Services, Inc., and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

## INTERIM FINANCIAL INFORMATION

The interim consolidated financial statements as of June 30, 1996, and for the six months ended June 30, 1995 and 1996, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the consolidated interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

## INVENTORIES

Inventories consist of parts and supplies held for use in the ordinary course of business and are valued at the lower of cost or market using the weighted-average method.

## PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property or equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

Included in property and equipment are certain assets subject to capital leases. These assets are amortized using the straight-line method over the lesser of the life of the leases or the estimated useful life of the asset.

## REVENUE RECOGNITION

The Company recognizes revenue when the services are performed except when work is being performed under a construction contract. Revenues on residential and commercial service and maintenance contracts are recorded and collected monthly. Revenues from sales of extended warranties are recognized over the life of the contract on a straight-line basis.

ATLAS SERVICES, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability

and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating units. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating units. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

STOCK-SPLIT

During 1995, the Company effected a ten-for-one stock split of the Company's Common Stock.

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 and 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.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1995, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value was necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

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ATLAS SERVICES, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

<TABLE>  
<CAPTION>

	ESTIMATED USEFUL LIVES IN YEARS	JUNE 30		DECEMBER 31, 1995
		1994	1995	
<S>	<C>	<C>	<C>	<C>
Land and land improvements.....	--	\$ 508,129	\$ 508,129	\$ 508,129
Buildings and leasehold improvements.....	40	1,387,578	1,396,235	1,387,599
Transportation equipment.....	5	1,703,373	1,955,070	2,068,795
Machinery and equipment.....	5 - 7	591,299	666,548	738,347
Furniture and fixtures.....	5 - 10	233,373	290,961	313,025
		4,423,752	4,816,943	5,015,895
Less -- Accumulated depreciation.....		1,220,609	1,647,815	1,879,532
Property and equipment, net.....		\$ 3,203,143	\$ 3,169,128	\$ 3,136,363

</TABLE>

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consist of the



following:

<TABLE>  
<CAPTION>

	JUNE 30			DECEMBER 31,
	1993	1994	1995	1995
<S>	<C>	<C>	<C>	<C>
Balance at beginning of year.....	\$ 0	\$ 0	\$ 29,989	\$ 29,989
Additions charged to costs and expenses.....	79,128	84,119	45,952	40,381
Deductions for uncollectible receivables written off.....	(79,128)	(54,130)	(36,075)	(30,504)
	\$ 0	\$ 29,989	\$ 39,866	\$ 39,866

</TABLE>

Accounts payable and accrued expenses consist of the following:

	JUNE 30		DECEMBER 31,
	1994	1995	1995
Accounts payable, trade.....	\$ 1,707,084	\$ 2,113,376	\$1,600,736
Accrued compensation and benefits....	369,780	236,780	224,767
Accrued insurance.....	98,456	257,741	269,135
Other accrued expenses.....	153,389	252,101	297,317
	\$ 2,328,709	\$ 2,859,998	\$2,391,955

Installation contracts in progress are as follows:

	JUNE 30		DECEMBER 31,
	1994	1995	1995
Costs incurred on contracts in progress.....	\$ 1,293,427	\$ 2,592,291	\$2,411,212
Estimated earnings, net of losses....	586,972	719,579	1,077,841
	1,880,399	3,311,870	3,489,053
Less -- Billings to date.....	1,748,906	3,284,403	3,710,745
	\$ 131,493	\$ 27,467	\$ (221,692)

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ATLAS SERVICES, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following are included in the accompanying balance sheets under the following captions:

	JUNE 30		DECEMBER 31,
	1994	1995	1995
Costs and estimated earnings in excess of billings on uncompleted contracts.....	\$ 323,901	\$ 382,653	\$ 254,039
Billings in excess of costs and estimated earnings on uncompleted contracts.....	(192,408)	(355,186)	(475,731)
	\$ 131,493	\$ 27,467	\$ (221,692)

5. SHORT- AND LONG-TERM DEBT:

Short-term debt consists of a revolving line of credit payable to a bank, due July 21, 1996, with interest due monthly at 9.375 percent and is secured by accounts receivable and inventory. The amounts outstanding as of June 30, 1994 and 1995, and December 31, 1995, are \$220,807, \$207,335 and \$209,948, respectively.

Long-term debt consists of the following:

	JUNE 30		DECEMBER 31,
	1994	1995	1995
Mortgage note payable to a bank, with monthly installments of \$8,056 principal plus interest at 7.25%, secured by real estate and life insurance policies, due December 1998.....	\$ 1,401,667	\$ 1,305,000	\$1,256,666
Mortgage note payable to a bank, with monthly installments of \$1,000 principal plus interest at prime plus 1.25% (9.75% at December 31, 1995), secured by real estate, due May 1997.....	103,400	93,400	87,977
Mortgage note payable to a bank, with monthly installments of \$581, bearing interest at 9.5%, secured by real estate, due June 2017.....	56,775	56,173	53,185
Transportation equipment notes payable and capitalized leases, with monthly installments totaling \$48,255, due from July 1994 to January 1998, bearing interest from 5.9% to 13.3%, secured by transportation equipment.....	816,486	675,929	574,953
Note payable on equipment, with monthly installments of \$2,083 principal plus interest at prime plus 1.50% (10% at December 31, 1995), secured by equipment, due June 1998.....	100,000	75,000	62,500
Other.....	146,980	116,673	125,969
	2,625,308	2,322,175	2,161,250
Less -- Current maturities.....	577,545	619,851	596,941
	\$ 2,047,763	\$ 1,702,324	\$1,564,309

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ATLAS SERVICES, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The aggregate maturities of long-term debt as of December 31, 1995, are as follows:

Year ending December 31 --	
1996.....	\$ 596,941
1997.....	334,907
1998.....	158,688
1999.....	110,343
2000.....	109,567
Thereafter.....	850,804
	\$ 2,161,250

Management estimates that the fair value of its debt obligations approximates the historical value of \$2,371,198 at December 31, 1995.

6. RETIREMENT PLANS:

The Company has a defined contribution profit-sharing plan covering substantially all employees. The Company's contribution for each of the years ended June 30, 1993, 1994 and 1995, and December 31, 1995, amounted to approximately \$25,000, \$35,000, \$30,000 and \$21,000, respectively.

7. LEASES:

The Company leases four facilities under noncancelable leases, which expire in January 1998, January 2005, May 2005 and February 2006. Rental expense for the years ended June 30, 1993, 1994 and 1995, and December 31, 1995, was approximately \$44,000, \$72,000, \$127,000 and \$174,000, respectively. Included in these amounts are rent expenses and commissions paid to related parties of \$0, \$2,000, \$39,000 and \$82,000 for the years ended June 30, 1993, 1994 and 1995, and December 31, 1995, respectively. The following represents future minimum rental payments under noncancelable operating leases:

Year ending December 31 --	
1996.....	\$ 259,577

1997.....	266,680
1998.....	230,187
1999.....	228,600
2000.....	228,600
Thereafter.....	1,045,550
	-----
	\$ 2,259,194
	=====

The Company leases certain owned facilities under three noncancelable leases to third parties, which expire in September 1997, October 1998 and November 2000. Rental income received for the years ended June 30, 1993, 1994 and 1995, and December 31, 1995, was approximately \$148,000, \$135,000, \$105,000 and \$86,000, respectively. The following represents future minimum rental income under noncancelable leases:

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ATLAS SERVICES, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Year ending December 31 --	
1996.....	\$ 167,250
1997.....	148,500
1998.....	83,875
1999.....	42,000
2000.....	38,500
	-----
	\$ 480,125
	=====

8. INCOME TAXES:

Federal and state income taxes are as follows:

<TABLE>				
<CAPTION>				
	YEAR ENDED JUNE 30			YEAR ENDED
	-----			DECEMBER 31,
	1993	1994	1995	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Federal --				
Current.....	\$ 23,106	\$ 129,390	\$ 215,040	\$419,486
Deferred.....	(3,107)	18,236	(19,913)	(43,440)
State --				
Current.....	2,952	21,066	29,462	65,666
Deferred.....	1,963	1,786	(2,352)	(7,454)
	-----	-----	-----	-----
	\$ 24,914	\$ 170,478	\$ 222,237	\$434,258
	=====	=====	=====	=====

</TABLE>

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 34 percent to income before income tax as follows:

<TABLE>				
<CAPTION>				
	YEAR ENDED JUNE 30			YEAR ENDED
	-----			DECEMBER 31,
	1993	1994	1995	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Tax provision at the statutory				
rate.....	\$ 20,632	\$ 148,804	\$ 191,993	\$380,203
Increase (decrease) resulting from --				
State income tax, net of benefit				
for federal deduction.....	3,244	15,081	17,892	38,420
Nondeductible expenses.....	5,272	14,264	33,308	29,088
Other.....	(4,234)	(7,671)	(20,956)	(13,453)
	-----	-----	-----	-----
	\$ 24,914	\$ 170,478	\$ 222,237	\$434,258
	=====	=====	=====	=====

</TABLE>

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities result principally from the following:

	-----		DECEMBER 31,
	1994	1995	1995
	-----		-----
Accruals and reserves not deductible until paid.....	\$ (65,224)	\$ (127,289)	\$ (180,124)
Depreciation and amortization.....	157,365	196,365	195,771
Other.....	42,609	43,409	45,944
	-----		-----
Total deferred income tax liabilities.....	\$ 134,750	\$ 112,485	\$ 61,591
	=====	=====	=====

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ATLAS SERVICES, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The net deferred tax assets and liabilities are comprised of the following:

	JUNE 30		DECEMBER 31,
	1994	1995	1995
	-----		-----
Deferred tax assets --			
Current.....	\$ (79,907)	\$ (163,948)	\$ (235,433)
Long-term.....	(1,865)	(1,865)	(6,723)
	-----		-----
Total.....	(81,772)	(165,813)	(242,156)
	-----		-----
Deferred tax liabilities --			
Current.....	64,151	88,627	109,787
Long-term.....	152,371	189,671	193,960
	-----		-----
Total.....	216,522	278,298	303,747
	-----		-----
Net deferred income tax liabilities.....	\$ 134,750	\$ 112,485	\$ 61,591
	=====	=====	=====

9. RELATED-PARTY TRANSACTIONS:

The Company has a receivable from its majority shareholder in the amount of approximately \$172,000, \$171,000 and \$195,000 as of June 30, 1994 and 1995, and December 31, 1995, respectively. This receivable accrues interest at 8 percent. Interest income recognized during the years ended June 30, 1993, 1994 and 1995, and December 31, 1995, was approximately \$10,000, \$13,000, \$13,000 and \$17,000, respectively.

10. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe that the outcome of such legal actions will have a material adverse effect on the Company's financial position or consolidated results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

11. SALES TO SIGNIFICANT CUSTOMERS:

During the years ended June 30, 1993 and 1995, one customer accounted for approximately 11 percent, and 11 percent, respectively, of the Company's revenue.

12. EVENTS SUBSEQUENT TO DATE OF REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED):

In June 1996, the Company and its shareholders entered into a definitive agreement with ARS, providing for the acquisition of the Company by ARS.

In connection with the acquisition, the Company will distribute certain assets to the shareholders, consisting of cash surrender value of life insurance and equipment net of distributed liabilities, with a total net carrying value of approximately \$124,000 and \$14,000 as of June 30, 1996. Had these transactions been recorded at June 30, 1996, the effect on the accompanying balance sheet would be a decrease in assets of approximately \$194,000, liabilities of \$56,000 and shareholders' equity of \$138,000.

ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

JUNE 30, 1996	
----- (UNAUDITED)	
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents.....	\$ 324,283
Accounts receivable --	
Trade, net of allowance of	
\$58,675.....	500,795
Other receivables.....	322,311
Inventories.....	1,472,638
Prepaid expenses and other	
current assets.....	263,547
	-----
Total current	
assets.....	2,883,574
PROPERTY AND EQUIPMENT, net.....	5,055,957
GOODWILL, net.....	12,636,127
OTHER NONCURRENT ASSETS.....	322,372
	-----
Total assets.....	\$ 20,898,030
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current maturities of long-term	
debt.....	1,832,231
Accounts payable and accrued	
expenses.....	2,184,207
Unearned revenue on extended	
warranty contracts, current....	304,745
	-----
Total current	
liabilities.....	4,321,183
LONG-TERM DEBT, net of current	
maturities.....	12,947,631
UNEARNED REVENUE ON EXTENDED WARRANTY	
CONTRACTS, noncurrent.....	612,942
DEFERRED INCOME TAXES.....	114,133
NET LIABILITIES OF DISCONTINUED	
OPERATIONS.....	92,060
COMMITMENTS AND CONTINGENCIES	
SERIES A PREFERRED STOCK, \$100 par;	
49,810 shares authorized, 25,381	
issued and outstanding.....	2,538,100
SERIES B PREFERRED STOCK, \$100 par;	
190 shares authorized, issued and	
outstanding.....	19,000
SHAREHOLDERS' EQUITY:	
Common stock, \$.01 par value;	
1,000,000 shares authorized,	
1,000 issued and outstanding...	1,000
Retained earnings.....	251,981
	-----
Total shareholders'	
equity.....	252,981
	-----
Total liabilities and	
shareholders'	
equity.....	\$ 20,898,030
	=====

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

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

INCEPTION (FEBRUARY 16, 1996) THROUGH JUNE 30, 1996	
----- (UNAUDITED)	
REVENUES.....	\$ 6,802,655

COST OF SERVICES.....	4,111,714
Gross profit.....	2,690,941
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,783,798
Income from operations.....	907,143
OTHER INCOME (EXPENSE):	
Interest income.....	6,362
Interest expense.....	(384,224)
Other.....	3,472
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	532,753
PROVISION FOR INCOME TAXES.....	229,335
NET INCOME FROM CONTINUING OPERATIONS.....	303,418
INCOME FROM DISCONTINUED OPERATIONS, net of tax.....	5,663
NET INCOME.....	\$ 309,081

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

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	COMMON STOCK		RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT		
<S>	<C>	<C>	<C>	<C>
Balance, Inception, February 16, 1996 (unaudited).....	--	\$ --	\$--	\$ --
Stock issuance (unaudited).....	1,000	1,000	--	1,000
Preferred stock dividends (unaudited).....	--	--	(57,100)	(57,100)
Net income (unaudited).....	--	--	309,081	309,081
Balance, June 30, 1996 (unaudited)...	1,000	\$1,000	\$ 251,981	\$ 252,981

</TABLE>

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

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	INCEPTION (FEBRUARY 16, 1996) THROUGH JUNE 30, 1996	
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$	309,081
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization...		244,780
Gain on sale of property and equipment.....		(5,172)
Changes in operating assets and liabilities --		
(Increase) decrease in --		
Accounts receivable.....		(275,541)
Inventories.....		(169,385)
Prepaid expenses and other current assets.....		35,839
Other noncurrent assets....		306,569
Increase (decrease) in --		
Accounts payable and accrued expenses.....		38,360
Unearned revenue on extended warranty		

contracts.....	(13,137)
Net cash provided by operating activities...	471,394
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of property and equipment.....	5,172
Additions of property and equipment.....	(64,419)
Cash paid for acquisitions, net of cash acquired.....	(17,008,364)
Net cash used in investing activities...	(17,067,611)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings of long-term debt.....	16,047,000
Principal payments of long-term debt.....	(1,627,500)
Proceeds from stock issuance.....	2,501,000
Net cash provided by financing activities...	16,920,500
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	324,283
CASH AND CASH EQUIVALENTS, beginning of period.....	--
CASH AND CASH EQUIVALENTS, end of period.....	\$ 324,283
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for --	
Interest.....	\$ 197,326
Income taxes.....	\$ 99,735

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

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. BUSINESS AND ORGANIZATION:

Enterprises Holding Company (EHC or "the Company") (a Texas corporation), and subsidiaries was formed February 16, 1996 solely for the purpose of acquiring the operations of Service Enterprises, Inc. (SEI) and subsidiaries.

On March 19, 1996, EHC acquired all of the outstanding stock of SEI and certain real estate owned by the former shareholder of SEI for \$17,500,000. (See SEI's financial statements elsewhere herein.) SEI is primarily engaged in the maintenance, repair and replacement service-related activities of plumbing, air conditioning, electrical repair and other home improvement services in Houston and the surrounding areas.

On May 28, 1996, SEI purchased all of the outstanding common stock of ADCOT, Inc. (ADCOT) for \$2,000,000. (See ADCOT's financial statements included elsewhere herein.)

In June 1996, EHC entered into a definitive agreement with American Residential Services, Inc. (ARS), pursuant to which EHC will be acquired by ARS. All outstanding shares of EHC's common stock and preferred stock will be exchanged for cash and shares of ARS's common stock concurrent with the consummation of the initial public offering of the common stock of ARS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The consolidated financial statements include the accounts and results of operations of Enterprises Holding Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

INTERIM FINANCIAL INFORMATION

The interim consolidated financial statements as of June 30, 1996, and for the period from inception, February 16, 1996, through June 30, 1996, are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the consolidated interim financial statements, have been included. The results of operations for

the interim periods are not necessarily indicative of the results for the entire fiscal year.

#### INVENTORIES

Inventories consist of parts and service related supplies held for use in the ordinary course of business and are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

#### PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the lease life or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

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#### ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (UNAUDITED)

##### EXCESS OF PURCHASE PRICE OVER FAIR VALUE OF NET ASSET ACQUIRED

The excess of the aggregate purchase price paid by the Company in the acquisition of businesses, accounted for as a purchase, over the fair market value of the net assets acquired is amortized on a straight-line basis over 40 years. As of June 30, 1996, accumulated amortization was approximately \$87,000.

##### REVENUE RECOGNITION

The Company recognizes service revenue and parts sales revenue when a product is delivered or the services are performed. Revenues from sales of extended warranties are recognized over the life of the contract on a straight-line basis.

##### INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

##### 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 and 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.

##### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

##### NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1995, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is necessary. Adoption of this standard did not have a material effect on the financial position or consolidated results of operations of the Company.

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#### ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (UNAUDITED)

### 3. PROPERTY AND EQUIPMENT:



Property and equipment consist of the following:

	ESTIMATED USEFUL LIVES IN YEARS	JUNE 30, 1996
Land.....	--	\$1,433,246
Building and improvements.....	20	1,756,260
Leasehold improvements.....	5 - 10	405,580
Equipment.....	3 - 7	3,652,650
Furniture and fixtures.....	3 - 7	1,160,701
		8,408,437
Less -- Accumulated depreciation and amortization.....		3,352,480
Property and equipment, net.....		\$5,055,957

4. \_\_DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consist of the following:

	1996
Balance at inception, February 16, 1996.....	\$ 0
Balance acquired at acquisition date....	53,495
Additions charged to costs and expenses.....	10,273
Deductions for uncollectible receivables written off.....	(5,093)
	\$ 58,675

Prepaid expenses and other current assets consist of the following:

	JUNE 30, 1996
Prepaid insurance.....	\$ 174,800
Deferred income taxes.....	39,068
Other prepaid assets.....	49,679
	\$ 263,547

Accounts payable and accrued expenses consist of the following:

	JUNE 30, 1996
Accounts payable, trade.....	\$ 971,331
Accrued compensation and benefits.....	282,453
Other accrued expenses.....	930,423
	\$ 2,184,207

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(UNAUDITED)

5. DISCONTINUED OPERATIONS:

Subsequent to the purchase of ADCOT by SEI, the board of directors of EHC approved the disposition of ADCOT's retail appliance sales division. The allocation of purchase price to the fair market value of the net assets of ADCOT acquired by SEI will be based on preliminary estimates of fair value and may be revised when additional information concerning asset and liability valuations is obtained. Accordingly, any gain or loss on the sale of the appliance sales division will be considered an adjustment of purchase price.

6. \_\_INVENTORY FLOOR PLAN LIABILITY:

The Company maintains certain inventories on a floor plan financing method with General Electric Capital Corporation (GECC) in connection with its discontinued retail appliance sales division. The terms of the floor plan allow an interest-free period of 90 days after purchase followed by interest accruing at a rate of prime plus 2.5 percent on the remaining unpaid balance. Payment is due as the inventory is sold.

7. LONG-TERM DEBT:

Long-term debt consists of the following:

Note payable to Equus II Incorporated, with quarterly installments of \$187,500 beginning June 19, 1999, bearing interest at 12% payable quarterly, due March 19, 2003, unsecured and subordinated to notes payable to a bank.....	\$ 4,800,000
Revolving credit facility of \$5,000,000, bearing interest at prime plus 1% (9.25% at June 30, 1996) due June 15, 1999, secured by equipment, inventory and accounts receivable.....	4,372,500
Note payable to a bank, with quarterly installments of \$34,208 beginning January 15, 1997, bearing interest at 8.34% payable quarterly, due June 15, 1999, secured by real estate.....	2,025,500
Notes payable to former shareholder of Crown, with quarterly installments of \$100,000, bearing interest at prime (8.25% at June 30, 1996), due March 19, 1999, unsecured.....	1,000,000
Note payable to a bank with quarterly installments of \$46,688, beginning January 15, 1997, bearing interest at prime plus 1%, due June 1999, secured by accounts receivable inventory and property.....	747,000
Note payable to a bank, with quarterly installments of \$17,571 beginning January 15, 1997, bearing interest at prime plus 1% payable quarterly, due June 15, 1999, secured by real estate.....	474,500
Note payable to a bank, bearing interest at prime plus 1%, due October 15, 1996 secured by accounts receivable, inventory and equipment.....	1,000,000
Various notes payable, bearing interest at rates ranging from 8.0% to 9.0%, due from February 1998 to August 1999, secured by equipment.....	360,362
	-----
Total.....	14,779,862
Less -- Current maturities.....	(1,832,231)
	-----
Long-term debt, net of current maturities.....	\$ 12,947,631
	=====

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(UNAUDITED)

The aggregate maturities of long-term debt as of June 30, 1996, are as follows:

December 31,	
1997.....	\$ 1,832,231
1998.....	1,659,731
1999.....	7,050,400
2000.....	750,000
2001.....	750,000
Thereafter.....	2,737,500
	-----
	\$ 14,779,862
	=====

Management estimates that the fair value of its debt obligations approximates the historical value of \$14,779,862 at June 30, 1996.

8. SHAREHOLDERS' EQUITY

In connection with the organization and initial capitalization of EHC, the Company issued 1,000 shares of common stock for a total of \$1,000 in February 1996.

As an amendment to the Company's certificate of incorporation, on March 19, 1996, the Company created an additional series of preferred stock designated as Series B Preferred Stock and increased the total number of authorized shares to 1,050,000 shares, consisting of 1,000,000 shares of common stock, par value \$.01 per share, and 50,000 shares of preferred stock, par value \$100 per share. The first series of preferred stock is the Series A Preferred Stock with authorized shares of 49,810 and the second series of preferred stock is the Series B

SERIES A PREFERRED STOCK

On March 19, 1996, the Company issued 24,810 shares of voting, Series A Preferred Stock, par value \$100 per share, (Series A). The holder of the Series A shares are entitled to receive cumulative, preferential dividends equal to an annual rate of .08 of an additional share of Series A Preferred Stock, provided, however, that upon a redemption of shares of Preferred Stock in the IPO, dividends for the period from the last dividend payment date immediately preceding such redemption date through such redemption date shall accrue and be payable at the annual rate of \$8 in cash per share of Preferred Stock. Dividends are payable quarterly in arrears on the last day of each March, June, September and December of each year, commencing June 30, 1996. On June 30, 1996, the Company recorded a dividend of \$56,700 payable in 567 shares of Series A Preferred Stock.

The Company must redeem the Preferred Stock on the IPO date, subject to the closing of the IPO, for the "Aggregate Redemption Price", as defined.

SERIES B PREFERRED STOCK

On March 19, 1996, the Company issued 190 shares of voting Series B Preferred Stock, par value \$100 per share, (Series B). The holder of the Series B shares are entitled to receive cumulative, preferential dividends equal to an annual rate of .08 of an additional share of Series A Preferred Stock, provided, however, that upon a redemption of shares of Preferred Stock in the IPO, dividends for the period from the last dividend payment date immediately preceding such redemption date through such redemption date shall accrue and be payable at the annual rate of \$8 in cash per share of Preferred Stock. Dividends are payable quarterly in arrears on the last day of each March, June, September and December of each year,

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
 (UNAUDITED)

commencing June 30, 1996. On June 30, 1996, the Company recorded a dividend of \$400 payable in 4 shares of Series A Preferred Stock.

The holder of Series B shares has the right and option to convert all of the then outstanding shares of Series B Preferred Stock into an aggregate number of shares of common stock equal to 95% of the number of shares of common stock outstanding at the conversion date if the IPO date does not occur before March 1, 1997 or a default occurs before March 1, 1997.

The Company must redeem the Preferred Stock on the IPO date, subject to the closing of the IPO, for the "Aggregate Redemption Price", as defined.

9. LEASES:

The Company has entered into two operating sublease agreements with a company at its facilities, and these agreements expire in June 1997 and November 1998, respectively. Rental income recognized in the period from inception (February 16, 1996) through June 30, 1996 was approximately \$10,350.

Future minimum rental income under the sublease agreements is as follows:

Year ending December 31--	
Six months ended 1996.....	\$ 20,700
1997.....	35,700
1998.....	25,000
	-----
	\$ 81,400
	=====

10. INCOME TAXES:

Federal and state income taxes are as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 1995
	-----
Federal--	
Current.....	\$210,740
Deferred.....	--
State--	
Current.....	18,595
Deferred.....	--
	-----
	\$229,335
	=====

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
 (UNAUDITED)

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 34 percent to income before income taxes as follows:

	INCEPTION (FEBRUARY 16, 1996) THROUGH JUNE 30, 1996
Provision (benefit) at the statutory rate.....	\$ 181,136
Increase (decrease) resulting from--	
State income tax, net of benefit for federal deduction.....	15,983
Nondeductible expenses.....	32,216
Other.....	
	-----
	\$ 229,335
	=====

Deferred income tax provision results from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities result principally from the following:

	JUNE 30, 1996
Depreciation and amortization.....	\$ 36,213
Net operating loss carryforward.....	(33,098)
Accruals and reserves not deductible until paid.....	(40,685)
Other.....	112,635
	-----
Net deferred income tax liabilities.....	\$ 75,065
	=====

The net deferred tax assets and liabilities are comprised of the following:

	JUNE 30, 1996
Deferred tax assets--	
Current.....	\$ 39,068
Long-term.....	100,640
	-----
Total.....	139,708
Deferred tax liabilities, long-term....	214,773
	-----
Net deferred income tax liabilities.....	\$ 75,065
	=====

#### 11. COMMITMENTS AND CONTINGENCIES:

##### LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe that the outcome of such legal action will have a material adverse effect on the Company's financial position or results of operations.

##### INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

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ENTERPRISES HOLDING COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(UNAUDITED)

##### GUARANTEES

SEI's former shareholder is required to make seven annual payments of \$75,000 each under a lawsuit settlement. SEI's former shareholder is also required under this settlement to make four annual payments of \$20,000 each, beginning in 2003. The Company has guaranteed these settlement payments.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Service Enterprises, Inc.:

We have audited the accompanying consolidated balance sheets of Service Enterprises, Inc. (a Texas corporation), and subsidiaries as of December 31, 1994 and 1995, and the related consolidated statements of operations, shareholder's equity and cash flows for each of the three years in the period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Service Enterprises, Inc., and subsidiaries as of December 31, 1994 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas  
May 24, 1996

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SERVICE ENTERPRISES, INC., AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	1994	1995
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 1,093,394	\$ 2,100,996
Certificates of deposit.....	1,100,000	1,100,000
Accounts receivable --		
Trade, net of allowance of		
\$53,257 and \$58,575.....	340,961	411,139
Shareholder and		
affiliates.....	278,187	10,308
Other receivables.....	53,780	59,737
Inventories.....	632,614	737,495
Prepaid expenses and other		
current assets.....	194,038	251,941
	-----	-----
Total current		
assets.....	3,692,974	4,671,616
PROPERTY AND EQUIPMENT, net.....	988,147	1,277,677
OTHER NONCURRENT ASSETS.....	185,333	193,333
	-----	-----
Total assets.....	\$ 4,866,454	\$ 6,142,626
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term		
debt.....	\$ --	\$ 129,000
Short-term debt.....	620,312	251,562
Accounts payable and accrued		
expenses.....	672,082	890,945
	-----	-----
Total current		
liabilities.....	1,292,394	1,271,507
LONG-TERM DEBT, net of current		
maturities.....	--	366,451
DEFERRED INCOME TAXES.....	130,367	114,133
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		



Net income.....	--	--	--	1,046,842	1,046,842
BALANCE, December 31, 1995.....	14,000,000	140,000	1,085,760	3,164,775	4,390,535

</TABLE>

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

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SERVICE ENTERPRISES, INC., AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income (loss).....	\$ (347,399)	\$ 215,276	\$ 1,046,842	\$ 36,884	\$ (15,576)
Adjustments to reconcile net income (loss) to net cash provided by operating activities --					
Depreciation and amortization....	328,882	364,708	371,402	82,558	93,532
Deferred income taxes (benefit).....	(233,911)	55,319	7,309	--	--
Equity in losses of unconsolidated affiliate.....	130,022	61,751	--	--	--
Loss on sale of real estate.....	475,159	18,114	--	--	--
Gain on sale of property and equipment.....	(99,629)	(21,069)	(13,699)	--	--
Gain on sale of investment.....	--	(219,125)	--	--	--
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable.....	59,245	(51,248)	(76,135)	98,071	34,162
Inventories.....	3,113	158,356	(104,881)	(153,073)	(94,646)
Prepaid expenses and other current assets.....	50,525	72,648	(89,446)	(240,528)	499
Increase (decrease) in --					
Accounts payable and accrued expenses.....	85,821	11,014	218,863	469,611	13,498
Net cash provided by operating activities....	451,828	665,744	1,360,255	293,523	31,469
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Proceeds from sale of real estate.....	--	978,727	--	--	--
Proceeds from sale of property and equipment.....	115,906	38,628	24,793	--	--
Additions of property and equipment.....	(861,640)	(233,903)	(672,026)	--	--
(Purchase) sale of certificates of deposit.....	--	(1,100,000)	--	--	1,100,000
Proceeds from sale of investment... Purchase of marketable securities.....	--	450,961	--	--	--
Proceeds from note receivable.....	--	(110,188)	--	--	--
Proceeds from note receivable.....	--	100,000	--	--	--
Net cash provided by (used in) investing activities.....	(745,734)	124,225	(647,233)	--	1,100,000
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
(Advances) payments of receivable from shareholder and affiliates.....	(558,319)	1,636,469	267,879	(184,852)	(2,113,308)
Borrowings of long- and short-term debt.....	1,804,649	137,500	495,451	--	--
Principal payments of long- and short-term debt.....	(1,006,266)	(1,495,266)	(368,750)	(97,187)	(747,013)
Dividends.....	--	(300,000)	(100,000)	--	--
Capital contribution.....	--	223,750	--	--	--
Net cash provided by (used in) financing activities.....	240,064	202,453	294,580	(282,039)	(2,860,321)
<b>NET INCREASE (DECREASE) IN CASH AND</b>					

CASH EQUIVALENTS.....	(53,842)	992,422	1,007,602	11,484	(1,728,852)
CASH AND CASH EQUIVALENTS, beginning of period.....	154,814	100,972	1,093,394	1,093,394	2,100,996
	-----	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, end of period.....	\$ 100,972	\$ 1,093,394	\$ 2,100,996	\$ 1,104,878	\$ 372,144
	=====	=====	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest.....	\$ 98,522	\$ 78,294	\$ 61,230	\$ 14,401	\$ 23,399
Income taxes.....	\$ 135,000	\$ 220,951	\$ 540,000	\$ --	\$ 10,000

</TABLE>

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

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SERVICE ENTERPRISES, INC., AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Service Enterprises, Inc. (SEI) (a Texas corporation), and subsidiaries (the Company) are primarily engaged in the maintenance, repair and replacement service-related activities of plumbing, air conditioning, electrical repair and other home improvement services in Houston and the surrounding areas.

On March 19, 1996, all of the outstanding stock of SEI and certain real estate owned by the former shareholder of SEI was acquired by Enterprises Holding Company (EHC) for \$17,500,000. EHC was formed solely for the purpose of acquiring the Company and has no other operations. The accompanying unaudited financial statements of the Company for the quarter ended March 31, 1996, do not reflect the effect of the purchase of the Company by EHC.

In April 1996, the Company entered into a stock purchase agreement with ADCOT, Inc. (ADCOT), to purchase all of the outstanding common stock of ADCOT for \$2,000,000. (See ADCOT's financial statements included elsewhere herein.) EHC intends to enter into a definitive agreement with American Residential Services, Inc. (ARS), pursuant to which EHC will be acquired by ARS. All outstanding shares of EHC's common stock and a portion of EHC's preferred stock will be exchanged for cash and shares of ARS's common stock concurrent with the consummation of the initial public offering of the common stock of ARS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The consolidated financial statements include the accounts and results of operations of Service Enterprises, Inc., and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

INTERIM FINANCIAL INFORMATION

The interim consolidated financial statements for the three months ended March 31, 1995 and March 31, 1996, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the results of operations and cash flows with respect to the consolidated interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

INVENTORIES

Inventories consist of parts and supplies held for use in the ordinary course of business and are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the lease life or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.



SERVICE ENTERPRISES, INC., AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## REVENUE RECOGNITION

The Company recognizes revenues when services are performed.

## INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

## STOCK SPLIT

During 1994, the Company effected a seven-for-one stock split of Company Common Stock.

## 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 and 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.

## CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

## NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1995, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is necessary. Adoption of this standard did not have a material effect on the financial position or consolidated results of operations of the Company.

## 3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31	
		1994	1995
Leasehold improvements.....	5 - 10	\$ 140,983	\$ 140,333
Transportation equipment.....	5	1,357,588	1,930,724
Tools and equipment.....	3 - 7	182,797	181,893
Telephone equipment.....	5 - 7	230,582	181,886
Furniture and fixtures.....	3 - 7	509,423	453,034
		-----	-----
		2,421,373	2,887,870
Less -- Accumulated depreciation and amortization.....		1,433,226	1,610,193
		-----	-----
Property and equipment, net.....		\$ 988,147	\$ 1,277,677
		=====	=====

## 4. INVESTMENT IN AFFILIATED COMPANY:

During July 1994, the Company sold a portion of its investment in American Natural Gas Power, Inc. (ANGP), for \$225,000 and an unsecured noninterest-bearing note receivable for \$35,000 due on demand or, if no demand is made, due in June 1996. After the sale, the Company's interest in ANGP decreased from approximately 33 percent at December 31, 1993, to approximately 8 percent at December 31, 1994, and

accordingly is no longer accounted for under the equity method. Included in other income is a net realized gain on sale of \$228,353 for the year ended December 31, 1994.

## 5. NOTE RECEIVABLE:

In January 1994, the Company sold an investment in real estate to an individual. The consideration included a note receivable for \$300,000, collateralized by a second lien on the real estate, which bears interest at 4 percent, payable monthly, with principal due January 1999.

In the event that the aggregate of all principal payments made on or before the third anniversary of this note, January 25, 1997, equals \$200,000, this note shall be discounted such that the note is fully discharged by the prepayment of such \$200,000 within the initial three-year period. This note has been recorded at its prepayment value of \$200,000, discounted to a market rate of interest, and is included in other noncurrent assets on the accompanying consolidated balance sheet.

Management estimates that the fair value of its note receivable approximates its discounted historical carrying value of \$193,000 at December 31, 1995.

## 6. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consist of the following:

	DECEMBER 31		
	1993	1994	1995
Balance at beginning of year.....	22,000	\$ 38,080	\$ 53,257
Additions charged to costs and expenses.....	36,429	55,407	46,996
Deductions for uncollectible receivables written off.....	(24,118)	(54,212)	(53,495)
Bad debt recoveries.....	3,769	13,982	11,817
	\$ 38,080	\$ 53,257	\$ 58,575

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31	
	1994	1995
Accounts payable, trade.....	\$ 303,280	\$ 507,810
Accrued compensation and benefits....	120,501	143,708
Accrued income taxes.....	29,809	71,781
Accrued taxes other than income taxes.....	146,389	131,388
Other accrued expenses.....	72,103	36,258
	\$ 672,082	\$ 890,945

## 7. SHORT- AND LONG-TERM DEBT:

Short-term debt consists of the following:

	DECEMBER 31	
	1994	1995
\$850,000 demand line of credit with bank; collateralized by transportation equipment, accounts receivable and inventory, interest at prime plus 1% (9.5% at December 31, 1995), payable monthly, principal due June 1996.....	\$ 200,000	\$ 200,000
Demand note payable to bank; cross-collateralized with the line of credit, bearing interest at prime plus 1%, principal of \$25,000 plus interest, payable in monthly installments through January 1996.....	300,000	--

Demand note payable to bank; cross-collateralized with the line of credit, interest at prime plus 1%, payable monthly, principal due September 1996.....	120,312	51,562
	-----	-----
	\$ 620,312	\$ 251,562
	=====	=====

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SERVICE ENTERPRISES, INC., AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Long-term debt consists of the following:

	DECEMBER 31	
	1994	1995
	-----	-----
Note payable to bank; cross-collateralized with the line of credit, interest at prime plus 1%, interest only through June 1996, payable monthly, then principal of \$21,500, plus interest, payable in monthly installments through June 1998.....	\$ --	\$ 495,451
Less -- Current portion.....	--	129,000
	-----	-----
	\$ --	\$ 366,451
	=====	=====

The aggregate maturities of long-term debt are as follows:

Year ending December 31 --	
1996.....	\$ 129,000
1997.....	258,000
1998.....	108,451
	-----
	\$ 495,451
	=====

In connection with the bank indebtedness, the Company has entered into an agreement which provides for certain affirmative covenants and restrictions, including certain required financial ratios and restrictions on retained earnings. As of December 31, 1995, the Company was in compliance with these covenants.

The notes payable have been personally guaranteed by the Company's shareholder.

Management estimates that the fair value of its debt obligations approximates the historical value of \$747,013 at December 31, 1995.

8. LEASES:

The Company operates in leased facilities under an agreement with its shareholder and affiliates. The amount paid under these leases was \$291,600, \$291,600 and \$301,600 in 1993, 1994 and 1995, respectively. These leases were canceled concurrent with the purchase of the Company and the leased facilities by EHC.

During 1994, the Company renewed a parking lot lease agreement with an affiliated company, which expired September 30, 1995. The Company continued its lease on a month-to-month basis. Amounts paid under this lease in 1993, 1994 and 1995 totaled \$22,500, \$30,000 and \$25,000, respectively.

The Company has entered into two operating sublease agreements with a company at its facilities, and these agreements expire in June 1997 and November 1998, respectively. Rental income recognized during 1993, 1994 and 1995 was approximately \$13,650, \$11,400 and \$16,400, respectively.

Future minimum rental income under the sublease agreements is as follows:

Year ending December 31 --	
1996.....	\$ 41,400
1997.....	35,700
1998.....	25,000
	-----
	\$ 102,100
	=====

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SERVICE ENTERPRISES, INC., AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9. INCOME TAXES:

Federal and state income taxes are as follows:

	YEAR ENDED DECEMBER 31		
	1993	1994	1995
Federal --			
Current.....	\$ 18,602	\$ 466,159	\$ 553,973
Deferred.....	(205,440)	48,585	6,419
State --			
Current.....	203	67,764	68,371
Deferred.....	(28,471)	6,733	890
	\$ (215,106)	\$ 589,241	\$ 629,653

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 34 percent to income before income taxes as follows:

	YEAR ENDED DECEMBER 31		
	1993	1994	1995
Provision (benefit) at the statutory rate.....	\$ (191,252)	\$ 273,536	\$ 570,008
Increase (decrease) resulting from --			
State income tax, net of benefit for federal deduction.....	(18,657)	49,169	45,713
Nondeductible expenses.....	6,553	184,418	18,743
Related-party gain on sale.....	--	76,075	--
Other.....	(11,750)	6,043	(4,811)
	\$ (215,106)	\$ 589,241	\$ 629,653

Deferred income tax provision results from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities result principally from the following:

	DECEMBER 31	
	1994	1995
Depreciation and amortization.....	\$ 56,200	\$ 36,213
Net operating loss carryforward.....	(33,098)	(33,098)
Accruals and reserves not deductible until paid.....	(65,203)	(40,685)
Other.....	109,857	112,635
Net deferred income tax liabilities....	\$ 67,756	\$ 75,065

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31	
	1994	1995
Deferred tax assets --		
Current.....	\$ 62,611	\$ 39,068
Long-term.....	103,598	100,640
Total.....	166,209	139,708
Deferred tax liabilities, long-term.....	233,965	214,773
Net deferred income tax liabilities....	\$ 67,756	\$ 75,065

10. RELATED-PARTY TRANSACTIONS:

The Company has receivables from its shareholder and from certain affiliated entities related through common ownership and control in the amount of \$278,187 and \$10,308 at December 31, 1994 and 1995, respectively. Receivables from shareholder accrue interest at 5.5 percent. Interest income recognized during 1993, 1994 and 1995 was approximately \$147,800, \$54,000 and \$27,000, respectively.

The Company acquired an investment in real estate held for sale from its shareholder for \$1,750,000 in January 1993. In January 1994, the investment was sold for approximately \$1,275,000, net of closing costs. At December 31, 1993, the investment was written down to its net realizable value resulting in an unrealized loss of approximately \$475,000 included in other income (expense) on the consolidated statement of operations.

In 1991, the Company received 250,000 shares of registered Exploration Company of Louisiana (Exploration) common stock valued at \$125,000 from its shareholder in exchange for shares of stock in ANGP. During March 1994, the Company sold the 250,000 shares of common stock of Exploration to its shareholder for \$348,750 resulting in a gain of \$223,750 which has been accounted for as additional paid-in capital.

11. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe that the outcome of such legal action will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

GUARANTEES

The Company's former shareholder is required to make seven annual payments of \$75,000 each under a lawsuit settlement. The Company's former shareholder is also required under this settlement to make four annual payments of \$20,000 each, beginning in 2003. The Company has guaranteed these settlement payments.

12. EVENTS SUBSEQUENT TO DATE OF REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED):

In June 1996, the Company's shareholder entered into a definitive agreement with ARS, providing for the acquisition of the Company by ARS. Additionally, on May 28, 1996, the Company completed its acquisition of ADCOT.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Florida Heating and Air Conditioning, Inc.:

We have audited the accompanying combined balance sheets of Florida Heating and Air Conditioning, Inc. (a Florida corporation), and related companies as of December 31, 1994 and 1995, and the related combined statements of operations, shareholders' equity and cash flows for the years then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Florida Heating and Air Conditioning, Inc., and related companies as of December 31, 1994 and 1995, and the combined results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting

principles.

ARTHUR ANDERSEN LLP

Houston, Texas  
May 24, 1996

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FLORIDA HEATING AND AIR CONDITIONING, INC.,  
AND RELATED COMPANIES  
COMBINED BALANCE SHEETS

	DECEMBER 31		JUNE 30,
	1994	1995	1996
	-----	-----	-----
			(UNAUDITED)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 735,749	\$ 1,022,154	\$ 261,340
Accounts receivable --			
Trade, net of allowance of			
\$41,305, \$41,305 and			
\$41,305.....	1,418,022	1,394,895	1,283,541
Other receivables.....	376,211	444,680	311,402
Inventories.....	269,295	306,523	275,717
Prepaid expenses and other			
current assets.....	61,056	52,992	182,421
	-----	-----	-----
Total current			
assets.....	2,860,333	3,221,244	2,314,421
PROPERTY AND EQUIPMENT, net.....	458,964	495,110	566,009
OTHER NONCURRENT ASSETS.....	27,896	38,509	11,485
	-----	-----	-----
Total assets.....	\$ 3,347,193	\$ 3,754,863	\$ 2,891,915
	=====	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Current maturities of long-term			
debt.....	\$ 52,477	\$ 100,166	\$ 142,894
Accounts payable and accrued			
expenses.....	1,296,472	1,626,569	1,411,771
Payable to shareholder.....	640,447	641,804	--
Billings in excess of costs and			
estimated earnings on			
uncompleted contracts.....	508,209	367,519	218,784
Deferred income taxes.....	256,022	287,454	287,454
	-----	-----	-----
Total current			
liabilities.....	2,753,627	3,023,512	2,060,903
LONG-TERM DEBT, net of current			
maturities.....	45,689	18,017	42,097
DEFERRED INCOME TAXES.....	68,015	42,339	42,339
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock.....	9,800	9,800	9,800
Additional paid-in capital.....	4,000	4,000	4,000
Retained earnings.....	466,062	657,195	732,776
	-----	-----	-----
Total shareholders'			
equity.....	479,862	670,995	746,576
	-----	-----	-----
Total liabilities and			
shareholders'			
equity.....	\$ 3,347,193	\$ 3,754,863	\$ 2,891,915
	=====	=====	=====

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

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FLORIDA HEATING AND AIR CONDITIONING, INC.,  
AND RELATED COMPANIES  
COMBINED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

YEAR ENDED	SIX MONTHS ENDED
DECEMBER 31	JUNE 30
-----	-----

	1994	1995	1995	1996
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
REVENUES.....	\$ 15,845,183	\$ 14,510,455	\$ 7,630,963	\$ 7,244,160
COST OF SERVICES.....	12,079,290	10,541,122	5,696,572	5,339,002
Gross profit.....	3,765,893	3,969,333	1,934,391	1,905,158
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	3,321,394	3,738,253	1,883,296	1,815,927
Income from operations.....	444,499	231,080	51,095	89,231
OTHER INCOME (EXPENSE):				
Interest expense.....	(23,338)	(11,743)	(8,863)	(13,331)
Other.....	12,833	(8,238)	258	11,446
INCOME BEFORE INCOME TAXES.....	433,994	211,099	42,490	87,346
PROVISION FOR INCOME TAXES.....	3,832	13,966	6,139	5,765
NET INCOME.....	\$ 430,162	\$ 197,133	\$ 36,351	\$ 81,581

</TABLE>

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

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FLORIDA HEATING AND AIR CONDITIONING, INC.,  
AND RELATED COMPANIES  
COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	COMMON STOCK		ADDITIONAL	RETAINED	TOTAL
	SHARES	AMOUNT	PAID-IN CAPITAL	EARNINGS	SHAREHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, December 31, 1993.....	2,600	\$9,800	\$4,000	\$ 90,960	\$104,760
Dividend.....	--	--	--	(55,060)	(55,060)
Net income.....	--	--	--	430,162	430,162
BALANCE, December 31, 1994.....	2,600	9,800	4,000	466,062	479,862
Dividend.....	--	--	--	(6,000)	(6,000)
Net income.....	--	--	--	197,133	197,133
BALANCE, December 31, 1995.....	2,600	9,800	4,000	657,195	670,995
Dividend (unaudited).....	--	--	--	(6,000)	(6,000)
Net income (unaudited).....	--	--	--	81,581	81,581
BALANCE, June 30, 1996 (unaudited)...	2,600	\$9,800	\$4,000	\$ 732,776	\$746,576

</TABLE>

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

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FLORIDA HEATING AND AIR CONDITIONING, INC.,  
AND RELATED COMPANIES  
COMBINED STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31		SIX MONTHS ENDED JUNE 30,	
	1994	1995	1995	1996
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income.....	\$ 430,162	\$ 197,133	\$ 36,351	\$ 81,581
Adjustments to reconcile net income to net cash provided by (used in) operating activities --				
Depreciation and amortization...	183,860	195,662	93,908	79,772
Deferred income taxes.....	1,274	5,756	(383)	--

Gain on sale of property and equipment.....	25,241	(12,303)	(12,303)	--
Changes in operating assets and liabilities --				
(Increase) decrease in --				
Accounts receivable.....	(331,298)	(45,342)	146,003	274,021
Inventories.....	(33,374)	(37,228)	(138,143)	30,806
Prepaid expenses and other current assets.....	112,642	8,064	(24,859)	(129,429)
Other noncurrent assets.....	(4,915)	(10,613)	(1,661)	27,024
Increase (decrease) in --				
Accounts payable and accrued expenses.....	(15,654)	330,097	(28,484)	(214,798)
Billings in excess of costs and estimated earnings on uncompleted contracts.....	269,917	(140,690)	76,837	(148,735)
Net cash provided by operating activities.....	637,855	490,536	147,266	242
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of property and equipment.....	38,190	16,704	16,704	--
Additions of property and equipment.....	(199,281)	(236,209)	(211,907)	(150,671)
Net cash used in investing activities.....	(161,091)	(219,505)	(195,203)	(150,671)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in payable to shareholders.....	--	1,357	(539,643)	(671,193)
Borrowings of long-term debt.....	276,291	185,511	185,511	161,352
Principal payments of long-term debt.....	(346,573)	(165,494)	(97,355)	(94,544)
Dividends.....	(55,060)	(6,000)	(6,000)	(6,000)
Net cash provided by (used in) financing activities.....	(125,342)	15,374	(457,487)	(610,385)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	351,422	286,405	(505,424)	(760,814)
CASH AND CASH EQUIVALENTS, beginning of period.....	384,327	735,749	735,749	1,022,154
CASH AND CASH EQUIVALENTS, end of period.....	\$ 735,749	\$ 1,022,154	\$ 230,325	\$ 261,340
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest.....	\$ 25,931	\$ 11,743	\$ 6,185	\$ 13,331

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

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FLORIDA HEATING AND AIR CONDITIONING, INC.,  
AND RELATED COMPANIES  
NOTES TO COMBINED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Florida Heating and Air Conditioning, Inc. (a Florida corporation) and its three affiliated companies (collectively, the Company), are primarily engaged in the installation and maintenance, repair and replacement of air conditioning and heating systems in new and preexisting residential and commercial buildings in Southeast Florida.

The Company and its shareholders intend to enter into a definitive agreement with American Residential Services, Inc. (ARS), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of ARS's common stock concurrent with the consummation of the initial public offering (the Offering) of the common stock of ARS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The combined financial statements include the accounts and results of operations of Florida Heating and Air Conditioning, Inc., and its affiliated companies (see Note 11) which are under common control and management of two



individuals. All significant intercompany transactions and balances have been eliminated in combination.

#### INTERIM FINANCIAL INFORMATION

The interim combined financial statements as of June 30, 1996, and for the six months ended June 30, 1995 and 1996, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim combined financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

#### INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

#### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

#### REVENUE RECOGNITION

The Company recognizes revenue when the services are performed except when work is being performed under a construction contract. Revenues on residential and commercial service and maintenance contracts are recorded and collected monthly.

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#### FLORIDA HEATING AND AIR CONDITIONING, INC., AND RELATED COMPANIES NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

#### WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating units. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating units. A reserve for warranty costs is recorded upon completion of installation or service.

#### INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

Certain of the companies in the affiliated group have elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, the shareholders report their share of the Company's taxable earnings or losses in their personal tax returns.

#### 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 and 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.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value was necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

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FLORIDA HEATING AND AIR CONDITIONING, INC., AND RELATED COMPANIES  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31	
		1994	1995
Transportation equipment.....	5	\$ 869,115	\$ 1,051,880
Machinery and equipment.....	7	115,186	115,774
Computer and telephone equipment....	5 - 7	343,166	354,674
Leasehold improvements.....	7	57,151	57,151
Furniture and fixtures.....	7	39,308	39,308
		-----	-----
		1,423,926	1,618,787
Less -- Accumulated depreciation and amortization.....		964,962	1,123,677
		-----	-----
Property and equipment, net.....		\$ 458,964	\$ 495,110
		=====	=====

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consist of the following:

	DECEMBER 31	
	1994	1995
Balance at beginning of year.....	\$ 41,305	\$ 41,305
Additions to costs and expenses.....	53,132	25,038
Deductions for uncollectible receivables written off.....	(53,132)	(25,038)
	-----	-----
	\$ 41,305	\$ 41,305
	=====	=====

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31	
	1994	1995
Accounts payable, trade.....	\$ 1,002,209	\$ 1,283,034
Accrued compensation and benefits....	150,638	198,175
Other accrued expenses.....	143,625	145,360
	-----	-----
	\$ 1,296,472	\$ 1,626,569
	=====	=====

Installation contracts in progress are as follows:

DECEMBER 31

	1994	1995
Costs incurred on contracts in progress.....	\$ 1,680,864	\$ 985,003
Estimated earnings, net of losses....	575,928	351,711
	2,256,792	1,336,714
Less -- Billings to date.....	2,765,002	1,704,233
Billings in excess of costs and estimated earnings on uncompleted contracts.....	\$ (508,210)	\$ (367,519)

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FLORIDA HEATING AND AIR CONDITIONING, INC., AND RELATED COMPANIES  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT:

Long-term debt consists of installment notes payable for transportation equipment. The debt is secured by the related transportation equipment. The terms of the notes range from 24 months to 36 months with monthly payments of principal and interest of approximately \$10,500. The notes bear interest at rates ranging from 7 percent to 9 percent.

The aggregate maturities of long-term debt as of December 31, 1995, are as follows:

Year ending December 31 --	
1996.....	\$ 100,166
1997.....	18,017
	-----
	\$ 118,183
	=====

Management estimates that the fair value of its debt obligations approximates the historical value of \$118,183 at December 31, 1995.

The Company has a \$200,000 line of credit with a financial services company. The line of credit expires August 31, 1996, and bears interest at prime plus 1 percent per annum. The line of credit is secured by a lien on accounts receivable and inventory and is guaranteed by the shareholders. There was no balance outstanding under this line of credit at December 31, 1995.

6. LEASES:

The Company leases facilities from a company which is owned by the shareholders. The lease expires in 2000 and provides for rents increasing at 5 percent per year. Total amounts paid under this related-party lease were approximately \$198,000 and \$198,000 for the years ended December 31, 1994 and 1995, respectively. The Company also leases a facility from a third party, which expires in 1997. The rent paid under this lease was approximately \$15,000 per year for the year ended December 31, 1994 and 1995. The leases provide for the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased property. The leases contain renewal provisions.

The Company leases vehicles for a shareholder and affiliates. The lease payments under these vehicle leases were approximately \$31,000 and \$45,000 for the years ended December 31, 1994 and 1995, respectively.

Future minimum lease payments for operating leases are as follows:

Year ending December 31 --	
1996.....	\$ 234,897
1997.....	204,438
1998.....	184,252
1999.....	193,465
2000.....	82,242
	-----
	\$ 899,294
	=====

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FLORIDA HEATING AND AIR CONDITIONING, INC., AND RELATED COMPANIES  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

7. INCOME TAXES:

The S Corporation in the affiliated group will terminate its S Corporation status concurrent with the effective date of the Offering. The Company is subject to taxation in certain states based upon the jurisdiction in which

revenues are earned.

Federal and state income taxes are as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Federal --		
Current.....	\$ 2,098	\$ 6,733
Deferred.....	1,088	4,915
State --		
Current.....	460	1,477
Deferred.....	186	841
	-----	-----
	\$ 3,832	\$ 13,966
	=====	=====

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 34 percent to income before income taxes as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Provision at the statutory rate.....	\$ 147,558	\$ 71,774
Increase (decrease) resulting from --		
Income of S Corporation.....	(143,878)	(59,557)
State income tax, net of benefit for federal deduction.....	370	1,398
Other.....	(218)	351
	-----	-----
	\$ 3,832	\$ 13,966
	=====	=====

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities result principally from the following:

	DECEMBER 31	
	1994	1995
Loss from limited partnership investment.....	\$ 192,585	\$ 230,844
Cash to accrual adjustment.....	189,614	136,674
Other.....	(58,162)	(37,725)
	-----	-----
Net deferred income tax liabilities.....	\$ 324,037	\$ 329,793
	=====	=====

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FLORIDA HEATING AND AIR CONDITIONING, INC., AND RELATED COMPANIES  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31	
	1994	1995
Deferred tax assets --		
Current.....	\$ 16,275	\$ 11,972
Long-term.....	27,975	25,998
	-----	-----
Total.....	44,250	37,970
Deferred tax liabilities --		
Current.....	272,297	299,426
Long-term.....	95,990	68,337
	-----	-----
Total.....	368,287	367,763
	-----	-----
Net deferred income tax liabilities.....	\$ 324,037	\$ 329,793
	=====	=====

8. RELATED-PARTY TRANSACTIONS:

One of the shareholders loans the Company funds as needed. The loans are payable on demand and, under certain conditions, bear interest at prime plus 1 percent. The amount payable to the shareholder is \$640,447 and \$641,804 at December 31, 1994 and 1995, respectively. No interest was incurred or paid during the years ended December 31, 1994 and 1995, related to these loans.

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal action will have a material adverse effect on the Company's financial position or combined results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

10. SALES TO SIGNIFICANT CUSTOMER:

During 1994 two customers accounted for approximately 22% of the Company's sales. During 1995, one customer accounted for approximately 14 percent of the Company's sales.

11. SHAREHOLDERS' EQUITY:

The common stock ownership of the corporate entities is as follows:

	AS OF DECEMBER 31, 1995 AND 1994		
	SHARES AUTHORIZED	SHARES OUTSTANDING	PAR VALUE
Florida Heating and Air Conditioning, Inc. ....	1,000	800	\$10.00
Florida Heating and Air Conditioning Service, Inc. ....	600	600	1.00
Florida Heating and Air Duct, Inc....	10,000	600	1.00
Bullseye Air Conditioning, Inc. ....	600	600	1.00

12. EVENTS SUBSEQUENT TO DATE OF AUDITORS' REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED):

In June 1996, the Company and its shareholders entered into a definitive agreement with ARS, providing for the acquisition of the Company by ARS.

Concurrent with the acquisition, the Company will enter into agreements with the shareholders to lease land and buildings used in the Company's operations for a negotiated amount and term.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To DIAL ONE Meridian and Hoosier, Inc.:

We have audited the accompanying balance sheets of DIAL ONE Meridian and Hoosier, Inc. (an Indiana corporation), as of December 31, 1994 and 1995, and the related statements of operations, shareholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 financial position of DIAL ONE Meridian and Hoosier, Inc., as of December 31, 1994 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Houston, Texas  
May 24, 1996

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
BALANCE SHEETS

	DECEMBER 31		JUNE 30,
	1994	1995	1996
			(UNAUDITED)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 427,005	\$ 856,754	\$ 986,399
Investments.....	150,000	--	--
Accounts receivable --			
Trade, net of allowance of			
\$41,595, \$54,050 and			
\$66,183.....	869,316	989,963	2,134,683
Shareholder and affiliates.....	6,316	14,261	19,023
Other receivables.....	19,098	26,459	26,029
Inventories.....	345,934	249,773	448,158
Prepaid expenses and other current			
assets.....	72,239	96,545	58,692
Costs and estimated earnings in			
excess of billings on			
uncompleted contracts.....	42,717	16,825	14,239
	-----	-----	-----
Total current assets.....	1,932,625	2,250,580	3,687,223
PROPERTY AND EQUIPMENT, net.....	829,316	919,238	1,589,431
OTHER NONCURRENT ASSETS.....	28,567	18,819	115,215
	-----	-----	-----
Total assets.....	\$ 2,790,508	\$ 3,188,637	\$ 5,391,869
	=====	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term			
debt.....	\$ 262,046	\$ 266,830	\$ 430,631
Accounts payable and accrued			
expenses.....	488,197	638,224	1,146,247
Unearned revenue on service			
contracts.....	353,045	423,259	439,750
Billings in excess of costs and			
estimated earnings on			
uncompleted contracts.....	78,049	32,131	565,508
	-----	-----	-----
Total current			
liabilities.....	1,181,337	1,360,444	2,582,136
LONG-TERM DEBT, net of current			
maturities.....	610,180	544,483	1,222,838
DEFERRED INCOME TAXES.....	--	13,309	31,826
OTHER NONCURRENT LIABILITIES.....	--	--	--
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDER'S EQUITY:			
Common stock, no par value; 1,000			
shares authorized,			
598 shares issued and 588			
outstanding.....	7,201	7,201	7,201
Additional paid-in capital.....	35,000	35,000	35,000
Retained earnings.....	956,890	1,228,300	1,512,968
Treasury stock, 10 shares at			
cost.....	(100)	(100)	(100)
	-----	-----	-----
Total shareholder's			
equity.....	998,991	1,270,401	1,555,069
	-----	-----	-----
Total liabilities and			
shareholder's equity....	\$ 2,790,508	\$ 3,188,637	\$ 5,391,869
	=====	=====	=====

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

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
STATEMENTS OF OPERATIONS<TABLE>  
<CAPTION>

YEAR ENDED

SIX MONTHS

	DECEMBER 31		ENDED JUNE 30	
	1994	1995	1995	1996
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
REVENUES.....	\$ 8,066,155	\$ 10,132,706	\$ 4,419,534	\$ 6,992,286
COST OF SERVICES.....	5,797,066	7,280,888	3,172,601	4,750,533
Gross profit.....	2,269,089	2,851,818	1,246,933	2,241,753
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,988,791	2,349,482	1,056,317	1,724,128
Income from operations.....	280,298	502,336	190,616	517,625
OTHER INCOME (EXPENSE):				
Interest income.....	8,517	23,399	4,699	16,894
Interest expense.....	(56,585)	(86,097)	(43,373)	(71,651)
Other.....	36,817	10,259	13,246	12,000
INCOME BEFORE INCOME TAXES.....	269,047	449,897	165,188	474,868
PROVISION FOR INCOME TAXES.....	110,365	178,487	65,090	190,200
NET INCOME.....	\$ 158,682	\$ 271,410	\$ 100,098	\$ 284,668

</TABLE>

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

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
STATEMENTS OF SHAREHOLDER'S EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL SHAREHOLDER'S EQUITY
	SHARES	AMOUNT				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, December 31, 1993.....	588	\$7,201	\$ 35,000	\$ 798,208	\$ (100)	\$ 840,309
Net income.....	--	--	--	158,682	--	158,682
BALANCE, December 31, 1994.....	588	7,201	35,000	956,890	(100)	998,991
Net income.....	--	--	--	271,410	--	271,410
BALANCE, December 31, 1995.....	588	7,201	35,000	1,228,300	(100)	1,270,401
Net income (unaudited).....	--	--	--	284,668	--	284,668
BALANCE, June 30, 1996 (unaudited)...	588	\$7,201	\$ 35,000	\$1,512,968	\$ (100)	\$1,555,069

</TABLE>

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

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		SIX MONTHS ENDED JUNE 30	
	1994	1995	1995	1996
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income.....	\$ 158,682	\$ 271,410	\$ 100,098	\$ 284,668
Adjustments to reconcile net income to net cash provided by operating activities --				
Depreciation and amortization...	205,310	245,028	124,264	153,189
Deferred income taxes.....	108,303	45,302	6,654	--
Changes in operating assets and liabilities --				
(Increase) decrease in --				
Accounts receivables.....	(183,259)	(128,008)	(328,519)	(993,806)
Inventories.....	(129,922)	96,161	35,406	(91,097)
Prepaid expenses and other current assets.....	(14,768)	(29,873)	(16,636)	40,562
Costs and estimated earnings in excess of				

billings on uncompleted contracts.....	29,530	25,892	31,743	22,260
Other noncurrent assets....	2,606	(16,678)	(2,832)	(44,912)
Increase (decrease) in --				
Accounts payable and accrued expenses.....	86,294	150,027	164,902	369,448
Unearned revenue on service contracts.....	60,469	70,214	11,777	7,884
Billings in excess of costs and estimated earnings on uncompleted contracts.....	27,852	(45,918)	101,085	471,109
Other noncurrent liabilities.....	--	--	--	--
Net cash provided by operating activities.....	351,097	683,557	227,942	219,305
CASH FLOWS FROM INVESTING ACTIVITIES:				
Additions of property and equipment.....	(318,444)	(334,950)	(114,386)	(642,885)
Purchase of investment.....	(150,000)	--	--	--
Proceeds from sale of investment.....	--	150,000	150,000	--
Cash paid for acquisition, net of cash acquired.....	--	--	--	(259,533)
Net cash used in investing activities.....	(468,444)	(184,950)	35,614	(902,418)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of long-term debt....	451,815	200,639	51,813	1,027,570
Principal payments of long-term debt.....	(183,134)	(261,552)	(130,822)	(210,050)
(Advances) payments of receivable from shareholder and affiliates.....	17,940	(7,945)	(32,225)	(4,762)
Net cash provided by (used in) financing activities.....	286,621	(68,858)	(111,234)	812,758
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	169,274	429,749	152,322	129,645
CASH AND CASH EQUIVALENTS, beginning of period.....	257,731	427,005	427,005	856,754
CASH AND CASH EQUIVALENTS, end of period.....	\$ 427,005	\$ 856,754	\$ 579,327	\$ 986,399
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest.....	\$ 56,585	\$ 86,097	\$ 22,484	\$ 71,651
Income taxes.....	\$ 20,000	\$ 126,137	\$ 2,490	\$ 57,232

</TABLE>

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

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

DIAL ONE Meridian and Hoosier, Inc., (an Indiana corporation) (the Company), is primarily engaged in the installation and maintenance, repair and replacement of residential and commercial air conditioning and heating systems in Indianapolis and the surrounding areas.

The Company and its shareholder intend to enter into a definitive agreement with American Residential Services, Inc. (ARS), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of ARS's common stock concurrent with the consummation of the initial public offering (the Offering) of the common stock of ARS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1996, and for the six months ended June 30, 1995 and 1996, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring



adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

#### INVENTORIES

Inventories consist of parts and supplies for use in the ordinary course of business and are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

#### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

Included in property and equipment are certain assets subject to capital leases. These assets are amortized using the straight-line method over the lesser of the life of the leases or the estimated useful life of the asset.

#### REVENUE RECOGNITION

The Company recognizes revenue when the services are performed except when work is being performed under a construction contract. Revenues on residential and commercial service and maintenance contracts are recorded and collected monthly.

Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

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#### DIAL ONE MERIDIAN AND HOOSIER, INC. NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

#### WARRANTY COSTS

The Company warrants labor for one or five years after installation on new air conditioning and heating units. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating units. A reserve for warranty costs is recorded upon completion of installation or service.

#### INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are received or settled.

#### 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 and 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.

#### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

#### NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets, may be impaired, an

evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value was necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31	
		1994	1995
Land and building.....	30	\$ 145,920	\$ 183,320
Leasehold improvements.....	10	191,823	212,461
Transportation equipment.....	3 - 4	827,628	950,262
Machinery and equipment.....	7	162,243	165,367
Furniture and fixtures.....	5	280,527	369,956
Telephone equipment.....	7 - 10	47,291	109,016
		1,655,432	1,990,382
Less -- Accumulated depreciation and amortization.....		826,116	1,071,144
Property and equipment, net.....		\$ 829,316	\$ 919,238

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consist of the following:

	DECEMBER 31	
	1994	1995
Balance at beginning of year.....	\$ 13,609	\$ 41,595
Additions charged to costs and expenses.....	43,451	32,071
Deductions for uncollectible receivables written off.....	(15,465)	(19,616)
	\$ 41,595	\$ 54,050

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31	
	1994	1995
Accounts payable, trade.....	\$ 128,155	\$ 185,409
Accrued compensation and benefits....	228,886	254,393
Warranty accrual.....	60,754	79,102
Other accrued expenses.....	70,402	119,320
	\$ 488,197	\$ 638,224

Installation contracts in progress are as follows:

	DECEMBER 31	
	1994	1995
Costs incurred on contracts in progress.....	\$ 195,350	\$ 243,727
Estimated earnings, net of losses....	93,439	96,263
	288,789	339,990
Less -- Billings to date.....	324,121	355,296
	\$ (35,332)	\$ (15,306)

The following are included in the accompanying balance sheets under the following captions:

	DECEMBER 31	
	1994	1995
Costs and estimated earnings in excess of billings on uncompleted contracts.....	\$ 42,717	\$ 16,825
Billings in excess of costs and estimated earnings on uncompleted contracts.....	(78,049)	(32,131)
	\$ (35,332)	\$ (15,306)

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT AND CAPITAL LEASES:

Long-term debt and capital leases consists of the following:

	DECEMBER 31	
	1994	1995
Note payable, due in monthly installments of \$4,167 plus interest at prime plus 1.25% (9.75% at December 31, 1995) and secured by accounts receivable, inventory and equipment, matures November 30, 1999.....	\$ 245,837	\$ 195,833
Land contract, maturing in November 2003, due in monthly installments of \$1,456 including interest at 8%, collateralized with the related property deed held in escrow.....	111,123	102,238
Note payable, due in monthly installments of \$2,500 plus interest at prime plus 1.25% and secured by accounts receivable, inventory and equipment, matures July 31, 1998.....	107,500	77,500
Capital leases, maturing from 1996 to 2000, interest ranging from 8.94% to 10%, secured by transportation equipment.....	403,057	420,536
Other.....	4,709	15,206
	872,226	811,313
Less -- Current maturities.....	262,046	266,830
	\$ 610,180	\$ 544,483

The Company has a \$250,000 bank line of credit expiring July 31, 1996, with interest payable monthly at prime plus .75 percent. As of December 31, 1995, there were no borrowings on this agreement. In addition, the Company has a \$100,000 bank lease line of credit expiring January 2, 2000, with interest at 8.94 percent payable monthly. As of December 31, 1995, borrowings on the lease line were \$23,214 and are included in capital leases.

The notes payable contain covenants which require the Company to maintain specified financial covenants. As of December 31, 1995, the Company was in compliance with these covenants.

The aggregate maturities of long-term debt as of December 31, 1995, are as follows:

Year ending December 31 --	
1996.....	\$ 93,071
1997.....	94,220
1998.....	83,015
1999.....	61,867
2000.....	13,263
Thereafter.....	45,341

-----  
 \$ 390,777  
 =====

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
 NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

The future minimum lease payments under capital leases are as follows:

Year ending December 31 --	
1996.....	\$ 219,291
1997.....	159,026
1998.....	95,352
1999.....	23,855
2000.....	--
	-----
Total minimum lease payments.....	497,524
Less -- Amounts representing interest.....	(76,988)
	-----
Net minimum lease payments.....	420,536
Less -- Current portion of obligations under capital leases...	173,759
	-----
Long-term portion of obligations under capital leases.....	\$ 246,777
	=====

Management estimates that the fair value of its debt obligations approximates the historical value of \$811,313 at December 31, 1995.

6. LEASES:

The Company leases a facility from its shareholder. The lease was renewed on January 1, 1995, and expires on December 31, 1999. The lease requires monthly payments of \$7,500. The amount paid under this lease in 1994 and 1995 was approximately \$76,000 and \$90,000, respectively.

7. INCOME TAX:

Federal and state income taxes are as follows:

	YEAR ENDED	
	DECEMBER 31	
	1994	1995
	-----	-----
Federal --		
Current.....	\$ --	\$ 97,907
Deferred.....	85,943	39,549
State --		
Current.....	2,062	35,278
Deferred.....	22,360	5,753
	-----	-----
	\$ 110,365	\$ 178,487
	=====	=====

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 34 percent to income before income tax as follows:

Tax provision at the statutory rate.....	\$ 91,476	\$ 152,965
Increase (decrease) resulting from --		
State income taxes, net of related tax effect.....	16,118	27,080
Noneductible expenses.....	3,080	321
Other.....	(309)	(1,879)
	-----	-----
	\$ 110,365	\$ 178,487
	=====	=====

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
 NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax

purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities result principally from the following:

	DECEMBER 31	
	1994	1995
Depreciation and amortization.....	\$ 4,675	\$ 13,859
Accruals and reserves not deductible until paid.....	(50,724)	(43,433)
Other.....	(27,652)	1,175
Total deferred income tax assets.....	\$ (73,701)	\$ (28,399)

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31	
	1994	1995
Deferred tax assets --		
Current.....	\$ (47,275)	\$ (41,708)
Long-term.....	(26,426)	--
Total.....	(73,701)	(41,708)
Deferred tax liabilities, long-term.....	--	13,309
Net deferred income tax assets.....	\$ (73,701)	\$ (28,399)

8. FRANCHISE AGREEMENTS:

In October 1993, the Company renewed a four-year franchise agreement with DIAL ONE of Central Indiana, Inc. (DIAL ONE), a company wholly owned by the shareholder of the Company. The Company pays \$15,000 annually plus a royalty fee of 3 percent of gross sales in excess of a predefined base. Total amounts incurred in 1994 and 1995 under this agreement were approximately \$92,000 and \$56,000, respectively.

The Company pays the LINC Corporation for consulting services under a franchise agreement through its commercial division. Fees are based on a royalty fee on gross revenues with a minimum payment of \$15,000 a year. In 1994 and 1995, the Company incurred approximately \$58,000 and \$61,000, respectively, under the terms of the agreement.

9. EMPLOYEE BENEFIT PLANS:

The Company has adopted a retirement plan which qualifies under Section 401(k) of the Internal Revenue Code. The plan provides for 50 percent matching contributions by the Company for the first \$200 of each participant's contribution. The Company has the right to make additional discretionary contributions. Total contributions by the Company under this plan were approximately \$64,000 and \$86,000 for 1994 and 1995, respectively.

10. RELATED-PARTY TRANSACTIONS:

The Company is a DIAL ONE franchisee (see Note 8) under an agreement with DIAL ONE. The Company also shares certain costs with DIAL ONE for personnel and overhead, which are billed monthly to DIAL ONE, based on that company's pro rata share of those expenses. In 1995, the Company received \$24,000 in rental income from DIAL ONE for space occupied in the building that the Company owns. At December 31, 1994 and 1995, the Company had a balance due from DIAL ONE of approximately \$6,000 and \$14,000, respectively.

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DIAL ONE MERIDIAN AND HOOSIER, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

11. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe that the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

12. SUBSEQUENT EVENT:

Effective January 1, 1996, the Company acquired 100 percent of the outstanding shares of stock in Sagamore Heating & Cooling, Inc. (Sagamore) for \$281,000. Consideration paid by the Company included \$100,000 in cash and a \$181,000 note payable to the former owner. The Company consolidated Sagamore effective as of the date of acquisition.

13. EVENTS SUBSEQUENT TO DATE OF REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED):

In June 1996, the Company and its shareholder entered into a definitive agreement with ARS, providing for the acquisition of the Company by ARS.

Concurrent with the acquisition, the Company will enter into agreements with the shareholder to lease land and buildings used in the Company's operations for a negotiated amount and term.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To ADCOT, Inc.:

We have audited the accompanying balance sheets of ADCOT, Inc. (a Texas corporation), as of December 31, 1994 and 1995, and the related statements of operations, shareholder's deficit and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 financial position of ADCOT, Inc., as of December 31, 1994 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas  
 May 24, 1996 (except with respect to  
 the matter discussed in Note 4, as to  
 which the date is June 5, 1996)

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ADCOT, INC.  
 BALANCE SHEETS

	DECEMBER 31	
	1994	1995
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 122,966	\$ 256,104
Accounts receivable --		
Trade.....	3,132	--
Shareholder and affiliates.....	10,476	11,968
Other receivables.....	--	--
Inventories.....	416,332	411,892
Prepaid expenses and other current assets.....	--	23,607
	-----	-----
Total current assets.....	552,906	703,571
PROPERTY AND EQUIPMENT, net.....	294,820	299,757
OTHER NONCURRENT ASSETS.....	--	999

NET ASSETS OF DISCONTINUED OPERATIONS.....	34,065	123,494
	-----	-----
Total assets.....	\$ 881,791	\$ 1,127,821
	=====	=====
LIABILITIES AND SHAREHOLDER'S DEFICIT		
CURRENT LIABILITIES:		
Current maturities of long-term debt.....	\$ 15,692	\$ 77,263
Accounts payable and accrued expenses.....	770,780	754,768
Payable to shareholders and affiliates.....	266,297	241,008
Unearned revenue on extended warranty contracts, current...	375,668	351,514
	-----	-----
Total current liabilities.....	1,428,437	1,424,553
LONG-TERM DEBT, net of current maturities.....	--	96,277
UNEARNED REVENUE ON EXTENDED WARRANTY CONTRACTS, noncurrent.....	637,614	579,307
OTHER LONG-TERM LIABILITIES.....	39,014	--
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S DEFICIT:		
Common stock, \$1 par value; 100,000 shares authorized, 10,000 issued and outstanding.....	10,000	10,000
Deficit.....	(1,233,274)	(982,316)
	-----	-----
Total shareholder's deficit.....	(1,223,274)	(972,316)
	-----	-----
Total liabilities and shareholder's deficit.....	\$ 881,791	\$ 1,127,821
	=====	=====

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

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ADCOT, INC.  
STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31			SIX MONTHS	FIVE MONTHS
	1993	1994	1995	ENDED JUNE 30, 1995	ENDED MAY 31, 1996
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES.....	\$ 10,899,840	\$ 8,675,616	\$ 8,707,403	\$ 3,982,983	\$ 3,445,084
COST OF SERVICES.....	6,921,371	5,574,296	5,709,114	2,721,218	2,147,264
	-----	-----	-----	-----	-----
Gross profit.....	3,978,469	3,101,320	2,998,289	1,261,765	1,297,820
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,830,130	2,443,678	2,347,954	1,107,956	835,868
	-----	-----	-----	-----	-----
Income from operations.....	1,148,339	657,642	650,335	153,809	461,952
OTHER INCOME (EXPENSE):					
Interest expense.....	(81,798)	(36,224)	(83,754)	(30,942)	(15,370)
Other.....	3,503	24,430	65,530	27,421	11,163
	-----	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE STATE INCOME TAXES.....	1,070,044	645,848	632,111	150,288	457,745
PROVISION FOR STATE INCOME TAXES.....	--	--	43,165	6,824	20,598
	-----	-----	-----	-----	-----
NET INCOME FROM CONTINUING OPERATIONS.....	1,070,044	645,848	588,946	143,464	437,147
LOSS FROM DISCONTINUED OPERATIONS, net of applicable state income taxes.....	(1,452,024)	(141,923)	(114,900)	(91,999)	(245,187)
	-----	-----	-----	-----	-----
NET INCOME (LOSS).....	\$ (381,980)	\$ 503,925	\$ 474,046	\$ 51,465	\$ 191,960
	=====	=====	=====	=====	=====

</TABLE>

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

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ADCOT, INC.  
STATEMENTS OF SHAREHOLDER'S DEFICIT

<TABLE>  
<CAPTION>

	COMMON STOCK			TOTAL
	SHARES	AMOUNT	DEFICIT	SHAREHOLDER'S DEFICIT
<S>	<C>	<C>	<C>	<C>
BALANCE, December 31, 1992.....	10,000	\$10,000	\$ (1,355,219)	\$ (1,345,219)
Net loss.....	--	--	(381,980)	(381,980)
BALANCE, December 31, 1993.....	10,000	10,000	(1,737,199)	(1,727,199)
Net income.....	--	--	503,925	503,925
BALANCE, December 31, 1994.....	10,000	10,000	(1,233,274)	(1,223,274)
Dividends.....	--	--	(223,088)	(223,088)
Net income.....	--	--	474,046	474,046
BALANCE, December 31, 1995.....	10,000	10,000	(982,316)	(972,316)

</TABLE>

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

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ADCOT, INC.  
STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31			SIX MONTHS	FIVE MONTHS
	1993	1994	1995	ENDED JUNE 30, 1995	ENDED MAY 31, 1996
<S>	<C>	<C>	<C>	<C>	<C>
(UNAUDITED)					
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss).....	\$ (381,980)	\$ 503,925	\$ 474,046	\$ 51,465	\$ 191,960
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization....	307,552	271,420	261,704	123,587	184,644
Gain on sale of property and equipment.....	--	(18,251)	(19,519)	(19,518)	--
Write-off of property and equipment.....	--	--	26,118	--	--
Changes in operating assets and liabilities -- (Increase) decrease in --					
Accounts receivable.....	104,276	(6,318)	1,640	2,459	(110,851)
Inventories.....	154,349	225,814	4,440	(109,517)	(59,220)
Prepaid expenses and other current assets.....	(114,200)	127,891	(23,607)	(23,185)	(26,337)
Other noncurrent assets.....	(9,068)	10,369	(999)	--	999
Increase (decrease) in --					
Accounts payable and accrued expenses.....	691,700	(786,089)	(16,012)	76,767	570,418
Unearned revenue on extended warranty contracts.....	3,661	(8,288)	(82,461)	(41,229)	3
Net cash provided by operating activities.....	756,290	320,473	625,350	60,829	751,616
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of property and equipment.....	--	19,503	21,188	21,188	--
Additions to property and equipment.....	(16,478)	(49,403)	(294,428)	(185,554)	(349,988)
Cash provided by (used in) discontinued operations.....	(1,116,116)	188,714	(89,429)	252,196	(218,054)
Net cash provided by (used in) investing activities.....	(1,132,594)	158,814	(362,669)	87,830	(568,042)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in payable to shareholder and affiliates.....	580,431	(314,134)	(25,289)	(155,000)	(229,040)
Borrowings of long-term debt.....	63,750	--	214,553	143,618	249,110
Principal payments of long-term debt.....	(93,260)	(106,035)	(56,705)	(30,208)	(62,288)
Increase (decrease) in other					



long-term liabilities.....	(173,024)	39,014	(39,014)	(29,625)	--
Dividends.....	--	--	(223,088)	(178,088)	(303,001)
	-----	-----	-----	-----	-----
Net cash provided by (used in) financing activities.....	377,897	(381,155)	(129,543)	(249,303)	(345,219)
	-----	-----	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	1,593	98,132	133,138	(100,644)	(161,645)
CASH AND CASH EQUIVALENTS, beginning of period.....	23,241	24,834	122,966	122,966	256,104
	-----	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, end of period.....	\$ 24,834	\$ 122,966	\$ 256,104	\$ 22,322	\$ 94,459
	=====	=====	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest.....	\$ 109,064	\$ 79,658	\$ 111,536	\$ 32,468	\$ 15,370

</TABLE>

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

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ADCOT, INC.  
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

ADCOT, Inc. (a Texas corporation) (the Company) (d.b.a. A-ABC Appliance), is primarily engaged in the sales of consumer appliances and the service-related activities of plumbing, air conditioning, appliance and electrical repair and other home improvement services in Houston and the surrounding areas.

In April 1996, the Company and its shareholder entered into a stock purchase agreement with Service Enterprises, Inc. (SEI) to sell all of its outstanding common stock for \$2,000,000 to SEI.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL INFORMATION

The interim financial statements for the six months ended June 30, 1995 and the five months ended May 31, 1996, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

INVENTORIES

Inventories consist of appliances and service-related parts and supplies held for use in the ordinary course of business and are valued at the lower of cost or market using the weighted-average cost method.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property or equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

INCOME TAXES

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, the shareholder reports his share of the Company's taxable earnings or losses in his personal tax return.

The Company is subject to Texas franchise tax which is an income-based tax. Accordingly, the Company has recorded a provision for this tax in the accompanying statement of operations for 1995. No provision for franchise taxes was recorded in the 1993 or 1994 statement of operations as the Company's

franchise tax was offset by a business loss carryover.

REVENUE RECOGNITION

The Company recognizes service revenue and parts sales revenue when a product is delivered or the services are performed. Revenues from sales of extended warranties are recognized over the life of the contract on a straight-line basis.

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ADCOT, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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 and 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.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 1995, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value was necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	USEFUL LIVES IN YEARS	DECEMBER 31	
		1994	1995
Leasehold improvements.....	5 - 15	\$ 221,120	\$ 256,245
Transportation equipment.....	5	815,190	849,183
Computer and telephone equipment.....	5 - 7	351,383	--
Furniture and fixtures.....	5 - 7	1,053,293	1,109,215
		-----	-----
		2,440,986	2,214,643
Less -- Accumulated depreciation and amortization.....		2,146,166	1,914,886
		-----	-----
Property and equipment, net.....		\$ 294,820	\$ 299,757
		=====	=====

4. DISCONTINUED OPERATIONS:

Subsequent to the purchase of the Company by SEI, the board of directors of SEI's parent company (Enterprises Holding Company) approved the disposition of the Company's retail appliance sales division. The allocation of purchase price to the fair market value of the net assets of the Company acquired by SEI will be based on preliminary estimates of fair value and may be revised when additional information concerning asset and liability valuations is obtained. Accordingly, any gain or loss on the sale of the appliance sales division will be considered an adjustment of purchase price.

The net losses of these operations prior to April 1, 1996, are included in the statements of operations under discontinued operations. Revenues, cost of sales, selling, general and administrative expenses, other income and expense, and income taxes for fiscal years 1993, 1994 and 1995 exclude amounts associated with the discontinued division. Revenues from such operations were approximately \$12,185,000, \$12,101,000 and \$11,915,000 for the years ended December 31, 1993, 1994 and 1995, respectively. Certain

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ADCOT, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

expenses have been allocated to discontinued operations, which were allocated based upon estimated divisional usage. All assets of the operations are expected to be sold in 1996.

The components of net assets of discontinued operations included in the balance sheets are as follows:

	DECEMBER 31	
	1994	1995
Net working capital (deficit).....	\$ (64,208)	\$ 55,667
Property and equipment, net.....	98,273	99,919
Other liabilities.....	--	(32,092)
	<u>\$ 34,065</u>	<u>\$ 123,494</u>

5. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31	
	1994	1995
Accounts payable, trade.....	\$ 488,819	\$ 495,031
Accrued compensation and benefits....	93,193	87,725
Accrued taxes, other than income....	147,066	101,383
Other accrued expenses.....	41,702	70,629
	<u>\$ 770,780</u>	<u>\$ 754,768</u>

6. INVENTORY FLOOR PLAN LIABILITY:

The Company maintains certain inventories on a floor plan financing method with General Electric Capital Corporation (GECC) in connection with its discontinued retail appliance sales division. The terms of the floor plan allow an interest-free period of 90 days after purchase followed by interest accruing at a rate of prime plus 2.5 percent on the remaining unpaid balance. Payment is due as the inventory is sold.

The Company also has floor plan financing available from three other companies with similar terms. However, the Company does not utilize these, and had no balances outstanding at December 31, 1994 and 1995.

The inventory floor plan facilities are personally guaranteed by the sole shareholder and/or an officer of the Company.

7. LONG-TERM DEBT:

Long-term debt consists of the installment notes payable for transportation equipment. The debt is secured by the related transportation equipment. The terms of the notes are 36 months with monthly payments of principal and interest of approximately \$9,000. The notes bear interest at rates ranging from 8.25 percent to 11 percent.

The aggregate maturities of long-term debt as of December 31, 1995, are as follows:

Year ending December 31 --	
1996.....	\$ 77,263
1997.....	67,241
1998.....	29,036
	<u>\$ 173,540</u>

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ADCOT, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Management estimates that the fair value of its debt obligations approximates the historical value of \$173,540 at December 31, 1995.

8. LEASES:

OPERATING LEASES

The Company leases certain facilities from its sole shareholder and his affiliates. The leases expire from 1997 through 2010. The rent paid under these

related-party leases was approximately \$316,000, \$305,000 and \$370,000 in 1993, 1994 and 1995, respectively.

Other nonrelated-party leases for retail facilities expire in 1997. The rent paid under nonrelated-party leases was approximately \$198,000, \$183,000 and \$162,000 in 1993, 1994 and 1995, respectively.

The lease terms generally range from five to 15 years. The leases generally provide for the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased property. The leases on most of the properties contain renewal provisions.

Future minimum lease payments for operating leases are as follows:

Year ending December 31 --	
1996.....	\$ 558,140
1997.....	430,034
1998.....	330,288
1999.....	292,848
2000.....	240,432
Thereafter.....	725,820
	-----
	\$ 2,577,562
	=====

9. RELATED-PARTY TRANSACTIONS:

The Company has payables to its sole shareholder and certain other related parties in the amounts of \$266,297 and \$241,008 at December 31, 1994 and 1995, respectively. Interest accrues on these payables at 8 percent per annum.

10. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe that the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

11. EVENT SUBSEQUENT TO DATE OF REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED):

In June 1996, the Company's shareholder entered into a definitive agreement with ARS, providing for the acquisition of the Company by ARS.

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[INSIDE BACK COVER OF PROSPECTUS]

[GRAPHICS -- SHOWING EMPLOYEES PERFORMING SERVICE, DISPATCH AND TRAINING TASKS]

PASTE-UP -- COPPERPLATE LINE -- PASTE-UP

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NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR BY ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE TO WHICH IT RELATES OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, IN ANY STATE TO ANY PERSON TO WHOM IT IS NOT LAWFUL TO MAKE SUCH OFFER IN SUCH STATE. THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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Until \_\_\_\_\_, 1996 (25 days after the date of this Prospectus), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

=====

4,200,000 SHARES

[LOGO ARS, INC]

AMERICAN RESIDENTIAL SERVICES, INC.

COMMON STOCK

-----  
PROSPECTUS  
SEPTEMBER \_\_, 1996  
-----

SMITH BARNEY INC.

MONTGOMERY SECURITIES

=====

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the expenses (other than underwriting discounts and commissions) in connection with the offering described in this Registration Statement, all of which shall be paid by the Company. All of such amounts (except the SEC Registration Fee, the NASD Filing Fee and the New York Stock Exchange Listing Fee) are estimated.

SEC Registration Fee.....	\$	21,652
NASD Filing Fee.....		6,779
NYSE Filing Fee.....		100,790
Blue Sky Fees and Expenses.....		15,000
Printing and Engraving Costs.....		150,000
Legal Fees and Expenses.....		1,090,000
Accounting Fees and Expenses.....		2,500,000
Transfer Agent and Registrar Fees and Expenses.....		4,500
Miscellaneous.....		111,279
		-----
Total.....	\$	4,000,000
		=====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

DELAWARE GENERAL CORPORATION LAW

Section 145(a) of the General Corporation Law of the State of Delaware (the "DGCL") provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a

director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgements, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of NOLO CONTENDERE or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 145(b) of the DGCL states that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the

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adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 145(c) of the DGCL provides that to the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 145(d) of the DGCL states that any indemnification under subsections (a) and (b) of Section 145 (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a) and (b). Such determination shall be made (1) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

Section 145(e) of the DGCL provides that expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in Section 145. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

Section 145(f) of the DGCL states that the indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of Section 145 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

Section 145(g) of the DGCL provides that a corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of Section 145.

Section 145(j) of the DGCL states that the indemnification and advancement of expenses provided by, or granted pursuant to, Section 145 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent, and shall inure to the benefit of the heirs, executors and administrators of such a person.

#### CERTIFICATE OF INCORPORATION

The Restated Certificate of Incorporation of the Company provides that a director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. If the DGCL is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Company, in addition to the limitation on personal liability described above, shall be limited to the fullest extent permitted by the amended DGCL. Further, any repeal or modification of such provision of the Restated Certificate of Incorporation by the stockholders of the Company shall be prospective only, and shall not

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adversely affect any limitation on the personal liability of a director of the Company existing at the time of such repeal or modification.

#### BYLAWS

The Bylaws of the Company provide that the Company will indemnify and hold harmless any director or officer of the Company to the fullest extent permitted by applicable law, as in effect as of the date of the adoption of the Bylaws or to such greater extent as applicable law may thereafter permit, from and against all losses, liabilities, claims, damages, judgments, penalties, fines, amounts paid in settlement and expenses (including attorneys' fees) whatsoever arising out of any event or occurrence related to the fact that such person is or was a director or officer of the Company and further provide that the Company may, but is not required to, indemnify and hold harmless any employee or agent of the Company or a director, officer, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise who is or was serving in such capacity at the written request of the Company; provided, however, that the Company is only required to indemnify persons serving as directors, officers, employees or agents of the Company for the expenses incurred in a proceeding if such person is a party to and is successful, on the merits or otherwise, in such proceeding, or if unsuccessful in the proceeding, but successful as to a matter in such proceeding, the expenses attributable to such matter and provided further that the Company may, but is not required to, indemnify such persons who are serving as a director, officer, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise at the written request of the Company for the expenses incurred in a proceeding if such person is a party to and is successful, on the merits or otherwise, in such proceeding. The Bylaws further provide that, in the event of any threatened, or pending action, suit or proceeding in which any of the persons referred to above is a party or is involved and that may give rise to a right of indemnification under the Bylaws, following written request by such person, the Company will promptly pay to such person amounts to cover expenses reasonably incurred by such person in such proceeding in advance of its final disposition upon the receipt by the Company of (i) a written undertaking executed by or on behalf of such person providing that such person will repay the advance if it is ultimately determined that such person is not entitled to be indemnified by the Company as provided in the Bylaws and (ii) satisfactory evidence as to the amount of such expenses.

#### INDEMNIFICATION AGREEMENTS

The Company has entered into Indemnification Agreements with each of its directors and executive officers. The Indemnification Agreements generally are to the same effect as the Bylaw provisions described above.

#### UNDERWRITING AGREEMENT

The Underwriting Agreement provides for the indemnification of the directors and officers of the Company in certain circumstances.

#### INSURANCE

The Company intends to maintain liability insurance for the benefit of its directors and officers.

#### ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

The following information relates to securities of the Company issued or sold within the past three years which were not registered under the Securities Act:

On November 8, 1995, the Company issued 375, 375 and 250 shares of Common Stock to C. Clifford Wright, William P. McCaughey and Howard S. Hoover, Jr., respectively, the founders of the Company, for \$1.00 per share. Such issuances were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof as transactions not involving any public offering. As a result of subsequent stock splits, the 1,000 shares originally issued will total 422,483 shares as of the closing of this Offering. These splits were exempt from the registration requirements of the Securities Act because they did not involve a "sale," as defined in Section 2(3) of the Securities Act.

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On March 19, 1996, the Company issued to Equus II Incorporated ("Equus II") a convertible note, a portion of which will convert into 844,965 shares of Common Stock on the closing of the Offering being made by this Registration Statement (this "Offering") and a warrant to purchase 100,000 shares of Common Stock at the initial public offering price in this Offering. The issuance of the note was exempt from the registration requirements of the Securities Act under Section 4(2) thereof as not involving a public offering and the conversion thereof will be exempt from those requirements pursuant to Section 3(a)(9) thereof. The issuance of the warrant was exempt from the registration requirements of the Securities Act under Section 4(2) thereof as not involving a public offering.

On July 22, 1996, the Company issued a \$1.0 million principal amount promissory note to Equus II to evidence additional borrowings by the Company from Equus II of up to that amount prior to the closing of the Offering. The issuance of the note was exempt from the registration requirements of the Securities Act under Section 4(2) thereof as not involving a public offering.

In connection with the acquisition of Enterprises Holding Company ("EHC"), the Company will issue to NationsBank of Texas, N.A. ("NationsBank") a warrant to purchase shares of Common Stock having a value of \$125,000 on the closing date of this Offering at a purchase price of \$.01 per share. This warrant will be issued in exchange for a warrant issued on March 19, 1996 by EHC, and its issuance will be exempt from the registration requirements of the Securities Act under Section 4(2) thereof as not involving a public offering.

Simultaneously with the completion of this Offering, the Company will issue 2,982,204 shares of Common Stock in connection with the acquisition of the Founding Companies (based on an assumed initial public offering price of \$15 per share, the midpoint of the estimated public offering price range). Such issuances will be exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof as transactions not involving any public offering.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits.

EXHIBIT NUMBER	DESCRIPTION
1.1	-- Form of Underwriting Agreement.
*2.1	-- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS Climatic Inc., Climatic Corporation of Vero Beach and the stockholders named therein.
*2.2	-- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS FHAC Inc., Florida Heating and Air Conditioning, Inc. and the stockholders named therein.
*2.3	-- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS Atlas Inc., Atlas Services, Inc. and the stockholders named therein.
*2.4	-- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS DIAL Inc., DIAL ONE Meridian and Hoosier, Inc. and the stockholders named therein.
*2.5	-- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS Bullseye Inc., Bullseye Air Conditioning, Inc. and the stockholders named therein.
*2.6	-- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS Duct Inc., Florida Heating and Air Conditioning



Duct, Inc. and the stockholders named therein.

- \*2.7 -- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS Services Inc., Florida Heating and Air Conditioning Service, Inc. and the stockholders named therein.

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EXHIBIT  
NUMBER

DESCRIPTION

- \*2.8 -- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS General Inc., General Heating Engineering Company, Inc. and the stockholders named therein.
- \*2.9 -- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS Acquisition Inc., Enterprises Holding Company and the stockholders named therein.
- \*2.10 -- Form of Uniform Provisions for the Acquisition of Founding Companies.
- '3.1 -- Restated Certificate of Incorporation of the Company.
- '3.2 -- Bylaws of the Company.
- '3.3 -- Certificate of Designations of Series A Junior Participating Preferred Stock.
- \*4.1 -- Form of Certificate representing Common Stock.
- \*4.2 -- Form of Rights Agreement of the Company, including form of Rights Certificate as Exhibit B thereto.
- \*4.3 -- Form of Registration Rights Agreement among the Company and the stockholders listed on the signature pages thereto.
- \*4.4 -- Stock Registration Agreement dated as of March 6, 1996 between American Residential Services, Inc. and Equus II Incorporated.
- \*4.5 -- Stock Piggyback Registration Agreement dated as of March 19, 1996 between Enterprises Holding Company and NationsBank of Texas, N.A.
- '5.1 -- Opinion of Baker & Botts, L.L.P.
- \*10.1 -- American Residential Services, Inc. 1996 Incentive Plan.
- \*10.2 -- Employment Agreement dated as of November 1, 1995 between the Company and Howard S. Hoover, Jr., as amended.
- \*10.3 -- Employment Agreement dated as of November 1, 1995 between the Company and C. Clifford Wright, Jr., as amended.
- \*10.4 -- Employment Agreement dated as of November 1, 1995 between the Company and William P. McCaughey, as amended.
- \*10.5 -- Employment Agreement dated as of March 6, 1996 between the Company and John D. Held, as amended.
- \*10.6 -- Employment Agreement dated as of March 6, 1996 between the Company and A. Jefferson Walker, III.
- \*10.7 -- Employment Agreement dated as of April 15, 1996 between the Company and Michael Mamaux.
- \*10.8 -- Employment Agreement dated as of June 13, 1996 between the Company and Elliot Sokolow.
- \*10.9 -- Employment Agreement dated as of June 13, 1996 between the Company and Howard W. Hauser.
- \*10.10 -- Employment Agreement dated as of June 13, 1996 between the Company and Gordon H. Timmons.
- \*10.11 -- Employment Agreement dated as of June 13, 1996 between the Company and Gary Daymon.

- \*10.12 -- Employment Agreement dated as of June 13, 1996 between the Company and Frank N. Menditch.
- \*10.13 -- Employment Agreement dated as of June 13, 1996 between the Company and Howard C. Menditch.
- \*10.14 -- Employment Agreement dated as of June 13, 1996 between the Company and Bruce L. Menditch.

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EXHIBIT

NUMBER	DESCRIPTION
*10.15	-- Form of Indemnification Agreement between the Company and each of its directors and officers.
*10.16	-- Executive Supplemental Disability Plan of American Residential Services, Inc.
*10.17	-- Executive Supplemental Life Insurance Plan of American Residential Services, Inc.
*10.18	-- American Residential Services, Inc. Deferred Compensation Plan.
'10.19	-- Commitment Letter dated July 17, 1996 between the Company and NationsBank of Texas, N.A.
'23.1	-- Consent of Arthur Andersen LLP.
'23.2	-- Consent of Baker & Botts, L.L.P. (contained in Exhibit 5.1)
*23.3	-- Consent of Gorden H. Timmons, as a nominee for directorship.
*23.4	-- Consent of Elliot Sokolow, as a nominee for directorship.
*23.5	-- Consent of Nolan Lehmann, as a nominee for directorship.
*23.6	-- Consent of Randall B. Hale, as a nominee for directorship.
*23.7	-- Consent of Robert J. Cruikshank, as a nominee for directorship.
*23.8	-- Consent of Don D. Sykora, as a nominee for directorship.
*23.9	-- Consent of Frank N. Menditch, as a nominee for directorship.
*23.10	-- Consent of Thomas Amonett, as a nominee for directorship.
*24.1	-- Power of Attorney.
*27.1	-- Financial Data Schedule.

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\* Previously filed.

` Filed herewith.

(b) Financial Statement Schedules.

All schedules are omitted because they are not applicable or because the required information is contained in the Financial Statements or Notes thereto.

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes to provide to the Underwriters, at the closing specified in the Purchase Agreement, certificates representing the shares of Common Stock offered hereby in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For the purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as a part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT TO THE REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF HOUSTON, STATE OF TEXAS, ON AUGUST 26, 1996.

AMERICAN RESIDENTIAL SERVICES, INC.  
 By: /s/ C. CLIFFORD WRIGHT, JR.  
 C. CLIFFORD WRIGHT, JR.  
 PRESIDENT AND CHIEF EXECUTIVE  
 OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

<TABLE>  
 <CAPTION>

SIGNATURES	CAPACITY IN WHICH SIGNED	DATE
<C>	<S>	<C>
/s/C. CLIFFORD WRIGHT, JR. C. CLIFFORD WRIGHT, JR.	President, Chief Executive Officer, and Director (Principal Executive Officer and Principal Financial Officer)	August 26, 1996
/s/HOWARD S. HOOVER, JR.* HOWARD S. HOOVER, JR.	Chairman of the Board	August 26, 1996
/s/MICHAEL MAMAUX MICHAEL MAMAUX	Controller (Principal Accounting Officer)	August 26, 1996
/s/WILLIAM P. MCCAUGHEY WILLIAM P. MCCAUGHEY	Executive Vice President and Director	August 26, 1996
*By: C. CLIFFORD WRIGHT, JR. C. CLIFFORD WRIGHT, JR. ATTORNEY-IN-FACT		

</TABLE>

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*2.3	-- Agreement and Plan of Reorganization dated as of June 13, 1996 by and among the Company, ARS Atlas Inc., Atlas Services, Inc. and the stockholders named therein.
*2.4	-- Agreement and Plan of Reorganization dated as of June 13, 1996 by and

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DIAL ONE Meridian and Hoosier, Inc.  
and the stockholders named therein.
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dated as of June 13, 1996 by and  
among the Company, ARS Bullseye Inc.,  
Bullseye Air Conditioning, Inc. and  
the stockholders named therein.
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dated as of June 13, 1996 by and  
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Florida Heating and Air Conditioning  
Duct, Inc. and the stockholders named  
therein.
- \*2.7 -- Agreement and Plan of Reorganization  
dated as of June 13, 1996 by and  
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Florida Heating and Air Conditioning  
Service, Inc. and the stockholders  
named therein.

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*2.10	-- Form of Uniform Provisions for the Acquisition of Founding Companies.
'3.1	-- Restated Certificate of Incorporation of the Company.
'3.2	-- Bylaws of the Company.
'3.3	-- Certificate of Designations of Series A Junior Participating Preferred Stock.
*4.1	-- Form of Certificate representing Common Stock.
*4.2	-- Form of Rights Agreement of the Company, including form of Rights Certificate as Exhibit B thereto.
*4.3	-- Form of Registration Rights Agreement among the Company and the stockholders listed on the signature pages thereto.
*4.4	-- Stock Registration Agreement dated as of March 6, 1996 between American Residential Services, Inc. and Equus II Incorporated.
*4.5	-- Stock Piggyback Registration Agreement dated as of March 19, 1996 between Enterprises Holding Company and NationsBank of Texas, N.A.
'5.1	-- Opinion of Baker & Botts, L.L.P.
*10.1	-- American Residential Services, Inc. 1996 Incentive Plan.
*10.2	-- Employment Agreement dated as of November 1, 1995 between the Company and Howard S. Hoover, Jr., as amended.
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*10.7	-- Employment Agreement dated as of April 15, 1996 between the Company and Michael Mamaux.

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EXHIBIT  
NUMBER

DESCRIPTION

- \*10.15 -- Form of Indemnification Agreement between the Company and each of its directors and officers.
- \*10.16 -- Executive Supplemental Disability Plan of American Residential Services, Inc.
- \*10.17 -- Executive Supplemental Life Insurance Plan of American Residential Services, Inc.
- \*10.18 -- American Residential Services, Inc. Deferred Compensation Plan.
- \*10.19 -- Commitment Letter dated July 17, 1996 between the Company and NationsBank of Texas, N.A.
- \*23.1 -- Consent of Arthur Andersen LLP.
- \*23.2 -- Consent of Baker & Botts, L.L.P. (contained in Exhibit 5.1)
- \*23.3 -- Consent of Gorden H. Timmons, as a nominee for directorship.
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- \*23.10 -- Consent of Thomas Amonett, as a nominee for directorship.
- \*24.1 -- Power of Attorney.
- \*27.1 -- Financial Data Schedule.

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\* Previously filed.

` Filed herewith.

Proof of August 23, 1996

4,200,000 Shares

AMERICAN RESIDENTIAL SERVICES, INC.

Common Stock

UNDERWRITING AGREEMENT

September , 1996

SMITH BARNEY INC.  
MONTGOMERY SECURITIES

As Representatives of the Several Underwriters

c/o SMITH BARNEY INC.  
388 Greenwich Street  
New York, New York 10013

Dear Sirs:

American Residential Services, Inc., a Delaware corporation (the "Company"), proposes to issue and sell an aggregate of 4,200,000 shares (the "Firm Shares") of its common stock, \$0.001 par value per share (the "Common Stock"), to the several Underwriters named in Schedule I hereto (the "Underwriters"). The Company also proposes to sell to the Underwriters, upon the terms and conditions set forth in Section 2 hereof, up to an additional 630,000 shares (the "Additional Shares") of Common Stock. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "Shares".

The Company wishes to confirm as follows its agreement with you (the "Representatives") and the other several Underwriters on whose behalf you are acting, in connection with the several purchases of the Shares by the Underwriters.

1. REGISTRATION STATEMENT AND PROSPECTUS. The Company has prepared and filed with the Securities and Exchange Commission

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(the "Commission") in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Act"), a registration statement on Form S-1 under the Act (Registration No. 333-6195) [and a registration statement on Form S-1 under the Act filed pursuant to Rule 462(b)], including a prospectus subject to completion relating to the Shares. The term "Registration Statement" as used in this Agreement means [each] such registration statement (including all financial schedules and exhibits), as amended at the time it becomes effective, or, if

such registration statement became effective prior to the execution of this Agreement, as supplemented or amended prior to the execution of this Agreement. [If it is contemplated, at the time this Agreement is executed, that a post-effective amendment to the registration statement will be filed and must be declared effective before the offering of the Shares may commence, the term "Registration Statement" as used in this Agreement means the registration statement as amended by said post-effective amendment.] The term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement, or, if the prospectus included in the Registration Statement omits information in reliance on Rule 430A under the Act and such information is included in a prospectus filed with the Commission pursuant to Rule 424(b) under the Act, the term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement as supplemented by the addition of the Rule 430A information contained in the prospectus filed with the Commission pursuant to Rule 424(b). The term "Prepricing Prospectus" as used in this Agreement means the prospectus subject to completion in the form included in the registration statement at the time of the initial filing of the registration statement with the Commission, and as such prospectus shall have been amended from time to time prior to the date of the Prospectus.

2. AGREEMENTS TO SELL AND PURCHASE. The Company hereby agrees, subject to all the terms and conditions set forth herein, to issue and sell to each Underwriter and, upon the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions set forth herein, each Underwriter agrees, severally and not jointly, to purchase from the Company, at a purchase price of \$ per Share (the "purchase price per share"), the number of Firm Shares

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set forth opposite the name of such Underwriter in Schedule I hereto (or such number of Firm Shares increased as set forth in Section 10 hereof).

The Company also agrees, subject to all the terms and conditions set forth herein, to sell to the Underwriters, and, upon the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions set forth herein, the Underwriters shall have the right to purchase from the Company, at the purchase price per share, pursuant to an option (the "over-allotment option") which may be exercised at any time and from time to time prior to 9:00 P.M., New York City time, on the 30th day after the date of the Prospectus (or, if such 30th day shall be a Saturday or Sunday or a holiday, on the next business day thereafter when the New York Stock Exchange is open for trading), up to an aggregate of 630,000 Additional Shares. Additional Shares may be purchased only for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. Upon any exercise of the over-allotment option, each Underwriter, severally and not jointly, agrees to purchase from the Company the number of Additional Shares (subject to such adjustments as you may determine in order to avoid fractional shares) which bears the same proportion to the number of Additional Shares to be purchased by the Underwriters as the number of Firm

Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number of Firm Shares increased as set forth in Section 10 hereof) bears to the aggregate number of Firm Shares.

3. TERMS OF PUBLIC OFFERING. The Company has been advised by you that the Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable and initially to offer the Shares upon the terms set forth in the Prospectus.

4. DELIVERY OF THE SHARES AND PAYMENT THEREFOR. Delivery to the Underwriters of and payment for the Firm Shares shall be made at the office of Smith Barney Inc., 388 Greenwich Street, New York, NY 10013, at 10:00 A.M., New York City time, on September , 1996 (the "Closing Date"). The place of closing for the Firm Shares and the Closing Date may be varied by agreement between you and the Company.

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Delivery to the Underwriters of and payment for any Additional Shares to be purchased by the Underwriters shall be made at the aforementioned office of Smith Barney Inc. at such time on such date (the "Option Closing Date"), which may be the same as the Closing Date but shall in no event be earlier than the Closing Date nor earlier than two nor later than ten business days after the giving of the notice hereinafter referred to, as shall be specified in a written notice from you on behalf of the Underwriters to the Company of the Underwriters' determination to purchase a number, specified in such notice, of Additional Shares. The place of closing for any Additional Shares and the Option Closing Date for such Shares may be varied by agreement between you and the Company.

Certificates for the Firm Shares and for any Additional Shares to be purchased hereunder shall be registered in such names and in such denominations as you shall request in writing prior to 9:30 A.M., New York City time, on the second business day preceding the Closing Date or any Option Closing Date, as the case may be. Such certificates shall be made available to you in New York City for inspection and packaging not later than 9:30 A.M., New York City time, on the business day next preceding the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and any Additional Shares to be purchased hereunder shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, against payment of the purchase price therefor in immediately available funds.

5. AGREEMENTS OF THE COMPANY. The Company agrees with the several Underwriters as follows:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, the Company will endeavor to cause the Registration Statement or such post-effective amendment to become effective as soon as possible and will advise you promptly and, if requested by you, will confirm such advice in writing, when



the Registration Statement or such post-effective amendment has become effective.

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(b) The Company will advise you promptly and, if requested by you, will confirm such advice in writing: (i) of any request by the Commission for amendment of or a supplement to the Registration Statement, any Prepricing Prospectus or the Prospectus or for additional information; (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the suspension of qualification of the Shares for offering or sale in any jurisdiction or the initiation of any proceeding for such purpose; and (iii) within the period of time referred to in paragraph (f) below, of any change in the Company's condition (financial or other), business, prospects, properties, net worth or results of operations, or of the happening of any event, which makes any statement made in the Registration Statement or the Prospectus (as then amended or supplemented) an untrue statement of a material fact or which requires the making of any additions to or changes in the Registration Statement or the Prospectus (as then amended or supplemented) in order to state a material fact required by the Act or the regulations thereunder to be stated therein or necessary in order to make the statements therein not misleading, or of the necessity to amend or supplement the Prospectus (as then amended or supplemented) to comply with the Act or any other applicable law. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, the Company will make every reasonable effort to obtain the withdrawal of such order at the earliest possible time.

(c) The Company will furnish to you, without charge, three signed copies of the registration statement as originally filed with the Commission and of each amendment thereto, including financial statements and copies of all exhibits thereto, and will also furnish to you, without charge, such number of conformed copies of the registration statement as originally filed and of each amendment thereto, but without exhibits, as you may request.

(d) The Company will not (i) file any amendment to the Registration Statement or make any amendment or supplement to the Prospectus of which you shall not previously have been advised or to which you shall object after being so advised or (ii) so long as, in the opinion of counsel for the Underwriters, a Prospectus is required to be delivered in connection with sales by any

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Underwriter or dealer, file any information, documents or reports pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), without delivering a copy of such information, documents or reports to you, as Representatives of the Underwriters, prior to or concurrently with such filing.

(e) Prior to the execution and delivery of this Agreement, the Company has delivered to you, without charge, in such quantities as you have requested, copies of each form of the Prepricing Prospectus. The Company consents to the use, in accordance with the provisions of the Act and with the

securities or Blue Sky laws of the jurisdictions in which the Shares are offered by the several Underwriters and by dealers, prior to the date of the Prospectus, of each Prepricing Prospectus so furnished by the Company.

(f) As soon after the execution and delivery of this Agreement as possible and thereafter from time to time for such period as in the opinion of counsel for the Underwriters a prospectus is required by the Act to be delivered in connection with sales by any Underwriter or dealer, the Company will expeditiously deliver to each Underwriter and each dealer, without charge, as many copies of the Prospectus (and of any amendment or supplement thereto) as you may request. The Company consents to the use of the Prospectus (and of any amendment or supplement thereto) in accordance with the provisions of the Act and with the securities or Blue Sky laws of the jurisdictions in which the Shares are offered by the several Underwriters and by all dealers to whom Shares may be sold, both in connection with the offering and sale of the Shares and for such period of time thereafter as the Prospectus is required by the Act to be delivered in connection with sales by any Underwriter or dealer. If during such period of time any event shall occur that in the judgment of the Company or in the opinion of counsel for the Underwriters is required to be set forth in the Prospectus (as then amended or supplemented) or should be set forth therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary to supplement or amend the Prospectus to comply with the Act or any other law, the Company will forthwith prepare and, subject to the provisions of paragraph (d) above, file with the Commission an appropriate supplement or amendment thereto, and will expeditiously furnish to the Underwriters and dealers a

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reasonable number of copies thereof. In the event that the Company and you, as Representatives of the several Underwriters, agree that the Prospectus should be amended or supplemented, the Company, if requested by you, will promptly issue a press release announcing or disclosing the matters to be covered by the proposed amendment or supplement.

(g) The Company will cooperate with you and with counsel for the Underwriters in connection with the registration or qualification of the Shares for offering and sale by the several Underwriters and by dealers under the securities or Blue Sky laws of such domestic and foreign jurisdictions as you may designate and will file such consents to service of process or other documents necessary or appropriate in order to effect such registration or qualification; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to any income taxing authority to which it is not now subject or to service of process in suits, other than those arising out of the offering or sale of the Shares, in any jurisdiction where it is not now so subject.

(h) The Company will make generally available to its security holders a consolidated earnings statement, which need not be audited, covering a twelve-month period commencing after the effective date of the Registration

Statement and ending not later than 15 months thereafter, as soon as practicable after the end of such period, which consolidated earnings statement shall satisfy the provisions of Section 11(a) of the Act.

(i) During the period of five years hereafter, the Company will furnish to you (i) as soon as available, a copy of each report of the Company mailed to stockholders or filed with the Commission, and (ii) from time to time such other information concerning the Company as you may reasonably request.

(j) If this Agreement shall terminate or shall be terminated after execution pursuant to any provisions hereof (otherwise than pursuant to the second paragraph of Section 10 hereof or by notice given by you terminating this Agreement pursuant to Section 10 or Section 11 hereof) or if this Agreement shall be terminated by the Underwriters because of any failure or refusal on the part of the Company to comply with the terms or

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fulfill any of the conditions of this Agreement, the Company agrees to reimburse the Representatives for all out-of-pocket expenses (including fees and expenses of counsel for the Underwriters) incurred by you in connection herewith upon receipt of appropriate invoices therefor.

(k) The Company will apply the net proceeds from the sale of the Shares substantially in accordance with the description set forth in the Prospectus.

(l) If Rule 430A of the Act is employed, the Company will timely file the Prospectus pursuant to Rule 424(b) under the Act and will advise you of the time and manner of such filing.

(m) Except as provided in this Agreement, the Company will not sell, contract to sell or otherwise dispose of any Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or grant any options or warrants to purchase Common Stock, for a period of 180 days after the date of the Prospectus (the "180-Day Lock-up Period"), without the prior written consent of Smith Barney Inc., except that the Company may (i) issue on the Closing Date the shares of Common Stock to be issued in connection with the acquisitions to be consummated on the Closing Date, as described in the Registration Statement (the "Acquisitions"), (ii) issue up to 5,000,000 shares of Common Stock ("Acquisition Shares") during the 180-Day Lock-up Period in connection with additional acquisitions so long as the purchaser of such Acquisition Shares agrees to be bound by a lock-up letter in the form previously delivered to you (a "Lockup Letter") pursuant to which such purchaser agrees with the Company not to sell, offer to sell, solicit an offer to buy, contract to sell, grant any option to purchase, or otherwise transfer or dispose of, any such Acquisition Shares at any time before the expiration of the 180-Day Lock-up Period and the certificates evidencing such Acquisition Shares bear a legend to such effect, (iii) issue shares of Common Stock during the 180- Day Lock-up Period pursuant to the exercise of options or warrants granted or issued by the

Company prior to the date hereof, pursuant to the convertible note issued by the Company prior to the date hereof and described in the Registration Statement (the "Convertible Note"), and pursuant to the warrant to be issued to NationsBank of Texas, N.A. on the Closing Date, as described in the Registration Statement, and (iv) grant awards

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(which may include awards of restricted stock and stock options) during the 180-Day Lock-up Period pursuant to the American Residential Services, Inc. 1996 Incentive Plan. The Company further agrees for the express benefit of the Underwriters that, during the 180-Day Lock-up Period, it will not, without the prior written consent of Smith Barney Inc., waive any provision of any registration rights agreement, stockholders agreement or any reorganization agreement (as defined herein), in each case relating to any restriction imposed on the subsequent transfer or other disposition of shares of Common Stock and will take reasonable steps to cause its transfer agent to enforce any such provision so as to limit the transfer or other disposition of shares of the Common Stock during the 180-Day Lock-up Period.

(n) The Company has furnished or will furnish to you Lock-up Letters signed by each of its current officers and directors and each of its stockholders who holds or will, immediately after the closing of the Acquisitions, hold 5,000 or more shares of Common Stock, restricting such officers, directors and stockholders for the 180-Day Lock-up Period from selling, offering for sale or otherwise transferring or disposing of any shares of Common Stock.

(o) Except as stated in this Agreement and in the Prepricing Prospectus and Prospectus, the Company has not taken, nor will it take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(p) The Company will use its best efforts to have the Common Stock listed, subject to notice of issuance, on the New York Stock Exchange prior to or concurrently with the effectiveness of the registration statement.

(q) The Company will furnish to you as early as practicable prior to the time of purchase on the Closing Date and the time of purchase on the Option Closing Date, as the case may be, but not later than two business days prior thereto, a copy of the latest available unaudited interim financial statements, if any, of the Company which have been read by Arthur Andersen LLP, as stated in their letter to be furnished pursuant to Section 8(f).

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6. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to each Underwriter that:

(a) Each Prepricing Prospectus included as part of the registration statement as originally filed or as part of any amendment or

supplement thereto, or filed pursuant to Rule 424 under the Act, complied when so filed in all material respects with the provisions of the Act. The Commission has not issued any order preventing or suspending the use of any Prepricing Prospectus.

(b) The registration statement in the form in which it became or becomes effective and also in such form as it may be when any post-effective amendment thereto shall become effective, and the Prospectus and any supplement or amendment thereto when filed with the Commission under Rule 424(b) under the Act, complied or will comply in all material respects with the provisions of the Act and did not or will not at any such times contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, except that this representation and warranty does not apply to statements in or omissions from the Registration Statement or the Prospectus or any amendment or supplement thereto made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by or on behalf of any Underwriter through you expressly for use therein.

(c) As of the date of this Agreement, the Company has authorized capital stock consisting of 50,000,000 shares of Common Stock, par value \$.001 per share, and 10,000,000 shares of Preferred Stock, par value \$.001 per share (the "Preferred Stock"); prior to the closing of the transactions contemplated by each of the agreements identified on Schedule II hereto (the "Reorganization Agreements") and the issuance of shares of Common Stock as contemplated thereby and hereby, and prior to giving effect to the partial conversion of the Convertible Note into Common Stock, which is to occur on the Closing Date, the Company has issued and outstanding \_\_\_\_\_ shares of Common Stock and no shares of Preferred Stock; upon consummation of the Acquisitions and the issuance of \_\_\_\_\_ shares of Common Stock as contemplated by the Reorganization Agreements, upon the issuance of \_\_\_\_\_ shares of Common Stock in connection with

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the partial conversion of the Convertible Note, the issuance of \_\_\_\_\_ shares of Common Stock in exchange for the preferred stock of Enterprises Holding Company and upon the grant of \_\_\_\_\_ shares of restricted Common Stock to be awarded under the American Residential Services, Inc. 1996 Incentive Plan upon the closing of one of the Acquisitions (which, together with all of the shares described in the previous clause of this sentence, are all the shares of Common Stock to be issued prior to the issuance and sale of the Shares and the Additional Shares), but without giving effect to the issuance of shares of Common Stock pursuant to the terms of this Agreement, the Company will have issued and outstanding \_\_\_\_\_ shares of Common Stock and no shares of Preferred Stock. All of such outstanding shares of Common Stock (other than the Shares) have been or, as of the Closing Date, will be duly authorized and validly issued, fully paid and nonassessable, and none will have been issued in violation of any preemptive right or similar right. Except as described in the Prospectus, (a) there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments to issue any shares

of, capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company, and (b) there is no holder of any securities of the Company or any other person who has the right, contractual or otherwise, to cause the Company to sell or otherwise issue to him or her, or permit him or her to underwrite the sale of, any of the Shares.

(d) The Shares have been duly authorized and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and free of any preemptive or similar rights; and the capital stock of the Company conforms to the description thereof in the Registration Statement and the Prospectus.

(e) The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such

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registration or qualification, except where the failure so to register or qualify does not have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operations of the Company and the Subsidiaries (as hereinafter defined) taken as a whole (a "Material Adverse Effect").

(f) Each of the Company's subsidiaries, including each of the Founding Companies as identified in the Registration Statement which will become a subsidiary of the Company upon the Closing Date (collectively, before and upon giving effect to the Acquisitions (unless otherwise specifically qualified herein), the "Subsidiaries") is a corporation duly organized, validly existing and in good standing in the jurisdiction of its incorporation, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not have a Material Adverse Effect; all the outstanding shares of capital stock of each of the Subsidiaries (upon giving effect to the Acquisitions) have been duly authorized and validly issued, are fully paid and nonassessable, and on the closing of the Acquisitions will be owned by the Company directly, or indirectly through one of the other Subsidiaries, free and clear of any lien, adverse claim, security interest, equity, or other encumbrance. Other than with respect to the Subsidiaries (upon giving effect to the Acquisitions), the Company does not have, directly or indirectly, any ownership interest which is material to the Company in consideration of its consolidated assets, in any corporation, partnership, joint venture, association or other business organization.

(g) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened, against the Company or any of the Subsidiaries, or to which the Company or any of the Subsidiaries, or to which any of their respective properties, is subject that are required to be described in the Registration Statement or the Prospectus but are not described as required, and there are no agreements, contracts, indentures,

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leases or other instruments that are required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that are not described or filed as required by the Act.

(h) Neither the Company nor any of the Subsidiaries is in violation of its certificate or articles of incorporation or by-laws, or other organizational documents, or of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Subsidiaries or of any decree of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries, or in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, except for such violations or defaults as would not, individually or in the aggregate, have a Material Adverse Effect.

(i) Neither the issuance and sale of the Shares, the execution, delivery or performance of this Agreement by the Company, the execution, delivery or performance of the Reorganization Agreements by the Company or by any Subsidiary, nor the consummation by the Company or any Subsidiary of any of the transactions contemplated hereby or thereby (A) requires any consent, approval, authorization or other order of or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as may be required under the Act and the Exchange Act and compliance with the securities or Blue Sky laws of various jurisdictions, all of which have been or will be effected in accordance with this Agreement) or conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, the certificate or articles of incorporation or bylaws, or other organizational documents, of the Company or any of the Subsidiaries or (B) conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, or violates or will violate any statute, law, regulation or

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judgment, injunction, order or decree applicable to the Company or any of the Subsidiaries or any of their respective properties, or will result in the creation or imposition of any lien, charge or encumbrance upon any property or

assets of the Company or any of the Subsidiaries pursuant to the terms of any agreement or instrument to which any of them is a party or by which any of them may be bound or to which any of the property or assets of any of them is subject, except for such conflicts, breaches, defaults, violations, liens, charges or encumbrances as would not, individually or in the aggregate, have a Material Adverse Effect.

(j) The accountants, Arthur Andersen LLP, who have certified or shall certify the financial statements included in the Registration Statement and the Prospectus (or any amendment or supplement thereto) are independent public accountants as required by the Act.

(k) The historical financial statements, together with the related notes, included in the Registration Statement and the Prospectus (and any amendment or supplement thereto), present fairly in all material respects the separate financial position, results of operations, shareholders' equity (and deficit) and cash flows of each of General Heating Engineering Company, Inc., Atlas Services, Inc., Service Enterprises, Inc., Florida Heating and Air Conditioning, Inc., Dial One Meridian and Hoosier, Inc. and Adcot, Inc., on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; the summary financial and statistical data included in the Registration Statement present fairly the information shown therein and such data have been compiled on a basis consistent with the financial statements presented therein and the books and records of the Company and the Founding Companies, as applicable; the pro forma combined financial statements of the Company and the Founding Companies (including the supplemental pro forma information shown therein), together with the related notes, as set forth in the Registration Statement, present fairly the information shown therein, have been prepared in accordance with the applicable provisions of Article 11 of Regulation S-X promulgated by the Commission with

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respect to pro forma financial statements and have been properly compiled on the pro forma bases described therein, and in the opinion of the Company, the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions or circumstances referred to therein; and the other financial and statistical information and data included in the Registration Statement and the Prospectus (and any amendment or supplement thereto) are accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Company and the Subsidiaries.

(l) The execution and delivery of, and the performance by the Company of its obligations under, this Agreement have been duly and validly authorized by the Company, and this Agreement has been duly executed and delivered by the Company and constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except as that enforceability may be subject to the effect of (i) any applicable



bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally, (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and (iii) any implied covenant of good faith or fair dealing, and except to the extent that rights to indemnity and contribution hereunder may be limited by federal or state securities laws. The execution and delivery of, and the performance by the Company and each Subsidiary, as applicable, of its respective obligations under, each Reorganization Agreement have been duly and validly authorized by the Company and such Subsidiary and each Reorganization Agreement has been duly authorized, executed and delivered by the Company and the Subsidiary which is a party to such agreement, and constitutes the legal, valid and binding agreement of the Company and such Subsidiary, as the case may be, except as that enforceability may be subject to the effect of (i) any applicable bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally, (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and (iii) any implied covenant of good faith or fair dealing.

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(m) Except as disclosed in or contemplated by the Registration Statement and the Prospectus (or any amendment or supplement thereto), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), neither the Company nor any of the Subsidiaries has incurred any liability or obligation, direct or contingent, or entered into any transaction, not in the ordinary course of business, that is material to the Company and the Subsidiaries taken as a whole, and there has not been any change in the capital stock, or material increase in the short-term debt or long-term debt, of the Company or any of the Subsidiaries, or any material adverse change, or any development involving, or which may reasonably be expected to involve, a prospective Material Adverse Effect.

(n) Each of the Company and the Subsidiaries has good and marketable title to all material property (real and personal) described in the Registration Statement and the Prospectus or in a document filed as an exhibit to the Registration Statement as being owned by it, free and clear of all liens, claims, security interests or other encumbrances except such as are described in the Registration Statement and the Prospectus or in a document filed as an exhibit to the Registration Statement and all the property described in the Prospectus as being held under lease by each of the Company and the Subsidiaries is held by it under valid, subsisting and enforceable leases.

(o) The Company has not distributed and, prior to the later to occur of (i) the Closing Date and (ii) the completion of the distribution of the Shares, will not distribute any offering material in connection with the offering and sale of the Shares other than the Registration Statement, the Prepricing Prospectus, the Prospectus or other materials, if any, permitted by the Act.

(p) The Company and each of the Subsidiaries has such permits,

licenses, franchises and authorizations of governmental or regulatory authorities ("permits") as are necessary to own its respective properties and to conduct its business in the manner described in the Prospectus, subject to such qualifications as may be set forth in the Prospectus, except for any such permits the absence or lapse of which would not have, individually or in the aggregate, a Material Adverse Effect; the Company and each of the Subsidiaries has fulfilled and performed all its material

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obligations with respect to such permits and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the holder of any such permit, subject in each case to such qualification as may be set forth in the Prospectus; and, except as described in the Prospectus, none of such permits contains any restriction that is materially burdensome to the Company or any of the Subsidiaries.

(q) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(r) To the Company's knowledge, neither the Company nor any of the Subsidiaries nor any employee or agent of the Company or any Subsidiary has made any payment of funds of the Company or any Subsidiary or received or retained any funds in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character required to be disclosed in the Prospectus.

(s) The Company and each of the Subsidiaries have conducted their respective businesses in substantial compliance with all applicable Federal, state and local laws and regulations including, without limitation, those applicable to emissions into the environment, waste management and waste disposal (collectively, the "Environmental Laws") and, to the Company's knowledge, under current law, there are no existing circumstances that would prevent, interfere with, or materially increase the cost of compliance with such Environmental Laws in the future, except for any lack of compliance or the existence of any such circumstance as would not have, individually or in the aggregate, a Material Adverse Effect.

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(t) Except as set forth in the Registration Statement and the Prospectus, there is no material claim under any Environmental Law, including

common law, pending or, threatened against the Company or any of the Subsidiaries ("Environmental Claim") and, to the Company's best knowledge, under applicable law, there are no past or present actions, activities, circumstances, events or incidents, including, without limitation, releases of any material into the environment that would reasonably be expected to form the basis of any material claim against the Company or any of the Subsidiaries.

(u) The Company and each of the Subsidiaries have filed all tax returns required to be filed, which returns are complete and correct, and neither the Company nor any Subsidiary is in default in the payment of any taxes which were payable pursuant to said returns or any assessments with respect thereto, except for any failures to file or any such defaults as would not have, individually or in the aggregate, a Material Adverse Effect.

(v) Except as disclosed in the Prospectus, no holder of any security of the Company has any right to require registration of shares of Common Stock or any other security of the Company because of the filing of the Registration Statement or consummation of the transactions contemplated by this Agreement or the Reorganization Agreements.

(w) The Company and the Subsidiaries own or possess valid and enforceable rights to use all patents, trademarks, trademark registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights described in the Prospectus or the Reorganization Agreements as being owned by them or any of them or material to the conduct of their respective businesses, and the Company is not aware of any claim to the contrary or any challenge by any other person to the rights of the Company and the Subsidiaries with respect to the foregoing.

(x) The Company is not now, and after sale of the Shares to be sold by it hereunder and application of the net proceeds from such sale as described in the Prospectus under the caption "Use of Proceeds" will not be, an "investment company"

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within the meaning of the Investment Company Act of 1940, as amended.

(y) The Company has complied with all provisions of Florida Statutes ss.517.075, relating to issuers doing business with Cuba.

(z) The Shares have been approved for listing, upon notice of issuance, on the New York Stock Exchange.

7. INDEMNIFICATION AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless each of you and each other Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Prepricing Prospectus or in the Registration Statement or the Prospectus or in any amendment or supplement thereto, or

arising out of or based upon 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, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon any untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to such Underwriter furnished in writing to the Company by or on behalf of any Underwriter through you expressly for use in connection therewith; provided, however, that the indemnification contained in this paragraph (a) with respect to any Prepricing Prospectus shall not inure to the benefit of any Underwriter (or to the benefit of any person controlling such Underwriter) on account of any such loss, claim, damage, liability or expense arising from the sale of Shares by such Underwriter to any person if a copy of the Prospectus shall not have been delivered or sent to such person within the time required by the Act and the regulations thereunder, and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such Prepricing Prospectus was corrected in the Prospectus, provided that the Company has delivered the Prospectus to the several Underwriters in requisite quantity on a timely basis to permit such delivery

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or sending. The foregoing indemnity agreement shall be in addition to any liability which the Company may otherwise have.

(b) If any action, suit or proceeding shall be brought against any Underwriter or any person controlling any Underwriter in respect of which indemnity may be sought against the Company, such Underwriter or such controlling person shall promptly notify the Company, and the Company shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses. Such Underwriter or any such controlling person shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless (i) the Company has agreed in writing to pay such fees and expenses, (ii) the Company has failed to assume the defense and employ counsel, or (iii) the named parties to any such action, suit or proceeding (including any impleaded parties) include both such Underwriter or such controlling person and the Company and such Underwriter or such controlling person shall have been advised by its counsel that representation of such indemnified party and the Company by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the Company shall not have the right to assume the defense of such action, suit or proceeding on behalf of such Underwriter or such controlling person). It is understood, however, that the Company shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local counsel) at any time for all such Underwriters and controlling persons, which

firm shall be designated in writing by Smith Barney Inc., and that all such fees and expenses shall be reimbursed as they are incurred. The Company shall not be liable for any settlement of any such action, suit or proceeding effected without its written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, suit or proceeding, the Company agrees to indemnify and hold harmless any Underwriter, to the extent provided in the preceding paragraph,

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and any such controlling person from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment.

(c) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement, and any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with respect to information relating to such Underwriter furnished in writing by or on behalf of such Underwriter through you expressly for use in the Registration Statement, the Prospectus or any Prepricing Prospectus, or any amendment or supplement thereto. If any action, suit or proceeding shall be brought against the Company, any of its directors, any such officer, or any such controlling person based on the Registration Statement, the Prospectus or any Prepricing Prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against any Underwriter pursuant to this paragraph (c), such Underwriter shall have the rights and duties given to the Company by paragraph (b) above (except that if the Company shall have assumed the defense thereof such Underwriter shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at such Underwriter's expense), and the Company, its directors, any such officer, and any such controlling person shall have the rights and duties given to the Underwriters by paragraph (b) above. The foregoing indemnity agreement shall be in addition to any liability which the Underwriters may otherwise have.

(d) If the indemnification provided for in this Section 7 is unavailable to an indemnified party under paragraphs (a) or (c) hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein, then an 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 (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Shares, or (ii) if the allocation provided by clause (i) above is not

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permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Underwriters on the other in

connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by the Underwriters on the other hand and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by a pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in paragraph (d) above shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating any claim or defending any such action, suit or proceeding. Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price of the Shares underwritten by it and distributed to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution. The Underwriters'

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obligations to contribute pursuant to this Section 7 are several in proportion to the respective numbers of Firm Shares set forth opposite their names in Schedule I hereto (or such numbers of Firm Shares increased as set forth in Section 10 hereof) and not joint.

(f) No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

(g) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this

Section 7 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 7 and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers, or any person controlling the Company, (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any Underwriter or any person controlling any Underwriter, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution, and reimbursement agreements contained in this Section 7.

8. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The several obligations of the Underwriters to purchase the Firm Shares hereunder are subject to the following conditions:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, the registration statement or such post-effective amendment shall have become

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effective not later than 5:30 P.M., New York City time, on the date hereof, or at such later date and time as shall be consented to in writing by you, and all filings, if any, required by Rules 424 and 430A under the Act shall have been timely made; no stop order suspending the effectiveness of the registration statement shall have been issued and no proceeding for that purpose shall have been instituted or, to the knowledge of the Company or any Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the registration statement or the prospectus or otherwise) shall have been complied with to your satisfaction.

(b) Subsequent to the effective date of this Agreement, there shall not have occurred (i) any change, or any development involving a prospective change, in or affecting the condition (financial or other), business, properties, net worth, or results of operations of the Company or the Subsidiaries not contemplated by the Prospectus, which in your opinion, as Representatives of the several Underwriters, would materially, adversely affect the market for the Shares, or (ii) any event or development relating to or involving the Company or any Subsidiary or any officer or director of the Company or any Subsidiary which makes any statement in the Prospectus an untrue statement of a material fact or which, in the opinion of the Company and its counsel or the Underwriters and their counsel, requires the making of any addition to or change in the Prospectus in order to state a material fact required by the Act or any other applicable law to be stated therein or necessary in order to make the statements therein not misleading, if amending or supplementing the Prospectus to reflect such event or development would, in your opinion, as Representatives of the several Underwriters, materially adversely

affect the market for the Shares.

(c) You shall have received on the Closing Date, an opinion of Baker & Botts, L.L.P., counsel for the Company, dated the Closing Date and addressed to you, as Representatives of the several Underwriters, to the effect that:

(i) The Company is a corporation duly incorporated and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and to conduct its

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business as described in the Registration Statement and the Prospectus (and any amendment or supplement thereto);

(ii) The authorized capital stock of the Company is comprised of 50,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. No shares of Preferred Stock have been issued. After giving effect to the issuance of shares of Common Stock pursuant to the conversion of the Convertible Note, the issuance of shares of Common Stock pursuant to the Reorganization Agreements and the grant of Common Stock awards as described in the Prospectus, \_\_\_\_\_ shares of Common Stock (the "Presently Outstanding Shares") have been issued and are outstanding;

(iii) All the Presently Outstanding Shares have been duly authorized and validly issued and are fully paid and nonassessable;

(iv) The Shares have been duly authorized and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and will not have been issued in violation of the preemptive or other similar rights of any holder of Common Stock existing under the restated certificate of incorporation of the Company, under the corporate law of the State of Delaware or, to the knowledge of such counsel, otherwise;

(v) The form of certificates for the Shares conforms to the applicable requirements of the Delaware General Corporation Law;

(vi) The Registration Statement and all post-effective amendments, if any, have become effective under the Act and, to the knowledge of such counsel after making telephone inquiries to staff members of the Securities and Exchange Commission on the Closing Date, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose are pending before or contemplated by the Commission; and any required filing of the Prospectus pursuant to Rule 424(b) has been made in accordance with Rule 424(b);

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(vii) The Company has the corporate power and authority to enter into this Agreement and to issue, sell and deliver the Shares to the Underwriters as provided herein, and this Agreement has been duly authorized, executed and delivered by the Company. The Company has the corporate power and authority to enter into the Reorganization Agreements to which it is a party and to perform its obligations thereunder, and each Reorganization Agreement has been duly authorized, executed and delivered by the Company;

(viii) To the knowledge of such counsel, except as disclosed in the Prospectus, no default exists in the performance or observance by the Company of any material agreement, lease or other instrument that is filed as an exhibit to the Registration Statement;

(ix) The execution and delivery of this Agreement by the Company, the consummation by the Company of the transactions contemplated in this Agreement, the Reorganization Agreements and in the Prospectus (including the issuance, delivery and sale of the Shares pursuant to this Agreement) and compliance by the Company with the terms of this Agreement (A) do not and will not result in any violation of the restated certificate of incorporation or by-laws of the Company or (B) do not and will not conflict with, or result in a breach of any of the terms of, or constitute a default under, or result in the creation of any lien, charge or encumbrance upon any property or assets of the Company under, (i) any agreement, indenture, lease or other instrument (a) to which the Company is a party or by which the Company or any of its properties is bound and (b) which has been described in or filed as an exhibit to the Registration Statement, (ii) any existing applicable law, rule or regulation (other than securities or Blue Sky laws of the various states or other jurisdictions, as to which such counsel need express no opinion) or (iii) any judgement, injunction, order or decree known to such counsel of any government, governmental instrumentality or court having jurisdiction over the Company or any of its properties, except, in each case referred to in this clause (B), for such conflicts, breaches or defaults or liens, charges or encumbrances that would not have a Material Adverse Effect;

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(x) No consent, approval, authorization or other order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency, or official is required on the part of the Company (except as have been obtained under the Act and the Exchange Act or such as may be required under state or foreign securities or Blue Sky laws governing the purchase and distribution of the Shares) for the valid issuance and sale of the Shares to the Underwriters as contemplated by this Agreement;

(xi) The Registration Statement and the Prospectus and any supplements or amendments thereto (except for the financial statements and the notes thereto and the auditor's reports, exhibits, schedules and other financial and statistical data included therein, as to which such counsel need express no opinion), as of their respective effective or issue dates, appear on their face to have been appropriately responsive in all material respects to the

requirements of the Act;

(xii) Such counsel does not know of (A) any pending or threatened legal or governmental proceedings that are required to be described in the Prospectus and are not described as required or (B) any agreement, contract, indenture, lease or other instrument of a character required to be described or referred to in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement which has not been described or referred to or filed as required;

(xiii) Except as described in or contemplated by the Prospectus, such counsel knows of no outstanding option, warrant or other right calling for the issuance of, and such counsel knows of no commitment, plan or arrangement to issue, any share of capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company; and except as described in the Prospectus, such counsel does not know of any holder of any securities of the Company or any other person who has the right, contractual or otherwise, to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, any of the Shares; and

(xiv) The Shares, subject to official notice of issuance, have been approved for listing on the New York Stock Exchange.

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In addition, such counsel shall state that such counsel has participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters, at which the contents of the Registration Statement and the Prospectus and related matters were discussed and that, although such counsel has not undertaken to determine independently, and does not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus, such counsel advises you that, on the basis of the foregoing (relying as to materiality to a large extent on statements and other representations of officers and other representatives of the Company), no facts have come to such counsel's attention that lead such counsel to believe that the Registration Statement (other than (i) the financial statements and schedules (including the notes thereto and the auditors' reports thereon) included therein or omitted therefrom and (ii) the other accounting, financial and statistical information contained therein or omitted therefrom, and it being understood that such counsel is making no statement herein as to the accuracy of any statement or representation in any exhibit to the Registration Statement), as of its effective date, contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein not misleading, or that the Prospectus (other than (i) the financial statements and schedules (including the notes thereto and the auditors' reports thereon) included therein or omitted therefrom and (ii) the other accounting, financial and statistical information contained therein or omitted therefrom, as to which such counsel need not comment), as of its issue date or the Closing Date or the Option Closing Date, as the case may be, contained or contains an untrue statement of a

material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering their opinion as aforesaid, counsel may limit their opinion to the laws of the State of Texas, the corporate laws of the State of Delaware and applicable federal law.

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(d) You shall have received on the Closing Date, an opinion of John D. Held, Esq., Senior Vice President, General Counsel and Secretary of the Company, dated the Closing Date and addressed to you, as Representatives of the several Underwriters (provided that, in lieu of any or all of the following opinions with respect to any single Subsidiary, the Company may cause you to be provided with an opinion of counsel to any such Subsidiary (provided that such counsel is acceptable to you, such opinion is addressed to you, as Representatives of the several Underwriters, and Mr. Held shall state in his opinion that he believes the Underwriters are justified in relying on such opinion), and provided further that any such opinion with respect to any Subsidiary shall, (x) with respect to issues of materiality, speak to materiality as to that Subsidiary alone, and (y) with respect to issues of required disclosure, speak to disclosure required under the applicable Reorganization Agreement as well as in the Prospectus), to the effect that:

(i) The Company is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its business or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not have a Material Adverse Effect;

(ii) Each of the Subsidiaries is a corporation duly incorporated and validly existing in good standing under the laws of the jurisdiction of its incorporation, with full corporate power and authority to own, lease, and operate its properties and to conduct its business as described in the Prospectus; and (after giving effect to the Acquisitions) all the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and are owned by the Company directly, or indirectly through one of the other Subsidiaries, free and clear (except as set forth in the Prospectus) of any perfected security interest or adverse claim;

(iii) The Company and each of the Subsidiaries has full corporate power and authority, and all necessary governmental authorizations, approvals, orders, licenses, certificates, franchises and permits of and from all governmental regulatory officials and bodies (except where the failure so to

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have any such authorizations, approvals, orders, licenses, certificates, franchises or permits, individually or in the aggregate, would not have a Material Adverse Effect), to own their respective properties and to conduct

their respective businesses as now being conducted, as described in the Prospectus;

(iv) Such counsel is not aware, after reasonable inquiry, of (A) any pending or threatened legal or governmental proceedings that are required to be described in the Prospectus and are not described as required or (B) any claim or challenge by any other person to the rights of the Company or any of the Subsidiaries with respect to any patents, trademarks, trademark registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights described in the Prospectus or the Reorganization Agreements as being owned by the Company or any such Subsidiary or material to the conduct of their respective businesses;

(v) Except as described in or contemplated by the Prospectus, such counsel knows of no outstanding option, warrant or other right calling for the issuance of, and such counsel knows of no commitment, plan or arrangement to issue, any share of capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company, and except as described in the Prospectus, such counsel does not know of any holder of any securities of the Company or any other person who has the right, contractual or otherwise, to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of any of the Shares;

(vi) Each of the Acquisitions has been consummated pursuant to the terms of the Reorganization Agreement related thereto;

(vii) To the knowledge of such counsel, except as disclosed in the Prospectus, no default exists in the performance or observance by the Company of any material obligation, agreement, covenant or condition in any agreement, contract, indenture, lease or other instrument that is described or referred to in the Registration Statement or the Prospectus or filed as an exhibit to the Registration Statement;

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(viii) The statements in the Registration Statement and Prospectus, insofar as they are descriptions of contracts, agreements or other legal documents, or refer to statements of law or legal conclusions, are accurate in all material respects and fairly summarize in all material respects the information required to be shown.

In addition, such counsel shall state that such counsel has participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters, at which the contents of the Registration Statement and the Prospectus and related matters were discussed and that, although such counsel has not undertaken to determine independently, and does not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectus, such counsel advises you that, on the basis of the foregoing (relying as to

materiality to a large extent on statements and other representations of officers and other representatives of the Company), no facts have come to such counsel's attention that lead such counsel to believe that the Registration Statement (other than (i) the financial statements and schedules (including the notes thereto and the auditors' reports thereon) included therein or omitted therefrom and (ii) the other accounting, financial and statistical information contained therein or omitted therefrom as to which such counsel need not comment, and it being understood that such counsel is making no statement herein as to the accuracy of any statement or representation in any exhibit to the Registration Statement), as of its effective date, contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein not misleading, or that the Prospectus (other than (i) the financial statements and schedules (including the notes thereto and the auditors' reports thereon) included therein or omitted therefrom and (ii) the other accounting, financial and statistical information contained therein or omitted therefrom, as to which such counsel need not comment), as of its issue date or the Closing Date or the Option Closing Date, as the case may be, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

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In rendering his opinion as aforesaid, such counsel may rely upon an opinion or opinions, each dated the Closing Date, of other counsel retained by the Company as to laws of any jurisdiction other than the United States or the State of Texas, provided that (1) each such local counsel is acceptable to the Representatives, (2) such reliance is expressly authorized by each opinion so relied upon and a copy of each such opinion is addressed and delivered to the Representatives and is, in form and substance satisfactory to them and their counsel, and (3) such counsel shall state in his opinion that he believes that he and the Underwriters are justified in relying thereon.

(e) You shall have received a copy of the opinions to be delivered by counsel for each of the Founding Companies identified in the Prospectus, dated the Closing Date, substantially in the forms previously delivered to you and with each such opinion specifically to authorize your reliance thereon.

(f) You shall have received on the Closing Date an opinion of Morgan, Lewis & Bockius LLP, counsel for the Underwriters, dated the Closing Date and addressed to you, as Representatives of the several Underwriters, with respect to the matters referred to in clauses (iv), (vi) and (xi) and a statement to the same effect as is set forth in the second to last paragraph of the foregoing paragraph (c) and such other related matters as you may request.

(g) You shall have received letters addressed to you, as Representatives of the several Underwriters, and dated the date hereof and the Closing Date from Arthur Andersen, LLP, independent certified public accountants, substantially in the forms heretofore approved by you.

(h) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company, shall be contemplated by the Commission at or prior to the Closing Date; (ii) there shall not have been any change in the capital stock of the Company nor any material increase in the short-term or long-term debt of the Company (other than in the ordinary course of business) from that set

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forth or contemplated in the Registration Statement or the Prospectus (or any amendment or supplement thereto); (iii) there shall not have been, since the respective dates as of which information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), except as may otherwise be stated in the Registration Statement and Prospectus (or any amendment or supplement thereto), any Material Adverse Effect; (iv) the Company and the Subsidiaries shall not have any liabilities or obligations, direct or contingent (whether or not in the ordinary course of business), that are material to the Company and the Subsidiaries, taken as a whole, other than those reflected in the Registration Statement or the Prospectus (or any amendment or supplement thereto); and (v) all the representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date and you shall have received a certificate, dated the Closing Date and signed by the chief executive officer of the Company (or such other officer as is acceptable to you), to the effect set forth in this Section 8(g) and in Section 8(h) hereof.

(i) The Acquisitions shall have been consummated as of the Closing Date on the terms set forth in the Registration Statement and the Reorganization Agreements, without waiver or modification of any material terms or provisions of the Reorganization Agreements, except as may be approved by you.

(j) The Company shall not have failed at or prior to the Closing Date to have performed or complied with any of its agreements herein contained and required to be performed or complied with by it hereunder at or prior to the Closing Date.

(k) The Shares shall have been approved for listing, subject to notice of issuance, on the New York Stock Exchange.

(l) The Company shall have furnished or caused to be furnished to you such further certificates and documents as you shall have reasonably requested.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only

if they are satisfactory in form and substance to you and counsel for the Underwriters.

Any certificate or document signed by any officer of the Company and delivered to you, as Representatives of the Underwriters, or to counsel for the Underwriters, shall be deemed a representation and warranty by the Company to each Underwriter as to the statements made therein.

The several obligations of the Underwriters to purchase Additional Shares hereunder are subject to the satisfaction on and as of any Option Closing Date of the conditions set forth in this Section 8, except that, if any Option Closing Date is other than the Closing Date, the certificates, opinions and letters referred to in paragraphs (c) through (g) shall be dated the Option Closing Date in question and the opinions called for by paragraphs (c), (d) and (e) shall be revised to reflect the sale of Additional Shares.

9. EXPENSES. The Company agrees to pay the following costs and expenses and all other costs and expenses incident to the performance by it of its obligations hereunder: (i) the preparation, printing or reproduction, and filing with the Commission of the registration statement (including financial statements and exhibits thereto), each Prepricing Prospectus, the Prospectus, and each amendment or supplement to any of them; (ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the registration statement, each Prepricing Prospectus, the Prospectus, and all amendments or supplements to any of them as may be reasonably requested for use in connection with the offering and sale of the Shares; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Shares, including any stamp taxes in connection with the original issuance and sale of the Shares; (iv) the printing (or reproduction) and delivery of this Agreement, the preliminary and supplemental Blue Sky Memoranda and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Shares; (v) the registration of the Common Stock under the Exchange Act and the listing of the Shares on the New York Stock Exchange; (vi) the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of the several states as provided in

Section 5(g) hereof (including the reasonable fees, expenses and disbursements of counsel for the Underwriters relating to the preparation, printing or reproduction, and delivery of the preliminary and supplemental Blue Sky Memoranda and such registration and qualification); (vii) the filing fees for any filings required to be made with the National Association of Securities Dealers, Inc.; (viii) the transportation and other expenses incurred by or on behalf of Company representatives in connection with presentations to prospective purchasers of the Shares; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel) for the Company; and (x) the expenses incurred by the Company

incident to the negotiation, execution, delivery and performance of the Reorganization Agreements.

10. EFFECTIVE DATE OF AGREEMENT. This Agreement shall become effective: (i) upon the execution and delivery hereof by the parties hereto; or (ii) if, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, when notification of the effectiveness of the registration statement or such post-effective amendment has been released by the Commission. Until such time as this Agreement shall have become effective, it may be terminated by the Company, by notifying you, or by you, as Representatives of the several Underwriters, by notifying the Company.

If any one or more of the Underwriters shall fail or refuse to purchase Shares which it or they are obligated to purchase hereunder on the Closing Date, and the aggregate number of Shares which such defaulting Underwriter or Underwriters are obligated but fail or refuse to purchase is not more than one-tenth of the aggregate number of Shares which the Underwriters are obligated to purchase on the Closing Date, each non-defaulting Underwriter shall be obligated, severally, in the proportion which the number of Firm Shares set forth opposite its name in Schedule I hereto bears to the aggregate number of Firm Shares set forth opposite the names of all non-defaulting Underwriters or in such other proportion as you may specify in accordance with Section 20 of the Master Agreement Among Underwriters of Smith Barney Inc., to purchase the Shares which such defaulting Underwriter or Underwriters are obligated, but

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fail or refuse, to purchase. If any one or more of the Underwriters shall fail or refuse to purchase Shares which it or they are obligated to purchase on the Closing Date and the aggregate number of Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Shares which the Underwriters are obligated to purchase on the Closing Date and arrangements satisfactory to you and the Company for the purchase of such Shares by one or more non-defaulting Underwriters or other party or parties approved by you and the Company are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company. In any such case which does not result in termination of this Agreement, either you or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and the Prospectus or any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any such default of any such Underwriter under this Agreement. The term "Underwriter" as used in this Agreement includes, for all purposes of this Agreement, any party not listed in Schedule I hereto who, with your approval and the approval of the Company, purchases Shares which a defaulting Underwriter is obligated, but fails or refuses, to purchase.

Any notice under this Section 10 may be given by telegram,



teletype or telephone but shall be subsequently confirmed by letter.

11. TERMINATION OF AGREEMENT. This Agreement shall be subject to termination in your absolute discretion, without liability on the part of any Underwriter to the Company, by notice to the Company, if prior to the Closing Date or any Option Closing Date (if different from the Closing Date and then only as to the Additional Shares), as the case may be, (i) trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the Nasdaq National Market shall have been suspended or materially limited, (ii) a general moratorium on commercial banking activities in New York shall have been declared by either federal or state authorities, or (iii) there shall have occurred any outbreak or escalation of hostilities or other international or domestic calamity, crisis or change in

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political, financial or economic conditions, the effect of which on the financial markets of the United States is such as to make it, in your judgment, impracticable or inadvisable to commence or continue the offering of the Shares at the offering price to the public set forth on the cover page of the Prospectus or to enforce contracts for the resale of the Shares by the Underwriters. Notice of such termination may be given to the Company by telegram, teletype or telephone and shall be subsequently confirmed by letter.

12. INFORMATION FURNISHED BY THE UNDERWRITERS. The statements set forth in the last paragraph on the cover page, the stabilization legend on the inside cover page, and the statements in the first (including the table) and third paragraphs under the caption "Underwriting" in any Prepricing Prospectus and in the Prospectus, constitute the only information furnished by or on behalf of the Underwriters through you as such information is referred to in Sections 6(b) and 7 hereof.

13. MISCELLANEOUS. Except as otherwise provided in Sections 5, 10 and 11 hereof, notice given pursuant to any provision of this Agreement shall be in writing and shall be delivered (i) if to the Company, at the office of the Company at 5850 San Felipe, Suite 500, Houston, Texas, 77057-8003, Attention: John D. Held, Esq.; or (ii) if to you, as Representatives of the several Underwriters, care of Smith Barney Inc., 388 Greenwich Street, New York, New York 10013, Attention: Manager, Investment Banking Division.

This Agreement has been and is made solely for the benefit of the several Underwriters, the Company, its directors and officers, and the other controlling persons referred to in Section 7 hereof and their respective successors and assigns, to the extent provided herein, and no other person shall acquire or have any right under or by virtue of this Agreement. Neither the term "successor" nor the term "successors and assigns" as used in this Agreement shall include a purchaser from any Underwriter of any of the Shares in his status as such purchaser.

14. APPLICABLE LAW; COUNTERPARTS. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be

performed within the State of New York.

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This Agreement may be signed in various counterparts which together constitute one and the same instrument. If signed in counterparts, this Agreement shall not become effective unless at least one counterpart hereof shall have been executed and delivered on behalf of each party hereto.

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Please confirm that the foregoing correctly sets forth the agreement between the Company and the several Underwriters.

Very truly yours,

AMERICAN RESIDENTIAL SERVICES, INC.

By \_\_\_\_\_  
President and Chief  
Executive Officer

Confirmed as of the date first above mentioned on behalf of themselves and the other several Underwriters named in Schedule I hereto.

SMITH BARNEY INC.

MONTGOMERY SECURITIES

As Representatives of the Several Underwriters

By SMITH BARNEY INC.

By \_\_\_\_\_  
Managing Director

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SCHEDULE I

AMERICAN RESIDENTIAL SERVICES, INC.

UNDERWRITER

NUMBER OF FIRM SHARES

Smith Barney Inc. ....  
Montgomery Securities .....

-----  
Total.....4,200,000  
=====

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SCHEDULE II

REORGANIZATION AGREEMENTS

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RESTATED CERTIFICATE OF INCORPORATION  
OF  
AMERICAN RESIDENTIAL SERVICES, INC.

American Residential Services, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "DGCL"), hereby adopts this Restated Certificate of Incorporation, which accurately restates and integrates the provisions of the existing Certificate of Incorporation of the Corporation and all amendments thereto that are in effect on the date hereof (the "Certificate of Incorporation") and further amends the provisions of the Certificate of Incorporation as described below, and does hereby further certify that:

1. The name of the Corporation is American Residential Services, Inc. The original certificate of incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on October 24, 1995.

2. The Board of Directors of the Corporation duly adopted a resolution proposing and declaring advisable the amendments to the Certificate of Incorporation as described herein, and the Corporation's stockholders duly adopted such amendments, all in accordance with the provisions of Sections 228, 242 and 245 of the DGCL.

3. The Certificate of Incorporation is hereby restated and further amended to read in its entirety as follows:

RESTATED CERTIFICATE OF INCORPORATION

FIRST: The name of the Corporation is American Residential Services, Inc.

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful business, act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware or any successor statute (the "DGCL").

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FOURTH: The aggregate number of shares of capital stock which the Corporation shall have authority to issue is Sixty Million (60,000,000), divided

into Fifty Million (50,000,000) shares of common stock, par value \$0.001 per share ("Common Stock"), and Ten Million (10,000,000) shares of preferred stock, par value \$0.001 per share ("Preferred Stock"). Shares of any class of capital stock of the Corporation may be issued for such consideration and for such corporate purposes as the Board of Directors of the Corporation (the "Board of Directors") may from time to time determine. Each share of Common Stock shall be entitled to one vote.

The Preferred Stock may be divided into and issued from time to time in one or more series as may be fixed and determined by the Board of Directors. The relative rights and preferences of the Preferred Stock of each series shall be such as shall be stated in any resolution or resolutions adopted by the Board of Directors setting forth the designation of the series and fixing and determining the relative rights and preferences thereof, any such resolution or resolutions being herein called a "Directors' Resolution." The Board of Directors is hereby authorized to fix and determine the powers, designations, preferences, and relative, participating, optional or other rights (including, without limitation, voting powers, full or limited, preferential rights to receive dividends or assets upon liquidation, rights of conversion or exchange into Common Stock, Preferred Stock of any series or other securities, any right of the Corporation to exchange or convert shares into Common Stock, Preferred Stock of any series or other securities, or redemption provisions or sinking fund provisions) as between series and as between the Preferred Stock or any series thereof and the Common Stock, and the qualifications, limitations or restrictions thereof, if any, all as shall be stated in a Directors' Resolution, and the shares of Preferred Stock or any series thereof may have full or limited voting powers, or be without voting powers, all as shall be stated in a Directors' Resolution.

No stockholder shall, by reason of the holding of shares of any class or series of capital stock of the Corporation, have a preemptive or preferential right to acquire or subscribe for any shares or securities of any class, whether now or hereafter authorized, which may at any time be issued, sold or offered for sale by the Corporation, unless specifically provided for in a Directors' Resolution with respect to a series of Preferred Stock.

Cumulative voting of shares of any class or series of capital stock having voting rights is prohibited unless specifically provided for in a Directors' Resolution with respect to a series of Preferred Stock.

FIFTH: (a) DIRECTORS. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the authority and powers conferred upon the Board of Directors by the DGCL or by the other provisions of this Restated Certificate of Incorporation (this "Certificate of Incorporation"), the Board of Directors is hereby authorized and empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject to the provisions of the DGCL, this Certificate of Incorporation and any Bylaws adopted by the stockholders of the Corporation; PROVIDED, HOWEVER, that no Bylaws hereafter adopted by the stockholders of the Corporation, or any amendments thereto, shall invalidate any prior act of the Board of Directors that would

have been valid if such Bylaws or amendment had not been adopted.

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(b) NUMBER, ELECTION AND TERMS OF DIRECTORS. The number of directors which shall constitute the whole Board of Directors shall be fixed from time to time by a majority of the directors then in office, subject to an increase in the number of directors by reason of any provisions contained in or established pursuant to Article FOURTH, but in any event shall not be less than three. The directors, other than those who may be elected by the holders of any series of Preferred Stock, shall be divided into three classes, Class I, Class II and Class III. Each director shall serve for a term ending on the third annual meeting following the annual meeting at which such director was elected; PROVIDED, HOWEVER, that the directors first elected to Class I shall serve for a term expiring at the annual meeting next following the end of the calendar year 1996, the directors first elected to Class II shall serve for a term expiring at the annual meeting next following the end of the calendar year 1997, and the directors first elected to Class III shall serve for a term expiring at the annual meeting next following the end of the calendar year 1998. Each director shall hold office until the annual meeting at which such director's term expires and, the foregoing notwithstanding, shall serve until his successor shall have been duly elected and qualified or until his earlier death, resignation or removal.

At each annual election, the directors chosen to succeed those whose terms then expire shall be of the same class as the directors they succeed, unless, by reason of any intervening changes in the authorized number of directors, the Board of Directors shall have designated one or more directorships whose term then expires as directorships of another class in order more nearly to achieve equality of number of directors among the classes.

In the event of any change in the authorized number of directors, each director then continuing to serve as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term, or his prior death, resignation or removal. The Board of Directors shall specify the class to which a newly created directorship shall be allocated.

Election of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

(c) REMOVAL OF DIRECTORS. No director of the Corporation shall be removed from office as a director by vote or other action of the stockholders or otherwise except for cause, and then only by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of the Corporation generally entitled to vote in the election of directors, voting together as a single class. Except as may otherwise be provided by law, cause for removal of a director shall be deemed to exist only if: (i) the director whose removal is proposed has been convicted, or where a director is granted immunity to testify where another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer

subject to direct appeal; (ii) such director has been found by the affirmative vote of a majority of the entire Board of Directors at any regular or special meeting of the Board of Directors called for that purpose or by a court of competent jurisdiction to have been grossly negligent or guilty of misconduct in the performance of his duties to the Corporation in a matter of substantial importance to the Corporation; or (iii) such director has been adjudicated by a court of competent

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jurisdiction to be mentally incompetent, which mental incompetency directly affects his ability as a director of the Corporation.

(d) VACANCIES. Except as provided in Article FOURTH hereof, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified or until his earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

SIXTH: From and after the first date as of which the Corporation has a class or series of capital stock registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), any action required or permitted to be taken by the stockholders of the Corporation must be effected at an annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders. Except as otherwise required by law, or as may be prescribed in a Directors' Resolution, special meetings of stockholders of the Corporation may be called only by the Chairman of the Board of Directors or by the President of the Corporation or by the Board of Directors pursuant to a resolution approved by the affirmative vote of a majority of the entire Board of Directors.

SEVENTH: No director of the Corporation shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director; PROVIDED, HOWEVER, that the foregoing provisions shall not eliminate or limit the liability of a director (i) for any breach of such director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, as the same exists or as such provision may hereafter be amended, supplemented or replaced, or (iv) for any transactions from which such director derived an improper personal benefit. If the DGCL is amended after the filing of this Certificate of Incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal

liability provided herein, shall be limited to the fullest extent permitted by such law, as so amended. Any repeal or modification of this Article SEVENTH by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

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EIGHTH: In furtherance of, and not in limitation of, the powers conferred by statute, the Board of Directors is expressly authorized to adopt, amend or repeal the Bylaws of the Corporation, or adopt new Bylaws, without any action on the part of the stockholders, except as may be otherwise provided by applicable law or the Bylaws of the Corporation.

NINTH: Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for the Corporation under Section 291 of Title 8 of the Delaware Code, or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If the majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders, of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be executed this 23rd day of August, 1996.

AMERICAN RESIDENTIAL SERVICES, INC.

By: /S/ JOHN D. HELD  
John D. Held  
Senior Vice President

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AMENDED AND RESTATED BYLAWS

OF

AMERICAN RESIDENTIAL SERVICES, INC.

ADOPTED JULY 23, 1996, TO BE EFFECTIVE AS OF THE CLOSING DATE OF THE INITIAL PUBLIC OFFERING OF THE COMMON STOCK OF AMERICAN RESIDENTIAL SERVICES, INC.

AMENDED & RESTATED BYLAWS

OF

AMERICAN RESIDENTIAL SERVICES, INC.

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AMENDED AND RESTATED BYLAWS  
OF  
AMERICAN RESIDENTIAL SERVICES, INC.

ARTICLE I

OFFICES

1.1 REGISTERED OFFICE. The registered office of American Residential Services, Inc. (the "Corporation") required by the General Corporation Law of the State of Delaware or any successor statute (the "DGCL"), to be maintained in the State of Delaware, shall be the registered office named in the Certificate of Incorporation of the Corporation, as it may be amended or restated in accordance with the DGCL from time to time (the "Certificate of Incorporation"), or such other office as may be designated from time to time by the Board of Directors of the Corporation (the "Board of Directors" or the "Board") in the manner provided by applicable law. Should the Corporation maintain a principal office within the State of Delaware such registered office need not be identical to such principal office of the Corporation.

1.2 OTHER OFFICES. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may determine from time to time or as the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS. Meetings of stockholders shall be held at such place within or without the State of Delaware as may be designated by the Board of Directors or the officer calling the meeting, or, in the absence of such designation, at the registered office of the Corporation in the State of Delaware.

2.2 ANNUAL MEETING. An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire or to fill vacancies and for the transaction of such other business as may properly come before the meeting, shall be held on such date and at such time as the Board of Directors shall fix and set forth in the notice of the meeting, which date shall be within thirteen months subsequent to the last annual meeting of stockholders. At the annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the annual meeting as set forth in Section 2.8 hereof. Failure to hold the annual meeting at the designated time shall not work a dissolution of the Corporation.

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2.3 SPECIAL MEETINGS. Special meetings of the stockholders may be called at any time by the Chairman of the Board, the President or a majority of the Board of Directors. Upon written request of any person or persons who have duly called a special meeting, it shall be the duty of the Secretary of the Corporation to fix the date of the meeting to be held not less than ten nor more than 60 days after the receipt of the request and to give due notice thereof. If the Secretary shall neglect or refuse to fix the date of the meeting and give notice thereof, the person or persons calling the meeting may do so.

2.4 NOTICE OF MEETING. Written or printed notice of all meetings stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman of the Board, President or Secretary of the Corporation, to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered to a stockholder when deposited in the United States mail addressed to such stockholder at such stockholder's address as it appears on the stock transfer records of the Corporation, with postage thereon prepaid.

2.5 REGISTERED HOLDERS OF SHARES; CLOSING OF SHARE TRANSFER RECORDS; AND RECORD DATE.

(a) REGISTERED HOLDERS AS OWNERS. Unless otherwise provided under Delaware law, the Corporation may regard the person in whose name any shares issued by the Corporation are registered in the stock transfer records of the Corporation at any particular time (including, without limitation, as of a record date fixed pursuant to paragraph (b) of this Section 2.5) as the owner of

those shares at that time for purposes of voting those shares, receiving distributions thereon or notices in respect thereof, transferring those shares, exercising rights of dissent with respect to those shares, entering into agreements with respect to those shares, or giving proxies with respect to those shares; and neither the Corporation nor any of its officers, directors, employees or agents shall be liable for regarding that person as the owner of those shares at that time for those purposes, regardless of whether that person possesses a certificate for those shares.

- (b) RECORD DATE. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive a distribution by the Corporation (other than a distribution involving a purchase or redemption by the Corporation of any of its own shares) or a share dividend, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors may fix in advance a date as the record date for any such determination of stockholders, such date in any case to be not more than 60 days and, in the case of a meeting of stockholders, not less than ten days, prior to the date on which the particular action requiring such determination of

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stockholders is to be taken. The Board of Directors shall not close the books of the Corporation against transfers of shares during the whole or any part of such period.

If the Board of Directors does not fix a record date for any meeting of the stockholders, the record date for determining stockholders entitled to notice of or to vote at such meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if in accordance with Section 7.3 of these Amended and Restated Bylaws (these "Bylaws") notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

- 2.6 QUORUM OF STOCKHOLDERS; ADJOURNMENT. Unless otherwise provided in the Certificate of Incorporation, a majority of the outstanding shares of capital stock of the Corporation entitled to vote, present in person or represented by proxy, shall constitute a quorum at any meeting of the stockholders, and the stockholders present at any duly convened meeting may continue to do business until adjournment notwithstanding any withdrawal from the meeting of holders of shares counted in determining the existence of a quorum. Unless otherwise provided in the Certificate of Incorporation or these Bylaws, any meeting of the stockholders may be adjourned from time to time by the chairman of the meeting or the holders of a majority of the issued and outstanding stock, present in person or represented by proxy, whether or not a quorum is present, without notice other than by announcement at the meeting at which such

adjournment is taken, and at any such adjourned meeting at which a quorum shall be present any action may be taken that could have been taken at the meeting originally called; PROVIDED that if the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting.

## 2.7 VOTING BY STOCKHOLDERS.

- (a) VOTING ON MATTERS OTHER THAN THE ELECTION OF DIRECTORS. With respect to any matters as to which no other voting requirement is specified by the DGCL, the Certificate of Incorporation or these Bylaws, the affirmative vote required for stockholder action shall be that of a majority of the shares present in person or represented by proxy at the meeting (as counted for purposes of determining the existence of a quorum at the meeting). In the case of a matter submitted for a vote of the stockholders as to which a stockholder approval requirement is applicable under the stockholder approval policy of any stock exchange or quotation system on which the capital stock of the Corporation is traded or quoted, the requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any provision of the Internal Revenue Code, in each case for which no higher voting requirement is specified by the DGCL, the Certificate of Incorporation or these Bylaws, the vote required for approval shall be the requisite vote specified in such stockholder approval policy, the Exchange Act or Internal Revenue Code

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provision, as the case may be (or the highest such requirement if more than one is applicable). For the approval of the appointment of independent public accountants (if submitted for a vote of the stockholders), the vote required for approval shall be a majority of the votes cast on the matter.

- (b) VOTING IN THE ELECTION OF DIRECTORS. Unless otherwise provided in the Certificate of Incorporation or these Bylaws in accordance with the DGCL, directors shall be elected by a plurality of the votes cast by the holders of outstanding shares of capital stock of the Corporation entitled to vote in the election of directors at a meeting of stockholders at which a quorum is present.

- (c) OTHER. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders of the Corporation, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

## 2.8 BUSINESS TO BE CONDUCTED.

- (a) At an annual meeting of stockholders, only such business shall be conducted, and only such proposals shall be acted upon, as shall have been brought before the annual meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is a stockholder of record at the time of the giving of such stockholder's notice provided for in this Section 2.8, who shall be entitled to vote at such meeting and who complies with the requirements of this Section 2.8 and as shall otherwise be proper subjects for stockholder action and shall be properly introduced at the meeting. For a proposal to be properly brought before an annual meeting by a stockholder, in addition to any other applicable requirements, the stockholder must have given timely advance notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not later than the 90th day prior to the first anniversary of the preceding year's annual meeting; PROVIDED, HOWEVER, that with respect to the annual meeting of stockholders to be held in 1997 or in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. Any such stockholder's notice to the Secretary of the Corporation shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a description of the proposal desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business and any other stockholders known by such stockholder to be supporting such proposal,

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(iii) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such notice, (iv) any financial interest of the stockholder in such proposal and (v) a representation that the stockholder intends to appear in person or by proxy at the meeting to bring the proposed business before the annual meeting. The presiding

officer of the annual meeting shall determine whether the requirements of this paragraph (a) have been met with respect to any stockholder proposal. If the presiding officer determines that a stockholder proposal was not made in accordance with the terms of this paragraph (a), he shall so declare at the meeting and any such proposal shall not be acted upon at the meeting. At a special meeting of stockholders, only such business shall be acted upon as shall have been set forth in the notice relating to the meeting required by Section 2.4 hereof or as shall constitute matters incident to the conduct of the meeting as the presiding officer of the meeting shall determine to be appropriate.

(b) Notwithstanding the foregoing provisions of this Section 2.8, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.8.

2.9 PROXIES. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy. Proxies for use at any meeting of stockholders shall be filed with the Secretary, or such other officer as the Board of Directors may from time to time determine by resolution, before or at the time of the meeting. All proxies shall be received and taken charge of and all ballots shall be received and canvassed by the secretary of the meeting who shall decide all questions relating to the qualification of voters, the validity of the proxies, and the acceptance or rejection of votes, unless an inspector or inspectors shall have been appointed by the chairman of the meeting, in which event such inspector or inspectors shall decide all such questions.

2.10 APPROVAL OR RATIFICATION OF ACTS OR CONTRACTS BY STOCKHOLDERS. The Board of Directors in its discretion may submit any act or contract for approval or ratification at any annual meeting of the stockholders, or at any special meeting of the stockholders called for the purpose of considering any such act or contract, and any act or contract that shall be approved or be ratified by the vote of the stockholders holding a majority of the issued and outstanding shares of stock of the Corporation entitled to vote and present in person or by proxy at such meeting (provided that a quorum is present), shall be as valid and as binding upon the Corporation and upon all the stockholders as if it has been approved or ratified by every stockholder of the Corporation.

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### ARTICLE III

#### DIRECTORS

3.1 POWERS, NUMBER, CLASSIFICATION AND TENURE.



- (a) The powers of the Corporation shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, the Board of Directors. The Board of Directors shall be divided into three classes as provided in the Certificate of Incorporation. Each director shall hold office for the full term for which such director is elected and until such director's successor shall have been duly elected and qualified or until his earlier death or resignation or removal in accordance with the Certificate of Incorporation or these Bylaws.
- (b) Within the limits specified in the Certificate of Incorporation, the number of directors that shall constitute the whole Board of Directors shall be fixed by, and may be increased or decreased from time to time by, the affirmative vote of a majority of the members at any time constituting the Board of Directors. Except as provided in the Certificate of Incorporation of the Corporation, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified or until his earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

3.2 QUALIFICATIONS. Directors need not be residents of the State of Delaware or stockholders of the Corporation.

3.3 NOMINATION OF DIRECTORS. Subject to such rights of the holders of one or more outstanding series of Preferred Stock of the Corporation to elect one or more directors in case of arrearages in the payment of dividends or other defaults as shall be prescribed in the Certificate of Incorporation or in the resolutions of the Board of Directors providing for the establishment of any such series, only persons who are nominated in accordance with the procedures set forth in this Section 3.3 shall be eligible for election as, and to serve as, directors. Nominations of persons for election to the Board of Directors may be made at a meeting of the stockholders at which Directors are to be elected (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is

a stockholder of record at the time of the giving of such stockholder's

notice provided for in this Section 3.3, who shall be entitled to vote at such meeting in the election of directors and who complies with the requirements of this Section 3.3. Such nominations, other than those made by or at the direction of the Board of Directors, shall be preceded by timely advance notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to, or mailed and received at, the principal executive offices of the Corporation (i) with respect to an election to be held at the annual meeting of the stockholders of the Corporation, not later than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; PROVIDED, HOWEVER, that with respect to the annual meeting of stockholders to be held in 1997 or in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation; and (ii) with respect to an election to be held at a special meeting of stockholders of the Corporation for the election of directors not later than the close of business on the tenth day following the day on which notice of the date of the special meeting was mailed to stockholders of the Corporation as provided in Section 2.4 hereof or public disclosure of the date of the special meeting was made, whichever first occurs. Any such stockholder's notice to the Secretary of the Corporation shall set forth (x) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the number of shares of each class of capital stock of the Corporation beneficially owned by such person, (iv) the written consent of such person to having such person's name placed in nomination at the meeting and to serve as a director if elected and (v) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, pursuant to Regulation 14A under the Exchange Act, and (y) as to the stockholder giving the notice, (i) the name and address, as they appear on the Corporation's books, of such stockholder and (ii) the number of shares of each class of voting stock of the Corporation which are then beneficially owned by such stockholder. The presiding officer of the meeting of stockholders shall determine whether the requirements of this Section 3.3 have been met with respect to any nomination or intended nomination. If the presiding officer determines that any nomination was not made in accordance with the requirements of this Section 3.3, he shall so declare at the meeting and the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section 3.3, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 3.3.

3.4 PLACE OF MEETING; ORDER OF BUSINESS. Except as otherwise provided by

law, meetings of the Board of Directors, regular or special, may be held either within or without the State

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of Delaware, at whatever place is specified by the person or persons calling the meeting. In the absence of specific designation, the meetings shall be held at the principal office of the Corporation. At all meetings of the Board of Directors, business shall be transacted in such order as shall from time to time be determined by the Chairman of the Board (if any), or in his absence by the President, or by resolution of the Board of Directors.

- 3.5 REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held, in each case, at such hour and on such day as may be fixed by resolution of the Board of Directors, without further notice of such meetings. The time or place of holding regular meetings of the Board of Directors may be changed by the Chairman of the Board or the President by giving written notice thereof as provided in Section 3.7 hereof.
- 3.6 SPECIAL MEETINGS. Special meetings of the Board of Directors shall be held, whenever called by the Chairman of the Board, the President or by resolution adopted by the Board of Directors, in each case, at such hour and on such day as may be stated in the notice of the meeting.
- 3.7 ATTENDANCE AT AND NOTICE OF MEETINGS. Written notice of the time and place of, and general nature of the business to be transacted at, all special meetings of the Board of Directors, and written notice of any change in the time or place of holding the regular meetings of the Board of Directors, shall be given to each director personally or by mail or by telegraph, telecopier or similar communication at least one day before the day of the meeting; PROVIDED, HOWEVER, that notice of any meeting need not be given to any director if waived by him in writing, or if he shall be present at such meeting. Participation in a meeting of the Board of Directors shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.
- 3.8 QUORUM OF AND ACTION BY DIRECTORS. A majority of the directors in office shall constitute a quorum of the Board of Directors for the transaction of business; but a lesser number may adjourn from day to day until a quorum is present. Except as otherwise provided by law or in these Bylaws, all questions shall be decided by the vote of a majority of the directors present.
- 3.9 BOARD AND COMMITTEE ACTION WITHOUT A MEETING. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at a meeting of the Board of Directors or any committee thereof may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all

the members of the Board of Directors or such committee, as the case may be, and shall be filed with the Secretary of the Corporation.

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- 3.10 BOARD AND COMMITTEE TELEPHONE MEETINGS. Subject to the provisions required or permitted by the DGCL for notice of meetings, unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors, or members of any committee designated by the Board of Directors, may participate in and hold a meeting of such Board of Directors or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 3.10 shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.
- 3.11 COMPENSATION. Directors shall receive such compensation for their services as shall be determined by the Board of Directors.
- 3.12 REMOVAL. No director of the Corporation shall be removed from office as a director by vote or other action of the stockholders or otherwise except for cause, and then only by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of the Corporation generally entitled to vote in the election of directors, voting together as a single class. Cause for removal of a director shall be as provided by law or in the Certificate of Incorporation. Any proposal by a stockholder to remove a director of the Corporation, in order to be validly acted upon at any meeting, shall comply with paragraph (a) of Section 2.8 hereof.

Notwithstanding the first paragraph of this Section 3.12, whenever holders of outstanding shares of one or more series of Preferred Stock are entitled to elect members of the Board of Directors pursuant to the provisions applicable in the case of arrearages in the payment of dividends or other defaults contained in the resolution or resolutions of the Board of Directors providing for the establishment of any series of Preferred Stock, any such director of the Corporation so elected may be removed in accordance with the provision of such resolution or resolutions.

- 3.13 COMMITTEES OF THE BOARD OF DIRECTORS.
- (a) The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members one or more committees (in addition to those listed below), each of which shall be comprised of one or more of its members, and may designate one or more of its members as alternate members of any committee, who may, subject to any

limitations by the Board of Directors, replace absent or disqualified members at any meeting of that committee. Any such committee, to the extent provided in such resolution or in the Certificate of Incorporation or these Bylaws, shall have and may exercise all of the authority of the Board of Directors to the extent permitted by the DGCL, including, without limitation, the power and authority to declare a dividend, to

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authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the DGCL. Any such committee may authorize the seal of the Corporation to be affixed to all papers which may require it. In addition to the above, such committee or committees shall have such other powers and limitations of authority as may be determined from time to time by resolution adopted by the Board of Directors.

- (b) The Board of Directors shall have the power at any time to change the membership of any such committee and to fill vacancies in it. A majority of the number of members of any such committee shall constitute a quorum for the transaction of business unless a greater number is required by a resolution adopted by the Board of Directors. The act of the majority of the members of a committee present at any meeting at which a quorum is present shall be the act of such committee, unless the act of a greater number is required by a resolution adopted by the Board of Directors. Each such committee may elect a chairman and appoint such subcommittees and assistants as it may deem necessary. Except as otherwise provided by the Board of Directors, meetings of any committee shall be conducted in accordance with Sections 3.5, 3.6, 3.7, 3.8, 3.9, 3.10 and 7.3 hereof. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member. Any member of any such committee elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of a member of a committee shall not of itself create contract rights.
- (c) Any action taken by any committee of the Board of Directors shall promptly be recorded in the minutes and filed with the Secretary of the Corporation.
- (d) EXECUTIVE COMMITTEE. There shall be an Executive Committee of the Board of Directors, which committee shall have and may

exercise all the powers and authority of the Board of Directors between regular or special meetings of the Board in the management of the business and affairs of the Corporation, except to the extent limited by Delaware law. Without limiting the generality of the foregoing, the Executive Committee shall have the power and authority to (i) declare dividends on any class of capital stock of the Corporation, (ii) authorize the issuance of capital stock of the Corporation, (iii) adopt certificates of ownership and merger pursuant to Section 253 of the DGCL and (iv) in reference to amending the Certificate of Incorporation, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of

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Directors as provided in Section 151(a) of the DGCL, fix the designations and any of the preferences or rights of such shares relating to dividends, redemptions, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series.

- (e) AUDIT COMMITTEE. There shall be an Audit Committee of the Board of Directors whose members shall consist solely of directors who are not employees or affiliates of the Corporation and have no relationship with the Corporation that would, in the judgment of the Board of Directors, interfere with their exercise of independent judgment as a member of such Committee. The Audit Committee shall have and may exercise the power and authority to recommend to the Board of Directors the accounting firm to be selected by the Board or to be recommended by it for stockholder approval, as independent auditor of the financial statements of the Corporation and its subsidiaries, and to act on behalf of the Board in meeting and reviewing with the independent auditors, the chief accounting officer, the chief internal auditor, if any, and the appropriate corporate officers, matters relating to corporate financial reporting and accounting procedures and policies, adequacy of financial, accounting and operating controls and the scope of the respective audits of the independent auditors and the internal auditor, if any. The Audit Committee shall also review the results of such audits with the respective auditors and shall report the results of those reviews to the Board of Directors. The Audit Committee shall submit to the Board of Directors any recommendations it may have from time to time with respect to financial reporting and accounting practices and policies and financial, accounting and operational controls and safeguards. The Audit Committee may

submit to the Compensation Committee any recommendations it may have with respect to the compensation of the chief accounting officer and the chief internal auditor, if any. The Board of Directors shall, by resolution adopted by a majority of the Board of Directors, designate not less than two of its qualifying members from time to time to constitute members of the Audit Committee.

- (f) NOMINATING COMMITTEE. There shall be a Nominating Committee of the Board of Directors, which committee shall have and may exercise the power and authority to recommend to the Board of Directors prior to each annual meeting of the stockholders of the Corporation: (a) the appropriate size and composition of the Board of Directors; and (b) nominees: (i) for election to the Board of Directors for whom the Corporation should solicit proxies; (ii) to serve as proxies in connection with the annual stockholders' meeting; and (iii) for election to all committees of the Board of Directors other than the Nominating Committee. The Board of Directors shall, by resolution adopted by a majority of the Board, designate one or

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more of its members from time to time to constitute members of the Nominating Committee.

- (g) COMPENSATION COMMITTEE. There shall be a Compensation Committee of the Board of Directors, whose members shall consist solely of directors who are not employees or affiliates of the Corporation and have no relationship with the Corporation that would, in the judgment of the Board of Directors, interfere with their exercise of independent judgment as a member of such committee. The Compensation Committee shall have and may exercise all the power and authority to (i) establish a general compensation policy for officers and employees of the Corporation, including to establish and at least annually review officers' salaries and levels of officers' participation in the benefit plans of the Corporation, (ii) prepare any reports that may be required by the regulations of the Securities and Exchange Commission or otherwise relating to officer compensation, (iii) approve any increases in directors' fees and (iv) exercise all other powers of the Board of Directors with respect to matters involving the compensation of employees and the employee benefits of the Corporation as shall be delegated by the Board of Directors to the Compensation Committee from time to time. Without limiting the generality of the foregoing, the Compensation Committee shall have the power and authority to authorize the issuance of capital stock of the Corporation pursuant to any compensation or benefit plan or arrangement adopted or entered into by the Corporation. The Board of Directors shall, by resolution adopted by a majority of the Board, designate two or more of its

qualifying members from time to time to constitute members of the Compensation Committee.

- (h) INDUSTRY RELATIONS COMMITTEE. There shall be an Industry Relations Committee of the Board of Directors, which Committee shall monitor events in the residential services industry and report to the Board of Directors any significant industry developments that may, in the judgment of the members of such Committee, affect the business of the Corporation. The Board of Directors shall, by resolution adopted by a majority of the Board, designate one or more of its members from time to time to constitute members of the Industry Relations Committee.

#### ARTICLE IV

##### OFFICERS

- 4.1 DESIGNATION. The officers of the Corporation shall consist of a Chairman of the Board, President, Chief Operating Officer, Secretary, Treasurer, Controller and such Executive, Senior or other Vice Presidents, Assistant Secretaries, Assistant Treasurers, Assistant Controllers and other officers as may be elected or appointed by the Board of Directors from time to time. Any number of offices may be held by the same person.

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- 4.2 CHAIRMAN OF THE BOARD OF DIRECTORS. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and of the Board of Directors. Except where by law the signature of the President is required, the Chairman of the Board of Directors shall possess the same power as the President to sign all contracts, certificates and other instruments of the Corporation which may be authorized by the Board of Directors. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these Bylaws or by the Board of Directors. In the absence or incapacity to act of the President, the Chairman of the Board shall serve as acting President, and when so acting, shall have all the powers of and be subject to the restrictions of such office.
- 4.3 PRESIDENT. The President shall be the Chief Executive Officer of the Corporation and shall have general supervision and control of the business, affairs and properties of the Corporation and its general officers, and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall have the power to appoint and remove all subordinate officers, agents and employees, except those elected or appointed by the Board of Directors, and shall execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute



documents when so authorized by these Bylaws, the Board of Directors or the President. The President shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these Bylaws or by the Board of Directors. In the absence or incapacity to act of the Chairman of the Board, the President shall serve as acting Chairman of the Board, and when so acting, shall have all the powers of and be subject to the restrictions of such office.

- 4.4 CHIEF OPERATING OFFICER. The Chief Operating Officer, if there is one, shall have general charge and supervision of the day to day operations of the Corporation (subject to the direction of the President and the Board of Directors), and, in general, shall perform such other duties as are incident to the office of a chief operating officer of a corporation, including those duties customarily performed by persons occupying such office, and shall perform such other duties as, from time to time, may be assigned to him by the Board of Directors or the President.
- 4.5 VICE PRESIDENT. The Board of Directors may appoint such Vice Presidents as may be recommended by the President or as they deem necessary or appropriate. Vice Presidents may be designated as Senior Vice Presidents, Executive Vice Presidents or some other designation as the Board of Directors deems appropriate (each a "Vice President"). Each Vice President shall perform such duties as the Board of Directors may from time to time prescribe and have such other powers as the President may from time to time prescribe.

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- 4.6 SECRETARY. The Secretary shall attend the meetings of the Board of Directors and all meetings of stockholders and record the proceeding thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision he shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Chairman of the Board or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed,

as the case may be.

4.7 TREASURER. The Treasurer, if there is one, shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipt and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meeting, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

4.8 CONTROLLER. The Controller, if there is one, shall be the chief accounting officer of the Corporation, shall maintain records of all assets, liabilities, and transactions of the Corporation and shall be responsible for the design, installation and maintenance of accounting and cost control systems and procedures for the Corporation and shall perform such other duties and have such other powers as from time to time may be assigned to him by the Board of Directors, the Audit Committee or the President.

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4.9 ASSISTANT SECRETARIES. Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice- President, or the Secretary, and in the absence of the Secretary or in the event of his disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

4.10 ASSISTANT TREASURERS. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President or the Treasurer, and in the absence of the Treasurer or in the event of his disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his

office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

- 4.11 ASSISTANT CONTROLLERS. Except as may be otherwise provided in these Bylaws, Assistant Controllers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice- President, or the Controller, and in the absence of the Controller or in the event of his disability or refusal to act, shall perform the duties of the Controller, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Controller.
- 4.12 OTHER OFFICERS. Such other officers as to the Board of Directors may choose shall perform such duties and have such powers, subordinate to those powers specifically delegated to certain officer in these Bylaws, as from time to time may be assigned to them by the Board of Directors. The President of the Corporation shall have the power to choose such other officers and to prescribe their respective duties and powers, subject to control by the Board of Directors.
- 4.13 VACANCIES. Whenever any vacancies shall occur in any office by death, resignation, increase in the number of offices of the Corporation, or otherwise, the same shall be filled by the Board of Directors (or the President, in accordance with Section 4.3 of these Bylaws, subject to control by the Board of Directors), and the officer so appointed shall hold office until such officer's successor is elected or appointed in accordance with these Bylaws or until his earlier death, resignation or removal.
- 4.14 REMOVAL. Any officer or agent of the Corporation may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the

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person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

- 4.15 ACTION WITH RESPECT TO SECURITIES OF OTHER CORPORATIONS. Unless otherwise directed by the Board of Directors, the Chairman of the Board, the President, any Vice President and the Treasurer of the Corporation shall each have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of security holders of or with respect to any action of security holders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation.

## ARTICLE V

### CAPITAL STOCK

- 5.1 CERTIFICATES FOR SHARES. The certificates for shares of the capital stock of the Corporation shall be in such form as may be approved by the Board of Directors or may be uncertificated shares. In the case of certificated shares, the Corporation shall deliver certificates representing shares to which stockholders are entitled. Certificates representing such certificated shares shall be signed by the Chairman of the Board, the President or a Vice President and either the Secretary or an Assistant Secretary of the Corporation, and may bear the seal of the Corporation or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles. The stock record books and the blank stock certificate books shall be kept by the Secretary of the Corporation, or at the office of such transfer agent or transfer agents as the Board of Directors may from time to time by resolution determine. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer at the date of its issuance.
- 5.2 TRANSFER OF SHARES. The shares of stock of the Corporation shall be transferable only on the books of the Corporation by the holders thereof in person or by their duly authorized attorneys or legal representatives upon surrender and cancellation of certificates for a like number of shares.
- 5.3 OWNERSHIP OF SHARES. The Corporation shall be entitled to treat the holder of record of any share or shares of capital stock of the Corporation as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.
- 5.4 REGULATIONS REGARDING CERTIFICATES. The Board of Directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of capital stock of the Corporation.
- 5.5 LOST OR DESTROYED CERTIFICATES. The Board of Directors may determine the conditions upon which a new certificate of stock may be issued in place of a certificate which is alleged to have been lost, stolen or destroyed; and may, in its discretion, require the owner of such certificate or his legal representative to give bond, with sufficient

surety, to indemnify the Corporation and each transfer agent and registrar against any and all losses or claims that may arise by reason of the issue of a new certificate in the place of the one so lost, stolen or destroyed.

## ARTICLE VI

### INDEMNIFICATION

- 6.1 GENERAL. The Corporation shall, to the fullest extent permitted by applicable law in effect on the date of effectiveness of these Bylaws, and to such greater extent as applicable law may thereafter permit, indemnify and hold harmless an Indemnitee (as this and all other capitalized words used in this Article VI not previously defined in these Bylaws are defined in Section 6.9 hereof) from and against any and all judgments, penalties, fines (including excise taxes), amounts paid in settlement and, subject to Section 6.2, Expenses whatsoever arising out of any event or occurrence related to the fact that Indemnitee is or was a director or officer of the Corporation. The Corporation may, but shall not be required to, indemnify and hold harmless an Indemnitee from and against any and all judgments, penalties, fines (including excise taxes), amounts paid in settlement and, subject to Section 6.2, Expenses whatsoever arising out of any event or occurrence related to the fact that Indemnitee is or was an employee or agent of the Corporation or is or was serving in another Corporate Status (other than as an officer or director of the Corporation).
- 6.2 EXPENSES. If Indemnitee is, by reason of his serving as a director, officer, employee or agent of the Corporation, a party to and is successful, on the merits or otherwise, in any Proceeding, the Corporation shall indemnify him against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If any such Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to any Matter in such Proceeding, the Corporation shall indemnify such Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf relating to such Matter. The termination of any Matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Matter. If Indemnitee is, by reason of any Corporate Status other than his serving as a director, officer, employee or agent of the Corporation, a party to and is successful, on the merits

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or otherwise, in any Proceeding, the Corporation may, but shall not be required to, indemnify him against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. To the extent that the Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding, the Corporation may, but shall not be required to, indemnify him against all Expenses actually and reasonably incurred by

him or on his behalf in connection therewith.

- 6.3 ADVANCES. In the event of any threatened or pending action, suit or proceeding in which Indemnitee is a party or is involved and that may give rise to a right of indemnification under this Article VI, following written request to the Corporation by Indemnitee, the Corporation shall promptly pay to Indemnitee amounts to cover expenses reasonably incurred by Indemnitee in such proceeding in advance of its final disposition upon the receipt by the Corporation of (i) a written undertaking executed by or on behalf of Indemnitee providing that Indemnitee will repay the advance if it shall ultimately be determined pursuant to the provisions of this Article VI or by final judgment or other final adjudication under the provisions of any applicable law that Indemnitee is not entitled to be indemnified by the Corporation as provided in these Bylaws and (ii) satisfactory evidence as to the amount of such expenses.
- 6.4 REQUEST FOR INDEMNIFICATION. To request indemnification, Indemnitee shall submit to the Secretary of the Corporation a written claim or request. Such written claim or request shall contain sufficient information to reasonably inform the Corporation about the nature and extent of the indemnification or advance sought by Indemnitee. The Secretary of the Corporation shall promptly advise the Board of Directors of such request.
- 6.5 NONEXCLUSIVITY OF RIGHTS. The rights of indemnification and advancement of Expenses as provided by this Article VI shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled to under applicable law, the Certificate of Incorporation, these Bylaws, any agreement, a vote of stockholders or a resolution of directors of the Corporation, or otherwise. No amendment, alteration or repeal of this Article VI or any provision hereof shall be effective as to any Indemnitee for acts, events and circumstances that occurred, in whole or in part, before such amendment, alteration or repeal. The provisions of this Article VI shall continue as to an Indemnitee whose Corporate Status has ceased for any reason and shall inure to the benefit of his heirs, executors and administrators. Neither the provisions of this Article VI nor those of any agreement to which the Corporation is a party shall be deemed to preclude the indemnification of any person who is not specified in this Article VI as having the right to receive indemnification or is not a party to any such agreement, but whom the Corporation has the power or obligation to indemnify under the provisions of the DGCL.
- 6.6 INSURANCE AND SUBROGATION. The Corporation shall not be liable under this Article VI to make any payment of amounts otherwise indemnifiable hereunder if, but only to the extent that, Indemnitee has otherwise actually received such payment under any insurance policy,

contract, agreement or otherwise. In the event of any payment hereunder, the Corporation shall be subrogated to the extent of such payment to all the rights of recovery of Indemnitee, who shall execute all papers required and take all action reasonably requested by the Corporation to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights.

6.7 SEVERABILITY. If any provision or provisions of this Article VI shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Article VI shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

6.8 CERTAIN ACTIONS WHERE INDEMNIFICATION IS NOT PROVIDED. Notwithstanding any other provision of this Article VI, no person shall be entitled to indemnification or advancement of Expenses under this Article VI with respect to any Proceeding, or any Matter therein, brought or made by such person against the Corporation.

6.9 DEFINITIONS. For purposes of this Article VI:

- (a) "CORPORATE STATUS" describes the status of a person who is or was a director, officer, employee or agent of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the written request of the Corporation. For purposes of this Agreement, "serving at the written request of the Corporation" includes any service by Indemnitee which imposes duties on, or involves services by, Indemnitee with respect to any employee benefit plan or its participants or beneficiaries.
- (b) "Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.
- (c) "INDEMNITEE" includes any person who is, or is threatened to be made, a witness in or a party to any Proceeding as described in Section 6.1 or 6.2 hereof by reason of his Corporate Status.
- (d) "MATTER" is a claim, a material issue or a substantial request for relief.

(e) "PROCEEDING" includes any action, suit, alternate dispute resolution mechanism, hearing or any other proceeding, whether civil, criminal, administrative, arbitrative, investigative or mediative, any appeal in any such action, suit, alternate dispute resolution mechanism, hearing or other proceeding and any inquiry or investigation that could lead to any such action, suit, alternate dispute resolution mechanism, hearing or other proceeding, except one (i) initiated by an Indemnitee to enforce his rights under this Article VI or (ii) pending on or before the date of this Agreement.

6.10 NOTICES. Promptly after receipt by Indemnitee of notice of the commencement of any action, suit or proceeding, Indemnitee shall, if he anticipates or contemplates making a claim for expenses or an advance pursuant to the terms of this Article VI, notify the Corporation of the commencement of such action, suit or proceeding; PROVIDED, HOWEVER, that any delay in so notifying the Corporation shall not constitute a waiver or release by Indemnitee of rights hereunder and that any omission by Indemnitee to so notify the Corporation shall not relieve the Corporation from any liability that it may have to Indemnitee otherwise than under this Article VI. Any communication required or permitted to the Corporation shall be addressed to the Secretary of the Corporation and any such communication to Indemnitee shall be addressed to Indemnitee's address as shown on the Corporation's records unless he specifies otherwise and shall be personally delivered or delivered by overnight mail delivery. Any such notice shall be effective upon receipt.

6.11 CONTRACTUAL RIGHTS. The right to be indemnified or to the advancement or reimbursement of Expenses (i) is a contract right based upon good and valuable consideration, pursuant to which Indemnitee may sue as if these provisions were set forth in a separate written contract between Indemnitee and the Corporation, (ii) is and is intended to be retroactive and shall be available as to events occurring prior to the adoption of these provisions and (iii) shall continue after any rescission or restrictive modification of such provisions as to events occurring prior thereto.

## ARTICLE VII

### MISCELLANEOUS PROVISIONS

7.1 BYLAW AMENDMENTS. The Board of Directors shall have the power to adopt, amend and repeal from time to time the Bylaws of the Corporation, subject to the right of stockholders entitled to vote with respect thereto to amend or repeal such Bylaws as adopted or amended by the Board of Directors. Bylaws of the Corporation may be adopted, amended or repealed by the affirmative vote of the holders of at least two-thirds of the combined voting power of the outstanding shares of all classes of



stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, at any annual meeting, or at any special meeting if notice of the proposed amendment be

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contained in the notice of said special meeting, or by the Board of Directors as specified in the preceding sentence.

- 7.2 BOOKS AND RECORDS. The Corporation shall keep books and records of account and shall keep minutes of the proceedings of its stockholders, its Board of Directors and each committee of its Board of Directors.
- 7.3 NOTICES; WAIVER OF NOTICE. Whenever any notice is required to be given to any stockholder, director or committee member under the provisions of the DGCL or under the Certificate of Incorporation, as amended, or these Bylaws, said notice shall be deemed to be sufficient if given (i) by telegraphic, facsimile, cable or wireless transmission or (ii) by deposit of the same in the United States mail, with postage paid thereon, addressed to the person entitled thereto at his address as it appears on the records of the Corporation, and such notice shall be deemed to have been given on the day of such transmission or mailing, as the case may be.

Whenever any notice is required to be given to any stockholder, director or committee member under the provisions of the DGCL or under the Certificate of Incorporation, as amended, or these Bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or these Bylaws.

- 7.4 RESIGNATIONS. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the President or the Secretary of the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.
- 7.5 SEAL. The seal of the Corporation shall be in such form as the Board of Directors may adopt.
- 7.6 FISCAL YEAR. The fiscal year of the Corporation shall end on the 31st day of December of each year or as otherwise provided by a resolution

adopted by the Board of Directors.

- 7.7 FACSIMILE SIGNATURES. In addition to the provisions for the use of facsimile signatures elsewhere specifically authorized in these Bylaws, facsimile signatures of any officer or

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officers of the Corporation may be used whenever and as authorized by the Board of Directors.

- 7.8 RELIANCE UPON BOOKS, REPORTS AND RECORDS. Each director and each member of any committee designated by the Board of Directors shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or reports made to the Corporation by any of its officers, or by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors or by any such committee, or in relying in good faith upon other records of the Corporation.

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CERTIFICATE OF DESIGNATIONS

of

SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

of

AMERICAN RESIDENTIAL SERVICES, INC.

Pursuant to Section 151 of the General Corporation Law  
of the State of Delaware

AMERICAN RESIDENTIAL SERVICES, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority vested in the Board of Directors in accordance with the provisions of the Restated Certificate of Incorporation of the said Corporation, the said Board of Directors on July 23, 1996 adopted the following resolution creating a series of 500,000 shares of Preferred Stock designated as "Series A Junior Participating Preferred Stock":

RESOLVED, that pursuant to the authority vested in the Board of Directors of American Residential Services, Inc. (the "Corporation") in accordance with the provisions of the Restated Certificate of Incorporation, a series of Preferred Stock, par value \$.001 per share, of the Corporation ("Preferred Stock") be and hereby is created, and that the designation and number of shares thereof and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

1. DESIGNATION AND AMOUNT. There shall be a series of Preferred Stock that shall be designated as "Series A Junior Participating Preferred Stock," and the number of shares constituting such series shall be 500,000. Such number of shares may be increased or decreased by resolution of the Board of Directors of the Corporation (the "Board of Directors"); provided, however, that no decrease shall reduce the number of shares of Series A Junior Participating

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Preferred Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

## 2. DIVIDENDS AND DISTRIBUTIONS.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock, in preference to the holders of shares of any class or series of stock of the Corporation ranking junior to the Series A Junior Participating Preferred Stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$10 or (b) the Adjustment Number (as defined below) times the aggregate per share amount of all cash dividends, and the Adjustment Number times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on shares of Common Stock, par value \$.001 per share, of the Corporation ("Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. The "Adjustment Number" shall initially be 100. In the event the Corporation shall at any time after July 23, 1996 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on shares of Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on shares of Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$10 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

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(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares

is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

3. VOTING RIGHTS. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to a number of votes equal to the Adjustment Number on all matters submitted to a vote of the stockholders of the Corporation.

(B) Except as otherwise provided herein, in the Restated Certificate of Incorporation or by law, the holders of shares of Series A Junior Participating Preferred Stock, the holders of shares of any other class or series entitled to vote with the Common Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") that shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, (1) the number of Directors shall be increased by two, effective as of the time of election of such Directors as herein provided, and (2) the holders of Preferred Stock (including holders of the Series A Junior Participating Preferred Stock) upon which these or like voting rights have been conferred and are exercisable (the "Voting Preferred Stock") with dividends in arrears in an amount equal to six quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect such two Directors.

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(ii) During any default period, such voting right of the holders of

Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that such voting right shall not be exercised unless the holders of at least one-third in number of the shares of Voting Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Voting Preferred Stock of such voting right.

(iii) Unless the holders of Voting Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than ten percent of the total number of shares of Voting Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Voting Preferred Stock, which meeting shall thereupon be called by the Chairman of the Board, the President, a Vice President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Voting Preferred Stock are entitled to vote pursuant to this paragraph (C)(iii) shall be given to each holder of record of Voting Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or, in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than ten percent of the total number of shares of Voting Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (C)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the stockholders.

(iv) In any default period, after the holders of Voting Preferred Stock shall have exercised their right to elect Directors voting as a class, (x) the Directors so elected by the holders of Voting Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period and (y) any vacancy in the Board of Directors may be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class or classes of stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class or classes of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Voting Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Voting Preferred Stock as a class shall terminate and (z) the number of Directors shall be such number as may be provided for in the Restated Certificate of Incorporation or Bylaws irrespective of any increase made pursuant to the provisions of paragraph (C) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the Restated Certificate of Incorporation or Bylaws). Any vacancies in the

Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(D) Except as set forth herein, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

#### 4. CERTAIN RESTRICTIONS.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled; or

(iii) redeem or purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of Series A Junior Participating Preferred Stock, or to all such holders and the holders of any such shares ranking on a parity therewith, upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of

stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

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5. REACQUIRED SHARES. Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

6. LIQUIDATION, DISSOLUTION OR WINDING UP. (A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) the Adjustment Number. Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of shares of Common Stock shall, subject to the prior rights of all other series of Preferred Stock, if any, ranking prior thereto, receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Series A Junior Participating Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, that rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other



corporation into or with the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6, but the sale, lease or conveyance of all or substantially all the Corporation's assets shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6.

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7. CONSOLIDATION, MERGER, ETC. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to the Adjustment Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

8. REDEMPTION. (A) The Corporation, at its option, may redeem shares of the Series A Junior Participating Preferred Stock in whole at any time and in part from time to time, at a redemption price equal to the Adjustment Number times the current per share market price (as such term is hereinafter defined) of the Common Stock on the date of the mailing of the notice of redemption, together with unpaid accumulated dividends to the date of such redemption. The "current per share market price" on any date shall be deemed to be the average of the closing price per share of such Common Stock for the ten consecutive Trading Days (as such term is hereinafter defined) immediately prior to such date; PROVIDED, however, that in the event that the current per share market price of the Common Stock is determined during a period following the announcement of (A) a dividend or distribution on the Common Stock other than a regular quarterly cash dividend or (B) any subdivision, combination or reclassification of such Common Stock and the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, shall not have occurred prior to the commencement of such ten Trading Day period, then, and in each such case, the current per share market price shall be properly adjusted to take into account ex-dividend trading. The closing price for each day shall be the last sales price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange, or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or, if the Common Stock is not listed or admitted to trading on any national securities exchange but sales price information is reported for such security, as reported by the National Association of Securities Dealers, Inc. Automated Quotations System ("NASDAQ") or such other self-regulatory organization or registered securities information processor (as such terms are used under the Securities Exchange Act of 1934, as amended) that then reports information concerning the Common Stock, or, if sales price information is not so reported, the average of the high bid and low asked prices in the over-the-counter market

on such day, as reported by NASDAQ or such other entity, or, if on any such date the Common Stock is not quoted by any such entity, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Common Stock selected by the Board of Directors. If on any such date no such market maker is making a market in the Common Stock, the fair value of the Common Stock on such date as determined in good faith by the Board of Directors shall be used. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading is open for the transaction of business, or, if the Common Stock is not listed or admitted to trading on any national securities exchange but is quoted by NASDAQ, a day

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on which NASDAQ reports trades, or, if the Common Stock is not so quoted, a Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the State of New York are not authorized or obligated by law or executive order to close.

(B) In the event that fewer than all the outstanding shares of the Series A Junior Participating Preferred Stock are to be redeemed, the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(C) Notice of any such redemption shall be given by mailing to the holders of the shares of Series A Junior Participating Preferred Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the fifteenth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Corporation. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the stockholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series A Junior Participating Preferred Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series A Junior Participating Preferred Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(D) The shares of Series A Junior Participating Preferred Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. RANKING. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise, and shall rank senior to the Common Stock as to such matters.

10. AMENDMENT. At any time that any shares of Series A Junior Participating Preferred Stock are outstanding, the Restated Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely

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without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

11. FRACTIONAL SHARES. Series A Junior Participating Preferred Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

IN WITNESS WHEREOF, the undersigned has executed this Certificate and does affirm the foregoing as true this 26th day of August, 1996.

/s/ JOHN D. HELD

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John D. Held  
Senior Vice President

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[BAKER &amp; BOTTS L.L.P.]

August 26, 1996

American Residential Services, Inc.

5850 San Felipe, Suite 500  
Houston, Texas 77057-8003

Gentlemen:

As set forth in the Registration Statement (the "Registration Statement") on Form S-1 (Registration No. 333-06195) filed by American Residential Services, Inc., a Delaware corporation (the "Company"), with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended, relating to the Company's Common Stock, par value \$.001 per share ("Common Stock"), certain legal matters in connection with the Common Stock are being passed upon for the Company by us. The Registration Statement relates to the offering of an aggregate of 4,830,000 shares of Common Stock (the "Shares"), consisting of 4,200,000 shares to be issued and sold by the Company to the underwriters referred to in the Registration Statement in a firm commitment underwriting, together with up to 630,000 shares (the "Additional Shares") that may be issued and sold by the Company pursuant to the underwriters' over-allotment option as described in the Registration Statement. At your request, this opinion is being furnished to you for filing as Exhibit 5.1 to the Registration Statement.

In our capacity as your counsel in the connection referred to above, we have examined the Restated Certificate of Incorporation and Bylaws of the Company and the originals, or copies certified or otherwise identified, of corporate records of the Company, including minute books of the Company as furnished to us by the Company, certificates of public officials and of representatives of the Company, statutes and other instruments and documents pertaining to the Company as a basis for the opinions hereinafter expressed. In giving such opinions, we have relied upon certificates of officers of the Company with respect to the accuracy of the material factual matters contained in such certificates.

Based on our examination as aforesaid, we are of the opinion that:

1. The Company is a corporation duly incorporated and validly existing in good standing under the laws of the State of Delaware; and

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2. When the pricing committee of the Board of Directors of the Company

has determined the price at which the Shares and the Additional Shares are to be sold to the underwriters by the Company and has authorized the issuance of such Shares and the Additional Shares, upon the issuance and sale by the Company of the Shares and any Additional Shares that may be purchased pursuant to the underwriting agreement referred to in the Registration Statement for the consideration so determined, such Shares and any such Additional Shares will be duly authorized, validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion with the Commission as an exhibit to the Registration Statement

Very truly yours,

BAKER & BOTTS, L.L.P.

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NationsBank  
Commercial Banking Group  
P. O. Box 2518  
700 Louisiana Street, 7th Floor  
Houston, TX 77252-2518

NATIONSBANK

July 17, 1996

Mr. C. Clifford Wright  
Chief Executive Officer  
American Residential Services, Inc.  
5850 San Felipe, Suite 500  
Houston, Texas 77057

Dear Cliff:

NationsBank of Texas, N.A. ("Bank") is pleased to advise you that the undersigned is prepared, subject to the terms and conditions hereof, to make credit available to American Residential Services, Inc. ("Borrower") substantially in accordance with the terms and conditions set forth in the attached Term Sheet dated July 17, 1996 ("Term Sheet").

This commitment is conditioned upon (i) the absence of a material adverse change in the Borrower's financial condition or operations, (ii) the preparation, execution and delivery of legal documentation in form and substance satisfactory to the Bank and to its counsel incorporating substantially the terms and conditions referred to in the attached Term Sheet and such clarifications thereof and modifications and additions thereto as the Bank may require, and (iii) receipt of a legal opinion from the Borrower's counsel in form and substance satisfactory to the Bank and its counsel (including but not limited to opinions as to the existence and good standing of all obligors and the validity and enforceability of all agreements).

Terms and conditions of the credit are not limited to those set forth in the Term Sheet. The credit agreement will also include other covenants, representations and warranties that the Bank and its counsel deems standard and customary for such credit. Any clarification or modification of the matters which are set forth in the Term Sheet or any addition thereto are subject to mutual agreements of the parties.

Please evidence your acceptance of this commitment letter by signing and returning to the Bank the enclosed copy of this letter on or before July 24, 1996, the date this commitment letter (if not accepted prior thereto) will expire. If accepted, this commitment letter will terminate on August 31, 1996, if final documentation has not been executed by that date.

Whether or not final documentation is executed, you agree by signing below to pay the reasonable charges and disbursements for legal counsel to the Bank in connection with this commitment letter, the proposed credit and preparation of documentation.

THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

We appreciate the opportunity to provide American Residential Services with this commitment for credit and look forward to establishing a mutually beneficial relationship. If I can be of any assistance, please do not hesitate to call.

Sincerely,

NATIONSBANK OF TEXAS, N.A.

Albert L. Welch  
Vice President  
(713) 247-6631

Agreed to and accepted this 22nd day of  
July, 1996.

American Residential Services, Inc.  
By: C. CLIFFORD WRIGHT \_\_\_\_\_  
C. Clifford Wright  
Chief Executive Officer

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NATIONSBANK TERM SHEET  
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AMERICAN RESIDENTIAL SERVICES, INC.

FOR DISCUSSION PURPOSES ONLY

SUMMARY OF PROPOSED TERMS  
JULY 17, 1996

BORROWER: American Residential Services, Inc.  
("Borrower").

GUARANTORS: All existing and future, direct and  
indirect subsidiaries of the Borrower

ADMINISTRATIVE AGENT: NationsBank of Texas, N.A.  
("NationsBank" or the "Agent").

ARRANGER: NationsBanc Capital Markets, Inc.  
("NCMI").

LENDERS: NationsBank of Texas, N.A. and a  
syndicate of financial institutions  
arranged by NCMI which are reasonably  
acceptable to the Borrower and the Agent.

FACILITY: \$55,000,000 Revolving Line of Credit.

USE OF PROCEEDS: General corporate purposes including the  
refinancing of remaining post-IPO  
indebtedness, acquisition financings and  
working capital. Sublimit for Standby  
Letters of Credit of \$5,000.000.

BORROWING OPTIONS: LIBOR and Base Rate options will be  
available under the Facility.

LIBOR: means the London Interbank Offered Rate for offshore deposits as quoted by NationsBank.

BASE RATE: means the higher of (i) the rate of interest publicly announced from time-to-time by NationsBank as its prime rate, or (ii) 0.5% per annum above the Effective Federal Funds rate.

REPAYMENT: Interest only payable quarterly; principal due at Maturity.

MATURITY: Three years from the Closing Date.

CLOSING DATE: No later than September 30, 1996.

SECURITY: Unsecured.

PERFORMANCE PRICING: Pricing for the Facility will be at the interest rate margins indicated in the accompanying Performance Pricing Grid. The Applicable Margin for loans will be calculated quarterly based on the Borrower's Funded Debt to EBITDA Ratio.

INTEREST PAYMENTS: For committed LIBOR Advances, one, two, three, or six months, but at least quarterly. Interest on Base Rate loans shall be payable quarterly in arrears.

FEES: See attached Fee Schedule.

UNUSED COMMITMENT FEE: Commencing on the Closing Date, a non-refundable fee (in the percentage per annum specified in the accompanying Performance Pricing Grid) will accrue on the daily average unused portion of the Facility, payable quarterly in arrears and at Maturity.

YIELD PROTECTION: Protective provisions for such matters as increased costs, capital adequacy, funding losses, illegality and LIBOR reserve requirements. All payments shall be made free of taxes.

VOLUNTARY PREPAYMENTS: Outstanding loans are voluntarily prepayable without penalty; provided, however, that LIBOR breakage costs, if any, shall be for the account of the Borrower.

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NATIONSBANK TERM SHEET

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DRAWDOWNS: Drawdowns are at the Borrower's discretion with same business day notice



for the Base Rate option and three business days notice for LIBOR advances.

CONDITIONS PRECEDENT:

Usual and customary for transactions of this nature including, without limitation, the following:

- o Successful Initial Public Offering yielding net proceeds to the Borrower of at least \$55,000,000 (of which said offering shall constitute no more than 60% of Borrower's capital stock issued).
- o Execution and delivery of satisfactory credit, guarantee and other related documentation embodying the structure, terms and conditions contained herein.
- o No material adverse change.
- o Receipt of closing certificates, opinions of counsel, etc., usual and customary for transactions of this nature.
- o Agent's satisfaction with background checks on Borrower's executive management.

REPRESENTATIONS & WARRANTIES:

Usual and customary for transactions of this nature.

AFFIRMATIVE COVENANTS:

Usual and customary for transactions of this nature.

NEGATIVE COVENANTS:

Usual and customary for the type of transaction proposed and others to be reasonably specified by the Agent, including, without limitation, as follows (which covenants shall include such exclusions as the Agent and X Borrower shall agree):

- Indebtedness: o Restricting the incurrence or assumption of additional debt, capital leases and contingent liabilities, including without limitation, negative pledges on assets and sale-leaseback transactions to \$2,500,000.
- Dividends: o Restricting the making of dividends or similar distributions.
- Liens: o The incurrence or assumption of liens limited to \$1,000,000.
- Sale of Assets: o Restricting the sale of assets or similar transfers, other than in the ordinary course of business or in connection with permitted dispositions.
- Acquisitions: o Restricting the making of investments or acquisitions other

than permitted acquisitions without prior written approval of the Lenders. The Borrower will not, and will not permit any of its subsidiaries to make an Acquisition in a transaction or related series of transactions unless:

- o The Acquisition would not, after giving effect thereto, result in a Default;
- o The Acquisition is substantially related to the business of the Borrower and its subsidiaries;
- o The amount of consideration paid for the Acquisition (INCLUDING cash, liabilities assumed, seller debt and amounts payable under non-compete covenants or similar agreements, but EXCLUDING the value of any stock of the Borrower issued as consideration) does not exceed \$10,000,000 for any individual acquisition and \$30,000,000 in aggregate for the preceding four quarters, excluding previously approved acquisitions.

Mergers: o Restricting mergers, consolidations and similar combinations.

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NATIONSBANK TERM SHEET

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FINANCIAL COVENANTS:

Usual and customary for transactions of this nature and others to be reasonably specified by the Agent including, without limitation, the financial covenants set forth below (which financial covenants shall also include quarterly tests to be negotiated).

Consolidated Net Worth Covenant: Maintenance of minimum CONSOLIDATED NET WORTH (to be defined as the Borrower's book equity) equal to 90% of the post-IPO closing Net Worth which shall be increased quarterly by an amount equal to 90% of net income for such quarter (without adjustment for any quarter in which there is a loss) and by 100% of the net proceeds of any equity offering X by the Borrower (initial minimum of \$60,000,000).

EBITDA Definition: For purposes of the covenants below, EBITDA shall be defined as the Borrower's earnings before interest, taxes, depreciation and amortization calculated as follows:

Most recent rolling four quarters,

giving pro forma effect to the historical EBITDA of acquired companies.

Fixed Charge Coverage Ratio: Maintenance of a minimum FIXED CHARGE COVERAGE RATIO to be defined as the ratio of the borrower's EBITDA (as such term is defined above) minus cash taxes paid to the sum or interest expense plus current maturities paid plus 20% of the funded balance under the Facility. All such components of this ratio shall be based on an actual rolling four quarter basis.

Closing Date - Maturity 1.20:1.00

Funded Debt to EBITDA Ratio: Maintenance of a maximum FUNDED DEBT TO EBITDA RATIO where Funded Debt is defined as all interest bearing debt and EBITDA is defined as above.

Closing Date - Maturity 2.75:1.00

Debt to Capitalization Ratio: Maintenance of maximum DEBT TO CAPITALIZATION RATIO (to be defined as the ratio of (x) Total Funded Debt to (y) Total Funded Debt plus Net Worth.

Closing Date - Maturity 45%

Capital Expenditures Covenant: Limitation on CAPITAL EXPENDITURES (excluding capital expenditures related to acquisitions) of 10% of Borrower's Net Worth.

EVENTS OF DEFAULT:

Usual and customary for similar transactions and appropriate others for this particular transaction, including, but not limited to, nonpayment of fees, interest, or principal when due; breach of representations, warranties, or covenants; breach of other material agreements or contracts; cross default to other indebtedness; bankruptcy or insolvency; material judgments; certain ERISA events; and a change in control of Borrower.

INDEMNITY:

The Borrower will indemnify, pay, and hold harmless the Agent and the Lenders (and their respective directors, officers, employees and agents) against any loss and any liability in respect to the financing contemplated hereby, or the use (or proposed use) of the proceeds thereof, other than any loss or liability arising out of the gross negligence or willful misconduct.

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 NATIONSBANK TERM SHEET  
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ASSIGNMENTS and  
 PARTICIPATIONS:

Each Lender will have the right to assign its loan or commitments, with the prior written consent of the Borrower and the Agent, which consent shall not be unreasonably withheld. Assignments must be in minimum amounts of at least \$5,000,000. A \$3,000 assignment fee will be payable to the Agent by the assignee prior to the assignment becoming effective. Voting rights of participants are limited to changes in amounts, rates and fees (in each case as applicable to each participant), as well as maturity, and participants have the same benefits as Lenders with respect to yield protection, capital adequacy and increased cost provisions.

GOVERNING LAW:

State of Texas.

EXPENSES:

The reasonable fees and expenses of Agent, Arranger and Agent's Counsel associated with the negotiation, documentation and syndication of this Facility under a limitation to be agreed to in conjunction with the Agent's counsel plus out of pocket expenses will be paid by Borrower.

AMERICAN RESIDENTIAL SERVICES, INC.

PERFORMANCE PRICING

INTEREST RATES AND UNUSED COMMITMENT  
 FEE:

Principal shall bear interest, at Borrower's option, at EITHER the Base Rate OR LIBOR plus an Applicable Margin and Borrower shall pay a quarterly Unused Commitment Fee in each case based on the Borrower's Funded Debt to EBITDA Ratio.

<TABLE>  
 <CAPTION>

FUNDED DEBT TO EBITDA RATIO	APPLICABLE LIBOR MARGIN	APPLICABLE BASE RATE MARGIN	UNUSED COMMITMENT FEE
<S>	<C>	<C>	<C>
Less than 1.00x.....	75 b.p.	0 b.p.	25.0 b.p.
Greater than or equal to 1.00x, but less than 1.50x.....	87.5 b.p.	0 b.p.	25.0 b.p.
Greater than or equal to 1.50x, but less than 2.00x.....	112.5 b.p.	0 b.p.	30.0 b.p.

Greater than or equal to 2.00x, but less than 2.50x.....	137.5 b.p.	12.5 b.p.	37.5 b.p.
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Greater than or equal to 2.5x.....	175 b.p.	25 b.p.	50.0 b.p.
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CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our firm) included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP

Houston, Texas  
August 26, 1996