

**UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

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In re:	:	CHAPTER 11
	:	
ENCOMPASS SERVICES CORPORATION,	:	Case No. 02-43582-H4-11
<u>et al.</u>	:	
	:	
_____	:	
Debtors.	:	JOINTLY ADMINISTERED
	:	

**FIRST AND FINAL APPLICATION OF HOULIHAN LOKEY HOWARD &
ZUKIN CAPITAL FOR FINAL ALLOWANCE OF COMPENSATION FOR
PROFESSIONAL SERVICES RENDERED AND FOR REIMBURSEMENT OF
ACTUAL AND NECESSARY EXPENSES**

Name of Applicant: Houlihan Lokey Howard & Zukin Capital

Authorized to Provide Professional Services to: Debtors

Date of Retention: January 27, 2003 (effective as of November 19, 2002)

Period for which compensation and reimbursement are sought: November 19, 2002 through December 31, 2002

Amount of compensation sought for final approval: \$1,250,000.00

Amount of expense reimbursement sought as actual, reasonable, and necessary: \$28,821.41

This is a: ___ monthly ___ interim X final application.

Houlihan Lokey is not seeking any compensation for the preparation of this Application.

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PROFESSIONAL SERVICES RENDERED AND FOR REIMBURSEMENT OF
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Houlihan Lokey Howard & Zukin Capital (“Houlihan Lokey”) as financial advisor and investment banker to Encompass Services Corporation (“Encompass” or the “Company”) and its direct and indirect wholly-owned debtor subsidiaries (collectively, with Encompass, the “Debtors”), files this first and final application (the “Application”) for final allowance of compensation for professional services rendered and for reimbursement of actual and necessary expenses incurred during the period of November 19, 2002 through December 31, 2002 (the “Compensation Period”) pursuant to sections 330 and 331 of title 11 of the United States Code (the “Bankruptcy Code”), Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and this Court’s Administrative Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals (the “Administrative Order”) dated December 18, 2002.

By this Application, Houlihan Lokey seeks allowance and final approval of (i) \$1,250,000.00 as compensation and (ii) \$28,821.41 for reimbursement for actual

and necessary expenses for a total of \$1,278,821.41 for the Compensation Period. In support of its Application, Houlihan Lokey respectfully represents as follows:

Background

1. On November 19, 2002 (the “Commencement Date”), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code. These cases have been procedurally consolidated for administrative purposes only. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

2. On November 25, 2002, the United States Trustee (“U.S. Trustee”) appointed a committee of unsecured creditors (the “Committee”) pursuant to section 1102 of the Bankruptcy Code.

3. On May 28, 2003, after notice and a hearing held on May 21, 2003, this Court entered an order approving and confirming the Second Amended Joint Plan of Reorganization of Encompass Services Corporation and its Affiliated Debtors Under Chapter 11 of the Bankruptcy Code, dated April 11, 2003, as modified by the Immaterially Modified Second Amended Joint Plan of Reorganization of Encompass Services Corporation and its Affiliated Debtors Under Chapter 11 of the Bankruptcy Code dated May 21, 2003, and as supplemented by the Debtors’ Plan Supplement dated May 8, 2003, the Debtors’ First Amended Plan Supplement dated May 14, 2003, and the Debtors’ Second Amended Plan Supplement dated May 19, 2003 (all of the foregoing collectively, the “Plan”).

4. On June 9, 2003, the Plan became effective, and Encompass Services Corporation and Encompass Services Holding Corp., as reorganized debtors (collectively, the “Debtors”), emerged from chapter 11 of the Bankruptcy Code.

Retention of Houlihan Lokey Howard & Zukin Capital

5. The Debtors employed Houlihan Lokey as their financial advisors and investment bankers in connection with the sale of their Cleaning Services Group.

6. Houlihan Lokey is a nationally recognized investment banking/financial advisory firm with nine (9) offices worldwide and more than 300 professionals. Houlihan Lokey provides investment banking and financial advisory services and execution capabilities in a variety of areas, including financial restructuring, where Houlihan Lokey is one of the leading investment bankers and advisors to debtors, bondholders groups, secured and unsecured creditors, acquirors, and other parties-in-interest involved in financially distressed companies, both in and outside of bankruptcy. Houlihan Lokey has served as a financial advisor in some of the largest and most complex restructuring matters in the United States, including serving as the financial advisor to the debtors in the chapter 11 proceedings of XO Communications, Inc., NII Holdings, Inc. (Nextel International), Covad Communications, Inc., Stage Stores, Inc., and AmeriServe Food Distribution, Inc., and as the financial advisor to the official creditors’ committee in the chapter 11 proceedings of Enron Corp., WorldCom, Inc., Williams Communications Group, Inc., Laidlaw, Inc., and the Loewen Group, Inc. In addition, Houlihan Lokey has considerable experience in the engineering and construction sectors, having served as the financial advisor to numerous debtor and creditor constituencies in this sector.

7. The Debtors originally retained Houlihan Lokey on September 5, 2002, to serve as financial advisor and investment banker in the restructuring of the Debtors' business and financial affairs. Prior to the commencement of the chapter 11 cases, Houlihan Lokey worked on behalf of the Debtors in connection with the preparation and dissemination of a plan of reorganization and related disclosure statement and the commencement and prosecution of their chapter 11 cases.

8. When the prepetition plan solicitation process proved unsuccessful, the Debtors retained Houlihan Lokey to assist them in the sale of the Debtors' Cleaning Services Group. Given Houlihan Lokey's background, expertise, and familiarity with the Debtors and their operations, Houlihan Lokey was both well qualified and uniquely able to provide services to the Debtors in their chapter 11 cases in a most efficient and timely manner.

9. During and prior to the Compensation Period, the following professionals whose biographies are annexed hereto as Exhibit A, have performed substantial services to the Debtors in this case:

- (a) Rick A. Lacher – Managing Director, Dallas
- (b) Andrew J. Miller – Managing Director, Los Angeles
- (c) Adam L. Dunayer – Senior Vice President, Dallas
- (d) Joseph W. Cleverdon – Associate, New York
- (e) Scott B. Passet – Financial Analyst, New York

Summary of Services

10. Pursuant to its agreement with the Debtors dated November 19, 2002 (the "Engagement Letter"), annexed hereto as Exhibit B, in furtherance of its efforts to

consummate the sale of the Cleaning Services Group, Houlihan Lokey provided the following services to the Debtors:

- (a) Evaluated Encompass's strategic options;
- (b) Advised Encompass as to the potential sale or other disposition of the Company's Cleaning Services Group (excluding Encompass Industrial Services Southwest, Inc.). Such services included: (i) developing a list of potential acquirors, investors, purchasers and/or strategic partners and interacting with such persons to create interest in the transaction; (ii) preparing a teaser marketing document; (iii) preparing an offering memorandum (with substantial input from Encompass) to provide to interested purchasers; (iv) creating and maintaining a data room; (v) facilitating due diligence among potential buyers; (vi) developing and coordinating the sales effort and assisting in the negotiation and structuring of the financial aspects of the proposed transaction; (vii) assisting Encompass, its attorneys, and its other advisors in coordinating the negotiating process; (viii) structuring and facilitating the auction process; and (ix) otherwise assisting Encompass in effectuating the transaction;
- (c) Rendered various other financial advisory and investment banking services.

11. It was necessary that the Debtors employ investment bankers and financial advisors to render the foregoing professional services. Services provided by Houlihan Lokey were not duplicative in any manner with the services provided by the Debtors' other professionals, and Houlihan Lokey took every reasonable effort to avoid any duplication of services.

Terms and Conditions of Compensation for Houlihan Lokey

12. The terms and conditions of Houlihan Lokey's engagement in these cases, which were based upon an engagement letter (the "Engagement Letter"), are embodied in the retention application (the "Retention Application") filed by the Debtors on December 5, 2002, as approved and modified by the Court pursuant to the order (the

“Retention Order”) entered on January 27, 2003. The Retention Application and Retention Order are annexed hereto as Exhibit C and Exhibit D, respectively. Pursuant to the Engagement Letter, Retention Application and Retention Order, the Court ordered the Debtor to compensate Houlihan Lokey for its work on behalf of the Debtor by paying Houlihan Lokey as follows:

- (a) A retainer fee of \$75,000 (the “Retainer Fee”), one hundred percent (100%) of which shall be credited against the M&A Transaction Fee (as defined below); and
- (b) Immediately and directly out of the transaction’s proceeds as a cost of sale at the closing of the transaction, in cash, a fee of (i) \$1,000,000, plus (ii) 3 and one-half percent (3.5%) of the aggregate gross consideration (“AGC”) in excess of \$35 million, plus (iii) five percent (5%) of the AGC in excess of \$50 million (the “M&A Transaction Fee”), provided that the M&A Transaction Fee be capped such that the amount received by Houlihan Lokey not exceed ten percent (10%) of the cash received in the transaction, including any escrowed cash received. In addition, the debtor was ordered to increase the M&A Transaction Fee by an additional \$250,000 if the transaction closed by December 31, 2002.

The Retention Order entitled Houlihan Lokey to receive reimbursement of all reasonable and necessary out-of-pocket expenses. A summary of the expenses incurred by and payable to Houlihan Lokey during the Compensation Period is annexed hereto as Exhibit E.

13. As detailed in the Retention Application, the provisions regarding professional compensation and reimbursement of expenses in connection with Houlihan Lokey’s retention are comparable to the terms Houlihan Lokey and other financial advisors and investment bankers have agreed upon in similar engagements, both in and outside of bankruptcy.

14. Subject to Court approval, Houlihan Lokey seeks payment for compensation and reimbursement of actual and necessary expenses incurred by Houlihan Lokey during the Compensation Period.

15. By this Application, Houlihan Lokey requests that this Court authorize: (a) final allowance of compensation for professional services Houlihan Lokey rendered for the Debtors during the Compensation Period in the amount of \$1,250,000.00, and (b) the reimbursement of actual and necessary expenses Houlihan Lokey incurred in connection with the rendition of such professional services for the Debtors in the amount of \$28,821.41.

16. To date, Houlihan Lokey has received the Retainer Fee of \$75,000 as well as \$1,250,000.00 in respect of the M&A Transaction Fee. Given that one hundred percent (100%) of the Retainer Fee should be credited against the M&A Transaction Fee pursuant to the Retention Application and Retention Order, Houlihan Lokey has to date received excess professional compensation in the amount of \$75,000.00. Houlihan Lokey hereby requests that this Court authorize Houlihan Lokey, in full satisfaction of (i) refunding the \$75,000.00 of excess professional compensation that Houlihan Lokey has received, and which Houlihan Lokey owes to the Debtors, and (ii) receiving reimbursement of actual and necessary expenses Houlihan Lokey incurred in connection with the rendition of professional services for the Debtors, and which the Debtors owe to Houlihan Lokey, in the amount of \$28,821.41, to pay to the Debtors the difference of such amounts, or \$46,178.59.

The Requested Compensation Should Be Allowed

17. Section 330 provides that a court may award a professional employed under section 327 of the Bankruptcy Code “reasonable compensation for actual necessary

services rendered . . . and reimbursement for actual, necessary expenses.” 11 U.S.C.

§ 330(a)(1). Section 330 also sets forth the criteria for the award of such compensation and reimbursement:

In determining the amount of reasonable compensation to be awarded, the court should consider the nature, extent, and the value of such services, taking into account all relevant factors, including ---

- (A) the time spent on such services;
- (B) the rates charged for such services;
- (C) whether the services were necessary to the administration of, or beneficial at the time at which the service was rendered toward the completion of, a case under this title;
- (D) whether the services were performed within a reasonable amount of time commensurate with the complexity, importance, and nature of the problem, issue, or task addressed; and
- (E) whether the compensation is reasonable based on the customary compensation charged by comparably skilled practitioners in cases other than cases under this title.

11 U.S.C. § 330(a)(3).

18. By this Application and in accordance with section 330 of the Bankruptcy Code, Houlihan Lokey requests final allowance of \$1,278,821.41 for the Compensation Period, representing \$1,250,000 as compensation for professional services rendered during the Compensation Period and \$28,821.41 as reimbursement for actual and necessary expenses Houlihan Lokey incurred during the Compensation Period.

First Colonial Factors

19. Pursuant to Bankruptcy Local Rule 2016(a), fee applications must include a discussion of the factors considered in *American Benefit Life Ins. Co. v.*

Baddock (In re First Colonial Corp. of America), 544 F.2d 1291, 1298-99 (5th Cir.), *cert. denied*, 431 U.S. 904 (1977). Consideration of the factors listed in *First Colonial Corp.* indicates that the compensation requested by Houlihan Lokey for the services rendered during the final Compensation Period is reasonable:

- (a) Time and Labor Required: As Houlihan Lokey does not bill on an hourly basis, nor maintain a system to record time, Houlihan Lokey was not required by the Court to submit detailed time records in support of interim or final fee applications filed with the Court. Houlihan Lokey nevertheless expended considerable and at times excessive amounts of time and labor throughout the Compensation Period performing professional services on behalf of the Debtor, given the time requirements posed by the Debtors' circumstances and the need to complete a transaction as quickly as possible.
- (b) Novelty and Difficulty of the Task: Although many of the issues in this case were not unique, this case presented a variety of management, employee relations, financial, due diligence, logistical, bankruptcy, and other business and transaction execution challenges that were required to be surmounted to complete a transaction on a timely basis and maximize value for Debtors' estate.
- (c) Skill Requisite to Perform the Service Properly: Investment banking and financial advisory within the context of bankruptcy is a specialized area of financial services, requiring knowledge of finance, accounting, corporate organizations, microeconomics, the preferences and disposition of potential buyers, and a variety of other areas. In order to achieve a successful transaction, Houlihan Lokey was required to draw upon its skill and experience in these areas.
- (d) Preclusion of Other Employment Due to the Acceptance of the Case: Although Houlihan Lokey's retention by and efforts on behalf of the Debtors have consumed a significant portion of the time of several of its professionals who worked on this matter, Houlihan Lokey was not precluded from taking other employment as a result of these cases.

- (e) Customary Fee: The fees requested herein for final approval consist of the Retainer Fee and M&A Transaction Fee. Houlihan Lokey represents that the provisions regarding professional compensation and reimbursement of expenses in connection with Houlihan Lokey's retention are comparable to the terms Houlihan Lokey and other financial advisors and investment bankers have agreed upon in similar engagements, both in and outside of bankruptcy.
- (f) Whether the Fee is Fixed or Contingent: Houlihan Lokey's Retainer Fee is fixed and payable at the beginning of Houlihan Lokey's retention. Its M&A Transaction Fee is contingent on both the occurrence of and amount of consideration provided by a transaction.
- (g) Time Limitations: Generally, in bankruptcy cases where competitive asset sale processes are involved, there are numerous deadlines imposed for the completion of various steps in such sale processes, including the solicitation of indications of interest, the completion of due diligence, the solicitation of definitive purchase proposals, the evaluation of such purchase proposals, conducting auctions, and participating in sale hearings, as well as the filing of motions to establish such timelines. During the Compensation Period, Houlihan Lokey assisted the Debtors establish and successfully carry out such a timeline under severe time limitations arising from the need to complete the transaction prior to December 31, 2002, in order for the Debtors' estates to receive a \$119 million tax refund.
- (h) Amount Involved and Results Obtained: Houlihan Lokey has worked with the Debtors on a number of matters during the Compensation Period relating to the sale of the Debtors' Cleaning Services Group, including, but not limited to, (i) performing extensive due diligence, (ii) preparing marketing materials, (iii) preparing and managing a large data room, (iv) contacting a broad array of potential buyers, (v) facilitating due diligence for potential buyers, (vi) negotiating purchase contracts with potential buyers, and (vii) arranging and managing the auction process. As a result of the sale process established by Houlihan Lokey, the Debtors' estates completed the sale of the Cleaning Services Group, thus entitling the Debtors to a \$119 million tax refund. Moreover, the competitive auction arranged by Houlihan Lokey resulted in an increase of \$6.6 million of cash consideration owed to the estate

from the sale of the Cleaning Services Group over the initial bid.

- (i) Experience, Reputation and Ability of Professionals: Houlihan Lokey is a nationally recognized investment banking/financial advisory firm with nine (9) offices worldwide and more than 300 professionals. Houlihan Lokey provides investment banking and financial advisory services and execution capabilities in a variety of areas, including financial restructuring, where Houlihan Lokey is one of the leading investment bankers and advisors to debtors, bondholder groups, secured and unsecured creditors, acquirors, and other parties-in-interest involved in financially distressed companies, both in and outside of bankruptcy. Houlihan Lokey has served as a financial advisor in some of the largest and most complex restructuring matters in the United States, including serving as the financial advisor to the debtors in the chapter 11 proceedings of XO Communications, Inc.; NII Holdings, Inc. (Nextel International); Covad Communications, Inc.; Stage Stores, Inc.; and AmeriServe Food Distribution, Inc.; and as the financial advisor to the official creditors' committee in the chapter 11 proceedings of Enron Corporation; WorldCom, Inc.; Williams Communications Group, Inc.; Laidlaw, Inc.; and The Loewen Group, Inc. In addition, Houlihan Lokey has considerable experience in the engineering and construction sectors, having served as the financial advisor to numerous debtor and creditor constituencies in these sectors.
- (j) Undesirability of the Case: Given that investment bankers who are retained in bankruptcies are routinely compensated at least in part with contingent transaction fees and a variety of other factors, there is an inherent risk that the investment banker's fees and expenses will not get paid to the desired degree. Due to this uncertainty, investment bankers frequently choose not to seek retention of debtors.
- (k) Nature and Length of the Professional Relationship with the Client: Houlihan Lokey has provided services to the Debtors since September 2002.
- (l) Awards in Similar Cases: Houlihan Lokey's requested fees and expenses are similar to fees and expenses paid in other chapter 11 bankruptcy cases of this nature, length of time, and complexity.

20. No previous application for the relief sought herein has been made to this or any other Court.

Conclusion

WHEREFORE, Houlihan Lokey respectfully requests final allowance of \$1,278,821.41 for the Compensation Period, representing \$1,250,000.00 as compensation for professional services rendered during the Compensation Period and reimbursement for actual and necessary expenses Houlihan Lokey incurred during the Compensation Period in the amount of \$28,821.41. Houlihan Lokey further requests authorization to pay to the Debtors an amount equal to \$46,178.59 in full satisfaction of the amounts owed between Houlihan Lokey and the Debtors pursuant to the Engagement Letter, Retention Application, and Retention Order, and for such other and further relief as is just.

Dated: August 8, 2003
Houston, Texas

/s/ Rick A. Lacher
Rick A. Lacher
Houlihan Lokey Howard & Zukin Capital
Chase Tower
2200 Ross Avenue
Dallas, Texas 75201
(214) 220-8490
FAX: (214) 220-3808

FINANCIAL ADVISORS AND INVESTMENT
BANKERS FOR THE DEBTORS

Exhibit A

Professional Biographies

Rick A. Lacher – Managing Director, Dallas

Mr. Lacher is a Managing Director and head of Houlihan Lokey's Dallas office where he spearheads the Southwest investment banking effort. He also serves on the firm's M&A Committee. He has over 21 years experience in providing advice to public and private clients in connection with mergers, acquisitions and dispositions, leveraged buyouts, capital raising activities (senior, mezzanine/subordinated and equity) and assessment of strategic alternatives, and has experience in a number of different industries including business services, industrial services, wholesale/distribution, energy, building products, food, technology, retail and manufacturing. Prior to joining Houlihan Lokey, Mr. Lacher was a senior managing director in the Dallas investment banking office of Bear, Stearns & Co. Mr. Lacher also practiced corporate and securities law at the Dallas based firm of Hughes & Luce, where he was a partner in their corporate section. Mr. Lacher earned a B.B.A. in accounting and a J.D. from the University of Texas. Mr. Lacher has been licensed in Texas as an attorney and as a C.P.A.

Andrew J. Miller – Managing Director, Los Angeles

Mr. Miller serves as National Director of Houlihan Lokey Howard & Zukin's Distressed Company M&A practice. Recognized as a leading authority on distressed company mergers and acquisitions, Mr. Miller has consummated over 100 transactions. Mr. Miller founded and chairs the American Bankruptcy Institute's Committee on Investment Banking and Corporate Finance. A highly sought after speaker on financial restructuring topics, Mr. Miller has spoken on such complex topics as *Financial Restructuring in the New Economy*, *Chapter 11 Bidding Procedures & Buyer Protections*, *Valuation of Troubled Companies*, *Exit Scenarios and Financing*, and *Early Warning Signs and Early Lender Responses*. Mr. Miller wrote *Buying and Selling the Distressed Company: A Case Study* and *Advising the Distressed Company*, which have been used to educate many of the industry's key participants. Mr. Miller lectures at both the UCLA School of Law and the Marshall School of Business at USC. Prior to joining Houlihan Lokey, Mr. Miller was a management consultant with the Boston Consulting Group and Bain & Company. Mr. Miller earned a B.S. in Business Administration, with highest honors, from the University of California, Berkeley, a J.D. from the University of Chicago Law School, and an M.B.A. from the University of Chicago Graduate School of Business.

Adam L. Dunayer – Senior Vice President, Dallas

Mr. Dunayer is a Senior Vice President in the Financial Restructuring Group in Houlihan Lokey's Dallas office. Mr. Dunayer leads the Firm's Distressed Company M&A practice in Dallas and has over 12 years of experience in providing advice to clients in connection with mergers, acquisitions and dispositions, leveraged buyouts, and capital raising activities. Prior to joining Houlihan Lokey, Mr. Dunayer was a managing director with Bear, Stearns and Co., Inc. where he was co-head of their semiconductor and wireless

software sectors within the Technology Group. He was also an executive vice president and chief financial officer with Miller Industries, Inc., a \$500-million revenue NYSE-traded company, where he also served as president of the company's largest subsidiary. In this position, Mr. Dunayer led the acquisition of over 100 companies and an organization charged with operating a 3,000-employee, 2,000-vehicle fleet company with locations in 50 markets across the United States. In addition, Mr. Dunayer was with Bear, Stearns & Co. Inc.'s Southwest Investment Banking Group, working with numerous companies in the general industry, service, restaurant and retail industries, in both advisory and capital raising capacities. Prior to Bear Stearns, Mr. Dunayer worked in the Finance Department at Brinker International. Mr. Dunayer holds a B.B.A. from the University of Texas at Austin.

Joseph W. Cleverdon – Associate, New York

Mr. Cleverdon is an Associate in Houlihan Lokey Howard & Zukin's New York office. Since joining Houlihan Lokey in 1999, Mr. Cleverdon has worked on a variety of financial restructuring, mergers and acquisitions, corporate finance, and valuation assignments involving both domestic and international clients. Prior to joining Houlihan Lokey, Mr. Cleverdon worked for D. E. Shaw & Co., a hedge fund based in New York City. Mr. Cleverdon graduated from Cornell University with a B.S. in communication theory and a concentration in economics and finance.

Scott B. Passet – Financial Analyst, New York

Mr. Passet was a Financial Analyst in Houlihan Lokey Howard & Zukin's New York office. While at Houlihan Lokey, Mr. Passet worked on a variety of financial restructuring, mergers and acquisitions, and valuation assignments.

Exhibit B



HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

INVESTMENT BANKERS

www.hlh.com

November 19, 2002

Via Facsimile and Federal Express

CONFIDENTIAL

Mr. Darren Miller
Chief Financial Officer
Encompass Services Corp.
3 Greenway Plaza
Suite 2000
Houston, TX 77046

Dear Mr. Miller:

Thank you for selecting Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") to serve as a financial advisor to Encompass Services Corporation, ("Encompass" or the "Company"). This letter and the attached Standard Terms of Engagement, which are incorporated herein by this reference (collectively, the "Agreement"), set forth our mutual understanding and agreement as to the terms of our engagement effective as of November 19, 2002. If appropriate in connection with performing its services for the Company hereunder, Houlihan Lokey may utilize the services of one or more of its affiliates, including but not limited to Houlihan Lokey Howard & Zukin Financial Advisors, Inc. in which case the references herein to Houlihan Lokey shall include such affiliates.

1. **Scope of Engagement.** Subject to and in accordance with the Standard Terms of Engagement, Houlihan Lokey will assist the Company as its financial advisor in connection with the M&A Transaction (as such term is defined in this Agreement) or such other services as the Company and Houlihan Lokey may agree upon. Upon execution of this Agreement and receipt of the Retainer Fee, Houlihan Lokey will commence its initial review of the Company's financial position, financial history, operations, competitive environment, and assets to assist the Company in determining the best means to implement the most appropriate strategy, subject to approval by the Board of Directors of the Company. In connection with our role as your financial advisor, we would expect to, as requested:

- (a) Evaluate the Company's strategic options based upon Houlihan Lokey's initial review;

- (b) Advise the Company as to potential mergers or acquisitions, and the sale or other disposition of Business One Services Solutions, Inc., Business One Commercial Services, Inc. and their operations and businesses providing janitorial and cleaning services, excluding Encompass Industrial Services Southwest, Inc. (collectively referred to as the "Cleaning Systems Group"). It is expected that such services will include: (i) developing a list of potential acquirers, investors, purchasers and/or strategic partners and interact with such persons to create interest in the M&A Transaction; (ii) preparing one, or more as appropriate, offering memoranda (with substantial input from the Company) to provide to interested purchasers; (iii) developing a coordinated sales effort and assisting in the negotiation and structuring of the financial aspects of the proposed M&A Transaction; (iv) assisting the Company and its other advisors (e.g., attorneys) in coordinating the negotiating process and (v) otherwise reasonably assisting the Company in effectuating the M&A Transaction.
- (c) Render such other financial advisory and investment banking services as may be mutually agreed upon by Houlihan Lokey and the Company.

2. **Compensation.** In consideration of our services pursuant to this Agreement, Houlihan Lokey shall be entitled to receive, and the Company shall pay to Houlihan Lokey, the following compensation:

- (a) *Retainer Fee:* Upon the execution of this Agreement, Houlihan Lokey shall be paid in cash, a retainer fee (the "Retainer Fee") of \$75,000. The Retainer Fee shall be fully earned upon payment, shall be made to Houlihan Lokey at the address above, Attention: Rick Lacher. One hundred percent (100%) of the Retainer Fee shall be credited against the M&A Transaction Fee.
- (b) *M&A Transaction Fees:* In addition to other fees payable hereunder, the Company shall pay Houlihan Lokey immediately and directly out of the M&A Transaction's proceeds as a cost of sale at the closing of the M&A Transaction, in cash, an M&A Transaction Fee of (i) \$1,000,000, plus (ii) three and one-half percent (3.5%) of the Aggregate Gross Consideration (as defined below) ("AGC") in excess of \$35 million, plus (iii) five percent (5%) of the AGC in excess of \$50 million (the "M&A Transaction Fee"). In addition, if the M&A Transaction is consummated by December 31, 2002, the M&A Transaction Fee shall be increased by \$250,000. All fees due and payable in accordance with this subparagraph shall be in addition to any other fees payable under this Agreement.

Except as otherwise expressly provided by this Agreement, for the purpose of calculating the M&A Transaction Fee in respect of the M&A Transaction, the "Aggregate Gross Consideration" shall be the total proceeds and other consideration paid to or received by, or to be paid to or received by the Company, or any of its former and existing creditors, subsidiaries, affiliates, employees, investors and/or shareholders (collectively "Constituents") or other parties in interest in connection with the M&A Transaction (which consideration shall be deemed to include amounts in escrow and any deposits or other amounts forfeited by any purchaser), including, without limitation, cash, notes, securities, and other property; payments made in installments; amounts payable under consulting agreements, non-compete agreements or similar arrangements; Contingent Payments (as defined below) and/or insurance proceeds upon the occurrence of an insurable event that diminishes the value of the Cleaning Systems Group. Upon a change of control where less than 100% of the ownership of the equity interests are sold, the AGC shall be deemed to equal the AGC as if 100% of the equity interests had been sold, determined by taking the actual AGC received and dividing by the percent equity interest sold. AGC shall not include (i) any post-bankruptcy trade payables of the Cleaning Systems Group which are assumed, decreased, satisfied or otherwise paid off in conjunction with the M&A Transaction (by any purchaser, in the form of "cure" payments or otherwise) or (ii) foreclosure on the assets of the Cleaning Systems Group's by, or surrender of such assets constituting their collateral to, the senior secured creditors. Contingent Payments shall be defined as the fair market value of consideration received or receivable by the Company or any of its Constituents and/or any other parties, in the form of deferred performance-based payments, "earn-outs", or other contingent payments based upon the future performance of the Cleaning Systems Group and/or its assets or operations which are sold.¹

- (c) *Other Services:* To the extent the Company requests Houlihan Lokey to perform additional services not contemplated by this Agreement, including the sale or other disposition of any other divisions or operating companies of the Company,

¹ For the purpose of calculating the AGC received in the M&A Transaction, any securities (other than a promissory note) will be valued at the time of the closing of the M&A Transaction (without regard to any restrictions on transferability) as follows: (i) if such securities are traded on a stock exchange, the securities will be valued at the average last sale or closing price for the ten trading days immediately prior to the closing of the M&A Transaction; (ii) if such securities are traded primarily in over-the-counter transactions, the securities will be valued at the mean of the closing bid and asked quotations similarly averaged over a ten trading day period immediately prior to the closing of the M&A Transaction; and (iii) if such securities have not been traded prior to the closing of the M&A Transaction, Houlihan Lokey will prepare a valuation of the securities, and Houlihan Lokey and the Company will negotiate in good faith to agree on a fair valuation thereof for the purposes of calculating the M&A Transaction Fee. The value of any purchase money or other promissory notes shall be deemed to be the face amount thereof. In the event the AGC includes any Contingent Payments, Houlihan Lokey shall be paid its M&A Transaction Fee based on the fair market value of such Contingent Payments as of closing and shall be paid such M&A Transaction Fee at the closing of the M&A Transaction.

such services and the fees for such services shall be mutually agreed-upon by Houlihan Lokey and the Company, in writing, in advance.

- (d) *Expenses:* In addition to the fees described above, the Company agrees to promptly reimburse Houlihan Lokey, upon request from time to time, for all out-of-pocket expenses reasonably incurred by Houlihan Lokey in connection with the matters contemplated by this Agreement, including, without limitation, reasonable fees of counsel. Out-of-pocket expenses shall include, but not be limited to, all reasonable travel expenses, duplicating charges, on-line service charges, messenger services, delivery services, meeting services and long-distance telephone and facsimile charges incurred by Houlihan Lokey.
- (e) *Tail Period:* Houlihan Lokey shall be entitled to the fees enumerated in this Agreement upon the consummation of an M&A Transaction either (i) during the term of this Agreement, or (ii) within twelve months after the effective date of termination of this Agreement (such twelve month period being referred to herein as the "Tail Period").

The parties acknowledge that a substantial professional commitment of time and effort will be required by Houlihan Lokey and its professionals hereunder, and that such commitment may foreclose other opportunities for the Firm. Moreover, the actual time and commitment required for the engagement may vary substantially, creating "peak load" issues for the Firm. Given the numerous issues which may arise in these cases, the Firm's commitment to the variable level of time and effort necessary to address such issues, the expertise and capabilities of Houlihan Lokey that will be required in this engagement, and the market rate for Houlihan Lokey's services of this nature, whether in, or out of court, the parties agree that the fee arrangement hereunder is reasonable, fairly compensates Houlihan Lokey and provides certainty to the Company.


3. **Execution.** If the terms hereof correctly set forth our understanding and agreement, please so indicate by signing and returning the enclosed copy of this Agreement, immediately sending by wire transfer the Retainer Fee of \$75,000, and signing and retaining a duplicate for your records.

4. **Lender Consent and Acknowledgement.** To provide Houlihan Lokey with more security and certainty of payment of its fees and expenses, under a separate agreement, negotiated directly between Houlihan Lokey and the senior secured lenders of the Company, the senior secured lenders of the Company, *inter alia*, consent to the payment of Houlihan Lokey's fees and expenses free and clear of the senior secured lenders' liens. Houlihan Lokey's obligations under this Engagement Agreement shall be conditioned upon Houlihan Lokey's receipt of a signed copy of the foregoing consent agreement.

Mr. Darren Miller
Encompass Services Corp.
November 19, 2002
Page -5-

Very truly yours,

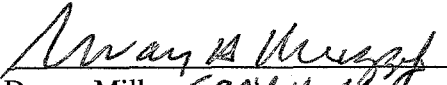
HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

By: 
Rick Lacher
Managing Director

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The foregoing Agreement (including the attached Standard Terms of Engagement) have been read, understood, accepted and approved, and the undersigned does hereby agree to retain Houlihan Lokey Howard & Zukin Capital upon the terms and provisions contained therein.

ENCOMPASS SERVICES CORPORATION

By: 
Name: ~~Darren Miller~~ GRAY H. MUEZY
Title: ~~Chief Financial Officer~~ SR. VICE PRESIDENT

STANDARD TERMS OF ENGAGEMENT

1. **Transaction.** As used herein the term "Transaction" shall mean (whether out-of-court or through a court approved transaction under Title 11 of the United States Code (the "Bankruptcy Code")), collectively:

The "M&A Transaction" as used herein shall mean with respect to the Cleaning Systems Group, (a) any merger, consolidation, reorganization, recapitalization, business combination or other transaction pursuant to which the Cleaning System Group is acquired by, or combined with (other than for purpose of internal corporate restructuring), any person, group of persons, partnership, corporation or other entity (including, without limitation, existing creditors, employees, affiliates, and/or shareholders) (collectively, an "Investor"); or (b) the acquisition, directly or indirectly, by an Investor (or by one or more persons acting together with an Investor pursuant to a written agreement or otherwise), in a single transaction or a series of transactions, of (i) any material portion of the assets or operations of the Cleaning Systems Group, or (ii) any outstanding or newly-issued shares of the Cleaning System Group's capital stock (or any securities convertible into, or options, warrants or other rights to acquire such capital stock) (such capital stock and such other securities, options, warrants and other rights being collectively referred to as "Company Securities") resulting in holders of shares of the Cleaning System Group's capital stock immediately prior thereto owning less than 50% of such capital stock immediately thereafter.

2. **Information.** In connection with Houlihan Lokey's activities on the Company's behalf, the Company will cooperate with Houlihan Lokey to the extent compliant with all applicable law and agreements to which the Company is a party, and will furnish to, or cause to be furnished to Houlihan Lokey, any and all information and data in its possession or under its control concerning the Company (the "Information") which Houlihan Lokey reasonably deems appropriate, and will provide Houlihan Lokey with access to the Company's officers, directors, employees, appraisers, independent accountants, legal counsel and other consultants, advisors and third-parties. The Company represents and warrants that all Information other than projections of future performance or facts (a) made available to Houlihan Lokey by the Company or (b) contained in any filing by the Company with any court or any governmental or regulatory agency, commission or instrumentality each (an "Agency"), will, at the time it is furnished, be complete and accurate in all material respects. The Company further represents and warrants that any projections or other forward looking information provided by it to Houlihan Lokey will have been prepared in good faith and will be based upon assumptions which the Company believes, based upon the circumstances under which they are made, are reasonable. The Company shall promptly notify Houlihan Lokey if it learns of any material inaccuracy or misstatement in, any

Information provided to Houlihan Lokey. The Company acknowledges and agrees that, in rendering its services hereunder, Houlihan Lokey will be using and relying on the Information (and information available from public sources and other sources deemed reliable by Houlihan Lokey) without independent verification thereof by Houlihan Lokey or independent appraisal by Houlihan Lokey. Houlihan Lokey does not assume responsibility for the accuracy or completeness of the Information or any other information regarding the Company.

Any financial advice, written or oral, provided by Houlihan Lokey pursuant to this Agreement is intended solely for the use and benefit of the Company, its board of directors and management, and the Company agrees that such advice may not be disclosed publicly or made available to third-parties (except as may be required by operation of law) without the prior written consent of Houlihan Lokey, which consent shall not be unreasonably withheld.

Except as may be required by operation of applicable law, Houlihan Lokey will not disclose any of the non-public Information to any third party, except to Houlihan Lokey employees and advisors as Houlihan Lokey reasonably determines have a need to know to perform the services contemplated by this Agreement. Houlihan Lokey shall further not use any Information for any purpose other than performing the services contemplated by this Agreement.

3. **Bankruptcy Court.** The Company shall seek an order authorizing the employment of Houlihan Lokey pursuant to the terms of this Agreement, as a professional person pursuant to (and subject to the standard of review of) Section 328(a) of the Bankruptcy Code, the Bankruptcy Rules and applicable local rules and orders. The employment application and the order authorizing employment of Houlihan Lokey shall be acceptable to Houlihan Lokey in its discretion. If the Order authorizing the employment of Houlihan Lokey is obtained, the Company shall pay all fees and expenses as promptly as possible in accordance with the terms of this Agreement, the Bankruptcy Code, the Bankruptcy Rules and applicable local rules and orders, and will work with Houlihan Lokey to promptly file any and all necessary applications regarding such fees and expenses with the Bankruptcy Court. If the order authorizing the employment of Houlihan Lokey is not obtained (or is later reversed or set aside for any reason), Houlihan Lokey may terminate this Agreement, and the Company shall reimburse Houlihan Lokey for all fees and expenses reasonably incurred prior to the date of termination, subject to the requirements of the Bankruptcy Code, Bankruptcy Rules and applicable local rules and orders. The terms of this paragraph are solely for the benefit of Houlihan Lokey and may be waived, in whole or in part, only by Houlihan Lokey.

4. **Termination.** This Agreement is terminable upon thirty (30) days written notice by the Company or Houlihan Lokey without liability or continuing obligation; provided, however, that the termination of this Agreement shall not affect (a) the Company's indemnification, reimbursement, contribution and other obligations as set forth in this Agreement, and (b) Houlihan Lokey's right to receive, and the Company's obligation to pay, (i) any and all fees

and expenses accrued as of the effective date of termination of this Agreement, and (ii) those fees earned for a Transaction that is consummated during the Tail Period as described in this Agreement.

5. **Post-Termination Services.** If at any time after the Termination of this Agreement, Houlihan Lokey is called upon to render services directly or indirectly relating to the subject matter of this Agreement beyond the services contemplated herein (including, but not limited to, producing of documents, answering interrogatories, giving depositions, giving expert or other testimony, whether by agreement, subpoena or otherwise), the Company shall pay Houlihan Lokey a mutually agreed-upon reasonable hourly rate for the persons involved for the time expended in rendering such services, including, but not limited to, time for meetings, conferences, preparation and travel, and all related costs and expenses, inclusive of the reasonable legal fees and expenses of Houlihan Lokey's counsel.

6. **CHOICE OF LAW; JURISDICTION; WAIVER OF JURY.** THIS AGREEMENT HAS BEEN NEGOTIATED, EXECUTED AND DELIVERED AT AND SHALL BE DEEMED TO HAVE BEEN MADE IN NEW YORK, NEW YORK. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. REGARDLESS OF ANY PRESENT OR FUTURE DOMICILE OR PRINCIPAL PLACE OF BUSINESS OF THE PARTIES HERETO, EACH PARTY HEREBY IRREVOCABLY CONSENTS AND AGREES THAT ANY CLAIMS OR DISPUTES BETWEEN OR AMONG THE PARTIES HERETO PERTAINING TO THIS AGREEMENT OR TO ANY MATTER ARISING OUT OF OR RELATED TO THIS AGREEMENT SHALL BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF NEW YORK, PROVIDED THAT SUCH CONSENT AND AGREEMENT SHALL NOT BE DEEMED TO REQUIRE ANY BANKRUPTCY CASE INVOLVING THE COMPANY TO BE FILED IN SUCH COURTS. BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH PARTY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT. EACH PARTY HEREBY WAIVES ANY OBJECTION WHICH IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR **FORUM NON CONVENIENS** AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. THE COMPANY CONSENTS TO SERVICE OF PROCESS IN ACCORDANCE WITH NEW YORK LAW. HOULIHAN LOKEY AND THE COMPANY (ON ITS BEHALF AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, ON BEHALF OF ITS EQUITY HOLDERS) WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) RELATED TO OR ARISING OUT OF

THE ENGAGEMENT OF HOULIHAN LOKEY PURSUANT TO, OR THE PERFORMANCE BY HOULIHAN LOKEY OF THE SERVICES CONTEMPLATED BY, THIS AGREEMENT.

7. **Attorneys' Fees and Court Costs.** If any party to this Agreement brings an action directly or indirectly based upon this Agreement or the matters contemplated hereby against the other party, the prevailing party shall be entitled to recover, in addition to any other appropriate amounts, its reasonable costs and expenses in connection with such proceeding, including, but not limited to, reasonable attorneys' fees and court costs.

8. **Role as Advisor.** In performing its services pursuant to this Agreement, Houlihan Lokey is not assuming any responsibility for the Company's decision to pursue (or not to pursue) any business strategy or to effect (or not to effect) any Transaction. The Company shall have sole discretion in evaluating any prospective purchaser, negotiating any purchase price, structuring the purchase price, and all other aspects related to the M&A Transaction, including without limitation any decision to not proceed with the M&A Transaction. Houlihan Lokey's services are limited to those specifically provided in this Agreement or subsequently agreed-upon by the parties hereto, and Houlihan Lokey shall have no obligation or responsibility for any other services. Houlihan Lokey is providing its services hereunder as an independent contractor, and the parties agree that this Agreement does not create an agency or fiduciary relationship between Houlihan Lokey and the Company and its creditors.

9. **Assignability.** The benefits of this Agreement shall inure to the parties hereto, their respective successors and assigns, and to the Indemnified Parties hereunder and their respective successors and assigns and representatives, and the obligations and liabilities assumed in this Agreement by the parties hereto shall be binding upon their respective successors and assigns; provided that Houlihan Lokey may not assign its obligations under this Agreement without the written consent of the Company.

10. **Severability.** If it is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) that any term or provision hereof is invalid or unenforceable, (i) the remaining terms and provisions hereof shall be unimpaired and shall remain in full force and effect and (ii) the invalid or unenforceable provision or term shall be replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of such invalid or unenforceable term or provision.

11. **Entire Agreement.** This Agreement embodies the entire agreement and understanding of the parties hereto and supersedes any and all prior agreements, arrangements and understanding relating to the matters provided for herein. No alteration, waiver, amendment, change or

supplement hereto shall be binding or effective unless the same is set forth in writing signed by a duly authorized representative of each party.

12. **Counterparts.** For the convenience of the parties, any number of counterparts of this Agreement may be executed by the parties hereto. Each such counterpart shall be, and shall be deemed to be, an original instrument, but all such counterparts taken together shall constitute one and the same Agreement.

13. **Credit.** Upon consummation of any Transaction, Houlihan Lokey may, at its own expense, subject to the reasonable approval of the Company, place advertisements in financial and other newspapers and periodicals (such as a customary "tombstone" advertisement), or make similar announcements describing its services in connection therewith.

14. **Indemnification.** As a material part of the consideration for the agreement of (i) Houlihan Lokey to furnish its services under the Agreement and (ii) Houlihan Lokey Financial Advisors, Inc. ("HLHZFA") to furnish its services and render certain opinions under those certain retainer agreements dated October 24, 2002 and October 30, 2002 (the "Retainers"), the Company agrees to indemnify and hold harmless Houlihan Lokey and its affiliates, and their respective past, present and future directors, officers, shareholders, employees, agents and controlling persons within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended (collectively, the "Indemnified Parties"), to the fullest extent lawful, from and against any and all losses, claims, damages or liabilities (or actions in respect thereof), joint or several, arising out of or related to the Agreement, any actions taken or omitted to be taken by an Indemnified Party (including acts or omissions constituting ordinary negligence) in connection with the Agreement, the Retainers, or any Transaction or proposed Transaction contemplated thereby. In addition, the Company agrees to reimburse the Indemnified Parties for any legal or other expenses reasonably incurred by them in respect thereof at the time such expenses are incurred; provided, however, the Company shall not be liable under the foregoing indemnity or any contribution or reimbursement obligations pursuant to this Agreement for any loss, claim, damage or liability which is finally judicially determined to have resulted primarily from the willful misconduct, gross negligence, bad faith or self-dealing of any Indemnified Party.

If for any reason the foregoing indemnification is unavailable to any Indemnified Party or insufficient to hold it harmless, the Company shall contribute to the amount paid or payable by the Indemnified Party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative benefits received (or anticipated to be received) by the Company, on the one hand, and Houlihan Lokey, on the other hand, in connection with the actual or potential Transaction and the services rendered by Houlihan Lokey. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or

otherwise, then the Company shall contribute to such amount paid or payable by any Indemnified Party in such proportion as is appropriate to reflect not only such relative benefits, but also the relative fault of the Company, on the one hand, and Houlihan Lokey, on the other hand, in connection therewith, as well as any other relevant equitable considerations. Notwithstanding the foregoing, the aggregate contribution of all Indemnified Parties to any such losses, claims, damages, liabilities and expenses shall not exceed the amount of fees actually received by Houlihan Lokey pursuant to the Agreement.

The Company shall not effect any settlement or release from liability in connection with any matter for which an Indemnified Party would be entitled to indemnification from the Company, unless such settlement or release contains an unconditional release of the Indemnified Parties reasonably satisfactory in form and substance to Houlihan Lokey, from all liability to the party being settled with in connection with such matter. The Company shall not be required to indemnify any Indemnified Party for any amount paid or payable by such party in the settlement or compromise of any claim or action without the Company's prior written consent.

Prior to entering into any agreement or arrangement (other than the M&A Transaction) with respect to, or effecting, any (i) merger, statutory exchange or other business combination or proposed sale, exchange, dividend or other distribution or liquidation of all or a significant proportion of its assets, or (ii) significant recapitalization or reclassification of its outstanding securities that does not directly or indirectly provide for the assumption of the obligations of the Company set forth in this Agreement, the Company will notify Houlihan Lokey in writing thereof (if not previously so notified) and, if requested by Houlihan Lokey, shall arrange in connection therewith alternative means of providing for the obligations of the Company set forth herein, including the assumption of such obligations by another party, insurance, surety bonds or the creation of an escrow, in each case in an amount and upon terms and conditions reasonably satisfactory to Houlihan Lokey.

The Company further agrees that neither Houlihan Lokey nor any other Indemnified Party shall have any liability, regardless of the legal theory advanced, to the Company or any other person or entity (including the Company's equity holders and creditors) related to or arising out of Houlihan Lokey's engagement, except for any liability for losses, claims, damages, liabilities or expenses incurred by the Company which either (a) are finally judicially determined to have resulted primarily from, or (b) is agreed by such Indemnified Party to have resulted primarily from, the willful misconduct, gross negligence, bad faith or self-dealing of any Indemnified Party.

The indemnity, reimbursement, contribution and other obligations and agreements of the Company set forth herein shall apply to any modifications of the Agreement, shall be in addition to any liability which the Company may otherwise have, and shall be binding upon and inure to

Mr. Darren Miller
Encompass Services Corp.
November 19, 2002
Page -12-

the benefit of any successors, assigns, heirs and personal representatives of the Company and each Indemnified Party. The foregoing provisions shall survive the consummation of any Transaction and any termination of the relationship established by the Agreement.

Exhibit C

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:	:	CHAPTER 11
	:	
ENCOMPASS SERVICES CORPORATION,	:	Case No. 02-43582
<u>et al.</u>	:	
	:	
Debtors.	:	JOINTLY ADMINISTERED
	:	

**APPLICATION OF THE DEBTORS FOR ENTRY OF AN
ORDER PURSUANT TO SECTIONS 327(a) AND 328(a) OF THE
BANKRUPTCY CODE AUTHORIZING THE EMPLOYMENT AND RETENTION
OF HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL, AS THEIR
FINANCIAL ADVISORS AND INVESTMENT BANKERS**

A HEARING WILL BE CONDUCTED ON THIS MATTER ON DECEMBER 18, 2002 AT 11:00 A.M. IN COURTROOM 403, 515 RUSK, HOUSTON, TEXAS. IF YOU OBJECT TO THE RELIEF REQUESTED, YOU MUST RESPOND IN WRITING, SPECIFICALLY ANSWERING EACH PARAGRAPH OF THIS PLEADING. YOU MUST FILE YOUR RESPONSE WITH THE CLERK OF THE BANKRUPTCY COURT WITHIN TWENTY (20) DAYS FROM THE DATE YOU WERE SERVED WITH THIS PLEADING UNLESS YOU DID NOT RECEIVE THIS NOTICE IN TIME TO DO SO. IN THAT SITUATION, FILE YOUR RESPONSE AS SOON AS POSSIBLE. IN ADDITION TO FILING YOUR RESPONSE WITH THE CLERK, YOU MUST GIVE A COPY OF YOUR RESPONSE TO THE PERSON WHO SENT YOU THE NOTICE; OTHERWISE, THE COURT MAY TREAT THE PLEADING AS UNOPPOSED AND GRANT THE RELIEF REQUESTED.

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

Encompass Services Corporation and those direct and indirect subsidiaries set forth on Exhibit A (collectively, the "Debtors") respectfully represent:

Jurisdiction

1. This Court has jurisdiction to consider this Application ("Application") pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

Background

2. On November 19, 2002 (the “Commencement Date”), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). These cases have been procedurally consolidated for administrative purposes only. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

3. On November 25, 2002, the United States Trustee (“U.S. Trustee”) appointed a committee of unsecured creditors (the “Committee”) pursuant to section 1102 of the Bankruptcy Code.

4. Encompass Services Corporation (“Encompass”) and its direct and indirect subsidiaries (collectively, the “Company”), is one of the largest providers of facilities systems and solutions in the United States. With annual revenues in 2001 of approximately \$4 billion, the Company provides electrical and mechanical contracting, and cleaning systems services to commercial, industrial and residential customers. The Company has approximately 25,000 employees and operates from approximately 200 locations throughout the United States. The Company’s headquarters are located in Houston, Texas.

5. The Company was formed on February 22, 2000 through the merger of Building One Services Corporation (“Building One”) and Group Maintenance America Corp. (“GroupMAC”). GroupMAC and Building One were each formed two years prior to the merger in an effort to consolidate businesses in a fragmented industry. As a result of the merger, the Company is able to provide electrical and mechanical contracting, and cleaning system services, either alone or in combination with another service, in more locations than either constituent company could have performed on its own.

6. The Company operates in three primary business segments, namely, the Commercial/Industrial Services Group, the Residential Services Group and the Cleaning Services Group. The Commercial/Industrial Services Group designs, installs, maintains and repairs electrical, heating, ventilating, air conditioning (“HVAC”), plumbing, network infrastructure, lighting, power, security, sound and related systems to a variety of commercial customers, including manufacturing, processing and industrial facilities, chemical plants, data room servers, correctional facilities, hospitals, universities, hotels, retail stores and sports facilities. The Commercial/Industrial Services Group accounts for approximately 80% of the Company’s revenues.

7. The Residential Services Group installs and maintains HVAC and plumbing in residences and small commercial buildings. The Residential Services Group markets its services to local, regional, and national homebuilders. The Cleaning Services Group provides cleaning and maintenance management services to 8,000 locations nationwide, including, retail chain stores, supermarket chains, office buildings, industrial plants, banks and airports.

8. Several factors have resulted in a recent contraction of the Company’s revenues and profits. In particular, the downturn in the economy has caused the Company’s customers to reduce and/or delay capital spending. In addition, increased competition from local companies with substantially lower cost structures has placed downward pressure on the Company’s operating margins. The collapse of the telecommunications and high-speed internet service provider industries has further resulted in the loss of high-margin projects and has increased collection problems. The Company is also continuing to address issues concerning the integration of the former Building One and GroupMAC businesses.

9. Excluding its unsecured trade obligations, the Company has obligations in the approximate amount of \$1.237 billion. That indebtedness includes secured credit facility obligations in the approximate amount of \$589 million, unsecured bonds and note obligations in the face amount of \$339 million, and accrued and unpaid mandatorily redeemable convertible preferred stock dividends in the approximate amount of \$309 million. The Company also has significant trade obligations.

10. In an effort to restructure their indebtedness and to significantly deleverage their capital structure, on October 18, 2002, the Debtors submitted a Disclosure Statement and Prepackaged Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Plan") to the holders of the Debtors' secured credit facility claims (the "Senior Lenders") and 10½% senior subordinated notes (the "Senior Noteholders"). Prior to the expiration of the scheduled voting deadline on the Plan, however, the Senior Lenders and the Senior Noteholders each proposed an alternative restructuring plan which varied from the terms and conditions of the Plan.

Retention of Houlihan Lokey Howard & Zukin Capital

11. Subject to the approval of this Court, the Debtors have employed the investment banking firm of Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") as their financial advisors and investment bankers in connection with the sale of their Cleaning Services Group (as defined below) in these chapter 11 cases. Pursuant to sections 327(a) and 328(a) of the Bankruptcy Code, the Debtors are seeking Court approval of the employment of Houlihan Lokey to provide services related to this sale.

12. The facts supporting the relief sought in this Application, as summarized below, are set forth in the Affidavit of Rick Lacher, a Managing Director of Houlihan Lokey (the “Lacher Affidavit”), attached as Exhibit B hereto, incorporated by reference herein.

13. Houlihan Lokey is a nationally recognized investment banking/financial advisory firm with nine (9) offices worldwide and more than 300 professionals. Houlihan Lokey provides investment banking and financial advisory services and execution capabilities in a variety of areas, including financial restructuring, where Houlihan Lokey is one of the leading investment bankers and advisors to debtors, bondholder groups, secured and unsecured creditors, acquirors, and other parties-in-interest involved in financially distressed companies, both in and outside of bankruptcy. Houlihan Lokey has served as a financial advisor in some of the largest and most complex restructuring matters in the United States, including serving as the financial advisor to the debtors in the chapter 11 proceedings of XO Communications, Inc.; NII Holdings, Inc. (Nextel International); Covad Communications, Inc.; Stage Stores, Inc.; and AmeriServe Food Distribution, Inc.; and as the financial advisor to the official creditors’ committee in the chapter 11 proceedings of Enron Corporation; WorldCom, Inc.; Williams Communications Group, Inc.; Laidlaw, Inc.; and The Loewen Group, Inc. In addition, Houlihan Lokey has considerable experience in the engineering and construction sectors, having served as the financial advisor to numerous debtor and creditor constituencies in these sectors.

14. The Debtors had originally retained Houlihan Lokey on September 5, 2002, to serve as their financial advisor and investment banker in the restructuring of Debtors’ complex business and financial affairs. Indeed, prior to the commencement of these chapter 11 cases, Houlihan Lokey had been working on behalf of the Debtors in connection with the

preparation and dissemination of the Plan and related disclosure statement, and the commencement and prosecution of their chapter 11 cases.

15. With that process having now proven unsuccessful, the Debtors have now retained Houlihan Lokey to assist them in the sale of the Debtors' Cleaning Services Group. Given Houlihan Lokey's background, expertise, and intimate familiarity with the Debtors and their operations, the Debtors believe that Houlihan Lokey is both well qualified and uniquely able to provide services to the Debtors in their chapter 11 cases in a most efficient and timely manner.

16. Pursuant to its agreement with the Debtors dated November 19, 2002 (the "Agreement"), annexed hereto as Exhibit C, in furtherance of its efforts to consummate the sale of the Cleaning Services Group, it is expected that Houlihan Lokey will provide the following services to the Debtors:

- (a) Evaluate Encompass's strategic options based upon Houlihan Lokey's initial review;
- (b) Advise Encompass as to potential mergers or acquisitions, and the sale or other disposition of Business One Services Solutions, Inc., Business One Commercial Services, Inc. and their operations and businesses providing janitorial and cleaning services, excluding Encompass Industrial Services Southwest, Inc. (collectively referred to as the "Cleaning Services Group"). It is expected that such services will include: (i) developing a list of potential acquirers, investors, purchasers and/or strategic partners and interact with such persons to create interest in the M&A Transaction;¹ (ii) preparing one, or more as appropriate, offering memoranda (with substantial input from Encompass) to provide to interested purchasers; (iii) developing a coordinated sales effort and assisting in the negotiation and structuring of the financial aspects of the proposed M&A Transaction; (iv) assisting Encompass and its other advisors (e.g., attorneys) in coordinating the negotiating process and (v) otherwise reasonably assisting Encompass in effectuating the M&A Transaction;

¹ Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

- (c) Render such other financial advisory and investment banking services as may be mutually agreed upon by Houlihan Lokey and Encompass.

17. It is necessary that the Debtors employ investment bankers and financial advisors to render the foregoing professional services. Services provided by Houlihan Lokey are not duplicative in any manner with the services provided by the Debtors' other professionals, and Houlihan Lokey will undertake every reasonable effort to avoid any duplication of services.

18. Houlihan Lokey has stated its desire and willingness to act in these cases and to render the necessary professional services as financial advisors and investment bankers for the Debtors.

19. As compensation for its services, under the Agreement, Houlihan Lokey is to be paid a retainer fee of \$75,000 (the "Retainer Fee"). One hundred percent (100%) of the Retainer Fee shall be credited against the M&A Transaction Fee described in the next paragraph.

20. In addition to the foregoing Retainer Fee, pursuant to the Agreement, the Debtors shall pay Houlihan Lokey immediately and directly out of the M&A Transaction's proceeds as a cost of sale at the closing of the M&A Transaction, in cash, an M&A Transaction Fee of (i) \$1,000,000, plus (ii) three and one-half percent (3.5%) of the Aggregate Gross Consideration ("AGC") in excess of \$35 million, plus (iii) five percent (5%) of the AGC in excess of \$50 million (the "M&A Transaction Fee"). Because of the critical importance of concluding the M&A transaction by the end of the year, the Agreement provides that if the M&A Transaction is consummated by December 31, 2002, the M&A Transaction Fee shall be increased by \$250,000.

21. To the extent the Debtors request Houlihan Lokey to perform additional services not contemplated by the Agreement, including the sale of other business operations or

divisions, such services and the fees for such services will be mutually agreed-upon by Houlihan Lokey and the Debtors, in writing, in advance.

22. In addition to the fees described above, the Debtors agree to promptly reimburse Houlihan Lokey, upon request from time to time, for all out-of-pocket expenses reasonably incurred by Houlihan Lokey in connection with the matters contemplated by the Agreement, including, without limitation, reasonable fees of counsel. Out-of-pocket expenses will include, but not be limited to, all reasonable travel expenses, duplicating charges, on-line service charges, messenger services, delivery services, meeting services and long-distance telephone and facsimile charges incurred by Houlihan Lokey.

23. The Agreement provides that the Debtors agree to indemnify and hold harmless Houlihan Lokey and its affiliates, and their respective past, present and future directors, officers, shareholders, employees, agents and controlling persons within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended. Pursuant to the agreement it has reached with United States Trustees in other regions, Houlihan Lokey has agreed to modify the indemnification provisions contained in the Agreement, and these modifications are contained in the Order attached hereto as Exhibit D.

24. The Debtors request approval of the terms of Houlihan Lokey's engagement, including (i) the terms of the Agreement and (ii) the indemnification provisions contained therein, subject to the standard of review provided in section 328(a) of the Bankruptcy Code. Section 328(a) provides, in part, that a debtor "with the court's approval, may employ or authorize the employment of a professional person under section 327 . . . on any reasonable terms and conditions of employment, including a retainer, on an hourly basis, or on a contingent

fee basis.” 11 U.S.C. § 328(a). As recognized by numerous courts, Congress intended section 328(a) to enable debtors to retain professionals pursuant to specific fee arrangements to be determined at the time of the court’s approval of the retention, subject to reversal only if the terms are found to be improvident in light of “developments not capable of being anticipated at the time of the fixing of such terms and conditions.” 11 U.S.C. § 328(a). *See In re National Gypsum Co.*, 123 F.3d 861, 862-63 (5th Cir. 1997) (“If the most competent professionals are to be available for complicated capital restructuring and the development of successful corporate reorganization, they must know what they will receive for their expertise and commitment.”).

25. The Debtors believe that the fee structure and indemnification provisions set forth in the Agreement are reasonable terms and conditions of employment and should be approved under section 328(a) of the Bankruptcy Code. The fee structure and indemnification provisions separately reflect (i) the nature of the services to be provided by Houlihan Lokey and (ii) the fee structures and indemnification provisions typically utilized by Houlihan Lokey and other leading financial advisory and investment banking firms, which do not bill their clients on an hourly basis and generally are compensated on a transactional basis. In particular, the Debtors believe that the proposed fee structure creates a proper balance between the fixed Retainer Fee and transaction fees based on the successful consummation of an M&A Transaction. In sum, therefore, the Debtors believe that the fee structure and indemnification provisions are reasonable terms and conditions of employment in light of (a) industry practice, (b) market rates charged for comparable services both in and out of the chapter 11 context, (c) Houlihan Lokey’s substantial experience with respect to financial advisory and investment banking services, and (d) the nature and scope of work already performed by Houlihan Lokey

prior to the Commencement Date and to be performed by Houlihan Lokey in these chapter 11 cases.

26. Subject to the foregoing, including the standards imposed by section 328(a) of the Bankruptcy Code, awards of compensation and expenses will be sought by Houlihan Lokey pursuant to sections 330 and 331 of the Bankruptcy Code, the Bankruptcy Rules, and the Rules and Orders of this Court. As Houlihan Lokey does not bill on an hourly basis, nor maintain a system to record time, Houlihan Lokey should not be required to submit detailed time records in support of interim or final fee applications filed with the Court. Instead, in support of such applications, Houlihan Lokey will establish those services provided on behalf of the Debtors during the applicable period, and those professionals (and their qualifications) who provided such services.

27. To the best of the Debtors' knowledge, information, and belief, other than in connection with these cases, Houlihan Lokey has no connection with, and holds no interest adverse to, the Debtors, their estates, their creditors, or any other party in interest herein, or their respective attorneys, in the matters for which Houlihan Lokey is proposed to be retained, except that: (i) prior to the commencement of the Debtors' cases, Houlihan Lokey rendered restructuring, consulting and financial advisory services to the Debtors (the "Prepetition Services") pursuant to the Agreement, (ii) prior the commencement of the Debtors' cases, Houlihan Lokey provided two fairness opinions to the Debtors in regard to their sale of two companies (the "Fairness Opinion Services")² and (iii) Houlihan Lokey may have provided consulting services, and may continue to provide consulting services, to certain of the Debtors'

² These fairness opinions were for the sale of Encompass Electrical Technologies, Inc. and Encompass Electrical Technologies-Midwest, Inc.

creditors or other parties in interest in matters unrelated to the Debtors' chapter 11 cases, as disclosed in the Lacher Affidavit.

28. Prior to the filing of these cases, the Debtors paid to Houlihan Lokey a total of \$600,000 in fees and \$107,786 in expenses for Prepetition Services rendered and expenses related thereto, and \$200,000 in fees and \$15,000 in expenses for Fairness Opinion Services. Accordingly, Houlihan Lokey is not a prepetition creditor in these cases.

29. To the best of the Debtors' knowledge, Houlihan Lokey is a "disinterested person," as such term is defined in section 101(14) of the Bankruptcy Code and as required under section 327(a) of the Bankruptcy Code. The Lacher Affidavit, executed on behalf of Houlihan Lokey in accordance with section 327 of the Bankruptcy Code and Bankruptcy Rules 2014 and 2016(a), is filed contemporaneously herewith and incorporated herein by reference. The Debtors' knowledge, information, and belief regarding the matters set forth in this Application are based on, and made in reliance upon the Lacher Affidavit.

30. The appointment of Houlihan Lokey on the terms and conditions set forth herein is necessary, essential, and in the best interest of the estates of the Debtors and should be approved.

31. As of the filing of this Application, no trustee or examiner has been appointed in these chapter 11 cases. Notice of this Motion has been given to the entities on the Debtors' Master Service List. The Debtors submit that no other notice need be given.

32. No previous motion for the relief sought herein has been made to this or any other Court.

WHEREFORE, the Debtors respectfully request entry of an order granting the relief requested herein and such other and further relief as is just.

Dated: December 5, 2002
Houston, Texas

Encompass Services Corporation
on behalf of itself and those direct and indirect subsidiaries
set forth in Exhibit A, as Debtors and debtors in possession

By: /s/ Gray H. Muzzy
Gray H. Muzzy
Senior Vice President
Secretary
General Counsel

EXHIBIT A

AA Jarl, Inc.
A-ABC Appliance, Inc.
A-ABC Services, Inc.
Air Conditioning, Plumbing & Heating Service Co., Inc.
Air Systems, Inc.
Aircon Energy Incorporated
Airtron of Central Florida, Inc.
Airtron, Inc.
AMS Arkansas, Inc.
Building One Commercial, Inc.
Building One Service Solutions, Inc.
BUYR, Inc.
Callahan Roach Products & Publications, Inc.
Central Carolina Air Conditioning Company
Charlie Crawford, Inc.
ChiP Corp.
Commercial Air Holding Company
CONCH Republic Corp.
Costner Brothers, Inc.
Delta Innovations, Ltd.
EET Holdings, Inc.
Electrical Contracting, Inc.
Encompass Capital, Inc. (fka Commercial Air, Power & Cable, Inc.)
Encompass Capital, L.P.
Encompass Central Plains, Inc. (fka The Lewis Companies, Inc.)
Encompass Constructors, Inc. (fka Atlantic Industrial Constructors, Inc.)
Encompass Design Group, Inc. (fka Engineering Design Group, Inc.)
Encompass Electrical (Cleveland), Inc. (fka Dynalink Corporation)
Encompass Electrical (Dayton), Inc. (fka Chapel Electric Co.)
Encompass Electrical (DC), Inc. (fka B&R Electrical Services, Inc.)
Encompass Electrical (Indianapolis), Inc. (fka Roth Companies Incorporated)
Encompass Electrical (Network), Inc. (fka National Network Services, Inc.)
Encompass Electrical (Toledo), Inc. (fka Romanoff Electric Corp.)
Encompass Electrical Technologies – Florida, LLC
Encompass Electrical Technologies – Midwest, Inc. (fka Town & Country Electric, Inc.)
Encompass Electrical Technologies – Rocky Mountains, Inc.
Encompass Electrical Technologies Central Tennessee, Inc.
Encompass Electrical Technologies Eastern Tennessee, Inc.
Encompass Electrical Technologies Georgia, Inc.
Encompass Electrical Technologies North Carolina, Inc.
Encompass Electrical Technologies North Florida, Inc.
Encompass Electrical Technologies of Nevada, Inc.
Encompass Electrical Technologies of New England, Inc.
Encompass Electrical Technologies of Texas, Inc.
Encompass Electrical Technologies Projects Group, Inc.
Encompass Electrical Technologies South Carolina, Inc.
Encompass Electrical Technologies Southeast, Inc. (fka Regency Electric Company, Inc.)
Encompass Electrical Technologies Western Tennessee, Inc.
Encompass Electrical Technologies, Inc. (fka Continental Electrical Construction Co.) (DE Corp.)
Encompass Electrical Technologies, Inc. (fka Oil Capital Electric, Inc.) (OK Corp.)
Encompass Facility Services, Inc.
Encompass Global Technologies, Inc.
Encompass Ind./Mech. of Texas, Inc.
Encompass Industrial (Indianapolis), Inc. (fka Cardinal Contracting Corporation)
Encompass Industrial Services Southwest, Inc. (fka Gulf States, Inc.)
Encompass Management Co.
Encompass Mechanical (Bloomfield), Inc. (fka Colonial Air Conditioning Company)
Encompass Mechanical (Fort Myers), Inc. (fka S. L. Page Corporation)
Encompass Mechanical (Lansing), Inc. (fka A-1 Mechanical of Lansing, Inc.)
Encompass Mechanical (Pompano Beach), Inc. (fka AA Advance Air, Inc.)
Encompass Mechanical (Spokane), Inc. (fka Divco, Inc.)
Encompass Mechanical (Utah), Inc. (fka Team Mechanical, Inc.)
Encompass Mechanical Services – Rocky Mountains, Inc. (fka Robinson Mechanical Company)
Encompass Mechanical Services Northeast, Inc. (fka Vermont Mechanical, Inc.)
Encompass Mechanical Services of Elko, Inc. (fka Snyder Mechanical)
Encompass Mechanical Services Southeast, Inc.
Encompass Power Services, Inc. (fka EDG Power Services, Inc.)
Encompass Residential Services of Houston, Inc. (fka Sterling Air Conditioning)
Encompass Services Holding Corp.
Encompass Services Indiana, L.L.C.

ESR PC, L.P.
Evans Services, Inc.
EWG Holdings, Inc.
FacilityDirect.com, LLC
Ferguson Electric Corporation
Fred Clark Electrical Contractor, Inc.
Gamewell Mechanical, Inc.
Garfield-Indecon Electrical Services, Inc.
Gilbert Mechanical Contractors, Inc.
GroupMAC Texas L.P.
Hallmark Air Conditioning, Inc.
HPS Plumbing Services, Inc.
HVAC Services, Inc.
Interstate Building Services, L.L.C.
Isla Morada, LLC
K&N Plumbing, Heating and Air Conditioning, Inc.
L.T. Mechanical, Inc.
Laney's, Inc.
MacDonald-Miller Co., Inc.
MacDonald-Miller Industries, Inc.
MacDonald-Miller of Oregon, Inc.
MacDonald-Miller Service, Inc.
Masters, Inc.
Mechanical Services of Orlando, Inc.
Merritt Island Air & Heat, Inc.
National Network Services Northwest, LLC
Omni Mechanical Company
Omni Mechanical Services
Pacific Rim Mechanical Contractors, Inc.
Paul E. Smith Co., Inc.

Phoenix Electric Company
Ray's Plumbing Contractors, Inc.
Regency Electric Company South Florida Office,
Inc.
Regency Electric Company, LLC
Riviera Electric of California, Inc.
Sanders Bros., Inc.
Sequoyah Corporation
Southeast Mechanical Service, Inc.
Stephen C. Pomeroy, Inc.
Sun Plumbing, Inc.
Taylor-Hunt Electric, Inc.
The Farfield Company
Tri-City Electrical Contractors, Inc.
Tri-M Corporation
Tri-State Acquisition Corp.
United Acquisition Corp.
United Service Alliance, Inc.
Van's Comfortemp Air Conditioning, Inc.
Vantage Mechanical Contractors, Inc.
Wade's Heating & Cooling, Inc.
Watson Electrical Construction Co.
Wayzata, Inc.
Wiegold & Sons, Inc.
Willis Refrigeration, Air Conditioning & Heating,
Inc.
Wilson Electric Company, Inc.
Yale Incorporated

EXHIBIT B

Encompass Services Corporation, et al., Debtors

Affidavit of Rick Lacher

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:	:	CHAPTER 11
	:	
ENCOMPASS SERVICES CORPORATION,	:	Case No. 02-43582
<u>et al.</u>	:	
	:	
Debtors.	:	JOINTLY ADMINISTERED
	:	

**AFFIDAVIT OF RICK LACHER IN SUPPORT
OF THE DEBTORS' APPLICATION FOR ORDER PURSUANT
TO 11 U.S.C. §§ 328(a), 329 AND 504 AND FED. R. BANKR.
P. 2014(a) and 2016(b) AUTHORIZING EMPLOYMENT AND
RETENTION OF HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL
AS FINANCIAL ADVISORS AND INVESTMENT BANKERS**

STATE OF TEXAS)
) ss:
COUNTY OF DALLAS)

Rick Lacher, being duly sworn upon his oath, states and affirms as follows:

1. I am a Managing Director of Houlihan Lokey Howard & Zukin Capital (“Houlihan Lokey”) an investment bank with an office located at Chase Tower, 2200 Ross Avenue 4350W, Dallas, Texas 75201. I make this declaration (the “Declaration”) on behalf of Houlihan Lokey in support of the Application under sections 327(a) and 328(a) of the Bankruptcy Code for an Order authorizing the employment and retention of Houlihan Lokey as financial advisors and investment bankers for Encompass Services Corporation, et al. (the “Debtors”) in these chapter 11 cases, pursuant to the terms and conditions set forth in the agreement dated November 19, 2002 (the “Agreement”), a copy of which is attached to the Application as Exhibit C. Except as otherwise noted, I have personal knowledge of the matters set forth herein.

2. Houlihan Lokey is a nationally recognized investment banking/financial advisory firm with nine (9) offices worldwide and more than 300 professionals. Houlihan Lokey provides investment banking and financial advisory services and execution capabilities in a variety of areas, including financial restructuring, where Houlihan Lokey is one of the leading investment bankers and advisors to debtors, bondholder groups, secured and unsecured creditors, acquirors, and other parties-in-interest involved in financially distressed companies, both in and outside of bankruptcy.¹ Houlihan Lokey has served as a financial advisor in some of the largest and most complex restructuring matters in the United States, including serving as the financial advisor to the debtors in the chapter 11 proceedings of XO Communications, Inc.; NII Holdings, Inc. (Nextel International); Covad Communications, Inc.; and AmeriServe Food Distribution, Inc.; and as the financial advisor to the official creditors' committee in the chapter 11 proceedings of Enron Corporation; WorldCom, Inc.; Williams Communications Group, Inc.; Laidlaw, Inc.; and The Loewen Group, Inc. In addition, Houlihan Lokey has considerable experience in the engineering and construction sectors, having served as the financial advisor to numerous debtor and creditor constituencies in these sectors.

3. Houlihan Lokey has agreed to provide financial advisory services to the Debtors in the above-captioned chapter 11 cases before this Court, pursuant to the terms and conditions of the Agreement. No agreement exists to share any compensation received by Houlihan Lokey for its services with any person or firm.

4. The terms and conditions of the Agreement were heavily negotiated between the Debtors, their respective legal advisor and Houlihan Lokey, and reflected the

¹ The names, positions and resident offices of the Houlihan Lokey professionals currently expected to have primary responsibility for providing services to the Debtors are listed on Schedule 1 attached hereto and incorporated herein by reference.

parties' mutual agreement as to the substantial efforts that will be required in this engagement. As is customary in similar engagements, both in and outside of bankruptcy, the Agreement provides for Houlihan Lokey to receive a Retainer Fee and a fee upon the successful consummation of a transaction. Taking into account the complex nature of this engagement and the tremendous time constraints being imposed, the terms contained in the Agreement are similar to the terms agreed to by Houlihan Lokey and other financial advisory firms in similar restructuring engagements, both in and outside of bankruptcy.

5. Houlihan Lokey is a "disinterested person" as that term is defined in section 101(14) of the Bankruptcy Code in that Houlihan Lokey:

- (a) is not a creditor, equity security holder or insider of the Debtors;
- (b) is not and was not an investment banker for any outstanding security of the Debtors;
- (c) has not been, within three (3) years before the date of the filing of the Debtors' chapter 11 petition, (i) an investment banker for a security of the Debtors, or (ii) an attorney for such an investment banker in connection with the offer, sale, or issuance of a security of the Debtors; and
- (d) is not and, was not, within two (2) years before the date of the filing of the Debtors' chapter 11 petition, a director, officer, or employee of the Debtors or of any investment banker as specified in subparagraph (b) or (c) of this paragraph.

6. Moreover, to the best of my knowledge, information and belief formed after reasonable inquiry, Houlihan Lokey and its affiliates, professionals and employees have no materially adverse interest to the Debtors' estate or the creditors in these cases.

7. To the best of my knowledge, information and belief formed after reasonable inquiry, other than in connection with these cases and as set forth below and in Schedule 2, neither I, Houlihan Lokey and its affiliates, nor any of our professionals or employees, have any connection with the Debtors, their creditors, any other party with an actual

or potential interest in this chapter 11 case, the Debtors' respective attorneys, accountants and other professionals, the United States Trustee, or the United States Bankruptcy Court.

Specifically:

- (a) Houlihan Lokey provides services in connection with numerous cases, proceedings and transactions unrelated to these chapter 11 cases, including representing debtors and creditors' committees in chapter 11 proceedings and in out-of-court restructurings. All of these matters involve numerous attorneys, professionals and creditors, some of whom are, or may be, attorneys, professionals and creditors of the Debtors in these chapter 11 cases;
- (b) Houlihan Lokey has thousands of clients, past and present, who are located throughout the United States, Asia, Europe and South America, in a variety of industries. While Houlihan Lokey has not advised any of these parties in connection with this chapter 11 case, it is possible that certain of these parties, their creditors and the related professionals may have some relationship to the Debtors or their creditors in these cases;
- (c) Houlihan Lokey and its affiliates have over 470 employees, some of whom may have personal investments in the Debtors. Houlihan Lokey has placed the Debtors on their "restricted list," which precludes any employee from trading in the securities of the Debtors; and
- (d) Houlihan Lokey is affiliated with two investment funds, Sunrise Capital Partners, LP and Century Park Capital Partners, LP. While neither of these funds have any investments in the Debtors, it is possible that they may have made, or currently hold investments in certain of the creditors in this chapter 11 case. To the extent that either of these funds undertakes any investments relating to the Debtors' cases, Houlihan Lokey will obtain approval of the United States Trustee and the Court prior to such investment.

8. To determine its relationship with parties-in-interest in these cases, Houlihan Lokey has begun to research its client databases to determine whether it has any relationships with the following entities (collectively, the "Interested Parties") that were identified to Houlihan Lokey by the Debtors:

- (a) The Debtors and their affiliates as identified to Houlihan Lokey by the Debtors;

- (b) The Debtors' directors and senior officers and certain of their major business affiliations, as identified by the Debtors;
- (c) The Debtors' key creditors, including participants in the Debtors' term loans and holders of bonds issued by the Debtors, as identified to Houlihan Lokey by the Debtors;
- (d) The Debtors' trade creditors with claims over \$500,000, as identified to Houlihan Lokey by the Debtors; and
- (e) The attorneys and other professionals that the Debtors have identified for employment in these chapter 11 cases in applications filed on the Commencement Date or anticipated to be filed shortly thereafter.

To the extent identified to date, Schedule 2 discloses Houlihan Lokey's relationships with Interested Parties that have any connection to the Debtors. Schedule 2 will be supplemented from time to time, as appropriate, in the event affiliated entities are added to the Interested Party list by the Debtors and/or further investigation of the Interested Parties yields additional information material to this engagement.

9. As described in the Application, prior to the filing of these cases, the Debtors paid to Houlihan Lokey a total of \$600,000 in fees and \$107,786 in expenses relating to services pursuant to the Agreement, and \$200,000 in fees and \$30,000 in expenses relating to two fairness opinions provided by Houlihan Lokey. Accordingly, Houlihan Lokey is not a prepetition creditor of the Debtors.

10. Houlihan Lokey will apply to the Court for payment of compensation and reimbursement of expenses in accordance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules of this Court, the Agreement, and pursuant to any additional procedures that may be established by the Court in these cases. Because Houlihan Lokey will be compensated through a one-time retainer with a potential transaction fee, and as Houlihan Lokey does not have the requisite systems in place to record its time, Houlihan Lokey

should not be required to maintain or provide detailed time records in connection with any of its fee applications. In support of such applications, Houlihan Lokey will establish those services provided on behalf of the Debtors during the applicable period, and those professionals (and their qualifications) who provided such services.

/s/ Rick A. Lacher
Rick A. Lacher
Managing Director

STATE OF TEXAS :
 :
 : ss:
COUNTY OF DALLAS :

SWORN TO AND SUBSCRIBED before me, a Notary Public for the State and County aforesaid, on this 19th day of November, 2002.

/s/ Dorothy M. Franklin
Notary Public

Schedule 1

Rick A. Lacher
Managing Director
2200 Ross Ave., Suite 4350W
Dallas, Texas 75201

Adam L. Dunayer
Senior Vice President
2200 Ross Ave, Suite 4350W
Dallas, Texas 75201

Joseph Cleverdon
Associate
685 Third Avenue, 15th Floor
New York, New York 10017

Schedule 2

Cigna Corporation (Solvency)

Merrill Lynch & Company (Consulting)

Wells Fargo Bank (Consulting)

ABCO Markets, Inc. (Solvency)

Anixter Brothers, Inc. (Solvency)

Brown Wholesale Electric Co. (ESOP Update)

Ferguson Marketing Company (Fairness)

Ferguson Partners, Ltd. (Consulting)

North Coast Entertainment (FMV Non-Transaction Based Opinion)

Wagner Equipment Company (Tax)

GE Capital Corporation (FMV Non-Transaction Based Opinion)

Internal Revenue Service (Litigation)

U.S. Securities & Exchange Commis. (Litigation)

Atlantic Coast Airlines, Inc. (ESOP Update)

KPMG Peat Marwick (Litigation/ FMV Non-Transaction Based Opinion)

Fleet Capital Corporation (financing to certain officers, employees, and affiliated entities of Houlihan Lokey to fund their respective investments in certain affiliated merchant banking funds)

EXHIBIT C

Encompass Services Corporation, et al., Debtors

Houlihan Lokey Agreement



HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

INVESTMENT BANKERS

www.hlh.com

November 19, 2002

Via Facsimile and Federal Express

CONFIDENTIAL

Mr. Darren Miller
Chief Financial Officer
Encompass Services Corp.
3 Greenway Plaza
Suite 2000
Houston, TX 77046

Dear Mr. Miller:

Thank you for selecting Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") to serve as a financial advisor to Encompass Services Corporation, ("Encompass" or the "Company"). This letter and the attached Standard Terms of Engagement, which are incorporated herein by this reference (collectively, the "Agreement"), set forth our mutual understanding and agreement as to the terms of our engagement effective as of November 19, 2002. If appropriate in connection with performing its services for the Company hereunder, Houlihan Lokey may utilize the services of one or more of its affiliates, including but not limited to Houlihan Lokey Howard & Zukin Financial Advisors, Inc. in which case the references herein to Houlihan Lokey shall include such affiliates.

1. **Scope of Engagement.** Subject to and in accordance with the Standard Terms of Engagement, Houlihan Lokey will assist the Company as its financial advisor in connection with the M&A Transaction (as such term is defined in this Agreement) or such other services as the Company and Houlihan Lokey may agree upon. Upon execution of this Agreement and receipt of the Retainer Fee, Houlihan Lokey will commence its initial review of the Company's financial position, financial history, operations, competitive environment, and assets to assist the Company in determining the best means to implement the most appropriate strategy, subject to approval by the Board of Directors of the Company. In connection with our role as your financial advisor, we would expect to, as requested:

- (a) Evaluate the Company's strategic options based upon Houlihan Lokey's initial review;

- (b) Advise the Company as to potential mergers or acquisitions, and the sale or other disposition of Business One Services Solutions, Inc., Business One Commercial Services, Inc. and their operations and businesses providing janitorial and cleaning services, excluding Encompass Industrial Services Southwest, Inc. (collectively referred to as the "Cleaning Systems Group"). It is expected that such services will include: (i) developing a list of potential acquirers, investors, purchasers and/or strategic partners and interact with such persons to create interest in the M&A Transaction; (ii) preparing one, or more as appropriate, offering memoranda (with substantial input from the Company) to provide to interested purchasers; (iii) developing a coordinated sales effort and assisting in the negotiation and structuring of the financial aspects of the proposed M&A Transaction; (iv) assisting the Company and its other advisors (e.g., attorneys) in coordinating the negotiating process and (v) otherwise reasonably assisting the Company in effectuating the M&A Transaction.
- (c) Render such other financial advisory and investment banking services as may be mutually agreed upon by Houlihan Lokey and the Company.

2. **Compensation.** In consideration of our services pursuant to this Agreement, Houlihan Lokey shall be entitled to receive, and the Company shall pay to Houlihan Lokey, the following compensation:

- (a) *Retainer Fee:* Upon the execution of this Agreement, Houlihan Lokey shall be paid in cash, a retainer fee (the "Retainer Fee") of \$75,000. The Retainer Fee shall be fully earned upon payment, shall be made to Houlihan Lokey at the address above, Attention: Rick Lacher. One hundred percent (100%) of the Retainer Fee shall be credited against the M&A Transaction Fee.
- (b) *M&A Transaction Fees:* In addition to other fees payable hereunder, the Company shall pay Houlihan Lokey immediately and directly out of the M&A Transaction's proceeds as a cost of sale at the closing of the M&A Transaction, in cash, an M&A Transaction Fee of (i) \$1,000,000, plus (ii) three and one-half percent (3.5%) of the Aggregate Gross Consideration (as defined below) ("AGC") in excess of \$35 million, plus (iii) five percent (5%) of the AGC in excess of \$50 million (the "M&A Transaction Fee"). In addition, if the M&A Transaction is consummated by December 31, 2002, the M&A Transaction Fee shall be increased by \$250,000. All fees due and payable in accordance with this subparagraph shall be in addition to any other fees payable under this Agreement.

Except as otherwise expressly provided by this Agreement, for the purpose of calculating the M&A Transaction Fee in respect of the M&A Transaction, the "Aggregate Gross Consideration" shall be the total proceeds and other consideration paid to or received by, or to be paid to or received by the Company, or any of its former and existing creditors, subsidiaries, affiliates, employees, investors and/or shareholders (collectively "Constituents") or other parties in interest in connection with the M&A Transaction (which consideration shall be deemed to include amounts in escrow and any deposits or other amounts forfeited by any purchaser), including, without limitation, cash, notes, securities, and other property; payments made in installments; amounts payable under consulting agreements, non-compete agreements or similar arrangements; Contingent Payments (as defined below) and/or insurance proceeds upon the occurrence of an insurable event that diminishes the value of the Cleaning Systems Group. Upon a change of control where less than 100% of the ownership of the equity interests are sold, the AGC shall be deemed to equal the AGC as if 100% of the equity interests had been sold, determined by taking the actual AGC received and dividing by the percent equity interest sold. AGC shall not include (i) any post-bankruptcy trade payables of the Cleaning Systems Group which are assumed, decreased, satisfied or otherwise paid off in conjunction with the M&A Transaction (by any purchaser, in the form of "cure" payments or otherwise) or (ii) foreclosure on the assets of the Cleaning Systems Group's by, or surrender of such assets constituting their collateral to, the senior secured creditors. Contingent Payments shall be defined as the fair market value of consideration received or receivable by the Company or any of its Constituents and/or any other parties, in the form of deferred performance-based payments, "earn-outs", or other contingent payments based upon the future performance of the Cleaning Systems Group and/or its assets or operations which are sold.¹

- (c) *Other Services:* To the extent the Company requests Houlihan Lokey to perform additional services not contemplated by this Agreement, including the sale or other disposition of any other divisions or operating companies of the Company,

¹ For the purpose of calculating the AGC received in the M&A Transaction, any securities (other than a promissory note) will be valued at the time of the closing of the M&A Transaction (without regard to any restrictions on transferability) as follows: (i) if such securities are traded on a stock exchange, the securities will be valued at the average last sale or closing price for the ten trading days immediately prior to the closing of the M&A Transaction; (ii) if such securities are traded primarily in over-the-counter transactions, the securities will be valued at the mean of the closing bid and asked quotations similarly averaged over a ten trading day period immediately prior to the closing of the M&A Transaction; and (iii) if such securities have not been traded prior to the closing of the M&A Transaction, Houlihan Lokey will prepare a valuation of the securities, and Houlihan Lokey and the Company will negotiate in good faith to agree on a fair valuation thereof for the purposes of calculating the M&A Transaction Fee. The value of any purchase money or other promissory notes shall be deemed to be the face amount thereof. In the event the AGC includes any Contingent Payments, Houlihan Lokey shall be paid its M&A Transaction Fee based on the fair market value of such Contingent Payments as of closing and shall be paid such M&A Transaction Fee at the closing of the M&A Transaction.

such services and the fees for such services shall be mutually agreed-upon by Houlihan Lokey and the Company, in writing, in advance.

- (d) *Expenses:* In addition to the fees described above, the Company agrees to promptly reimburse Houlihan Lokey, upon request from time to time, for all out-of-pocket expenses reasonably incurred by Houlihan Lokey in connection with the matters contemplated by this Agreement, including, without limitation, reasonable fees of counsel. Out-of-pocket expenses shall include, but not be limited to, all reasonable travel expenses, duplicating charges, on-line service charges, messenger services, delivery services, meeting services and long-distance telephone and facsimile charges incurred by Houlihan Lokey.
- (e) *Tail Period:* Houlihan Lokey shall be entitled to the fees enumerated in this Agreement upon the consummation of an M&A Transaction either (i) during the term of this Agreement, or (ii) within twelve months after the effective date of termination of this Agreement (such twelve month period being referred to herein as the "Tail Period").

The parties acknowledge that a substantial professional commitment of time and effort will be required by Houlihan Lokey and its professionals hereunder, and that such commitment may foreclose other opportunities for the Firm. Moreover, the actual time and commitment required for the engagement may vary substantially, creating "peak load" issues for the Firm. Given the numerous issues which may arise in these cases, the Firm's commitment to the variable level of time and effort necessary to address such issues, the expertise and capabilities of Houlihan Lokey that will be required in this engagement, and the market rate for Houlihan Lokey's services of this nature, whether in, or out of court, the parties agree that the fee arrangement hereunder is reasonable, fairly compensates Houlihan Lokey and provides certainty to the Company.


3. **Execution.** If the terms hereof correctly set forth our understanding and agreement, please so indicate by signing and returning the enclosed copy of this Agreement, immediately sending by wire transfer the Retainer Fee of \$75,000, and signing and retaining a duplicate for your records.

4. **Lender Consent and Acknowledgement.** To provide Houlihan Lokey with more security and certainty of payment of its fees and expenses, under a separate agreement, negotiated directly between Houlihan Lokey and the senior secured lenders of the Company, the senior secured lenders of the Company, *inter alia*, consent to the payment of Houlihan Lokey's fees and expenses free and clear of the senior secured lenders' liens. Houlihan Lokey's obligations under this Engagement Agreement shall be conditioned upon Houlihan Lokey's receipt of a signed copy of the foregoing consent agreement.

Mr. Darren Miller
Encompass Services Corp.
November 19, 2002
Page -5-

Very truly yours,

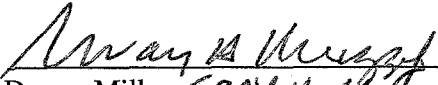
HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

By: 
Rick Lacher
Managing Director

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The foregoing Agreement (including the attached Standard Terms of Engagement) have been read, understood, accepted and approved, and the undersigned does hereby agree to retain Houlihan Lokey Howard & Zukin Capital upon the terms and provisions contained therein.

ENCOMPASS SERVICES CORPORATION

By: 
Name: ~~Darren Miller~~ GRAY H. MUEZY
Title: ~~Chief Financial Officer~~ SR. VICE PRESIDENT

STANDARD TERMS OF ENGAGEMENT

1. **Transaction.** As used herein the term "Transaction" shall mean (whether out-of-court or through a court approved transaction under Title 11 of the United States Code (the "Bankruptcy Code")), collectively:

The "M&A Transaction" as used herein shall mean with respect to the Cleaning Systems Group, (a) any merger, consolidation, reorganization, recapitalization, business combination or other transaction pursuant to which the Cleaning System Group is acquired by, or combined with (other than for purpose of internal corporate restructuring), any person, group of persons, partnership, corporation or other entity (including, without limitation, existing creditors, employees, affiliates, and/or shareholders) (collectively, an "Investor"); or (b) the acquisition, directly or indirectly, by an Investor (or by one or more persons acting together with an Investor pursuant to a written agreement or otherwise), in a single transaction or a series of transactions, of (i) any material portion of the assets or operations of the Cleaning Systems Group, or (ii) any outstanding or newly-issued shares of the Cleaning System Group's capital stock (or any securities convertible into, or options, warrants or other rights to acquire such capital stock) (such capital stock and such other securities, options, warrants and other rights being collectively referred to as "Company Securities") resulting in holders of shares of the Cleaning System Group's capital stock immediately prior thereto owning less than 50% of such capital stock immediately thereafter.

2. **Information.** In connection with Houlihan Lokey's activities on the Company's behalf, the Company will cooperate with Houlihan Lokey to the extent compliant with all applicable law and agreements to which the Company is a party, and will furnish to, or cause to be furnished to Houlihan Lokey, any and all information and data in its possession or under its control concerning the Company (the "Information") which Houlihan Lokey reasonably deems appropriate, and will provide Houlihan Lokey with access to the Company's officers, directors, employees, appraisers, independent accountants, legal counsel and other consultants, advisors and third-parties. The Company represents and warrants that all Information other than projections of future performance or facts (a) made available to Houlihan Lokey by the Company or (b) contained in any filing by the Company with any court or any governmental or regulatory agency, commission or instrumentality each (an "Agency"), will, at the time it is furnished, be complete and accurate in all material respects. The Company further represents and warrants that any projections or other forward looking information provided by it to Houlihan Lokey will have been prepared in good faith and will be based upon assumptions which the Company believes, based upon the circumstances under which they are made, are reasonable. The Company shall promptly notify Houlihan Lokey if it learns of any material inaccuracy or misstatement in, any

Information provided to Houlihan Lokey. The Company acknowledges and agrees that, in rendering its services hereunder, Houlihan Lokey will be using and relying on the Information (and information available from public sources and other sources deemed reliable by Houlihan Lokey) without independent verification thereof by Houlihan Lokey or independent appraisal by Houlihan Lokey. Houlihan Lokey does not assume responsibility for the accuracy or completeness of the Information or any other information regarding the Company.

Any financial advice, written or oral, provided by Houlihan Lokey pursuant to this Agreement is intended solely for the use and benefit of the Company, its board of directors and management, and the Company agrees that such advice may not be disclosed publicly or made available to third-parties (except as may be required by operation of law) without the prior written consent of Houlihan Lokey, which consent shall not be unreasonably withheld.

Except as may be required by operation of applicable law, Houlihan Lokey will not disclose any of the non-public Information to any third party, except to Houlihan Lokey employees and advisors as Houlihan Lokey reasonably determines have a need to know to perform the services contemplated by this Agreement. Houlihan Lokey shall further not use any Information for any purpose other than performing the services contemplated by this Agreement.

3. **Bankruptcy Court.** The Company shall seek an order authorizing the employment of Houlihan Lokey pursuant to the terms of this Agreement, as a professional person pursuant to (and subject to the standard of review of) Section 328(a) of the Bankruptcy Code, the Bankruptcy Rules and applicable local rules and orders. The employment application and the order authorizing employment of Houlihan Lokey shall be acceptable to Houlihan Lokey in its discretion. If the Order authorizing the employment of Houlihan Lokey is obtained, the Company shall pay all fees and expenses as promptly as possible in accordance with the terms of this Agreement, the Bankruptcy Code, the Bankruptcy Rules and applicable local rules and orders, and will work with Houlihan Lokey to promptly file any and all necessary applications regarding such fees and expenses with the Bankruptcy Court. If the order authorizing the employment of Houlihan Lokey is not obtained (or is later reversed or set aside for any reason), Houlihan Lokey may terminate this Agreement, and the Company shall reimburse Houlihan Lokey for all fees and expenses reasonably incurred prior to the date of termination, subject to the requirements of the Bankruptcy Code, Bankruptcy Rules and applicable local rules and orders. The terms of this paragraph are solely for the benefit of Houlihan Lokey and may be waived, in whole or in part, only by Houlihan Lokey.

4. **Termination.** This Agreement is terminable upon thirty (30) days written notice by the Company or Houlihan Lokey without liability or continuing obligation; provided, however, that the termination of this Agreement shall not affect (a) the Company's indemnification, reimbursement, contribution and other obligations as set forth in this Agreement, and (b) Houlihan Lokey's right to receive, and the Company's obligation to pay, (i) any and all fees

and expenses accrued as of the effective date of termination of this Agreement, and (ii) those fees earned for a Transaction that is consummated during the Tail Period as described in this Agreement.

5. **Post-Termination Services.** If at any time after the Termination of this Agreement, Houlihan Lokey is called upon to render services directly or indirectly relating to the subject matter of this Agreement beyond the services contemplated herein (including, but not limited to, producing of documents, answering interrogatories, giving depositions, giving expert or other testimony, whether by agreement, subpoena or otherwise), the Company shall pay Houlihan Lokey a mutually agreed-upon reasonable hourly rate for the persons involved for the time expended in rendering such services, including, but not limited to, time for meetings, conferences, preparation and travel, and all related costs and expenses, inclusive of the reasonable legal fees and expenses of Houlihan Lokey's counsel.

6. **CHOICE OF LAW; JURISDICTION; WAIVER OF JURY.** THIS AGREEMENT HAS BEEN NEGOTIATED, EXECUTED AND DELIVERED AT AND SHALL BE DEEMED TO HAVE BEEN MADE IN NEW YORK, NEW YORK. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. REGARDLESS OF ANY PRESENT OR FUTURE DOMICILE OR PRINCIPAL PLACE OF BUSINESS OF THE PARTIES HERETO, EACH PARTY HEREBY IRREVOCABLY CONSENTS AND AGREES THAT ANY CLAIMS OR DISPUTES BETWEEN OR AMONG THE PARTIES HERETO PERTAINING TO THIS AGREEMENT OR TO ANY MATTER ARISING OUT OF OR RELATED TO THIS AGREEMENT SHALL BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF NEW YORK, PROVIDED THAT SUCH CONSENT AND AGREEMENT SHALL NOT BE DEEMED TO REQUIRE ANY BANKRUPTCY CASE INVOLVING THE COMPANY TO BE FILED IN SUCH COURTS. BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH PARTY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT. EACH PARTY HEREBY WAIVES ANY OBJECTION WHICH IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR **FORUM NON CONVENIENS** AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. THE COMPANY CONSENTS TO SERVICE OF PROCESS IN ACCORDANCE WITH NEW YORK LAW. HOULIHAN LOKEY AND THE COMPANY (ON ITS BEHALF AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, ON BEHALF OF ITS EQUITY HOLDERS) WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) RELATED TO OR ARISING OUT OF

THE ENGAGEMENT OF HOULIHAN LOKEY PURSUANT TO, OR THE PERFORMANCE BY HOULIHAN LOKEY OF THE SERVICES CONTEMPLATED BY, THIS AGREEMENT.

7. **Attorneys' Fees and Court Costs.** If any party to this Agreement brings an action directly or indirectly based upon this Agreement or the matters contemplated hereby against the other party, the prevailing party shall be entitled to recover, in addition to any other appropriate amounts, its reasonable costs and expenses in connection with such proceeding, including, but not limited to, reasonable attorneys' fees and court costs.

8. **Role as Advisor.** In performing its services pursuant to this Agreement, Houlihan Lokey is not assuming any responsibility for the Company's decision to pursue (or not to pursue) any business strategy or to effect (or not to effect) any Transaction. The Company shall have sole discretion in evaluating any prospective purchaser, negotiating any purchase price, structuring the purchase price, and all other aspects related to the M&A Transaction, including without limitation any decision to not proceed with the M&A Transaction. Houlihan Lokey's services are limited to those specifically provided in this Agreement or subsequently agreed-upon by the parties hereto, and Houlihan Lokey shall have no obligation or responsibility for any other services. Houlihan Lokey is providing its services hereunder as an independent contractor, and the parties agree that this Agreement does not create an agency or fiduciary relationship between Houlihan Lokey and the Company and its creditors.

9. **Assignability.** The benefits of this Agreement shall inure to the parties hereto, their respective successors and assigns, and to the Indemnified Parties hereunder and their respective successors and assigns and representatives, and the obligations and liabilities assumed in this Agreement by the parties hereto shall be binding upon their respective successors and assigns; provided that Houlihan Lokey may not assign its obligations under this Agreement without the written consent of the Company.

10. **Severability.** If it is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) that any term or provision hereof is invalid or unenforceable, (i) the remaining terms and provisions hereof shall be unimpaired and shall remain in full force and effect and (ii) the invalid or unenforceable provision or term shall be replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of such invalid or unenforceable term or provision.

11. **Entire Agreement.** This Agreement embodies the entire agreement and understanding of the parties hereto and supersedes any and all prior agreements, arrangements and understanding relating to the matters provided for herein. No alteration, waiver, amendment, change or

supplement hereto shall be binding or effective unless the same is set forth in writing signed by a duly authorized representative of each party.

12. **Counterparts.** For the convenience of the parties, any number of counterparts of this Agreement may be executed by the parties hereto. Each such counterpart shall be, and shall be deemed to be, an original instrument, but all such counterparts taken together shall constitute one and the same Agreement.

13. **Credit.** Upon consummation of any Transaction, Houlihan Lokey may, at its own expense, subject to the reasonable approval of the Company, place advertisements in financial and other newspapers and periodicals (such as a customary "tombstone" advertisement), or make similar announcements describing its services in connection therewith.

14. **Indemnification.** As a material part of the consideration for the agreement of (i) Houlihan Lokey to furnish its services under the Agreement and (ii) Houlihan Lokey Financial Advisors, Inc. ("HLHZFA") to furnish its services and render certain opinions under those certain retainer agreements dated October 24, 2002 and October 30, 2002 (the "Retainers"), the Company agrees to indemnify and hold harmless Houlihan Lokey and its affiliates, and their respective past, present and future directors, officers, shareholders, employees, agents and controlling persons within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended (collectively, the "Indemnified Parties"), to the fullest extent lawful, from and against any and all losses, claims, damages or liabilities (or actions in respect thereof), joint or several, arising out of or related to the Agreement, any actions taken or omitted to be taken by an Indemnified Party (including acts or omissions constituting ordinary negligence) in connection with the Agreement, the Retainers, or any Transaction or proposed Transaction contemplated thereby. In addition, the Company agrees to reimburse the Indemnified Parties for any legal or other expenses reasonably incurred by them in respect thereof at the time such expenses are incurred; provided, however, the Company shall not be liable under the foregoing indemnity or any contribution or reimbursement obligations pursuant to this Agreement for any loss, claim, damage or liability which is finally judicially determined to have resulted primarily from the willful misconduct, gross negligence, bad faith or self-dealing of any Indemnified Party.

If for any reason the foregoing indemnification is unavailable to any Indemnified Party or insufficient to hold it harmless, the Company shall contribute to the amount paid or payable by the Indemnified Party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative benefits received (or anticipated to be received) by the Company, on the one hand, and Houlihan Lokey, on the other hand, in connection with the actual or potential Transaction and the services rendered by Houlihan Lokey. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or

otherwise, then the Company shall contribute to such amount paid or payable by any Indemnified Party in such proportion as is appropriate to reflect not only such relative benefits, but also the relative fault of the Company, on the one hand, and Houlihan Lokey, on the other hand, in connection therewith, as well as any other relevant equitable considerations. Notwithstanding the foregoing, the aggregate contribution of all Indemnified Parties to any such losses, claims, damages, liabilities and expenses shall not exceed the amount of fees actually received by Houlihan Lokey pursuant to the Agreement.

The Company shall not effect any settlement or release from liability in connection with any matter for which an Indemnified Party would be entitled to indemnification from the Company, unless such settlement or release contains an unconditional release of the Indemnified Parties reasonably satisfactory in form and substance to Houlihan Lokey, from all liability to the party being settled with in connection with such matter. The Company shall not be required to indemnify any Indemnified Party for any amount paid or payable by such party in the settlement or compromise of any claim or action without the Company's prior written consent.

Prior to entering into any agreement or arrangement (other than the M&A Transaction) with respect to, or effecting, any (i) merger, statutory exchange or other business combination or proposed sale, exchange, dividend or other distribution or liquidation of all or a significant proportion of its assets, or (ii) significant recapitalization or reclassification of its outstanding securities that does not directly or indirectly provide for the assumption of the obligations of the Company set forth in this Agreement, the Company will notify Houlihan Lokey in writing thereof (if not previously so notified) and, if requested by Houlihan Lokey, shall arrange in connection therewith alternative means of providing for the obligations of the Company set forth herein, including the assumption of such obligations by another party, insurance, surety bonds or the creation of an escrow, in each case in an amount and upon terms and conditions reasonably satisfactory to Houlihan Lokey.

The Company further agrees that neither Houlihan Lokey nor any other Indemnified Party shall have any liability, regardless of the legal theory advanced, to the Company or any other person or entity (including the Company's equity holders and creditors) related to or arising out of Houlihan Lokey's engagement, except for any liability for losses, claims, damages, liabilities or expenses incurred by the Company which either (a) are finally judicially determined to have resulted primarily from, or (b) is agreed by such Indemnified Party to have resulted primarily from, the willful misconduct, gross negligence, bad faith or self-dealing of any Indemnified Party.

The indemnity, reimbursement, contribution and other obligations and agreements of the Company set forth herein shall apply to any modifications of the Agreement, shall be in addition to any liability which the Company may otherwise have, and shall be binding upon and inure to

Mr. Darren Miller
Encompass Services Corp.
November 19, 2002
Page -12-

the benefit of any successors, assigns, heirs and personal representatives of the Company and each Indemnified Party. The foregoing provisions shall survive the consummation of any Transaction and any termination of the relationship established by the Agreement.

EXHIBIT D

Encompass Services Corporation, et al., Debtors

Proposed Order

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:	:	CHAPTER 11
	:	
ENCOMPASS SERVICES CORPORATION,	:	Case No. 02-43582
<u>et al.</u>	:	
	:	
Debtors.	:	JOINTLY ADMINISTERED
	:	

**ORDER PURSUANT TO SECTIONS 327(a) AND 328(a) OF THE
BANKRUPTCY CODE AUTHORIZING THE EMPLOYMENT AND RETENTION OF
HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL AS THE DEBTORS' FINANCIAL
ADVISORS AND INVESTMENT BANKERS**

[This instrument pertains to Docket # _____]

Upon consideration of the application (the "Application") of Encompass Services Corporation and certain of its direct and indirect subsidiaries as debtors-in-possession (collectively, the "Debtors"), pursuant to sections 327(a) and 328(a) chapter 11 of title 11 of the United States Code for authorization to retain and employ Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") as financial advisors and investment bankers to the Debtors and for the approval of the proposed terms of such employment set forth in the letter agreement dated as of November 19, 2002, attached as Exhibit C to the Application (the "Agreement"); and upon the Affidavit of Rick Lacher (the "Lacher Affidavit") in support of the Application attached as Exhibit B to the Application; and the Court being satisfied, based on the representations made in the Application and the Lacher Affidavit, that Houlihan Lokey represents or holds no interest adverse to the Debtors or to their estates as to the matters upon which it is to be engaged and is disinterested under section 101(14) of the Bankruptcy Code, as modified by section 1107(b) of the Bankruptcy Code, and that the employment of Houlihan Lokey is necessary and would be in

the best interests of the Debtors and their estates; and the Court having jurisdiction to consider the Application and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334; and it appearing that due notice of the Application has been given; and upon the Application and all of the proceedings had before the Court; and after due deliberation and sufficient cause appearing therefor, it is

ORDERED that the Application is granted; and it is further

ORDERED that, pursuant to sections 327(a) and 328(a) of the Bankruptcy Code and Rules 2014(a) and 2016 of the Federal Rules of Bankruptcy Procedure, the Debtors are authorized to retain and employ Houlihan Lokey as their financial advisors and investment bankers for the purpose of providing financial advisory, investment banking, and other related services in connection with the Debtors' chapter 11 cases in accordance with the terms of the Agreement, effective as of the commencement of these cases; and it is further

ORDERED that the fees to be paid to Houlihan Lokey pursuant to the terms of the Agreement, and the indemnification provisions contained therein, are approved and will be subject to the standard of review provided in section 328(a) of the Bankruptcy Code and not subject to any other standard of review under section 330 of the Bankruptcy Code; and it is further

ORDERED that, subject to the foregoing, awards of compensation and expenses will be sought by Houlihan Lokey pursuant to sections 330 and 331 of the Bankruptcy Code, the Bankruptcy Rules, and the rules and orders of this Court; and it is further

ORDERED that the indemnification provisions set forth in the Agreement are modified as follows:

- (a) Houlihan Lokey will not be entitled to indemnification, contribution or reimbursement pursuant to the Agreement

for services other than the financial advisory and investment banking services provided under the Agreement, unless such other services and the indemnification, contribution or reimbursement therefore are approved by the Court;

- (b) The Debtors will have no obligation to indemnify Houlihan Lokey, or provide contribution or reimbursement to Houlihan Lokey, for any claim or expense that is either:
 - (i) judicially determined (the determination having become final) to have arisen solely from Houlihan Lokey's gross negligence, willful misconduct, breach of fiduciary duty, if any, bad faith or self-dealing; or
 - (ii) settled prior to a judicial determination as to Houlihan Lokey's gross negligence, willful misconduct, breach of fiduciary duty, or bad faith or self-dealing but determined by this Court, after notice and a hearing to be a claim or expense for which Houlihan Lokey should not receive indemnity, contribution or reimbursement under the terms of the Agreement as modified by this Order;

- (c) If, before the earlier of (i) the entry of an order confirming a chapter 11 plan in these cases (that order having become a final order no longer subject to appeal), and (ii) the entry of an order closing these chapter 11 cases, Houlihan Lokey believes that it is entitled to the payment of any amounts by the Debtors on account of the Debtors' indemnification, contribution and/or reimbursement obligations under the Agreement (as modified by this Order), including without limitation the advancement of defense costs, Houlihan Lokey must file an application therefore in this Court, and the Debtors may not pay any such amounts to Houlihan Lokey before the entry of an order by this Court approving the payment. This subparagraph (c) is intended only to specify the period of time under which the Court will have jurisdiction over any request for fees and expenses by Houlihan Lokey for indemnification, contribution or reimbursement, and not a provision limiting the duration of the Debtors' obligation to indemnify Houlihan Lokey. Notwithstanding this subparagraph, the United States Trustee will retain the right to object to any demand by Houlihan Lokey for indemnification contribution or reimbursement; and

- (d) The limitation on any amounts to be contributed by all Indemnified Parties (as defined in the Agreement) in the aggregate will be eliminated; and it is further

ORDERED that this Court will retain exclusive jurisdiction to construe and enforce the terms of the Application, the Agreement, and this Order.

Dated: December ____, 2002
Houston, Texas

UNITED STATES BANKRUPTCY JUDGE

Exhibit D

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:	:	CHAPTER 11
	:	
ENCOMPASS SERVICES CORPORATION,	:	Case No. 02-43582
<u>et al.</u>	:	
	:	
Debtors.	:	JOINTLY ADMINISTERED
	:	

**ORDER PURSUANT TO SECTIONS 327(a) AND 328(a) OF THE
BANKRUPTCY CODE AUTHORIZING THE EMPLOYMENT AND RETENTION OF
HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL AS THE DEBTORS' FINANCIAL
ADVISORS AND INVESTMENT BANKERS**

[This instrument pertains to Docket #236]

Upon consideration of the application (the "Application") of Encompass Services Corporation and certain of its direct and indirect subsidiaries as debtors-in-possession (collectively, the "Debtors"), pursuant to sections 327(a) and 328(a) of title 11 of the United States Code for authorization to retain and employ Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") as financial advisors and investment bankers to the Debtors and for the approval of the proposed terms of such employment set forth in the letter agreement dated as of November 19, 2002, attached as Exhibit C to the Application (the "Agreement"); and upon the Affidavit of Rick Lacher (the "Lacher Affidavit") in support of the Application attached as Exhibit B to the Application; and the Court being satisfied, based on the representations made in the Application and the Lacher Affidavit, that Houlihan Lokey represents or holds no interest adverse to the Debtors or to their estates as to the matters upon which it is to be engaged and is disinterested under section 101(14) of the Bankruptcy Code, as modified by section 1107(b) of the Bankruptcy Code, and that the employment of Houlihan Lokey is necessary and would be in

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the best interests of the Debtors and their estates; and the Court having jurisdiction to consider the Application and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334; and it appearing that due notice of the Application having been given via facsimile, hand delivery or overnight mail; and upon the Application and all of the proceedings had before the Court; and after due deliberation and sufficient cause appearing therefor, it is

ORDERED that, the Application is granted as modified herein; and it is further

ORDERED that, pursuant to sections 327(a) and 328(a) of the Bankruptcy Code and Bankruptcy Rules 2014(a) and 2016, the Debtors are authorized to retain and employ Houlihan Lokey as their financial advisors and investment bankers for the purpose of providing financial advisory, investment banking, and other related services in connection with the Debtors' chapter 11 cases in accordance with the terms of the Agreement and the Amendment, effective as of the commencement of these cases; and it is further

ORDERED that, subject to the modifications contained in this Order, the fees to be paid to Houlihan Lokey pursuant to the terms of the Agreement, and the indemnification provisions contained therein, are approved and will be subject to the standard of review provided in section 328(a) of the Bankruptcy Code and not subject to any other standard of review under section 330 of the Bankruptcy Code; and it is further

ORDERED that, subject to the foregoing, awards of compensation and expenses will be sought by Houlihan Lokey pursuant to sections 330 and 331 of the Bankruptcy Code, the Bankruptcy Rules, and the rules and orders of this Court; provided, however, that Houlihan Lokey shall be entitled to the payment of the M&A Transaction Fee as provided in the Agreement, upon the closing of the M&A Transaction. Houlihan Lokey shall provide a

description of those services provided on behalf of the Debtors in its Final Fee Application; and it is further

ORDERED that the indemnification provisions set forth in the Agreement are modified as follows:

- (a) Houlihan Lokey will not be entitled to indemnification, contribution or reimbursement pursuant to the Agreement for services other than the financial advisory and investment banking services provided under the Agreement, unless such other services and the indemnification, contribution or reimbursement therefore are approved by the Court;
- (b) The Debtors will have no obligation to indemnify Houlihan Lokey, or provide contribution or reimbursement to Houlihan Lokey, for any claim or expense that is either: (i) judicially determined (the determination having become final) to have arisen solely from Houlihan Lokey's gross negligence, willful misconduct, breach of fiduciary duty, if any, bad faith or self-dealing; or (ii) settled prior to a judicial determination as to Houlihan Lokey's gross negligence, willful misconduct, breach of fiduciary duty, or bad faith or self-dealing but determined by this Court, after notice and a hearing to be a claim or expense for which Houlihan Lokey should not receive indemnity, contribution or reimbursement under the terms of the Agreement as modified by this Order;
- (c) If, before the earlier of (i) the entry of an order confirming a chapter 11 plan in these cases (that order having become a final order no longer subject to appeal), and (ii) the entry of an order closing these chapter 11 cases, Houlihan Lokey believes that it is entitled to the payment of any amounts by the Debtors on account of the Debtors' indemnification, contribution and/or reimbursement obligations under the Agreement (as modified by this Order), including without limitation the advancement of defense costs, Houlihan Lokey must file an application therefore in this Court, and the Debtors may not pay any such amounts to Houlihan Lokey before the entry of an order by this Court approving the payment. This subparagraph (c) is intended only to specify the period of time under which the Court will have jurisdiction over any request for fees and expenses by Houlihan Lokey for indemnification, contribution or

reimbursement, and not a provision limiting the duration of the Debtors' obligation to indemnify Houlihan Lokey. Notwithstanding this subparagraph, the United States Trustee and the Official Committee of Unsecured Creditors will retain the right to object, at any time and upon any ground, to any demand by Houlihan Lokey for indemnification contribution or reimbursement. Houlihan Lokey shall provide the United States Trustee and the Official Committee of Unsecured Creditors (if then in existence) with notice at the time a request is made to the Debtors for indemnification, contribution or reimbursement; and

- (d) The limitation on any amounts to be contributed by all Indemnified Parties (as defined in the Agreement) in the aggregate will be eliminated; and it is further

ORDERED that the terms of the Agreement are modified as follows:

Paragraph 2(b) of the Agreement shall be amended to read as follows: "In addition to other fees payable hereunder, the Company shall pay Houlihan Lokey immediately and directly out of the M&A Transaction's proceeds as a cost of sale at the closing of the M&A Transaction, in cash, an M&A Transaction Fee of (i) \$1,000,000, plus (ii) 3 and one-half percent (3.5%) of the Aggregate Gross Consideration ("AGC") in excess of \$35 million, plus (iii) five percent (5%) of the AGC in excess of \$50 million (the "M&A Transaction Fee"), provided that the M&A Transaction Fee is capped such that the amount received by Houlihan Lokey shall not exceed ten percent (10%) of the cash received in the M&A Transaction, including any escrowed cash received. In addition, if the M&A Transaction is closed by December 31, 2002, the M&A Transaction Fee shall be increased by an additional \$250,000. All fees due and payable in accordance with this subparagraph shall be in addition to any other fees payable under this Agreement;" and it is further

ORDERED, that Houlihan Lokey's affiliates Sunrise Capital Partners, L.P. and Century Park Capital, L.P., shall undertake no investments in the Debtors during the pendency of these cases; and it is further

ORDERED that this Court will retain exclusive jurisdiction to construe and enforce the terms of the Application, the Agreement, and this Order.

Dated: ~~December~~ ^{Jan} 27, 2007 3
Houston, Texas

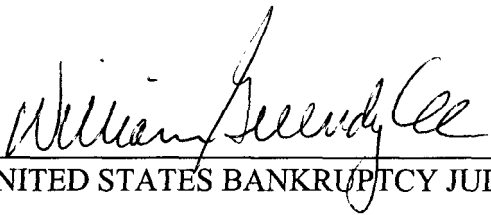

UNITED STATES BANKRUPTCY JUDGE

Exhibit E

Encompass
Detailed Breakout of Expenses

Expense Detail:

November 1 - 30, 2002

<u>Source</u>	<u>Position</u>	<i>Transportation</i>		<u>Lodging</u>	<u>Client Meals</u>	<u>Overtime Meals</u>	<u>Phone & Other</u>	<u>TOTAL</u>
		<u>Airfare</u>	<u>Other</u>					
Rick Lacher	Managing Director	1,127.50	35.33	317.97	15.21		9.18	1,505.19
Adam Dunayer	Senior Vice President							-
Joe Cleverdon	Associate		125.51			102.95		228.46
Scott Passet	Financial Analyst		182.98			104.12	50.00	337.10
Telephone, Telecopy & Other Expenses								
Library, Office Supplies & Copying Expenses								
Research and Information Service Expenses								165.66
Delivery and Messenger Expenses								12.00
Houlihan Lokey Administrative Overtime								
Total Period Expenses								\$2,248.41

December 1 - 31, 2002

<u>Source</u>	<u>Position</u>	<i>Transportation</i>		<u>Lodging</u>	<u>Client Meals</u>	<u>Overtime Meals</u>	<u>Phone & Other</u>	<u>TOTAL</u>
		<u>Airfare</u>	<u>Other</u>					
Andrew Miller	Managing Director	2,114.00	216.72	193.05	60.13			2,583.90
Rick Lacher	Managing Director		351.50					351.50
Adam Dunayer	Senior Vice President	6,891.50	234.86	1,096.33	1,942.99		432.19	10,597.87
Joe Cleverdon	Associate	1,206.00	1,769.92	980.20	342.69	8.20	64.26	4,371.27
Scott Passet	Financial Analyst	2,044.00	335.90	175.50		57.31	200.00	2,812.71
Telephone, Telecopy & Other Expenses								913.81
Library, Office Supplies & Copying Expenses								
Research and Information Service Expenses								1,357.81
Delivery and Messenger Expenses								1,456.62
Houlihan Lokey Administrative Overtime								51.00
Total Period Expenses								24,496.49

January 1 - 24, 2003

<u>Source</u>	<u>Position</u>	<i>Transportation</i>		<u>Lodging</u>	<u>Client Meals</u>	<u>Overtime Meals</u>	<u>Phone & Other</u>	<u>TOTAL</u>
		<u>Airfare</u>	<u>Other</u>					
Rick Lacher	Managing Director							-
Adam Dunayer	Senior Vice President	386.00	497.71	596.70	227.26		7.83	1,715.50
Joe Cleverdon	Associate	227.50	97.12		5.95	24.44		355.01
Scott Passet	Financial Analyst		6.00					6.00
Telephone, Telecopy & Other Expenses								
Library, Office Supplies & Copying Expenses								
Research and Information Service Expenses								
Delivery and Messenger Expenses								-
Houlihan Lokey Administrative Overtime								
Total Period Expenses								\$2,076.51

Total Expenses	\$28,821.41
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Service List

Certificate of Service

This is to certify that a true and correct copy of the foregoing Application was served upon the parties listed below by e-mail or by United States mail, first class, postage prepaid on this the 8th day of AUGUST, 2003.

Encompass Services Corporation
3 Greenway Plaza, Suite 2000
Houston, TX 77046
Attn: Gray Muzzy

Office of the United States Trustee
515 Rusk Street, 3rd Floor
Houston, TX 77002
Attn: Hector Duran, Jr.

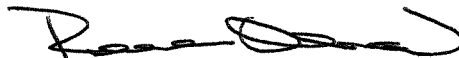
Counsel for the Debtors' Prepetition
Lenders and Counsel for the Debtors'
Postpetition Lenders:
Winstead Sechrest & Minick P.C.
5400 Renaissance Tower
1201 Elm Street
Dallas, TX 75270-2199
Attn: R. Michael Farquhar

Chairperson of and Counsel to the
Committee:

Philip Falcone - Co-chair
Harbert Management Corporation
555 Madison Avenue, 28th Floor
New York, NY 10022
Facsimile: 212-521-6972

John Pare - Chair
Hughes Supply, Inc.
20 North Orange Ave., Suite 200
Orlando, FL 32801
Facsimile: 407-649-3018

Andrews & Kurth L.L.P.
600 Travis Street, Suite 4200
Houston, TX 77002
Attn: Hugh M. Ray
Jim Donnell



Rene Olvera

Proposed Order

**UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:	:	CHAPTER 11
	:	
ENCOMPASS SERVICES CORPORATION, <u>et al.</u>	:	Case No. 02-43582-H4-11
	:	
Reorganized Debtors.	:	JOINTLY ADMINISTERED

**ORDER APPROVING FIRST AND FINAL APPLICATION OF HOULIHAN
LOKEY HOWARD & ZUKIN CAPITAL FOR FINAL ALLOWANCE OF
COMPENSATION FOR PROFESSIONAL SERVICES RENDERED AND FOR
REIMBURSEMENT OF ACTUAL AND NECESSARY EXPENSES**

[This instrument pertains to Docket No. _____]

Upon consideration of the application (the “Application”) of Houlihan Lokey Howard & Zukin Capital (“Houlihan Lokey”) for an order approving first and final application for final allowance of compensation for professional services rendered and for reimbursement of actual and necessary expenses incurred during the period of November 19, 2002 through December 31, 2002 (the “Compensation Period”); and the Court being satisfied that the relief requested in the Application is in the best interests of Encompass Services Corporation and Encompass Services Holding Corp. (collectively, the “Debtors”) and their estates; and it appearing that due notice of this Application has been given and that no other or further notice be given and sufficient cause appearing therefor, it is

ORDERED that the Application is granted; and it is further

ORDERED that Houlihan Lokey is entitled to final allowance of \$1,278,821.41, representing \$1,250,000.00 as compensation for professional services rendered during the Compensation Period and reimbursement for actual and necessary

expenses Houlihan Lokey incurred during the Compensation Period in the amount of \$28,821.41; and it is further

ORDERED that Houlihan Lokey is authorized to pay to the Debtors an amount equal to \$46,178.59 in full satisfaction of the amounts owed between Houlihan Lokey and the Debtors pursuant to the Engagement Letter, Retention Application, and Retention Order.

DATED: _____, 2003
Houston, Texas

HONORABLE WILLIAM R. GREENDYKE,
UNITED STATES BANKRUPTCY JUDGE