

**UNITED STATES BANKRUPTCY COURT
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

**COVER SHEET FOR FINAL APPLICATION OF KPMG LLP AS
ACCOUNTANTS FOR THE DEBTORS FOR ALLOWANCE OF
COMPENSATION FOR PROFESSIONAL SERVICES RENDERED AND FOR
REIMBURSEMENT OF ACTUAL AND NECESSARY EXPENSES INCURRED
FROM NOVEMBER 19, 2002 THROUGH JUNE 9, 2003**

Name of Applicant: KPMG LLP

Authorized to Provide Professional Services to: Debtors

Date of Retention: November 19, 2003

Compensation Period:
Period for which compensation and reimbursement are sought: November 19, 2002 through June 9, 2003

Amount of compensation sought as actual, reasonable, and necessary: \$818,705.00

Amount of expense reimbursement sought as actual, reasonable, and necessary: \$64,728.00

If this is not the first application filed, disclose the following for each prior application:

Date Filed	Period Covered	Requested		Approved	
		Fees	Expenses	Fees	Expenses
April 14, 2003	November 19, 2002 - February 28, 2003	\$815,045.00	\$66,176.00	\$815,045.00	\$64,728.00

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

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

**FINAL APPLICATION OF KPMG LLP AS
ACCOUNTANTS FOR THE DEBTORS FOR ALLOWANCE OF
COMPENSATION FOR PROFESSIONAL SERVICES RENDERED AND FOR
REIMBURSEMENT OF ACTUAL AND NECESSARY EXPENSES INCURRED
FROM NOVEMBER 19, 2002 THROUGH JUNE 9, 2003**

A HEARING WILL BE CONDUCTED ON THIS MATTER ON SEPTEMBER 10, 2003 AT 11:00 A.M. IN COURTROOM 403, 515 RUSK AVENUE, 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 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 WILLIAM R. GREENDYKE,
UNITED STATES BANKRUPTCY JUDGE:

KPMG LLP ("KPMG") hereby files its Final Application (the "Application") for allowance of compensation for services rendered and reimbursement of actual and necessary expenses incurred by KPMG during the period from November 19, 2002 (the "KPMG Retention Date") through June 9, 2003 (the "Compensation Period") pursuant to section 330 of title 11 of the United States Code (the "Bankruptcy Code"), Rule 2016 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Rule 2016 of the Local Rules of the United States

Commencement Date. An Affidavit of Partner in Support of the Application for Order Authorizing the retention of KPMG LLP as Accountants and Auditors to the Debtor was attached to Employment Application and is attached as Exhibit A hereto. By this Court's Order dated December 18, 2002 (Docket # 390), an "Order Authorizing the Employment of KPMG LLP as Accountants for the Debtor Pursuant to 11 U.S.C. §§ 327(a), 328(a) and 504 of the Bankruptcy Code" (attached as Exhibit B) the Debtor was authorized to retain KPMP as their accountants and auditors, effective as of the Commencement Date, with regard to SEC filings and the annual audit, accounting for the Chapter 11 cases, and all related matters (the "Retention Order"). The Retention Order authorizes the Debtors to compensate KPMG at KPMG's hourly rates charged for services of this type and to be reimbursed for actual and necessary out-of-pocket expenses that it incurred, subject to application to this Court in accordance with the Bankruptcy Code, the Bankruptcy Rules, all applicable local rules and orders of the Court and pursuant to Sections 105(a) and 331 of the Bankruptcy Code.

6. On April 14, 2003, KPMG submitted the First Application of KPMG as Accountants for the Debtors For Allowance of Compensation for Professional Services Rendered and For Reimbursement of Actual and Necessary Expenses Incurred from November 19, 2002 Through February 28, 2003 (Docket # 2113) ("Interim Fee Application"). The Interim Fee Application sought allowance of fees in the amount of \$815,045.00 and actual and necessary expenses totaling \$66,176.00 for services rendered and reimbursement of actual and necessary expenses incurred by KPMG during the period of November 19, 2003 through February 28, 2003. On May 17, 2003, the Court entered the Order Approving First Interim Application of KPMG LLP as Accountants for the Debtors For Allowance of Compensation for Professional Services Rendered and For Reimbursement of Actual and Necessary Expenses Incurred from

November 19, 2002 Through February 28, 2003 (Docket # 2453), approving allowance of the requested fees in full and the actual and necessary expenses in the reduced amount of \$64,728.00.

COMPENSATION REQUESTED

7. This is KPMG's final application for compensation in this case. Section 330 of the Bankruptcy Code allows a court to award a professional (a) "reasonable compensation for actual, necessary services" rendered by a professional and by any paraprofessional person employed by any such person, based on "the nature, the extent, and the value of such services" and taking into account factors such as the "time spent on such services" and whether the services were necessary and beneficial to the estate, and (b) "reimbursement for actual, necessary expenses." 11 U.S.C. § 330.

8. By this Application and in accordance with section 330 of the Bankruptcy Code, KPMG requests allowance for \$3,660.00 as compensation for professional services rendered during the period of March 1, 2003 through June 9, 2003. KPMG also requests final allowance of \$883,433.00 for the Compensation Period, representing \$818,705.00 as compensation for professional services rendered during the Compensation Period and \$64,728.00 as reimbursement for actual and necessary expenses KPMG incurred during the Compensation Period.

9. Since the Commencement Date, in accordance with the Court's December 18, 2002 order (Docket #389), KPMG has submitted monthly statements to the Debtors requesting 80% of its fees and 90% of expense disbursements for the month. As of the date hereof, KPMG has received payment of \$879,773.00 for fees and expenses incurred from the Commencement Date through June 9, 2003. Other than these payments, KPMG has received

no payment and no promises of payment from any source for services rendered or to be rendered in any capacity whatsoever in connection with the matters covered by this Application.

10. There is no agreement or understanding between KPMG and any other person for the sharing of compensation to be received for services rendered in this case.

11. KPMG's charges for professional services rendered in this case are billed in accordance with KPMG's existing billing procedures. The rates KPMG charged for the services rendered by its professionals in this chapter 11 case are the same rates KPMG charges for professional services rendered in comparable nonbankruptcy-related matters and are reasonable based on the customary compensation charged by comparably skilled professionals in comparable nonbankruptcy cases in a competitive national audit and financial services market.

12. KPMG submits that this Application complies with section 330 of the Bankruptcy Code, the Bankruptcy Rules, the Bankruptcy Local Rules, and the guidelines adopted by the Executive Office for the United States Trustee.

TIME RECORDS

13. A summary of time billed by KPMG is attached hereto as Exhibits C and D, and the detailed time records for the Compensation Period are attached hereto as Exhibits F1-F4 and are incorporated herein by reference. These records contain daily time logs (sorted by month and then by project) describing the professional services rendered and the time expended by each professional for this period. KPMG submits that the time entries comply with the following guidelines: (a) no lumping of time, (b) each activity description includes the type of activity, and (c) each activity description includes the subject matter.

SUMMARY OF SERVICES

14. Pursuant to Rule 2016(d)(3) of the Bankruptcy Local Rules, fee applications must include a detailed description of each major task performed by the applicant.

Accordingly, the following is a summary of certain of the significant professional services rendered by KPMG during the Compensation Period, as well as the compensation sought for such services. These summaries are organized in accordance with KPMG's internal system of projects. Exhibits F1-F4 provides a more detailed description of the services provided, as well as summary of the hours and fees for each project.

15. During the Compensation Period, KPMG has primarily focused its efforts in the following areas: auditing the consolidated financial statements of the Debtor as of December 31, 2002, and providing accounting and bankruptcy compliance accounting services for each of the 127 Debtor entities in these cases. Specifically, KPMG rendered professional services as reflected below:

<u>CATEGORY</u>	<u>HOURS</u>	<u>FEES</u>
<u>Corporate Recovery Services</u>		
<u>Bankruptcy Accounting/Reporting</u>	9.2	\$4,776.00
Providing assistance in the analyzing and interpreting SOP 90-7 accounting pronouncements for bankrupt entities and other related bankruptcy accounting issues.		
<u>Bankruptcy Schedules & SOFA</u>	1,871.9	\$554,517.00
Providing assistance on bankruptcy related matters, including the preparation of bankruptcy Schedules and Statement of Financial Affairs of each Debtor.		
<u>Employment/Fee Applications</u>	84.4	\$14,412.00
Preparation of the monthly fee statements.		
<u>Accounting and Auditing Services</u>		
<u>Annual Audit</u>	1,463.5	\$330,033.00

Performing procedures required by Generally Accepted Auditing Standards in connection with the audit of the Debtors' consolidated Financial statements and the separate financial statements of the Debtors' Residential Services Group as of and for the year ended December 31, 2002.

Total:	3,429.0	<u>\$903,738.00</u>
Voluntary Reduction (Annual Audit)		<u>(\$ 85,033.00)</u>
Total Fees Requested		<u>\$818,705.00</u>

16. KPMG submits that the foregoing services were necessary to the administration of this chapter 11 case, were necessary and beneficial to the estates at the time at which such services were rendered, and were performed without unnecessary duplication of effort or expense. KPMG's request for compensation for the foregoing services is reflective of a reasonable and appropriate amount of time expended in performing such services commensurate with the complexity, importance and nature of the problem, issue or task involved.

FIRST COLONIAL FACTORS

17. 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 KPMG for the services rendered during the Final Compensation Period is reasonable:

(a) Time and Labor Required: As set forth in detail on Exhibits C-H, KPMG spent 3,429.0 hours during the Compensation Period performing professional and paraprofessional services on behalf of the Debtors. KPMG consistently utilizes the least

expensive staff available commensurate with the degree of experience and expertise required for the task, in order to reduce the overall fees in this matter without any sacrifice to the quality of the services being rendered. Time devoted by the paraprofessionals may be compensated through the Debtors' estates, as set forth in *In re Busy Beaver Bldg. Ctrs., Inc.*, 19 F.3d 833 (3rd Cir. 1994). The professionals and paraprofessionals with KPMG who performed services for the Debtors during this Compensation Period and their billing rates are attached hereto as Exhibit C:

(b) Novelty and Difficulty of the Questions: Although the majority of the issues in this case were not novel, this case has presented a variety of issues normal to auditing an entity in bankruptcy and assisting in the preparation of bankruptcy schedules and statements of financial affairs for each of the Debtors. Many of the matters addressed by KPMG were complex due to the size and nature of the operations of the Debtors, however the issues presented in this case were not overly difficult or unique to the KPMG professionals assigned to the case. KPMG accomplished the tasks in a timely, effective, and efficient manner.

(c) Skill Requisite to Perform the Service Properly: KPMG is a professional services firm with accountants and financial advisors having diverse experience and extensive knowledge in the fields of accounting, auditing, and bankruptcy. KPMG experience and expertise facilitated and expedited the results without incurring extra time and expense had less experienced professionals handled these matters.

(d) Preclusion of Other Employment Due to the Acceptance of the Case: KPMG is unable to estimate the extent it has been precluded from other employment, as, the services provided have, to varying degrees, prevented applicant from providing its services to other clients and from developing new business.

(e) Customary Fee: The rates charged by KPMG in this Application are usual and customary hourly rates by KPMG to this client pre-bankruptcy, to other clients and in other bankruptcy cases. KPMG represents that these hourly rates are reasonable, fair, and customary for the degree of skill and expertise required in this case. These rates are comparable with the rates generally charged by other firms for bankruptcy services and the rates are reasonable in amount.

(f) Whether the Fee is Fixed or Contingent: The fees requested in this Application do not represent a contingent fee arrangement. Instead, KPMG's compensation is based upon the total number of hours expended by KPMG's professionals and paraprofessionals rendering services to the Debtors, plus the actual costs incurred by KPMG. KPMG's compensation is, however, as is true for other professionals in every bankruptcy case, contingent upon the Court's approval of this Application.

(g) Time Limitations: Time limitations were imposed due to Court imposed deadlines and statutes of limitations, as well as SEC requirements for the filing of Quarterly Reports (Form 10Q) and Annual Reports (Form 10K). KPMG worked within the deadlines established and completed the necessary information in a timely, efficient and effective manner.

(h) Amount Involved and Results Obtained: KPMG has worked on a number of issues in during the Compensation Period, including, but not limited to, (i) audit procedures and testwork required to support the audit of the consolidated financial statements and separate Residential Services Group statements as of and for the year ended December 31, 2002 and (ii) completion of the 127 sets of Schedules and SOFA's to account for each filing entity. KPMG's activities contributed to the administration of the Debtors' estates and paved the

way for the quick approval of the disclosure statement on April 9, 2003 and confirmation of the Plan on May 28, 2003, less than seven months after the Commencement Date.

(i) Experience, Reputation and Ability of Professionals: The Debtors selected KPMG as its accountants and auditors because of the firm's extensive experience and knowledge of the Debtors' business and financial affairs. In addition, KPMG had rendered accounting and auditing services and advice to the Debtors since 1997.

(j) Undesirability of the Case: Although this case required the commitment of firm resources without certainty as to compensation or reimbursement, there is no "undesirable" nature of this case or KPMG's assistance to the Debtor herein.

(k) Nature and Length of the Professional Relationship with the Client: KPMG has served as accountants, auditors and tax and compensation advisors to the Debtor since 1997.

(l) Awards in Similar Cases: KPMG'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.

18. The Application does not include fees or expenses for the preparation of this Application. KPMG reserves the right to seek additional compensation for preparing this Application.

ACTUAL AND NECESSARY EXPENSES

19. A summary of the actual and necessary expenses incurred by KPMG in connection with its employment with the Debtors during the Compensation Period is attached as hereto as Exhibit E. Detailed descriptions of the actual and necessary expenses are attached hereto as Exhibits G and H and incorporated herein by reference. As set forth on Exhibits G and

H, KPMG seeks reimbursement of actual and necessary expenses incurred by KPMG during the Compensation Period in the aggregate amount of \$64,728.00.

20. KPMG states as follows regarding these expenses: KPMG charges only for out of pocket expenses at KPMG's actual cost or reimbursement to its employees.

CONCLUSION

WHEREFORE KPMG respectfully requests that the Court enter an order (a) authorizing compensation in the amount of \$3,660.00 as compensation for services rendered by professionals for the period of March 1, 2003 through June 9, 2003; (b) that the Court authorize and direct the Debtor to pay KPMG a total of \$3,660.00, which represents the outstanding fees billed during the period of March 1, 2003 through June 9, 2003; (c) that the Court grant final allowance of \$883,433.00 for the Compensation Period, representing \$818,705.00 as compensation for professional services rendered during the Compensation Period and \$64,728.00 as reimbursement for actual and necessary expenses KPMG incurred during the Compensation Period; (d) authorization for the Debtors to pay KPMG such sums, to the extent such sums have not previously been paid; (e) authority to seek compensation for preparing this Application, (f) that the allowance of compensation for professional services rendered and reimbursement of actual and necessary expenses be without prejudice to KPMG right to seek such further compensation for the full value of services provided; and (g) for such other and further relief as is just.

Dated: August 8, 2003
Houston, Texas

Respectfully submitted,

By: Stephen Darr / by Tom Bely
Stephen B. Darr
KPMG LLP
99 High Street
Boston, MA 02110-2371
(617) 988-1017
(617) 988-1234 Facsimile
w/ permission

ACCOUNTANTS FOR THE DEBTORS AND
THE DEBTORS IN POSSESSION