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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

COVER SHEET: APPLICATION FOR PROFESSIONAL COMPENSATION

| | | |
|-------------------------------|---|-----------------------------|
| -----) |) | |
| |) | |
| In re: |) | Chapter 11 |
| |) | |
| Bradlees Stores, Inc., et al. |) | Case Nos 95 B 42777 through |
| |) | 95B 42784 |
| Debtors |) | (Judge Burton R. Lifland) |
| |) | |
| |) | |
| |) | Jointly Administered |

Type of Application: Interim Final

| | |
|---|-------------------|
| Name of Applicant: | Zolfo Cooper, LLC |
| Authorized to Provide Professional Services to: | The Debtors |
| Date of Order Authorizing Employment: | August 23, 1995 |

| | |
|----------------------|----------------------------------|
| Compensation Sought: | |
| Application Date: | March 19, 1999 |
| Application Period: | June 23, 1995 - February 2, 1999 |

| | Hours | Amount |
|-----------------------|----------|-----------------------|
| Fees: | | |
| Professional | 20,270.3 | \$5,530,799.00 |
| Expense Reimbursement | | 491,944.14 |
| Total | | <u>\$6,022,743.14</u> |

Fees incurred during the period from June 23, 1995 through February 2, 1999 (the "Application Period")

A summary of professional fees incurred during the Application Period, by professional, is set forth below:

| <u>Name of Professional</u> | <u>Position with ZC</u> | <u>Years of Experience</u> | <u>Hours Billed</u> | <u>Hourly Rate</u> | <u>Total</u> |
|--|--------------------------------|-----------------------------------|----------------------------|---------------------------|------------------------------|
| <u>Partners:</u> | | | | | |
| S. Cooper | Principal | 28 | 7.6 | \$425 | \$3,230.00 |
| S. Cooper | | | 1,839.6 | \$395 | 726,642.00 |
| S. Cooper | | | 513.4 | \$375 | 192,525.00 |
| D. Taura | Principal | 34 | 52.3 | \$375 | 19,612.50 |
| M. Flynn | Principal | 20 | 2.0 | \$375 | 750.00 |
| M. Flynn | | | 10.0 | \$350 | 3,500.00 |
| N. Lavin | Principal | 32 | 2.9 | \$395 | 1,145.50 |
| N. Lavin | | | 14.7 | \$375 | 5,512.50 |
| N. Lavin | | | 44.6 | \$350 | 15,610.00 |
| N. Lavin | | | 15.6 | \$325 | 5,070.00 |
| <u>Associates:</u> | | | | | |
| P. Gund | Project Manager | 15 | 140.0 | \$375 | 52,500.00 |
| P. Gund | | | 1,928.8 | \$325 | 626,860.00 |
| P. Gund | | | 2,028.9 | \$310 | 628,959.00 |
| P. Gund | | | 2,235.5 | \$290 | 648,295.00 |
| P. Gund | | | 1,062.1 | \$250 | 265,525.00 |
| K. Golmont | Project Staff | 17 | 1,640.1 | \$290 | 475,629.00 |
| K. Golmont | | | 1,044.5 | \$275 | 287,237.50 |
| S. Kiel | Project Staff | 20 | 1,119.5 | \$275 | 307,862.50 |
| M. Connolly | Project Staff | 5 | 1,525.7 | \$225 | 343,282.50 |
| M. Connolly | | | 2,032.7 | \$200 | 406,540.00 |
| M. Connolly | | | 2,524.5 | \$175 | 441,787.50 |
| M. Wunschuh | Project Staff | 12 | 38.0 | \$225 | 8,550.00 |
| C. Davino | Project Staff | 5 | 4.5 | \$175 | 787.50 |
| D. Goedkoop | Project Staff | 2 | 36.8 | \$150 | 5,520.00 |
| D. Goedkoop | | | 218.0 | \$140 | 30,520.00 |
| M. Leonard | Project Staff | 2 | 139.3 | \$150 | 20,895.00 |
| P. Mennona | Project Staff | 2 | 6.0 | \$150 | 900.00 |
| D. DeNoyer | Project Staff | 1 | 3.5 | \$130 | 455.00 |
| J. Way | Project Staff | 2 | 39.2 | \$130 | 5,096.00 |
| Total Professional Hours and Fees | | | <u>20,270.3</u> | | <u>\$5,530,799.00</u> |
| Average Blended Hourly Rate | | | | | <u>272.85</u> |

Is this a first application? Yes ___ No X

Prior Fee Application Information (Complete if answer to above question is no):

| <u>Date Filed</u> | <u>Period Covered</u> | <u>Total Fees and Expenses</u> | |
|--------------------|--|--------------------------------|-----------------------|
| | | <u>Requested</u> | <u>Allowed</u> |
| October 20, 1995 | June 23 through September 30, 1995 | \$520,163.26 | \$520,163.26 |
| January 22, 1996 | October 1 through December 31, 1995 | 615,325.26 | 615,325.26 |
| April 22, 1996 | January 1 through March 31, 1996 | 658,997.59 | 658,997.59 |
| July 22, 1996 | April 1 through June 30, 1996 | 573,231.57 | 573,231.57 |
| October 21, 1996 | July 1 through September 30, 1996 | 572,218.95 | 572,218.95 |
| January 21, 1997 | October 1 through December 31, 1997 | 421,334.95 | 421,334.95 |
| May 30, 1997 | January 1, through April 30, 1997 | 468,394.02 | 468,394.02 |
| September 30, 1997 | May 1, through August 31, 1997 | 413,897.24 | 413,897.24 |
| January 30, 1998 | September 1, through December 31, 1997 | 505,603.15 | 505,603.15 |
| June 1, 1998 | January 1, through April 30, 1998 | 475,140.01 | 475,140.01 |
| September 30, 1998 | May 1, through August 31, 1998 | 443,709.56 | 443,709.56 |
| January 29, 1999 | September 1, through December 31, 1998 | 293,432.05 | 293,432.05 |
| | Totals | <u>\$5,961,447.61</u> | <u>\$5,961,447.61</u> |
| | Aggregate Fees and Expenses Paid to Date (1) | | <u>\$5,721,060.25</u> |

(1) The aggregate fees and expenses paid to date do not include any payments received for the period of January 1, 1999 through February 2, 1999 or the Post-Confirmation period of February 2, 1999 - March 19, 1999.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

| | | |
|------------------------------|---|-------------------------------|
| -----) |) | Case Nos.: 95 B 42777 through |
| |) | 95B 42784 |
| |) | |
| In re: |) | In Proceedings for a |
| |) | Reorganization Under Chapter |
| Bradlees Stores Inc., et al. |) | 11 of the Bankruptcy Code |
| |) | |
| Debtors |) | Jointly Administered |
| |) | |
| -----) | | |

**FINAL APPLICATION OF ZOLFO COOPER, LLC
FOR ALLOWANCE OF FINAL COMPENSATION FOR SERVICES RENDERED
AS SPECIAL FINANCIAL ADVISORS AND BANKRUPTCY CONSULTANTS
TO THE DEBTORS
AND FOR REIMBURSEMENT OF EXPENSES UNDER 11 U.S.C. § 330(a)**

TO THE HONORABLE BURTON R. LIFLAND,
UNITED STATES BANKRUPTCY JUDGE:

1. On June 23, 1995 (the "Filing Date"), Bradlees Stores, Inc. (also referred to herein as "Bradlees"), the Debtor, and all of its wholly-owned subsidiaries (Collectively, the "Debtors") filed voluntary petitions for reorganization under chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101 et seq. (the "Bankruptcy Code"). Since the Filing Date, the Debtors have continued to operate their businesses and manage their properties as debtors-in-possession pursuant to Bankruptcy Code §§ 1107(a) and 1108.

2. The Debtors are very large, complex enterprises, principally engaged in businesses involving the ownership, operation and management of 101 discount retail department stores as well as certain related businesses, and real estate interests with operations located throughout the Northeastern United States. The Debtors required the services of experienced Special Financial Advisors and Bankruptcy Consultants to assist them in restructuring the business and developing, negotiating and confirming plans of reorganization. Because of

Zolfo Cooper, LLC's ("ZC" or "Applicant") expertise and experience at a national level in providing reorganization, accounting and a broad range of consulting services to Debtors and other parties in interest in financially complex troubled situations, the Debtors applied to the Bankruptcy Court to authorize ZC's retention as Special Financial Advisors and Bankruptcy Consultants to the Debtors.

3. The Bankruptcy Court entered an order (the "Retention Order") on August 23, 1995, nunc pro tunc to June 30, 1995 authorizing the retention of ZC to:

- (a) Advise and assist management in organizing the Debtors' resources and activities so as to effectively and efficiently plan, coordinate and manage the chapter 11 process and communicate with customers, lenders, suppliers, employees, shareholders and other parties in interest;
- (b) Assist management in designing and implementing programs to manage or divest assets, improve operations, reduce costs and restructure as necessary with the objective of rehabilitating the business;
- (c) Advise the Debtors concerning interfacing with Official Committees, other constituencies and their professionals, including the preparation of financial and operating information required by such parties and/or the Bankruptcy Court;
- (d) Advise and assist management in the development of a Plan or Plans of Reorganization and underlying Business Plan, including the related assumptions and rationale, along with other information to be included in the Disclosure Statement;
- (e) Advise and assist the Debtors in forecasting, planning, controlling and other aspects of managing cash;
- (f) Advise the Debtors with respect to resolving disputes and otherwise managing the claims process;
- (g) Advise and assist the Debtors in negotiating a Plan or Plans of Reorganization with the various creditor and other constituencies;
- (h) As requested, render expert testimony concerning the feasibility of a Plan or Plans of Reorganization and other matters that may arise in the case; and
- (i) Provide such other services as may be required by the Debtors.

A copy of the Order authorizing the retention of ZC as Special Financial Advisors and Bankruptcy Consultants to the Debtors, along with the related application to the Bankruptcy Court for such retention authority and the supporting Affidavit of Stephen F. Cooper, is attached as Exhibit A. The Retention Order authorized the Debtor to pay ZC in accordance with Orders of the Court.

Certification

4. The affiant, a principal in the firm of ZC, as the professional designated by the Applicant with the responsibility for compliance with the Amended Guidelines for Fees and Disbursements for Professionals in Southern District of New York Bankruptcy Cases, (the "Guidelines"), certifies that except as otherwise noted elsewhere herein:

- 1)
 - a) He has read this application,
 - b) To the best of his knowledge, information and belief, formed after reasonable inquiry:
 - i. This application complies with the mandatory provisions of the Guidelines,
 - ii. The fees and out-of-pocket expenses are billed in accordance with the billing practices described below, and except as otherwise indicated therein fall within the Guidelines, and
 - iii. Except to the extent prohibited by the Guidelines, the fees and out-of-pocket expenses sought herein have been billed at rates and in accordance with practices customarily employed by the Applicant and accepted by the Applicant's clients.
- 2) This final application for allowance of fees and reimbursement of out-of-pocket expenses has been reviewed and approved by the Debtors,
- 3) Each of the Debtors, the Trustee and the Chair of each Official Committee have been provided with previous applications, a statement of fees for services and out-of-pocket expenses accrued during each month and containing a list of professionals, paraprofessional and support personnel providing services; their respective billing rates; the aggregate hours expended by each such person and an explanation of ZC's billing practices. In some instances the statements were not provided within 20 days of the month end. Such information for the period of January 1, 1999 through February 2, 1999 has been provided in conjunction with this Final Fee Application.

- 4) Each of the Debtors, the Trustee and the Chair of each Official Committee has each been provided a copy of this final application for allowance of fees and reimbursement of out-of-pocket expenses at least twenty days prior to the date scheduled for a hearing on final fee applications.
- 5) With respect to expenses and reimbursable services incurred for which reimbursement is sought, ZC:
 - a) Does not make a profit;
 - b) Does not include in the amount for which reimbursement is sought the amortization of the cost of any investment, equipment or capital outlay; and
 - c) Seeks reimbursement of services purchased from or contracted for with a third-party vendor only in the amount billed to the Applicant by and paid or to be paid by the Applicant to the vendor.

The affiant presently intends to attend the fee hearing; however, if he is unable to do so, he will arrange for a member of the project team, as appropriate, authorized to speak for the firm, to be present.

Relief Requested

This application is made for final allowance of compensation for services rendered by ZC as Special Financial Advisors and Bankruptcy Consultants to the Debtors and for reimbursement of necessary out-of-pocket expenses actually incurred during the period from June 23, 1995 through February 2, 1999 (the "Application Period"). ZC filed twelve previous applications for allowance of interim compensation and reimbursement of out-of-pocket expenses during the Application Period.

ZC provided an aggregate of 20,270.3 hours of services as Special Financial Advisors and Bankruptcy Consultants to the Debtors for professional services, thereby incurring fees of \$5,530,799.00 in the aggregate for professional services, and out-of-pocket expenses of \$491,944.14.

During the period from January 1, 1999 through February 2, 1999, ZC has provided 157.3 hours of professional services as Special Financial and Bankruptcy Consultants to the Debtors, thereby incurring fees of \$57,185.00 for professional services and out-of-pocket

expenses of \$4,110.53, inclusive of out-of-pocket expenses that had been incurred in an earlier period but had not been billed to the Applicant in time to be included in the Twelfth application for allowance of interim compensation and reimbursement of out-of-pocket expenses, and exclusive of out-of-pocket expenses that had been incurred during the January 1, 1999 through February 2, 1999 period but had not been billed to the Applicant in time to be included in this Final application.

The hours expended and the professional fees and out-of-pocket expenses incurred by month during the Application Period are summarized as follows:

| <u>Month/Year</u> | <u>Hours</u> | <u>Prof. Fees</u> | <u>Expenses</u> | <u>Total Fees & Expenses</u> |
|--|-----------------------|----------------------------|---------------------------|----------------------------------|
| 1st Application Period | | | | |
| June/July 1995 | 501.6 | \$144,865.00 | \$11,435.72 | \$156,300.72 |
| August 1995 | 573.2 | 155,168.50 | 16,393.50 | 171,562.00 |
| September 1995 | <u>610.5</u> | <u>176,392.50</u> | <u>15,908.04</u> | <u>192,300.54</u> |
| SUBTOTAL | <u>1,685.3</u> | <u>\$476,426.00</u> | <u>\$43,737.26</u> | <u>\$520,163.26</u> |
| 2nd Application Period | | | | |
| October 1995 | 829.9 | \$236,617.50 | \$20,380.77 | \$256,998.27 |
| November 1995 | 646.9 | 177,337.50 | 22,483.20 | 199,820.70 |
| December 1995 | <u>579.6</u> | <u>143,602.50</u> | <u>14,903.79</u> | <u>158,506.29</u> |
| SUBTOTAL | <u>2,056.4</u> | <u>\$557,557.50</u> | <u>\$57,767.76</u> | <u>\$615,325.26</u> |
| 3rd Application Period | | | | |
| January 1996 | 824.5 | \$220,748.50 | \$23,212.18 | \$243,960.68 |
| February 1996 | 699.2 | 186,483.50 | 18,121.06 | 204,604.56 |
| March 1996 | <u>737.6</u> | <u>194,890.50</u> | <u>15,541.85</u> | <u>210,432.35</u> |
| SUBTOTAL | <u>2,261.3</u> | <u>\$602,122.50</u> | <u>\$56,875.09</u> | <u>\$658,997.59</u> |
| 4th Application Period | | | | |
| April 1996 | 651.7 | \$172,675.50 | \$19,454.71 | \$192,130.21 |
| May 1996 | 699.1 | 189,351.50 | 11,972.50 | 201,324.00 |
| June 1996 | <u>608.7</u> | <u>165,392.00</u> | <u>14,385.36</u> | <u>179,777.36</u> |
| SUBTOTAL | <u>1,959.5</u> | <u>\$527,419.00</u> | <u>\$45,812.57</u> | <u>\$573,231.57</u> |
| 5th Application Period | | | | |
| July 1996 | 687.4 | \$193,827.50 | \$14,700.41 | \$208,527.91 |
| August 1996 | 701.6 | 190,105.00 | 13,596.10 | 203,701.10 |
| September 1996 | <u>550.1</u> | <u>145,386.00</u> | <u>14,603.94</u> | <u>159,989.94</u> |
| SUBTOTAL | <u>1,939.1</u> | <u>\$529,318.50</u> | <u>\$42,900.45</u> | <u>\$572,218.95</u> |
| 6th Application Period | | | | |
| October 1996 | 553.8 | \$146,310.50 | \$12,119.57 | \$158,430.07 |
| November 1996 | 442.4 | 115,415.50 | 9,888.83 | 125,304.33 |
| December 1996 | <u>472.7</u> | <u>127,097.00</u> | <u>10,503.55</u> | <u>137,600.55</u> |
| SUBTOTAL | <u>1,468.9</u> | <u>\$388,823.00</u> | <u>\$32,511.95</u> | <u>\$421,334.95</u> |
| 7th Application Period | | | | |
| January 1997 | 418.4 | \$112,063.50 | \$11,708.81 | \$123,772.31 |
| February 1997 | 381.1 | 104,091.50 | 8,727.40 | 112,818.90 |
| March 1997 | 370.4 | 96,008.50 | 8,158.41 | 104,166.91 |
| April 1997 | <u>454.9</u> | <u>117,187.50</u> | <u>10,448.40</u> | <u>127,635.90</u> |
| SUBTOTAL | <u>1,624.8</u> | <u>\$429,351.00</u> | <u>\$39,043.02</u> | <u>\$468,394.02</u> |

| <u>Month/Year</u> | <u>Hours</u> | <u>Prof. Fees</u> | <u>Expenses</u> | <u>Total Fees & Expenses</u> |
|--|-----------------|-----------------------|---------------------|----------------------------------|
| 8th Application Period | | | | |
| May 1997 | 508.1 | \$121,087.00 | \$11,505.29 | \$132,592.29 |
| June 1997 | 398.5 | 103,655.00 | 10,460.93 | 114,115.93 |
| July 1997 | 265.1 | 75,754.00 | 6,825.40 | 82,579.40 |
| August 1997 | <u>275.2</u> | <u>78,141.00</u> | <u>6,468.62</u> | <u>84,609.62</u> |
| SUBTOTAL | <u>1,446.9</u> | <u>\$378,637.00</u> | <u>\$35,260.24</u> | <u>\$413,897.24</u> |
| 9th Application Period | | | | |
| September 1997 | 322.0 | \$89,078.00 | \$8,871.80 | \$97,949.80 |
| October 1997 | 669.1 | 160,614.50 | 15,676.98 | 176,291.48 |
| November 1997 | 459.0 | 120,530.00 | 10,629.84 | 131,159.84 |
| December 1997 | <u>366.0</u> | <u>93,625.00</u> | <u>6,577.03</u> | <u>100,202.03</u> |
| SUBTOTAL | <u>1,816.1</u> | <u>\$463,847.50</u> | <u>\$41,755.65</u> | <u>\$505,603.15</u> |
| 10th Application Period | | | | |
| January 1998 | 415.0 | \$119,178.00 | \$9,519.96 | \$128,697.96 |
| February 1998 | 378.2 | 106,617.00 | 9,603.41 | 116,220.41 |
| March 1998 | 361.8 | 97,590.00 | 9,438.93 | 107,028.93 |
| April 1998 | <u>390.1</u> | <u>113,324.50</u> | <u>9,868.21</u> | <u>123,192.71</u> |
| SUBTOTAL | <u>1,545.1</u> | <u>\$436,709.50</u> | <u>\$38,430.51</u> | <u>\$475,140.01</u> |
| 11th Application Period | | | | |
| May 1998 | 378.8 | \$106,740.50 | \$8,489.79 | \$115,230.29 |
| June 1998 | 438.3 | 125,054.50 | 9,191.91 | 134,246.41 |
| July 1998 | 313.3 | 90,630.00 | 7,933.25 | 98,563.25 |
| August 1998 | <u>317.5</u> | <u>90,523.50</u> | <u>5,146.11</u> | <u>95,669.61</u> |
| SUBTOTAL | <u>1,447.9</u> | <u>\$412,948.50</u> | <u>\$30,761.06</u> | <u>\$443,709.56</u> |
| 12th Application Period | | | | |
| September 1998 | 368.1 | \$109,052.50 | \$8,409.62 | \$117,462.12 |
| October 1998 | 162.2 | 52,800.50 | 5,800.59 | 58,601.09 |
| November 1998 | 188.0 | 61,310.00 | 4,019.58 | 65,329.58 |
| December 1998 | <u>143.4</u> | <u>47,291.00</u> | <u>4,748.26</u> | <u>52,039.26</u> |
| SUBTOTAL | <u>861.7</u> | <u>\$270,454.00</u> | <u>\$22,978.05</u> | <u>\$293,432.05</u> |
| TOTAL 1st - 12th App. Period | <u>20,113.0</u> | <u>\$5,473,614.00</u> | <u>\$487,833.61</u> | <u>\$5,961,447.61</u> |
| Fees and Expenses for whcih No Prior Fee Applications were Filed | | | | |
| January 1999 | <u>157.3</u> | <u>\$57,185.00</u> | <u>\$4,110.53</u> | <u>\$61,295.53</u> |
| TOTAL Fees and Expenses Incurred | <u>20,270.3</u> | <u>\$5,530,799.00</u> | <u>\$491,944.14</u> | <u>\$6,022,743.14</u> |
| Less: Amounts previously disallowed | (0.0) | (0.00) | (0.00) | (0.00) |
| Plus: Amounts previously disallowed and applied for in Final Fee Application | <u>0.0</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| TOTAL | <u>20,270.3</u> | <u>\$5,530,799.00</u> | <u>\$491,944.14</u> | <u>\$6,022,743.14</u> |

5. On October 20, 1995, ZC filed its first application for allowance of interim compensation and out-of-pocket expenses covering the period June 23, 1995 through and including September 30, 1995. ZC had requested fees of \$476,426.00 and out-of-pocket expenses of \$43,737.26, \$520,163.26 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$404,932.10 in fees and \$43,737.26 for out-of-pocket expenses, and deferred for further consideration at the final fee hearing a holdback of 15.01% of fees, or \$71,493.90.

6. On January 22, 1996, ZC filed its second application for allowance of interim compensation and out-of-pocket expenses covering the period October 1, 1995 through and including December 31, 1995. ZC had requested fees of \$557,557.50 and out-of-pocket expenses of \$57,767.76, \$615,325.26 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$501,801.75 in fees and \$57,767.76 for out-of-pocket expenses, and deferred for further consideration at the final fee hearing a holdback of 10% of fees, or \$55,755.75.

7. On April 22, 1996, ZC filed its third application for allowance of interim compensation and out-of-pocket expenses covering the period January 1, 1996 through and including March 31, 1996. ZC had requested fees of \$602,122.50 and out-of-pocket expenses of \$56,875.09, or \$658,997.59 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$541,910.25 in fees and \$56,875.09 for out-of-pocket expenses, and deferred for further consideration at the final fee hearing a holdback of 10% of fees, or \$60,212.25.

8. On July 22, 1996, ZC filed its fourth application for allowance of interim compensation and out-of-pocket expenses covering the period April 1, 1996 through and including June 30, 1996. ZC had requested fees of \$527,419.00 and out-of-pocket expenses of \$45,812.57, or \$573,231.57 in total. The Bankruptcy Court entered an order awarding ZC allowance of

interim compensation in the amount of \$474,677.10 in fees and \$45,812.57 for out-of-pocket expenses, and deferred for further consideration at the final fee hearing a holdback of 10% of fees, or \$52,741.90.

9. On October 21, 1996, ZC filed its fifth application for allowance of interim compensation and out-of-pocket expenses covering the period July 1, 1996 through and including September 30, 1996. ZC had requested fees of \$529,318.50 and out-of-pocket expenses of \$42,900.45, or \$572,218.95 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$529,318.50 in fees and \$42,900.45 for out-of-pocket expenses.

10. On January 21, 1997, ZC filed its sixth application for allowance of interim compensation and out-of-pocket expenses covering the period October 1, 1996 through and including December 31, 1996. ZC had requested fees of \$388,823.00 and out-of-pocket expenses of \$32,511.95, or \$421,334.95 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$388,823.00 in fees and \$32,511.95 for out-of-pocket expenses.

11. On May 30, 1997, ZC filed its seventh application for allowance of interim compensation and out-of-pocket expenses covering the period January 1, 1997 through and including April 30, 1997. ZC had requested fees of \$429,351.00 and out-of-pocket expenses of \$39,043.02, or \$468,394.02 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$429,351.00 in fees and \$39,043.02 for out-of-pocket expenses.

12. On September 30, 1997, ZC filed its eighth application for allowance of interim compensation and out-of-pocket expenses covering the period May 1, 1997 through and including August 31, 1997. ZC had requested fees of \$378,637.00 and out-of-pocket expenses of \$35,260.24, or \$413,897.24 in total. The Bankruptcy Court entered an order

awarding ZC allowance of interim compensation in the amount of \$378,637.00 in fees and \$35,260.24 for out-of-pocket expenses.

13. On January 30, 1998, ZC filed its ninth application for allowance of interim compensation and out-of-pocket expenses covering the period September 1, 1997 through and including December 31, 1997. ZC had requested fees of \$463,847.50 and out-of-pocket expenses of \$41,755.65, or \$505,603.15 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$463,847.50 in fees and \$41,755.65 for out-of-pocket expenses.

14. On June 1, 1998, ZC filed its tenth application for allowance of interim compensation and out-of-pocket expenses covering the period January 1, 1998 through and including April 30, 1998. ZC had requested fees of \$436,709.50 and out-of-pocket expenses of \$38,430.51, or \$475,140.01 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$436,709.50 in fees and \$38,430.51 for out-of-pocket expenses.

15. On September 30, 1998, ZC filed its eleventh application for allowance of interim compensation and out-of-pocket expenses covering the period May 1, 1998 through and including August 31, 1998. ZC had requested fees of \$412,948.50 and out-of-pocket expenses of \$30,761.06, or \$443,709.56 in total. The Bankruptcy Court entered an order awarding ZC allowance of interim compensation in the amount of \$412,948.50 in fees and \$30,761.06 for out-of-pocket expenses, and deferred for further consideration at the final fee hearing a holdback of 20% of fees, or \$89,763.60.

16. On January 29, 1998, ZC filed its twelfth application for allowance of interim compensation and out-of-pocket expenses covering the period September 1, 1998 through and including December 31, 1998. ZC had requested fees of \$270,454.00 and out-of-pocket expenses of \$22,978.05, or \$293,432.05 in total. The Bankruptcy Court entered an order

awarding ZC allowance of interim compensation in the amount of \$270,454.00 in fees and \$22,978.05 for out-of-pocket expenses.

17. Copies of the invoices are attached as Exhibit "B" to this final application for allowance of final compensation and reimbursement of out-of-pocket expenses for the period from January 1, 1999 through February 2, 1999. Accompanying each invoice is: a) a list of professionals their respective billing rates; b) the aggregate hours expended by each professional; c) a general description of the services rendered; d) a detailed description of the services performed by each professional, organized by debtor, by discrete project, by day; e) a reasonably detailed breakdown of the disbursements incurred; and f) an explanation of ZC's billing practices. Invoices supporting the periods prior to January 1, 1999 are included in the interim applications previously filed with this Court.

18. A summary analysis of the expenses incurred showing the amount incurred in each expense category, in each interim period during the Application Period is attached as Exhibit "C" to this final application for allowance of compensation and reimbursement of out-of-pocket expenses. This summary analysis is supported by detailed expense descriptions for the period showing, by professional, the amount incurred in each expense category. Detailed expense descriptions supporting the periods prior to January 1, 1999 are included in the interim applications previously filed with this Court.

19. A recap of professional fees and out-of-pocket expenses invoiced from the Filing Date through the end of the Application Period, showing the amounts incurred, the amounts held back pursuant to the terms of the Retention Orders for Allowance of Professional Fees and Expenses pending final application to the Bankruptcy Court, the amounts previously awarded by the Bankruptcy Court, the amounts paid by the Debtors to the date of this final application, and the amounts unpaid are attached as Exhibit "D" to this final application for allowance of compensation and reimbursement of out-of-pocket expenses.

20. During the Application Period ZC submitted twelve budgets, covering the period from August 23, 1995 through December 31, 1999. ZC's services and budget estimates were reviewed and approved in advance by the Debtors, the Chair of each Official Committee, and the U.S. Trustee. A summary of actual hours expended by professional by project and fees incurred during the Application Period is attached as Exhibit "E".

Billing Practices

21. It is ZC's customary practice to charge fees based on actual hours expended to perform its services at standard hourly rates established for each principal and employee as adjusted annually. The Firm does not bill clients for travel time unless work is performed en route. Time entries are recorded in six minute increments. Fees reflect economies resulting from the use of paraprofessional and support personnel to develop schedules and analyses, input computer data, perform research, work on fee applications, and other activities necessary to the efficient administration of a case. So as not to burden clients who do not require such services, ZC does not include support services in the firm's overhead for the purpose of establishing billing rates. Billing rates are generally representative of prevailing market rates, as awarded by other Courts in similar circumstances, for practitioners providing such services at a national level who have comparable skill and experience.

ZC charges its clients only for reasonably incurred, out-of-pocket expenses associated with an assignment. Except as necessary to comply with the Guidelines for allowance of professional fees and expenses, all such expense billings are in accordance with the Firm's customary practices. ZC personnel stay at convenient, quality hotels and eat at quality restaurants; ZC does not incur costs for luxury accommodations or deluxe meals and when prohibited by applicable administrative order does not bill clients for first class airfare. Except as follows, all expenses are billed at actual cost, exclusive of amortization of the cost of any investment, equipment or capital outlay: (i) internal charges for outgoing out-of-town facsimile transmissions are \$1.25 for domestic transmissions (ZC has reduced its facsimile

charges for the estimated amount of local facsimiles) and \$2.50 for foreign transmissions and (ii) internal photocopy charges are \$.20 per page.

ZC maintains contemporaneous records of the time expended and out-of-pocket expenses incurred in support of its billings for services. All such records are located in the Firm's offices and are available for inspection, subject to certain matters contained therein that may be privileged.

Staffing and Approach

22. ZC is a nationally recognized independent financial advisory and consulting firm specializing in advising debtors, creditors' committees, investors and court-appointed officials in formal Bankruptcy proceedings and out-of-court workouts. A substantial portion of ZC's work is advisory and involves ZC's professionals counseling senior client personnel regarding high-level strategic and tactical issues. Consistent with its relatively unique practice, ZC's staff consists primarily of seasoned professionals. A typical new employee at ZC is a former "Big 6" partner or manager with a minimum of 5 and frequently more than 7 years of experience. Indeed, more than 50% of ZC's professionals have in excess of ten years of relevant business experience. The firm's internal structure and work approach are designed around its unusual staff composition of senior professionals. ZC staff professionals do not have titles; the title principal at ZC is a distinction of ownership, not of professional proficiency. Individual staff members are assigned project manager or project staff roles, to bring to bear their particular talents and experience in view of the specific requirements of the engagement. ZC provides high value for its fees, efficiently leveraging its experienced professionals by directing client personnel to perform routine tasks.

Stephen F. Cooper, CPA, CMA, CMC, CIRA, the principal in charge of this engagement, has over 28 years of experience, primarily in working with troubled companies. He has gained significant experience in production, marketing and sales as well as finance across a broad industry base. A graduate of Occidental College and a Wharton MBA, Mr. Cooper enjoys a national reputation as an effective problem solver capable of forging consensual coalitions among parties with disparate economic interests. He is responsible for

the overall design of the firm's services and direction of the engagement team. Mr. Cooper is assisted by Philip Gund, who, as the project manager, is responsible for all aspects of engagement administration and coordination of the efforts of the assigned staff. A CPA, CIRA, Mr. Gund has 16 of years of experience, including 10 years advising troubled companies.

Integral to any team approach, and essential to minimize misunderstandings and assure continuity of service in a large, multifaceted case such as this one, are conferences, meetings and worksessions among the members of the engagement team. Ongoing communications and review of work product facilitate the sharing of information and assure continued alignment with established priorities and objectives, thereby reducing the time expended and avoiding duplicative efforts. ZC communicates continually with its clients on the status and results of its work efforts and interfaces with other professionals to improve coordination and ensure that it does not duplicate services rendered by other professionals retained in the case.

Summary of Services Provided and Results Achieved

23. The Debtors have successfully emerged from chapter 11 as a \$1.3 billion regional discount retailer, employing more than 15,000 individuals and operating 101 retail stores with a projected 1999 EBITDA of approximately \$36 million. After approximately three and a half years in chapter 11, marked by numerous disputes among the parties in interest (that resulted in a management change eighteen months into the case), the Debtors were able to coalesce the diverse interests of the various constituencies and develop and confirm a consensual plan of reorganization. In contrast to one of the Debtors principal regional competitors Caldor that had entered chapter 11 just a few months after the Debtors and was forced to liquidate in January 1999.

At the time of the filing, the Debtors had a tremendous amount of work to accomplish, including:

- Stabilizing a business in a fiercely competitive environment which had been losing a substantial amount of cash during the period immediately prior to and following the filing;
- Assuring that the operations functioned with minimal interruptions from the chapter 11;
- Obtaining DIP financing and maintaining trade credit to assure that the Company would receive the necessary inventory required to sustain operations;
- Analyzing individual store operating performance in order to identify the core locations for the ongoing business;
- Analyzing the overhead structure of the organization to identify opportunities for cost reductions and operating efficiencies;
- Developing and implementing a long term business plan with the detailed strategies and tactics necessary to return the Company to profitability;
- Developing and negotiating a plan of reorganization with its creditor constituencies, each having diverse interests.

During the chapter 11 cases, ZC was instrumental in organizing and coordinating the Debtors resources around two major areas; 1) the organization of the chapter 11 process and 2) a review of the operations of the Debtors. The purposes of focusing the Debtors resources on these two parallel paths was to efficiently and effectively manage the chapter 11 process while concurrently focusing on improving the operations and returning the Debtors to a viable business.

With ZC's assistance, direction, creativity, organization and focus on the successful restructuring of the business, the Debtors were able to turnaround the operations and confirm a consensual plan of reorganization. Specifically, ZC:

- Organized the Debtors resources around the chapter 11 process;
- Assisted the Debtors in identifying and implementing \$100 million of overhead reductions;
- Assisted the Debtors in identifying unprofitable stores, which resulted in the closing of 35 stores (more than 25% of the chain);
- Assisted the Debtors with the analysis, negotiation and ultimate disposition of numerous executory contracts including IBM, Comdisco, Bank of Tokyo, Ambassador, Vornado Master Lease Agreement and several other real estate and non real estate executory contracts that resulted in either (i) substantial savings to the Debtors, (ii) the elimination of material liabilities, or (iii) maximized the value of the assets of the estate;
- Assisted the Debtors with the analysis and negotiation of several asset sales, generating in excess of \$30 million;
- Assisted the Debtors with the analysis of project Zebra¹ which was reevaluated on numerous occasions during these chapter 11 cases;
- Assisted the Debtors in communicating with the various creditor constituencies;

¹ Project Zebra work activities refer to services rendered relating to efforts to sell the assets of the Company as a going concern and services rendered relating to the evaluation of a potential merger transaction.

- Assisted the Debtors with the preparation of its detailed business plans, the last of which was used as the foundation for the development of the plan of reorganization and reflected an improvement in EBITDA of more than \$100 million from fiscal 1995;
- Assisted the Debtors with the development of a recovery analysis which ultimately served as the basis for distributions under the plan of reorganization;
- Assisted the Debtors in organizing and analyzing the numerous claims filed as well as estimating claims for distribution purposes;
- Assisted the Debtors in obtaining DIP and exit financing;
- Assisted the Debtors with the development and preparation of the plan of reorganization, disclosure statement, and registration statement.

The overall contribution that ZC made to these successful chapter 11 cases was the efficient and effective organization, direction, creativity and assistance provided the Debtors in the chapter 11 process and the review of its operations. As a result of ZC's efforts, the Debtors successfully restructured its business both operationally and financially, the goals intended by the Bankruptcy code.

Listed below are the project areas that were addressed by ZC during the chapter 11 cases along with the respective hours and fees incurred by project.

| <u>Project</u> | <u>Description</u> | <u>Hours</u> | <u>Fees</u> | <u>Percentage</u> |
|----------------|---|-----------------|-----------------------|-------------------|
| 1 | Chapter 11 Process | 1,386.0 | \$421,797.50 | 7.6% |
| 2 | Business Operations | 3,317.5 | 919,456.50 | 16.6% |
| 3 | Case Administration | 4,452.9 | 1,208,729.50 | 21.9% |
| 4 | Business Plan Development | 630.2 | 174,028.00 | 3.1% |
| 5 | POR Development and Project Zebra | 4,538.4 | 1,261,763.50 | 22.8% |
| 6 | Cash Management | 2.7 | 799.00 | 0.0% |
| 7 | Testimony | 14.4 | 4,176.00 | 0.1% |
| 8 | Executory Contracts | 355.0 | 102,752.00 | 1.9% |
| 9 | Store Operations and Lease Review | 1,240.8 | 334,874.50 | 6.1% |
| 10 | Claims Administration | 398.9 | 115,568.00 | 2.1% |
| 11 | Financing | 0.0 | 0.00 | 0.0% |
| 12 | Accounting and Auditing | 16.5 | 4,769.00 | 0.1% |
| 13 | Tax Issues | 0.5 | 125.00 | 0.0% |
| 14 | Valuation | 0.0 | 0.00 | 0.0% |
| 15 | Corporate Financing | 0.0 | 0.00 | 0.0% |
| 16 | Litigation and Relief from Stay Proceedings | 92.2 | 25,834.00 | 0.5% |
| 17 | Special Projects | 2,832.7 | 720,896.50 | 13.0% |
| 18 | Engagement Administration | <u>991.6</u> | <u>235,230.00</u> | <u>4.3%</u> |
| | Total | <u>20,270.3</u> | <u>\$5,530,799.00</u> | <u>100.0%</u> |

Summarized below is a description of the services provided by ZC to the Debtors during the pendency of these chapter 11 cases in each significant service area along with a brief description of the obstacles encountered and results achieved.

Project #1 - Chapter 11 Process: ZC advised and assisted the Debtors with organizing and managing its resources in order to effectively and efficiently manage the chapter 11 process. Specifically, ZC developed and maintained a comprehensive work plan of the various chapter 11 activities which enabled the Debtors to coordinate and manage its resources, including its professionals, during the pendency of these cases and avoid duplication of efforts. At the outset of these chapter 11 cases, ZC formed a restructuring team, consisting of senior management and its bankruptcy professionals, responsible for the review of all issues related to the proceeding as well as the coordination of the Debtors resources. This team met regularly throughout the chapter 11. ZC's assistance included planning and coordinating the

various bankruptcy related matters, allowing the Debtors to expediently address case issues and maintain their focus on restructuring the business.

Additionally, ZC worked daily with certain members of senior management to address and comment on motions filed or to be filed in these Chapter 11 cases as well as to resolve daily issues raised during the pendency of these cases.

This project area also includes time incurred maintaining a detailed work plan to coordinate and efficiently manage ZC's work activities as well as to meet and review pertinent case issues and results from ZC's analyses and work activities.

ZC's activities included advising and assisting the Debtors to plan and coordinate its resources to address various chapter 11 issues including: claims processing and reconciliation; reclamation claims; employee matters and retention issues; exclusivity; real estate matters; plan of reorganization and disclosure statement development; claims estimation; recovery analysis; development of three year projected operating results; fresh start accounting; characterization and negotiation of certain agreements; certain analyses regarding Project Zebra; and various other issues raised by the Debtors or other parties in interest.

ZC also prepared a detailed work plan that was used to prepare and negotiate the plan of reorganization, disclosure statement and registration statement within the time frame established by the Court and the creditor constituencies. As a result, this enabled the Debtors to efficiently manage its resources to prepare its Second Amended Plan of Reorganization and Disclosure Statement.

Project #2 - Business Operations: ZC's efforts were primarily focused on assisting the Debtors to analyze the Debtors' business operations, develop a long term business strategy, analyze the organization and operating structure, and monitor operating results versus the

business plans. As part of this process ZC was instrumental in developing a cost reduction program that contributed more than \$100 million of expense savings.

ZC created an Operations Review Committee whose primary focus was to identify opportunities for cost reductions and operating efficiencies. The Operations Review Committee was organized around each functional area in the organization and included a representative from ZC and a cross section of senior managers. Additionally, ZC worked with senior management throughout the chapter 11 as it developed and revised its annual business plans to continue to identify additional cost saving opportunities. As a result of these efforts, the Debtors were able to reduce its operating expense structure by more than \$100 million.

ZC participated in weekly executive management meetings to review the status of operations, evaluate the performance of various initiatives, review weekly chain performance and discuss related operating issues. ZC participated in numerous work sessions with senior management reviewing and analyzing operating results, capital expenditure programs, as well as other operating issues. ZC assisted management in preparing for and participated in various meetings with the Board of Directors. In such meetings, ZC advised the Board as to the status of various chapter 11 issues, operating results, management programs, creditor issues, Project Zebra, plan of reorganization development as well as several other case related issues.

During the chapter 11, ZC assisted the Debtors to develop and refine the Company's business plans. These business plans encompassed management's merchandising and marketing strategies as well as the detailed cost reduction programs to be implemented. These business plans also provided the creditor constituencies with management's detailed plans for restructuring the operations. The business plans were an instrumental component in the discussion with the Debtors lenders in obtaining DIP and exit financing on favorable terms. ZC assisted management with developing the Debtors three-year business plan that ultimately became the foundation on which the plan of reorganization was constructed.

ZC's efforts in this project area included ongoing monitoring of the operating results of the Debtors. ZC's monitoring activities encompassed a review and analysis of operating results versus the Business Plan and prior year including; sales, gross margin and inventory levels, as well as the analysis of other pertinent operating information on a daily, weekly and monthly basis. These monitoring activities enabled ZC to respond, on a timely basis, to the various inquiries from the creditor constituencies and the Board of Directors.

ZC assisted senior management to evaluate alternative management information systems and systems consultants. ZC advised management with respect to various bankruptcy related issues surrounding the purchase and implementation of the new merchandising system as well as the negotiation of the Sunguard and Stop & Shop systems contracts. ZC assisted management to evaluate numerous operating agreements including paper and printing contracts, labor union contracts, vendor agreements and several other operating agreements throughout the chapter 11.

Project #3 - Case Administration: ZC's efforts in this project area consisted of: preparing and or coordinating the preparation and delivery of financial information to the Unsecured Creditors Committee (the "Committee"), the Bank Group and their respective professionals; preparing for and attending meetings of the Committee and the Bank Group; participating in periodic meetings with representatives of the Committee and the Bank Group; participating in various conference calls to address issues related to these chapter 11 cases; reviewing and commenting on the Company's Trustee reports and various SEC filings; preparing for and participating in various Court hearings and chamber conferences; and communicating with the Company's various constituencies regarding results of operations and other issues raised during the pendency of these cases.

ZC coordinated the flow of information to the Committee, the Bank Group and their respective professionals. This process enabled the Debtors to respond to the various requests for information on a timely basis and minimize professional fees by using the Debtors

resources to assist in the preparation of the various analyses requested. ZC and the Debtors provided the Committee's and the Bank Group's professionals with weekly and monthly reporting packages which provided the Committee, the Bank Group and their respective professionals with period-end operating results, comparable store sales, gross margin rates, retail inventory levels, cash position and other pertinent consolidated operating information versus plan and prior periods. ZC compiled and provided additional information and analyses based on requests made by Creditor constituents including: weekly operating results; non-promotional sales trends; four wall cash flow analyses; store closings; GOB sales; FAS #121 accounting issues; capital expenditure programs; MIS issues and implementation time frame; claim reconciliation; claim estimates as well as other operational matters and POR issues.

Additionally, ZC participated in and assisted the Debtors in preparation for various Committee and Bank Group meetings. At these meetings, management presented the status of operations, recent management changes, liquidity, recent Court filings, POR and Disclosure Statement issues, and various other case related matters.

ZC coordinated and participated in various conference calls and inquiries from professionals to discuss various issues regarding: the POR and disclosure statement; monthly operating results; claims reconciliation and estimation process; real estate transactions; liquidity; valuation; and other case related issues. ZC assisted in the preparation of the Debtor's schedules of assets and liabilities and statement of affairs, reviewed and commented on the Trustee Reports and SEC filings as well as other court related filings.

ZC assisted the Debtors and counsel prepare for the various exclusivity hearings before the Bankruptcy Court. ZC prepared financial analyses and related testimony with respect to its analyses in support of the request for the extension of exclusivity, assisted counsel in the preparation of the motions requesting the extension. The Debtors were granted several extensions of exclusivity, which ultimately provided the Debtors with the time necessary to file a consensual plan of reorganization.

As a result of ZC efforts in this project area, the creditor constituencies received on a timely basis various operating and other case related information that provided the creditors and their respective professionals the ability to monitor the operating results of the Debtors as well as to address the various issues throughout the pendency of these cases.

Project # 4 - Business Plan Development: ZC's efforts in this project area were to assist the Debtors to identify, plan and document the strategic initiatives required to achieve the operational and financial turnaround of the Debtors business. These business strategies were documented in the Debtors annual business plans that were presented to the creditor constituencies and DIP lenders.

ZC assisted the Debtors to develop its Strategic Business Plan on a "bottoms up" basis. The Debtors business plans included detailed assumptions with respect to merchandising and marketing strategies, projected comparable sales and margin results, store level operating performance, operating costs by each functional area in the organization, availability and cash flow forecasts as well as other operating statistics. ZC also assisted the Debtors to review and challenge the strategic initiatives contained in the business plan.

ZC's assistance and expertise were critical in presenting and explaining the Debtors' Business Plans to the creditor constituencies. As a result the creditors were able to quickly understand the Debtors detailed plans to restructure its business. Ultimately, the ability of the Debtors' to formulate and distribute a comprehensive business plan provided the framework for the development of the consensual plan of reorganization.

Project # 5 - POR Development: ZC's efforts in this project area mainly focused on the three following work activities: i) preparing various analyses and participating in numerous work sessions related to project Zebra; ii) the development of a detailed liquidation analysis

by legal entity; and iii) the development of the plan of reorganization, disclosure statement and registration statement.

In June of 1996, the Debtors, in conjunction with its extension of exclusivity, entered into a Memorandum of Understanding with the Unsecured Creditors Committee. This agreement provided that in addition to pursuing a stand-alone plan of reorganization, the Debtors would engage Ernst & Young LLP (“E&Y”), the Committee’s financial advisors, to undertake a limited, discreet marketing process of the Company as a going concern. As a result of this effort, ZC expended a substantial amount of effort working with E&Y to develop an offering memorandum and construct a data room for potential interested parties to conduct preliminary due diligence. ZC worked closely with E&Y to identify a list of potential interested parties, negotiate confidentially agreements, coordinate additional information to interested parties, and participate in discussions with third parties as necessary. Notwithstanding the substantial amount of effort by ZC, the Debtors, E&Y and the several parties that expressed varying degrees of interest, no going concern offer was ever made for the Debtors. Accordingly, the Debtors determined to proceed with a stand-alone plan of reorganization.

In addition to the project Zebra work activities discussed above, ZC spent a substantial amount of effort assisting the Debtors and the Creditors evaluate a potential transaction with a third party. These work activities were considered an extension of the previous project Zebra efforts. This effort required the compilation and analysis of a substantial amount of operational information from both companies including detailed sales by department, margin analysis, operating cost structure, store performance, marketing initiatives, logistic requirements, MIS requirements, transaction costs, debt capacity as well as several other pertinent issues. ZC participated with management and outside professionals in numerous conference calls and work sessions in an effort to complete the required analyses. This potential transaction was analyzed and revised several times over 18 months at a substantial effort by ZC and the Debtors. The results of these analyses were presented to the Debtors Board of Directors, Bank Group, Unofficial Trade Committee and the Unsecured Creditors

Committee. As a result of ZC's efforts in this project area, the creditors and their professionals were able to properly assess the risks and benefits of project Zebra and engage in productive negotiations with third parties. Ultimately, all parties in interest concluded to pursue a stand-alone plan of reorganization.

During the chapter 11 cases, ZC developed a comprehensive liquidation analysis by legal entity, based on the Debtors operating performance and balance sheet. This analysis included a detailed analysis of claims; claim priorities; impact of intercompany and guaranty claims; assets held by subsidiaries; range of asset values under a liquidation scenario; wind down costs; and other issues surrounding a liquidation scenario. This analysis was revised numerous times throughout the case in order to assess the ability of the Debtors to provide for administrative claims. Ultimately, this analysis was used as an exhibit to the disclosure statement and as the basis for the determination that the plan of reorganization was in the best interest of its creditors.

ZC developed a detailed recovery model designed to evaluate recoveries to the creditor constituencies under various POR scenarios. This recovery model included: an analysis of reorganization value; range of value of certain identifiable assets; estimated claims by claim class; relative claim priorities; impact of intercompany and guaranty claims; assets held by certain subsidiaries; and several other issues surrounding recoveries under a plan of reorganization. The recovery model was essential in assisting the Debtors and the Creditors to identify and analyze numerous issues surrounding the development of a plan of reorganization including claims estimates, intercompany and guaranty claim issues, assets held by subsidiaries and potential recoveries under various plan scenarios. Ultimately, this analysis provided the framework for the development and negotiation of a plan of reorganization including claim classifications and related recoveries.

As part of the development of the plan of reorganization, ZC prepared an analysis of the range of reorganization value of the Debtors. This included the analysis of the Debtors' historical

and projected operating results; comparable company operating results, market capitalization, and other related financial and non financial information; as well as other pertinent information as deemed necessary. As a results, ZC developed a range of reorganization value which was ultimately used determine recoveries under the plan of reorganization.

ZC participated in numerous plan of reorganization negotiation sessions with the Debtors, counsel and representatives from the Bank Group, Unofficial Committee and the Official Committee of Unsecured Creditors. These negotiation sessions provided all interested parties with the forum to address all pertinent plan issues, which ultimately led to the development and confirmation of a consensual plan of reorganization.

ZC assisted the Debtors and counsel to draft and develop the plan of reorganization, disclosure statement and related exhibits as well as the registration statement filed with the SEC. These documents were revised on several occasions as the plan terms were modified based upon negotiated settlements among the Debtors and its creditor constituencies. ZC efforts assisted the Debtors, counsel and the creditors file the Second Amended Plan of Reorganization and Disclosure Statement that was approved and confirmed by the Bankruptcy Court.

As a results of ZC efforts in this project area, the Debtors and the creditors were able to: properly assess the viability of a third party transaction; assess potential recoveries under various plan scenarios; assess recoveries under a plan of reorganization versus liquidation; and develop, negotiate and draft a consensual plan of reorganization and disclosure statement that went effective on February 2, 1999

Project #6 - Cash Management: ZC's efforts in this project area were limited to assisting the Debtors to develop weekly cash forecasts and monitor liquidity on a weekly basis. The Debtors liquidity and availability under its DIP facility were essential for continued support from the trade community throughout the chapter 11. With out the support from the trade

community, the Debtors would not have been able to obtain the inventory necessary to maintain normal business operations. The Debtors weekly liquidity results and availability was provided to the trade vendors on a weekly basis, thereby allowing the vendor community to evaluate their credit decisions.

Project #7 - Testimony: ZC assisted the Debtors and counsel prepare testimony for numerous hearings conducted throughout these chapter 11 cases including: exclusivity; lease rejections; management programs; contract disputes; Vornado master lease issues, as well as other issues raised throughout the pendency of these cases. ZC assisted the Debtors and counsel prepare management for testimony, prepare financial analyses, comment on draft motions and objections, as well as assist in the negotiation of settlements with the parties in interest. A substantial amount of time expended by ZC in this project area was included in Project 3 – Case Administration and Project 8 – Executory Contracts.

Project #8 - Executory Contracts: ZC assisted the Debtors to develop a process to review the numerous executory contracts to which it was a party to determine whether to assume or reject these contracts. ZC also assisted the Debtors and counsel with understanding, analyzing and negotiating settlements on several real estate leases and other executory contracts.

At the outset of the chapter 11 cases, ZC assisted the Debtors with the development of a comprehensive process to identify and categorize the various prepetition executory contracts entered into by the Debtors. The database developed from this process assisted the Debtors to complete its schedules of assets and liabilities filed with the Bankruptcy Court. This database was also used to identify and prioritize contracts to be reviewed by the Debtors. As a result, the Debtors were able to identify and analyze several contracts throughout the chapter 11 cases to determine whether to assume or reject the agreements or renegotiate various terms of the agreements. ZC assisted the Debtors satisfactorily resolve several of these agreements

which greatly enhance the value of the estate and enabled the Debtors to successfully emerge from chapter 11. For example:

- IBM and Comdisco equipment lease agreements at a savings of approximately \$2.0 million;
- Bank of Tokyo lease agreement, reduced the secured portion of the claim from \$10.0 million to \$2.2 million;
- Vornado Master Lease agreement, allowed for the rejection of three leases and the assignment of one leases for \$1.0 million, with an option to reject or assume and assign one additional lease;
- Reduced the North Bergen lease rejection claim from \$48 million to approximately \$4.8 million;
- Renegotiated terms of the Quebecor printing agreement;
- Rejected the Ambassador Greeting Card contract and replaced the vendor with American Greeting Cards;
- Negotiated several lease rejection claims totaling in excess of \$100 million to a settlement amount approximating \$10 million.

ZC assisted management to analyze the cost associated with each of the labor union contracts that expired and were renegotiated during the chapter 11. ZC provided the creditors' professionals with details of the terms and cost associated with the each of the revised contracts. These contracts were presented and approved by the Bankruptcy Court with the support of the Committee's.

ZC assisted the Debtors with the analysis of the transactions related to the real estate properties located in North Attleboro, Westbury, Providence and Philadelphia all of which were sold or deeded to the lender during the chapter 11.

As a result of ZC efforts in this project area, the Debtors were able to efficiently and effectively analyze the various executory contracts to which it was a party so as to maximize the value of the assets or reduce liability to the estate.

Project #9 - Store Operations and Lease Review: ZC assist the Debtors to develop a comprehensive store database of operational, financial and demographic information by location. ZC and the Debtors utilized this database to evaluate individual store performance, develop a plan for operational improvements or identify stores for possible closure.

At the outset of this case, ZC assisted the Debtors with the development of a detailed database of store information by location. This database included historical and projected operating results, four wall cash flows, capital expenditure requirements, demographic information, competition, lease terms and other operational and financial information. ZC also established a real estate committee, which was responsible for analyzing the detailed store information and developing a program to either improve store-operating performance or identify those stores that were possible closure candidates. As a result of ZC efforts, the Debtors were able to identify several store locations that were not profitable or part of the long-term strategy for the Company. The Debtors reduced the number of store from 136 prepetition to 101 stores upon emergence from chapter 11. ZC assisted the Debtors to evaluate the detailed plans to effectuate the store closures as well as the selection of a consultant to assist with the GOB sales.

As a result of ZC efforts in this project area, the Debtors were able to effectively evaluate their store portfolio and identify the core group of stores that would be part of the Debtors long-term strategy and emergence from chapter 11.

Project #10 - Claims Administration: ZC's assisted the Debtors to establish a claims review and resolution process, select a claims administrative agent, establish a bar date and

adhere to noticing requirements, estimate claims, establish settlement parameters, and address complex claim issues. ZC also assisted the Debtors to negotiate several claim settlements with landlords and other claimants.

ZC assisted the Debtors with the establishment of a claim administrative process for the identification, reconciliation and resolution of the numerous claims filed in these cases. ZC assisted the Debtors to identify and interview several claim-processing agents to assist in the administration of the claims process. Ultimately, the Debtors selected DRX, Inc. to administer the claims management process, noticing requirements, balloting and ultimately make distributions under a plan of reorganization. ZC participated in several work sessions with management to establish the Bar Date, review and comment on the Bar Date notices, claim tracking issues, claim priorities, reclamation claims and vendor returns, court resolution process as well as various other claim related issues. ZC assisted the Debtors with organizing its resources to identify and reconcile claims by claim type (i.e. litigation claims, trade claims, lease claims, etc).

ZC's services consisted of various meetings and discussions with management, counsel, outside professionals and the claims agent regarding the claims reconciliation process and the establishment of settlement parameters. ZC assisted management and counsel to develop a time frame to reconcile claims and object to claims which were in dispute, duplicate, amended, etc.. ZC also assisted the Debtors to establish a process to allow for the Debtors to object to all claims by February 1, 1999 as required by the Plan of Reorganization.

ZC reconciled the Debtors' claims database with the claims agents' database in order to estimate allowed claims by claim class so as to assist the Debtors and the creditors evaluate whether claims were below the claims cap established in the plan of reorganization. As a result of this analysis, the Debtors filed various claim estimation motions so as to definitively establish that the total estimated amount of allowed claims were below the limits established by the plan of reorganization. The determination that total claims were below the claims cap

was essential in order for the plan of reorganization to be effective and for distributions to be made in accordance with the terms of the plan.

As a result of ZC efforts, the Debtors were able effectively and efficiently establish a claims review and reconciliation process to resolve the numerous claims filed in these chapter 11 cases. ZC's assistance in reconciling the claims database and estimating the amount of allowed claims enabled the Debtors and creditors to demonstrate that the claims cap provisions of the Plan had been satisfied. The estimation of the amount of allowed claims also provided the distribution agent with the base to make initial distributions.

Project # 11 - Financing: ZC did not provide any services in this project area. Service related to obtaining DIP financing and the exit facility were included in Project 5 – POR Development.

Project # 12 - Accounting and Auditing: ZC provided limited services in this project area. ZC did provide services related to the evaluation and application of fresh start accounting as part of the plan of reorganization. These services were also included in Project 5 – POR Development.

Project # 13 - Tax Issues: ZC provided limited services in this projected area. ZC did provide services related to the evaluation of the NOL issues as part of the plan of reorganization. These services were included in Project 5 – POR Development.

Project # 14 - Valuation: Services related to the development of the reorganization value of the Debtors was included in Project 5 – POR Development.

Project # 15 - Corporate Finance: ZC did not provide any services in this project area.

Project # 16 - Litigation and Relief from Stay Proceedings: ZC provided limited services in this project area. Services related to preparation of testimony were included in Project 7 - Testimony.

Project #17 - Special Projects: ZC's efforts in this project area primarily related to the investigation of certain transactions at or about the time of the initial public offering and transactions with the Special Purpose Corporation ("SPC").

ZC, at the direction of counsel, undertook an extensive analysis of certain transactions at or about the time of the initial public offering to determine if any claims or causes of action exist. ZC met with counsel to identify issues that may have given rise to possible claims; developed a process to investigate these transactions; identified financial and accounting records necessary to complete the analyses; participated in informal interviews of employees and former employees; participated in interviews with the Debtors auditors; read and analyzed workpapers of various professionals; and prepared various analyses from the financial and accounting records obtained. ZC also assisted counsel with the preparation of a report that identified the transactions in question and the conclusions reached from the investigation. A copy of this report was furnished to the creditors.

ZC assisted the Debtors with understanding the off balance sheet financing transactions with the SPC Bank Group, the nature of any claims the SPC could have asserted, and the development of a strategy to negotiate a settlement with the SPC Bank Group. Ultimately, the Debtors reached an agreement with the SPC Bank Group as part of the Plan of Reorganization that included remitting the proceeds from the sale of one of the SPC properties and deeding the remaining property back to the SPC Bank Group.

Project #18 - Engagement Administration: ZC staff members participated in conferences, meetings and work session with other engagement members to facilitate the sharing of information, to assure continued alignment with established priorities and objectives, to

coordinate work and minimize the duplication of services. ZC staff performed various duties with respect to preparing, organizing, controlling, and maintaining various engagement files necessary to the case. ZC incurred fees associated with adhering to the administrative orders of this Court including preparation of Applications of Zolfo Cooper, LLC for Allowance of Interim Compensation and Reimbursement of Expenses, preparation of the monthly fee statements, and detailed time description of services rendered.

As a result of ZC's efforts during the pendency of these chapter 11 cases, the Debtors effectively organized its resources around the management of the chapter 11 process and assisted the Debtors to restructure its operations. ZC's efforts toward assisting the Debtors with the management of the chapter 11 process enabled the Debtors to address the short-term chapter 11 issues such as communication with vendors, analysis of reclamation claims, liquidity, executory contract review, information flow, and other case related matters. ZC's efforts have also provided the Debtors with the ability to address the long-term aspects of the chapter 11 process such communications with the Unsecured Creditors Committee and the Bank Group, resolution of various complex issues related to these cases, claims estimation, objection and resolution, and evaluation of Project Zebra.

With ZC's assistance the Debtors were able to develop and implement a long term business strategy which included more than \$100 million of cost reductions, the closure of unprofitable stores, the realignment of its merchandising plans and the increased efficiency of the organization. As a result of these efforts, the Debtors were able to restructure their business, which provided the Debtors with the foundation to develop and negotiate a consensual plan of reorganization.

Compensation Sought

24. In view of the substantial assistance provided at a sustained, intensive level necessitated by the circumstances which precluded other employment, the results achieved, the deadlines met, the value added, the requirement for ZC to finance its deferred unpaid compensation, ZC requests that it be awarded a final allowance of interim compensation for professional services rendered in the sum of \$5,530,799.00 and for actual and necessary out-of-pocket expenses incurred in the sum of \$491,944.14, for a total amount of \$6,022,743.14.

The Debtors have paid ZC during the period from June 23, 1995 through February 2, 1999, \$5,179,349.41 of professional fees invoiced and \$487,833.61 of out-of-pocket expenses incurred, \$5,667,183.02 in total. The unpaid balance of \$355,590.12 consists of \$294,264.59 of professional fees held back during the Application Periods, \$57,185.00 for unpaid fees and \$4,110.53 for unpaid expenses incurred for the period January 1, 1999 through February 2, 1999, a period in which no previous application has been filed.

WHEREFORE, ZC respectfully requests that it be granted a final allowance of compensation for 100% of fees and expenses for professional services rendered as Special Financial and Bankruptcy Advisors to the Debtors during the June 23, 1995 through and including February 2, 1999 in the sum of \$6,022,743.14 for fees and expenses, and such other compensation the Court may award. ZC respectfully requests that the Bankruptcy Court order a final payment of \$355,590.12 for the outstanding professional fees and out-of-pocket expenses.

Dated: March 19, 1999
New York, New York

/s/

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/s/

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