

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

IN RE:)	
)	
HOME HOLDINGS INC.,)	CHAPTER 11
)	CASE NO. 98 B 40319 (JHG)
)	
DEBTOR.)	
)	

**FINAL APPLICATION OF HOULIHAN LOKEY HOWARD & ZUKIN, INC.
FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES**

Houlihan Lokey Howard & Zukin ("Applicant" or "Houlihan Lokey"), as financial advisor to The Official Committee of Unsecured Creditors (the "Official Committee") of Home Holdings, Inc., in its Final Application for Allowance of Compensation for Services Rendered and for Reimbursement of Actual and Necessary Expenses incurred, respectfully states as follows:

Background

1. Applicant was retained pre-petition by an Informal Committee (the "Informal Committee") of Noteholders of Home Holdings, Inc. ("Holdings" or the "Debtor") on April 22, 1997 to "provide financial advisory services to Anderson Kill & Olick ("Anderson Kill") and the [Informal] Committee in connection with the analysis, consideration and possible formulation of financial restructuring options relating to the 7% Senior Notes due in 1998 and 7 7/8%

Notes due in 2003 (collectively, the “Notes”), Holdings, its wholly-owned subsidiary Home Insurance Company, as well as Trygg-Hansa AB (“Trygg-Hansa”), Zurich Insurance Company (“Zurich”) and certain other Zurich-related parties.....” A copy of the Informal Committee engagement letter (“Informal Committee Engagement Letter”) is attached hereto as Exhibit “A.”

- 2 . During this pre-petition period, Houlihan Lokey became familiar with the business, operating and financial condition of Holdings and Home Insurance, as well as terms of the various agreements pertinent to a restructuring of Holdings. Houlihan Lokey conducted extensive due diligence on Holdings and Home Insurance during the pre-petition period. Working with the Informal Committee’s counsel, Houlihan Lokey assisted the Informal Committee in assessing the various restructuring alternatives. Together with the Informal Committee’s counsel, Houlihan Lokey developed strategies for and commenced negotiations with the various parties in interest in April 1997. Following numerous rounds of substantive negotiations, a restructuring agreement was reached which formed the basis for the Debtor’s plan of reorganization (the “Plan”).
3. The Debtor filed a voluntary Chapter 11 petition on January 15, 1998 and simultaneously filed the Plan, which was negotiated out of court. On January 30, 1998 Houlihan Lokey was retained by the Official Committee of Unsecured Creditors of Home Holdings, Inc. (the “Official Committee”) to provide financial advisory services to the Official Committee in connection with the following:

1. Assessing the financial issues and options concerning the Plan;
2. Preparing presentations related to and explaining the terms of the Plan to the various constituencies in this case;
3. Assisting the Official Committee in its negotiations with Holdings and/or other parties-in-interest concerning any amendment to the Plan;
4. Providing testimony in court on behalf of the Official Committee; and
5. Providing the Official Committee with any other necessary services as the Official Committee or the Official Committee's counsel may request from time to time with respect to the financial, business and economic issues that may arise.

A copy of the engagement letter with the Official Committee (the "Engagement Letter") is attached hereto as Exhibit "B."

4. On February 13, 1998, this Court entered its order (the "Retention Order") authorizing the retention of Applicant. A copy of the Retention Order is attached hereto as Exhibit "C."
5. After months of negotiations and several amendments to the Plan, the Debtor confirmed the Plan on June 9, 1998, and on July 29, 1998, substantially consummated the Plan.
6. Applicant is owed for its post-petition services and expenses a total of \$337,408.99, consisting of \$325,000 for services and \$12,408.99 for expenses. At the time that this application is being filed with the court, applicant has not previously received any payment for post-petition services or expenses. Calculation of this amount is attached hereto as Exhibit "D" with expenses detailed in Exhibit "F."

Summary of Houlihan Lokey's Activities In The Case ¹

7. On January 15, the Plan filed with this Court presented a huge first step in the critical financial reorganization of Holdings. The Plan provided for the conversion of the \$280 million principal amount of the Notes for approximately \$70 million of new notes, which Zurich is committed to purchase within 90 days of consummation of the Plan, and new Earn Out Notes, which provide payments to holders based on the tax savings derived from the actual or deemed utilization of an approximate \$600 million net operating loss carryforward preserved under the Plan. The Plan also provides for the conversion of the other indebtedness of Holdings for new Earn Out Notes (“EONs”) and the treatment of certain claims against Holdings. Based on the estimated recoveries reflected in the Debtor’s liquidation analysis, the Plan provided a substantially better economic result to creditors.

8. However, the Plan, as originally filed, presented a number of substantial challenges to successful consummation, including the objection to the Plan of several parties. In addition, the complexity of the transactions contemplated by the Plan and the securities to be issued pursuant to the Plan required extensive time and effort by Applicant to fully communicate such to the Official Committee and to develop a thorough understanding of the Plan by the Official Committee.

9. Applicant, together with counsel to the Official Committee, Zurich and the Debtor, as well as

¹ The description of activities contained herein pertains only to services provided during the pendency of the chapter 11 case and does not describe the services provided by Houlihan Lokey to the Informal Committee from April 1997 to January 15, 1998. In particular, Houlihan Lokey, together with counsel for the Informal Committee, was primarily responsible for developing, negotiating and structuring the Plan and then obtaining the support from the Informal Committee for the Plan, allowing for an expedited chapter 11 case. A summary of such pre-petition activities

other representatives of the Debtor and Zurich, assisted in developing amendments and modifications to the Plan to ultimately achieve consummation. In particular, from the filing of this chapter 11 case, Applicant was responsible for:

- (i) Developing a detailed financial analysis of the projected recoveries to each class under the Plan for inclusion in the Disclosure Statement accompanying the Plan;
- (ii) Explaining to the various constituencies represented by the Official Committee the numerous complex terms, conditions, assumptions and key economic variables that influence the projected economic recoveries to creditors under the Plan, leading to an overwhelming acceptance of the Plan;
- (iii) Assisting the Official Committee and its counsel in responding to the objections to the Plan made by Ambase, including responding to discovery requests by Ambase for voluminous amounts of information and providing deposition testimony regarding the prepetition negotiations and valuation analyses performed by Houlihan Lokey;
- (iv) Negotiating, on behalf of the Official Committee, amendments to the Plan, including improved terms on the New Notes issued under the Plan from those initially proposed;
- (v) Assisting the Debtor and Zurich in ultimately reaching a settlement with Ambase;
- (vi) Negotiating the agreement of the Informal Committee to the settlement between the Debtor, Zurich and Ambase, which ultimately reduced the amount of the Informal Committee's professional fees and expenses to be reimbursed by the Debtor and/or Zurich;
- (vii) Providing in-court testimony in support of confirmation of the Plan; and

- (viii) Assisting the Debtor and Zurich in the extensive documentation of the Plan and the related documents giving effect to the Plan.

A more detailed description of some of our specific activities to accomplish the above objectives is provided below.

- (i) Explaining to the various constituencies represented by the Official Committee the numerous complex terms, conditions, assumptions and key economic variables that influence the projected economic recoveries to creditors under the Plan, leading to an overwhelming acceptance of the Plan;

Houlihan Lokey developed a detailed comprehensive financial model, assessing the levels of income projected to be earned by Reorganized Holdings and the expected application and utilization of the NOL. The model also contemplated other terms of the EONs, including the impact on recoveries and valuation of the deemed minimum income levels and the risks and uncertainties of achieving the projected levels of pre-tax income. The principal assumptions and key variables of the financial model were communicated to the Official Committee, along with the conclusions of economic recoveries for creditor claims, to lead to an understanding of the value received by unsecured creditors under the Plan.

Throughout the pendency of the case, Houlihan Lokey spent a large amount of time communicating to the Official Committee, either as a whole or individual members thereof, the inputs and conclusions of its financial analyses. Applicant was involved in numerous telephone conversations with the Official Committee to explain, in particular to members of the Official Committee who were not members of the Informal Committee, the course of negotiations ultimately leading to the Plan, the various alternatives considered and the expected recoveries under the Plan.

In addition, individual members of the Official Committee frequently called Houlihan Lokey to discuss and understand the terms of the Plan, the economic impact of such terms on creditor recoveries and other assumptions included in the Houlihan Lokey valuation analyses. Toward this end, Houlihan Lokey prepared several separate valuation and financial analyses for the Official Committee to assess certain elements of the Plan or available alternatives in more detail. For example, Houlihan Lokey performed numerous analyses for the Official Committee and other constituents in this case assessing the impact of a modified transaction structure, which could have led to a higher amount of NOL surviving consummation of the Plan (ultimately, other factors warranted against pursuing this strategy).

Summaries of the financial model and its underlying assumptions were prepared by Houlihan Lokey for inclusion in the Disclosure Statement (and the amendments thereto). Applicant spent a considerable amount of time performing the necessary valuation work and, with counsel for the Official Committee, Zurich and the Debtor, drafting and revising written summaries of Applicant's valuation work for inclusion in the Disclosure Statement. We believe that Applicant's efforts to explain the complex terms of the Plan and assess the economic value received from the unique securities issued pursuant to the Plan was a principal reason for the overwhelming acceptance of the Plan.

(ii) Assisting the Debtor and Zurich in the extensive documentation of the Plan and the related documents giving effect to the Plan as well as seeking consummation of the Plan.

The financial analyses of creditor recoveries resulting from Houlihan Lokey's work were utilized by the Debtor and Zurich to prepare the requisite transaction documents giving effect to the Plan. Houlihan Lokey engaged in numerous conversations with counsel to the Official Committee,

the Debtor and Zurich and reviewed numerous drafts of transaction documents to ascertain that the terms of the Plan were accurately reflected in such documentation.

The economic recoveries were dependent on the time of consummation of the Plan and, during the course of the case, certain amendments to the Plan required changes to the financial model and the assumptions made to derive creditor recoveries. As a result, Houlihan Lokey continuously updated its financial analyses and financial models during the case. On several occasions during the course of the case, Houlihan Lokey's updated valuation work was required by counsel, either for disclosure purposes or for responding to objections to the Plan by other parties. Furthermore, Houlihan Lokey prepared for and provided in-court testimony based on its valuation work to support confirmation of the Plan.

- (iii) Assisting the Official Committee and its counsel and the other parties-in-interest respond to objections to the Plan made by Ambase.

Houlihan Lokey actively assisted legal counsel in responding to and ultimately reaching a settlement with respect to the objections of Ambase to the Plan. At the commencement of the case, Houlihan Lokey was involved in a number of telephone conference calls with representatives of Ambase and its counsel to explain the course of negotiations leading to the Plan and the valuation analyses of creditor recoveries under the Plan. Thereafter, Ambase filed certain objections to the Plan and Houlihan Lokey assisted counsel to develop appropriate strategies to respond to such objections. In addition, Houlihan Lokey was required to respond to the discovery requests of Ambase. Ultimately, Ambase deposed representatives of Houlihan Lokey on its valuation work and involvement in the negotiations leading to the Plan. Applicant spent a large amount of time preparing for and attending such depositions.

Houlihan Lokey was actively involved in brokering a settlement between Zurich and Ambase, which resulted in Ambase withdrawing its objection to the Plan. In particular, Houlihan Lokey engaged in numerous conversations with representatives of both Zurich and Ambase, assisted in arranging the terms of a settlement and, in order to “bridge the gap,” negotiated certain concessions from the Informal Committee to achieve an acceptable settlement. The settlement between Ambase and Zurich critically led to the expedited confirmation of the Plan.

10. As an investment banking / financial advisory firm, Applicant does not maintain time records in the ordinary course of its business. We have advised companies and creditors’ committees in over 100 restructuring transactions over the past nine years. In nearly every instance, and consistent with its retention in this case, Houlihan Lokey was compensated on a flat monthly fee basis (not hourly). In that regard, the Engagement Letter and Retention Order expressly provide for the monthly fees to be paid to Houlihan Lokey and does not contemplate the filing of time records to support such monthly fees.

11. The fee application process does not lend itself to demureness nor modesty. With that said, and acknowledging that the fine result achieved at bar was the product of the collective efforts of counsel for the Official Committee, the Debtor and Zurich, several of the other professionals in the case on all sides, and even a little good fortune thrown in, we believe that our efforts provided benefit to the estate, and in particular our creditor constituency, far in excess of the compensation owing under the Retention Order. Given the value added, time expended and effort by the professionals utilized at Houlihan Lokey, we believe the fees and expenses requested herein are fair and reasonable and respectfully request this Court’s approval thereof.

12. No agreement exists between Applicant and any third party for the sharing of compensation received for Applicant's services in this chapter 11 case, except as permitted by applicable bankruptcy law. Applicant expects to receive compensation from the Debtor and/or Zurich for its pre-petition services, some portion of which will reimburse members of the Informal Committee for amounts paid to Applicant prior to the chapter 11 case.

13. This Application is being provided to the Debtor concurrently with its filing with this Court.

14. Wherefore Applicant prays for approval of fees of \$325,000 and expenses of \$12,408.99, all as calculated per Exhibit "D" and "E" attached hereto.

Respectfully submitted,

Houlihan Lokey Howard & Zukin

By: P. Eric Siegert
Managing Director

Exhibit "A"

Copy of Informal Committee Engagement Letter

Exhibit "B"

Copy of Engagement Letter

Exhibit "C"

Copy of Retention Order

Exhibit "D"

Calculation of Fees

Exhibit "E"

Professional Biographies

P. Eric Siegert

Managing Director

Mr. Siegert is a Managing Director in the Minneapolis office of Houlihan Lokey. Since joining the Firm in 1987 Mr. Siegert has assisted clients in a variety of restructuring, merger and acquisition, and ESOP transactions. Over the past decade, Mr. Siegert has worked on over 30 restructuring transactions and has performed valuation analyses on over 100 companies on behalf of his clients.

Mr. Siegert is a frequent speaker on financial restructuring topics and is co-author of "Buying and Selling the Distressed Company" and "The Best Investor May Work For You" (an overview of ESOP transactions). Prior to joining Houlihan Lokey, Mr. Siegert worked for PAS-CO Capital Corp. analyzing middle market merger and acquisitions and securing acquisition financing. Mr. Siegert earned a B.A. in Economics from the University of California, Berkeley.

Jonathan B. Cleveland

Senior Associate

Jonathan Cleveland is a Senior Associate in the Minneapolis office of Houlihan Lokey Howard & Zukin. Mr. Cleveland has been involved in a number of financial restructuring engagements with Houlihan Lokey, representing debtors and creditors in out-of-court restructurings and bankruptcies.

Prior to re-joining Houlihan Lokey in 1997, Mr. Cleveland was an associate in the law firm of Mayer, Brown & Platt in Chicago, where he practiced corporate and securities law and was involved in numerous public securities offerings, public tender offers and private repurchase offers for debt and equity securities, and domestic and international acquisition transactions. Mr. Cleveland was a member of Houlihan Lokey's Financial Restructuring Group from 1990 to 1992, before earning a J.D. degree, *magna cum laude*, from the University of Minnesota Law School, where he also was a member of the Order of the Coif. In 1993, Mr. Cleveland studied international law at Uppsala University in Uppsala, Sweden. In 1990, Mr. Cleveland received a B.S. degree in Finance/Business Economics from the University of Southern California.

Matthew A. Mazzucchi

Financial Analyst

Mr. Mazzucchi graduated with a B.A. in Business Economics from the University of Minnesota, Twin Cities, where he was a James S. Kemper Scholar. He also studied finance and economics as a Mary Dau Scholar in Copenhagen, Denmark, and at Washington and Lee University. During college, Mr. Mazzucchi worked at PaineWebber, Inc. and as a financial analyst with the Merrill Lynch Private Client Group. At Houlihan Lokey, Mr. Mazzucchi has been involved in a variety of restructuring and M&A transactions.

Exhibit "F"

Summary of Expenses

Houlihan Lokey's policy is to pass along to its clients its expenses incurred on behalf of such clients, without markup or interest charges. Such expenses include the following: air fare, car rental, taxi or other airport transportation, parking, hotel charges, travel and working meals, computer research, messenger charges, overnight delivery (when necessary), internal and external photocopying expenses, postage, telecopy expenses, long-distance telephone charges, and other travel-related expenses. To assist the Court in reviewing Houlihan Lokey's request for reimbursement of the expenses incurred in connection with its representation of the Official Committee, Houlihan Lokey's billing procedures the general categories of expenses for which it seeks reimbursement by this Application are described below:

- A. **Airfare:** (coach fare only) All of the travel expenses were necessary given the working dynamics and complex restructuring issues of this case which prompted the need for in-person meetings, due diligence, working sessions and Court depositions and testimony. During the Application Period, Applicant's professionals frequently needed to travel from Minneapolis (or other departing cities) to New York to meet with legal counsel for working sessions, for Court depositions and appearances and other pending matters, and to conduct negotiations with the various parties-in-interest in this case. Houlihan Lokey professionals purchased regular coach fare for such flights.

- B. **Lodging:** Lodging includes expenses associated with hotel stays and related expenses incurred when out-of-town meetings were required or for necessary overnight stays in connection with working sessions, negotiations and court appearances.
- C. **Other Travel:** Other Travel includes cab fare or other airport transportation, parking, rental car charges and mileage charges. Mileage is charged when Houlihan Lokey professionals used their own cars to travel to and from meetings. Mileage is currently charged at the federally mandated rate of \$0.31 per mile.
- D. **Travel / Working Meals:** Houlihan Lokey charged the Debtor for meals consumed during meetings with individuals regarding the Chapter 11 cases in order to expedite or facilitate working sessions or for necessary meals during travel.
- E. **Telephone/Fax:** Expenses include all telephone/fax usage related to the case.
- F. **Computer On-Line Service:** Expenses associated with research on database systems or document retrieval relating to this case. These expenses include disclosure document charges for various SEC documents that were used to perform valuation analysis. Database charges are incurred using the Lexis/Nexis system in order to obtain analyst reports and more extensive published research on events affecting the case. Dow Jones and Bloomberg services are used to obtain current and historical security pricing and news wires. Applicant believes these expenses to be required in order to complete standard financial and valuation analysis.
- G. **Delivery, Mail & Fed-X:** Houlihan Lokey utilized Federal Express and other overnight delivery services when documents had to be distributed the next day.
- H. **Office Expense:** Includes photocopy charges, color copy charges, binding materials, etc.

Summary of Expenses

Travel/Working Meals	\$	603.87
Airfare	\$	7,813.29
Lodging	\$	1,664.40
Telephone/Computer/Research	\$	1,297.08
Deliveries, Mail & Fed-x	\$	235.00
Other Transportation	\$	<u>795.35</u>
	\$	12,408.99