

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

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In Re:	:	Chapter 11
	:	
Lernout & Hauspie	:	
Speech Products N.V., <u>et al.</u> ,	:	Case Nos. 00-4397 (JHW)
	:	through 00-4399 (JHW)
	:	(Jointly Administered)
	:	
Debtors	:	Honorable Judge Judith H. Wizmur
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**COVER SHEET FOR APPLICATION FOR
PROFESSIONAL COMPENSATION**

Name of Applicant:	Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey")
Authorized to Provide Professional Services to:	The Official Committee of Unsecured Creditors of Lernout & Hauspie Speech Products N.V., and L&H Holdings USA, Inc. (the "L&H Committee")
Date of Order Authorizing Employment:	May 9, 2001
Period for Which Compensation is Sought:	January 19, 2001 through September 23, 2002
Amount of Fees Sought:	\$1,406,642
Amount of Expense Reimbursement Sought:	\$33,017
This is a(n):	<input type="checkbox"/> Interim Application <input checked="" type="checkbox"/> Final Application

The total time expended for the preparation of this application was approximately 10 hours.

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	:	(Jointly Administered)
	:	
Debtors	:	Honorable Judge Judith H. Wizmur
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FINAL APPLICATION OF HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL FOR FINAL ALLOWANCE OF COMPENSATION AND REIMBURSEMENT OF EXPENSES

TO THE HONORABLE JUDITH H. WIZMUR,
UNITED STATES DISTRICT JUDGE:

Pursuant to the confirmation of the reorganization plan of L&H Holdings USA, Inc. (“L&H Holdings”) on August 13, 2002 and the effective date on September 23, 2002, this Final Application (the “Final Application”) of Houlihan Lokey Howard & Zukin (“Houlihan Lokey”) as financial advisor to the Official Committee of Unsecured Creditors of Lernout & Hauspie Speech Products N.V. (“L&H N.V.”) and L&H Holdings (collectively the “L&H Committee”) for allowance of final compensation and reimbursement of out-of-pocket expenses for financial advisory services rendered to L&H Holdings from January 19, 2001 through September 23, 2002 (the “Application Period”), respectively represents:

INTRODUCTION

1. By this Final Application, Houlihan Lokey requests an order, pursuant to Sections 328 and 331 of Title 11, United States Code (the “Bankruptcy Code”) and Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), allowing the amounts requested herein as compensation for professional services rendered and reimbursement of out-of-pocket expenses incurred, as financial advisor to L&H Holdings during the Application Period. The amounts presented herein correspond to L&H Holdings’ pro rata share or 50% of the total amount sought as compensation for professional fees and expenses from the L&H Committee. Hereinafter,

references made to the L&H Committee should not confound the fact that this Final Fee Application is for fees and expenses incurred on behalf of L&H Holdings, exclusively.

RETENTION OF HOULIHAN LOKEY

2. On November 28, 2000 (the "Filing Date"), the Debtors herein filed a petition for a reorganization under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Court") and commenced the Debtors' jointly administered cases (collectively, the "Case").
3. On April 2, 2001, the L&H Committee filed an amended application to retain Houlihan Lokey as Financial Advisor for the L&H Committee (the "Retention Application") pursuant to the terms of a certain amended retainer agreement dated as of March 27, 2001 between Houlihan Lokey and the L&H Committee (the "Retainer Agreement"). In the Retention Application, the L&H Committee sought authority to employ Houlihan Lokey as its Financial Advisor pursuant to sections 328 (a) and 1103 of the Bankruptcy Code, 11 U.S.C. §101-1330 (the "Bankruptcy Code"), and Rule 2014 of the Bankruptcy Rules, *nunc pro tunc*, as of January 19, 2001. The Bankruptcy Court has entered the Order approving the Retention Application (the "Retention Order") on May 9, 2001 as stated by the Bankruptcy Court at the hearing held on May 8, 2001. A copy of the Amended Retention Application, Amended Retainer Agreement and Retention Order are attached as Exhibit A.
4. The Retainer Agreement provides, among other things, for the payment of advisory fees to Houlihan Lokey, subject to Court approval, for services rendered during the pendency of this Case of \$150,000 commencing as of January 19, 2001 and \$125,000 per month commencing January 19, 2002 (the "Monthly Fees") and reasonable and documented out-of-pocket expenses that are incurred by Houlihan Lokey in connection with the services to be provided on the L&H Committee's behalf. In addition, the Retainer Agreement provides for the payment of a transaction fee ("Transaction Fee") based upon the aggregate value of the consideration paid to, or received by unsecured creditors of Lernout & Hauspie Speech Products N.V. and L&H Holdings USA, Inc. under a plan of reorganization or liquidation, as the case may be ("Unsecured Creditors' Consideration"). The value of the Unsecured Creditors' Consideration

shall be mutually agreed upon by the L&H Committee and Houlihan Lokey. The Transaction Fee shall be equal to .5% of the aggregate recovery to the L&H Committee from \$50 - \$100 million; plus .75% of such recovery from \$100 - \$200 million; plus 1% of such recovery from \$200 - \$350 million; plus 2% of such recovery that exceeds \$350 million less (i) 25% of the Monthly Fees paid by the Company after the first six months, (ii) 50% of the Monthly Fees paid by the Company after the first 12 months; and (iii) 75% of the Monthly Fees paid by the Company after the first 18 months. Such Transaction Fee will be payable upon the consummation of a Transaction in the same type and proportion of the consideration paid to the L&H Committee, or upon the agreement of Houlihan Lokey and the L&H Committee, in cash. Notwithstanding such calculation, the Transaction Fee shall not exceed \$5 million. The Monthly Fees and cash Transaction Fee are consistent with Houlihan Lokey's normal and customary billing practices for a case of this size and complexity, which requires the level and scope of services outlined in the Retainer Agreement.

5. Under the Retainer Agreement, Houlihan Lokey was authorized to render financial advisory services to the L&H Committee, including, among other things:
 - a. Valuation analyses of Lernout & Hauspie Speech Products N.V. (the "Company" or "Debtor") as a going-concern, in whole and part;
 - b. Review of and consultation on potential divestitures for the Company;
 - c. Review of and consultation on the capital structure issues for the reorganized Company, including debt capacity;
 - d. Review of and consultation on the financial issues and options concerning potential plans of reorganization, and coordinating negotiations with respect thereto;
 - e. Review of and consultation on the Company's operating and business plans, including its long term capital needs and changing competitive environment;
 - f. Testimony in court on behalf of the L&H Committee, if necessary; and
 - g. Any other necessary services to which the L&H Committee and Houlihan Lokey agree from time to time with respect to the financial, business and economic issues that may arise.

PRIOR INTERIM ALLOWANCES

6. On January 4, 2001 this Court approved an order (the "Interim Compensation Order"), which was subsequently amended on April 10, 2001 (the "Amended Interim Compensation Order"), which established procedures for interim compensation for services rendered by professionals in this Case. Throughout the retention of Houlihan Lokey, it has been customary that requests for fees from Dictaphone, L&H N.V. and L&H Holdings during a given application period, be presented together in one interim fee application. Therefore, the amounts and percentages provided herein (section: Prior Interim Allowances or paragraphs: 7-17) are based on the combined obligation of each party, and not the pro rata share of fees and expenses incurred by L&H Holding, exclusively, in which this Final Application is seeking approval for. The allowance of fees for Dictaphone, L&H N.V. and L&H Holdings during the Case were 20%, 40% and 40%, respectively, for the period January 19, 2001 through February 28, 2001. In connection with the formation of the Official Dictaphone Committee (the "Dictaphone Committee") on February 28, 2001, it was agreed that thereafter, Houlihan Lokey professional fees and reimbursable expenses would be allocated 50/50 between L&H N.V. and L&H Holdings.
7. Houlihan Lokey has filed its First Application for allowance of interim compensation and reimbursement of expenses on May 25, 2001, for \$358,064 of fees and \$18,590 for reimbursement of expenses for the period January 19, 2001 through March 31, 2001. On June 15, 2001, the Court approved the First Application in its entirety. On July 9, 2001, Houlihan Lokey received payment of \$166,451, which corresponded to 80% of fees, and \$14,905, which represented 100% of out-of-pocket expenses, for services rendered from January 19, 2001 through February 28, 2001. On October 9, 2001, Houlihan Lokey received payment of \$120,000, which corresponded to 80% of fees, and \$3,685, which represented 100% of out-of-pocket expenses, for services rendered from March 1, 2001 through March 31, 2001.
8. Houlihan Lokey has filed its Second Application for allowance of interim compensation and reimbursement of expenses on July 13, 2001, for \$300,000 of fees and \$17,384 for reimbursement of expenses for the period April 1, 2001 through May 31, 2001. On August 2, 2001, the Court approved the Second Application in its entirety. On October 9, 2001, Houlihan

Lokey received payment of \$120,000, which corresponded to 40% of fees, and \$17,384, which represented 100% of out-of-pocket expenses, for services rendered from April 1, 2001 through May 31, 2001. On October 19, 2001, Houlihan Lokey received payment of \$120,000, which corresponded to an additional 40% of fees for services during that period.

9. Houlihan Lokey has filed its Third Application for allowance of interim compensation and reimbursement of expenses on September 25, 2001, for \$450,000 of fees and \$21,026 for reimbursement of expenses for the period June 1, 2001 through August 31, 2001. On October 15, 2001, the Court approved the Third Application in its entirety. On October 19, 2001, Houlihan Lokey received \$120,000, which corresponded to $26\frac{2}{3}\%$ of fees for services rendered June 1, 2001 through August 31, 2001. On November 26, 2001, Houlihan Lokey received \$240,000, which corresponded to $53\frac{1}{3}\%$ of fees, and \$18,556, which represented 100% of adjusted out-of-pocket expenses, for services rendered June 1, 2001 through August 31, 2001.
10. Pursuant to the Second Amended Administrative Order, which establishes procedures for interim compensation and reimbursement, Houlihan Lokey appeared before the Court on October 29, 2001 to witness the review and approval of the Application for interim allowance of compensation. As a result of the hearing, Houlihan Lokey sought on November 9, 2001, the remaining balance of \$71,613, representing the 20% holdbacks for the period January 19, 2001 through March 31, 2001. In keeping with voluntary deductions made to reimbursable expenses, the L&H Committee was invoiced for \$68,435, which corresponded to \$71,613 in holdbacks less \$3,178 for credits during the period of January 19, 2001 through March 31, 2001. Houlihan Lokey received the full amount of the holdbacks on November 28, 2001, November 29, 2001, and December 5, 2001.
11. Houlihan Lokey has filed its Fourth Application for allowance of interim compensation and reimbursement of expenses on November 26, 2001, for \$300,000 of fees and \$4,239 for reimbursement of expenses for the period September 1, 2001 through October 31, 2001. On December 11, 2001, the Court approved the Fourth Application in its entirety. On December 27, 2001 and January 23, 2002, Houlihan Lokey received an aggregate of \$120,000, which corresponded to 40% of fees, for services rendered September 1, 2001 through October 31, 2001.

12. Houlihan Lokey has filed its Fifth Application for allowance of interim compensation and reimbursement of expenses on January 4, 2002, for \$150,000 of fees and \$3,149 for reimbursement of expenses for the period November 1, 2001 through November 30, 2001. On January 28, 2002, the Court approved the Fifth Application in its entirety. On February 13, 2002 Houlihan Lokey received \$60,000, which corresponded to 40% of fees, for services rendered November 1, 2001 through November 30, 2001.
13. Houlihan Lokey has filed its Sixth Application for allowance of interim compensation and reimbursement of expenses on February 11, 2002, for \$290,323 of fees and \$2,976 for reimbursement of expenses for the period December 1, 2001 through January 31, 2002. On March 6, 2002, the Court approved the Sixth Application in its entirety.
14. Pursuant to the Second Amended Administrative Order, which establishes procedures for interim compensation and reimbursement, the Court convened on January 31, 2002, to consider the various applications for interim allowance of compensation. The Court approved the entire \$750,000 of fees related to Houlihan Lokey's services rendered during the period April 1, 2001 through August 31, 2001, allowing eligibility for the claims on the remaining \$150,000 withheld as holdback. On March 4, 2002, Houlihan received \$66,379, which corresponded to approximately 44% of the holdbacks.
15. Houlihan Lokey has filed its Seventh Application for allowance of interim compensation and reimbursement of expenses on June 7, 2002, for \$500,000 of fees and \$517 for reimbursement of expenses for the period February 1, 2002 through May 31, 2002. On July 3, 2002, the Court approved the Seventh Application in its entirety.
16. Pursuant to the Second Amended Administrative Order, which establishes procedures for interim compensation and reimbursement, the Court convened on May 24, 2002, to consider the various applications for interim allowance of compensation. The Court approved the entire \$450,000 of fees related to Houlihan Lokey's services rendered during the period September 1, 2001 through November 30, 2001, allowing eligibility for the claims on the remaining \$90,000 withheld as holdback.

17. Houlihan Lokey has filed its Eighth Application for allowance of interim compensation and reimbursement of expenses on July 29, 2002, for \$125,000 of fees and \$235 for reimbursement of expenses for the period June 1, 2002 through June 30, 2002. On August 22, 2002, the Court approved the Eighth Application in its entirety.
18. Fees and expenses of \$172,917 and \$194, respectively, for the period July 1, 2002 through September 23, 2002 are included as part of this Final Application; no separate interim application has been filed for the same period.

PROFESSIONAL SERVICES RENDERED DURING THE APPLICATION PERIOD

19. Houlihan Lokey has been selected by the L&H Committee because of its extensive knowledge and reputation in the restructuring field, because of its familiarity with the issues involved in the Case and because the L&H Committee believes that Houlihan Lokey possesses the requisite resources and qualifications to represent the L&H Committee in the Case.
20. The services that Houlihan Lokey has been required to perform and has performed have been substantial and necessary in the Case. Houlihan Lokey has attempted to perform such services with the minimum amount of duplication with the L&H Committee and its legal counsel.
21. Throughout the duration of Houlihan Lokey's retention by the L&H Committee, Houlihan Lokey has staffed the engagement consistent with the L&H Committee's objectives and in a manner that provided for thorough and efficient representation of the interests of the L&H Committee. David R. Hilty, an officer of Houlihan Lokey, in this Case has supervised Houlihan Lokey's activities, on a day-to-day basis. Throughout the engagement, the following professionals have provided services: Jeffrey I. Werbalowsky, Senior Managing Director; David R. Hilty, Managing Director; Lily L. Chu, Vice President; Joseph Swanson, Vice President; Barry E. Silbert, Associate; and Scott H. Lee, Financial Analyst; and Paul T. Hooper, Financial Analyst.
22. During the time period covered by this Final Application, Houlihan Lokey has worked extensively with the L&H Committee, other professionals retained by the L&H Committee, and other parties-in-interest in the Case. From January 19, 2001 through September 23, 2002, Houlihan Lokey performed services on behalf of the L&H Holdings estate. In summary,

Houlihan Lokey has provided financial advisory services to the L&H Committee in the following categories:

A. *Evaluating the Debtors' and the L&H Committee's Strategic Alternatives*

Houlihan Lokey evaluated the strategic alternatives available to L&H, including participation in business segment reviews conducted by the Debtors' financial advisors.

B. *Overseeing the Sales Process of L&H assets*

Houlihan Lokey took an active role in advising the L&H Committee on reviewing the sales process of various L&H assets. In this capacity, Houlihan Lokey participated in discussions between the Company's management and the Company's advisors on appropriate business plans and projections, review of draft confidential information memorandums, review of prospective buyers' lists, identification of additional prospective buyers; and assisted the L&H Committee in evaluating the potential strategic implications of each indication of interest expressed by prospective purchasers.

C. *Monitoring the Operations of L&H's Businesses*

Houlihan Lokey actively monitored the progress of the Debtors' operational initiatives and performance. In doing so, Houlihan Lokey analyzed the Company's activities including, but not limited to: (i) evaluating certain settlement proposals put forth by the Debtors and third parties; (ii) reviewing of business plans and strategic options; (iii) reviewing of cost allocations and appropriate royalty arrangements; and (iv) cashflow management and projections.

D. *Analyzing and Providing Recommendations on Certain Motions Filed by the Debtors and/or Other Parties-in-Interest*

Houlihan Lokey was instrumental in working in conjunction with the L&H Committee's legal counsel to recommend how the L&H Committee should proceed with certain motions filed in Court. In cases where it was clear that the evaluation of the motions required certain financial and business analyses, Houlihan Lokey assisted the L&H Committee by providing the potential

business related implications of the motions as well as its recommendations to whether the L&H Committee should support the motions.

E. Evaluating and Monitoring the Development and Implementation of the Company's Wind-Down Plans

Houlihan Lokey reviewed and discussed details of the wind-down plan including reviewing tasks, employees, and budgets.

F. Overseeing the Liquidation of Certain of the Company's Assets

As part of the sale of L&H's technology assets, L&H received certain securities as consideration. Houlihan Lokey worked with the Debtors to maximize the value of those securities.

G. Analyzing the Company's Plan and Disclosure Statement

Houlihan Lokey worked with the Company on developing the Company's Plan of Liquidation and Disclosure Statement.

23. Based on the above and in accordance with the Retainer Agreement, Houlihan Lokey respectfully requests compensation in the amount of \$1,406,642 for services rendered by Houlihan Lokey during the Application Period.

DISBURSEMENTS

24. Attached hereto and made a part hereof as Exhibit B is a summary of the out-of-pocket expenses incurred by Houlihan Lokey in connection with its services on behalf of the L&H Committee and for which it is requesting reimbursement at this time in the aggregate amount of \$33,017. These out-of-pocket expenses consist of expenses incurred during the Application Period.

ADJUSTMENTS

25. It is important to note that professional fees and out-of-pocket expenses presented in the interim applications do not coincide with the amounts defined in this Final Application for the following

reasons: (i) the interim applications do not capture the fees and expenses incurred during the period of July 1, 2002 through September 23, 2002; (ii) adjustments made to expenses regarding deductions for secretarial overtime, local meals and local travel were not implemented until the fourth interim fee application, therefore the missed adjustments from the first, second and third fee applications were later credited against invoices sent to the L&H Committee. The actual expenses invoiced to the L&H Committee are the amounts provided in this Final Application, not the unadjusted expenses presented in the first three interim fee applications; and (iii) due to certain overpayments made by the L&H Committee, which arose from minor miscommunications between Houlihan Lokey, The Court, and The L&H Committee regarding the payments of fees and expenses, the amount overpaid was credited against certain holdbacks later invoiced to the L&H Committee. As discussed earlier, the actual amounts invoiced to the L&H Committee supersede those reflected in their corresponding interim application, and therefore are the amounts applied to the calculation of aggregate fees and expenses requested in this Final Application.

WHEREFORE, HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL respectfully requests that this Court enter an order awarding Houlihan Lokey final allowance of compensation in the amounts set forth below and as indicated in the attached Affidavit (Exhibit C) of David R. Hilty, an officer of the firm, and provide such other further relief as may be just and equitable.

Professional Fees Requested	\$1,406,642
Out-of-Pocket Expenses	<u>\$33,017</u>
Total Fees and Expenses to be Paid	<u>\$1,439,659</u>

Dated: New York, NY
October 2, 2002
Houlihan Lokey Howard & Zukin Capital
685 Third Avenue, 15th Floor
New York, NY 10017

By



David R. Hilty
Managing Director
Houlihan Lokey Howard & Zukin Capital