

UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

-----X

In re:

Chapter 11

Case No. 00-00389(MFW)

INTEGRATED HEALTH SERVICES, INC., et al.,

(Jointly Administered)

Debtors.

-----X

**TWENTY-SEVENTH INTERIM AND FINAL APPLICATION OF  
ARTHUR ANDERSEN LLP  
FOR SERVICES RENDERED AND REIMBURSEMENT OF EXPENSES AS  
FINANCIAL ADVISORS TO THE OFFICIAL COMMITTEE OF UNSECURED  
CREDITORS OF INTEGRATED HEALTH SERVICES, INC., et al.  
FOR THE PERIOD FROM MAY 1, 2002 THROUGH JUNE 15, 2002**

Name of Applicant: Arthur Andersen LLP

Authorized to Provide  
Professionals Services to: Official Committee of Unsecured  
Creditors

Date of Retention: February 23, 2000

Period for which compensation  
and reimbursement is sought: May 1, 2002 – June 15, 2002

Amount of Compensation Sought  
as actual, reasonable  
and necessary: \$30,630.00

Amount of Expense Reimbursement  
Sought as actual, reasonable  
and necessary: \$125.18

This is an: \_\_\_ interim \_\_\_x\_\_\_ final application

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

DATE FILED	PERIOD COVERED	REQUESTED FEES	REQUESTED EXPENSES	APPROVED FEES	APPROVED EXPENSES
04/25/00	02/23/00 – 03/31/00	\$90,307.40	\$7,046.35	\$90,307.35	\$6,671.35
05/23/00	04/01/00 – 04/30/00	\$202,873.30	\$27,638.44	\$202,873.30	\$27,638.44
06/23/00	05/01/00 - 05/31/00	\$122,700.30	\$6,432.08	\$122,700.30	\$6,432.08
07/25/00	06/01/00 - 06/30/00	\$91,032.30	\$4,283.32	\$91,032.30	\$4,283.32
08/24/00	07/01/00 - 07/31/00	\$97,854.30	\$10,430.62	\$97,854.30	\$10,430.62
09/25/00	08/01/00- 08/31/00	\$151,085.40	\$10,317.53	\$151,085.40	\$10,317.53
10/24/00	09/01/00 - 09/30/00	\$75,975.50	\$7,993.13	\$75,975.50	\$7,993.13
11/24/00	10/01/00 - 10/31/00	\$65,727.60	\$3,978.22	\$65,727.60	\$3,978.22
12/22/00	11/01/00 - 11/30/00	\$44,230.70	\$5,417.40	\$44,230.70	\$5,417.40
01/26/01	12/01/00 - 12/31/00	\$97,157.80	\$6,712.24	\$97,157.80	\$6,712.24
02/26/01	01/01/01 - 01/31/01	\$34,745.60	\$1,750.93	\$34,745.60	\$1,750.93
03/26/01	02/01/01 - 02/28/01	\$48,895.40	\$5,315.54	\$48,895.40	\$5,315.54
04/25/01	03/01/01 - 03/31/01	\$121,921.70	\$9,985.86	\$121,921.70	\$9,985.86
05/25/01	04/01/01 - 04/30/01	\$252,237.80	\$16,452.73	\$252,237.80	\$16,452.73

06/25/01	05/01/01 - 05/31/01	\$336,489.90	\$18,355.69	\$336,489.90	\$18,355.69
07/25/01	06/01/01 - 06/30/01	\$320,642.80	\$12,425.45	\$320,642.80	\$12,425.45
08/23/01	07/01/01 - 07/31/01	\$226,657.00	\$11,346.15	\$226,657.00	\$11,346.15
09/25/01	08/01/01 - 08/31/01	\$165,745.90	\$5,341.70	\$165,745.90	\$5,341.70
11/1/01	09/01/01 - 09/30/01	\$82,942.50	\$1,747.48	\$82,942.50	\$1,747.48
11/27/01	10/01/01 - 10/31/01	\$237,478.70	\$7,160.95	\$189,982.86	\$7,160.95
12/27/01	11/01/01 - 11/30/01	\$468,789.40	\$7,044.21	\$375,031.52	\$7,044.21
1/28/02	12/01/01 - 12/30/01	\$285,081.00	\$26,441.17	\$228,064.80	\$26,441.17
2/27/02	1/01/02 - 1/31/02	\$236,845.50	\$14,258.17	\$236,845.50	\$14,258.17
3/27/02	2/01/02 - 2/28/02	\$161,750.50	\$2,803.82	\$161,750.50	\$2,803.82
5/1/02	3/01/02 - 3/31/02	\$68,328.50	\$330.63	\$68,328.50	\$330.63
5/28/02	4/01/02 - 4/30/02	\$79,360.00	\$2,001.26	\$63,488.00	\$2,001.26

**ATTACHMENT B  
TO FEE APPLICATION**

The hourly rates below reflect what Applicant generally charges non-bankruptcy clients for similar services. A breakdown among the persons rendering the services are as follows:

<b>Name of Professional Person</b>	<b>Position of the Professional Person, Number of Years in that Position, Prior Relevant Experience, Year of Obtaining License to Practice, Area of Expertise</b>	<b>Hourly Billing Rate</b>	<b>Total Billed Hours</b>	<b>Total Compensation</b>
James S. Feltman ("JSF")	Partner in charge of Global Corporate Finance practice for South Florida since 1991; 25 years financial advisory services; CPA	\$550	4.0	\$2,200.00
Steven J. Solomon ("SJS")	Director, Global Corporate Finance since 2000, 8 years as a practicing bankruptcy attorney; admitted 1992	\$400	29.3	\$11,720.00
Lauren J. Amron ("LJA")	Manager, Global Corporate Finance since 1999, 3 years performing financial advisory services; admitted to Florida Bar 1998	\$310	16.0	\$4,960.00
Adriana Riviere-Badell ("ARB")	Associate, Global Corporate Finance; 1+ years experience in financial advisory services	\$200	11.5	\$2,300.00
Jennifer L. Faria ("JLF")	Analyst, Global Corporate Finance; Less than 1 year experience in financial advisory services	\$150	63.0	\$9,450.00
<b>GRAND TOTALS:</b>			<b>123.8</b>	<b>\$30,630.00</b>
<b>BLENDED HOURLY RATE:</b>		<b>\$247.42</b>		

**COMPENSATION BY PROJECT CATEGORY**

<b>Project Category</b>	<b>Total Hours</b>	<b>Total Fees</b>
Long-Term Care	101.8	\$24,470.00
Fee Application/Monthly Billing	22.0	\$6,160.00
<b>TOTAL:</b>	<b>123.8</b>	<b>\$30,630.00</b>

**EXPENSE SUMMARY**

<b>Expense Category</b>	<b>Service Provider (if applicable)</b>	<b>Total Expenses</b>
Other		\$125.18
<b>TOTAL:</b>		<b>\$125.18</b>

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re: )  
)  
)  
INTEGRATED HEALTH SERVICES, INC., et. al., ) Chapter 11  
) Case No. 00-389 (MFW)  
) Jointly Administered  
Debtors )

APPLICATION FOR ALLOWANCE OF  
INTERIM COMPENSATION AND REIMBURSEMENT OF EXPENSES  
BY ARTHUR ANDERSEN, LLP, AS FINANCIAL ADVISORS FOR  
THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

Name of Applicant: Arthur Andersen LLP

Authorized to Provide  
Professional Services to: Official Committee of Unsecured Creditors

Date of Retention: February 23, 2000

Period for which compensation  
And reimbursement is sought: From May 1, 2002 through June 15, 2002

Amount of Compensation sought  
as actual, reasonable and necessary: \$30,630.00

Amount of Expenses Reimbursement sought  
as actual, reasonable and necessary: \$125.18

This is an:  Interim Application  Final Application

This is the twenty-seventh application filed herein by this professional.

Date

July 30, 2002

Applicant: Arthur Andersen LLP

By:

Jerry L. Turner  
Jerry L. Turner

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:	)	
	)	
	)	
INTEGRATED HEALTH SERVICES, INC., et. al.,	)	Chapter 11
	)	Case No. 00-389 (MFW)
	)	Jointly Administered
Debtors	)	

**APPLICATION FOR ALLOWANCE OF  
INTERIM COMPENSATION AND REIMBURSEMENT OF EXPENSES  
BY ARTHUR ANDERSEN LLP AS FINANCIAL ADVISORS  
FOR OFFICIAL COMMITTEE OF UNSECURED CREDITORS**

**TO THE HONORABLE MARY F. WALRATH  
UNITED STATES BANKRUPTCY JUDGE:**

Arthur Andersen LLP ("Andersen" or the "Applicant"), financial advisors to the Official Committee of Unsecured Creditors (the "Committee") of the above-styled Debtors, hereby presents this application (the "Twenty-Seventh Interim Application" or "Application") for: (a) allowance of reasonable interim compensation for professional services rendered by Andersen to the Committee in the above-captioned jointly administered bankruptcy cases, and (b) reimbursement of actual and necessary charges and disbursements incurred in rendition of required professional services on behalf of the Committee for the period of May 1, 2002 through June 15, 2002 (the "Application Period").

In support of the Application, the Applicant states as follows:

**BACKGROUND**

1. On February 2, 2000 (the "Petition Date"), the Debtors filed with this Court voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). The Debtors' cases are being jointly administered pursuant to Order of this Court.

2. Pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code, the Debtors continue to operate their business and manage their properties as debtors-in-possession ("DIP"). No trustee or examiner has been appointed in these cases.

3. On February 15, 2000, the United States Trustee for the District of Delaware appointed the Official Committee of Unsecured Creditors (the "Committee") pursuant to Section 1102(a)(1) of the Bankruptcy Code. Thereafter, the Committee selected Andersen as its accountants and financial advisors. The Committee thereafter filed an Application for retention of Andersen with this Court approved by order dated April 20, 2000, *nunc pro tunc* to February 23, 2000, included herein as Exhibit A (as amended from time to time).

4. The Debtors have represented, among other things that, as of the Petition Date, (a) the Debtors were one of the nation's leading providers of post-acute and related specialty healthcare services and products in the United States, with over 1,450 service locations in 47 states and the District of Columbia; (b) during the fiscal year ended December 31, 1998, the Debtors generated total revenues of approximately \$2.97 billion on a consolidated basis. For the quarter ended September 30, 1999, the Debtors had total revenues of approximately \$600 million on a consolidated basis. As of September 30, 1999, the Debtors had total assets (book value) of approximately \$3.596 billion and total liabilities (book value) of approximately \$4.124 billion; (a) the Debtors operated through three principal business segments: (i) skilled nursing and sub-acute care facilities; (ii) contract rehabilitation and other contract services; and (iii) home respiratory services; (b) the Debtors operated 377 geriatric care facilities and 17 specialty hospitals, with a total of approximately 46,000 licensed beds; and (c) had in excess of 65,000 employees.

#### RETENTION OF ANDERSEN

5. The Committee requires the services of experienced accountants and financial advisors for various purposes, including:

- a) To assist the Committee in consultation with the Debtors-in-Possession, the Examiner, if any, or with a Trustee, if one is appointed, any professional which may be retained by the Committee and other professionals and parties in interest concerning the administration of this case;
- b) To review and advise the Committee and its professionals with respect to the acts, conduct, assets, liabilities, and financial condition of the Debtor. The Applicant may be asked to advise the Committee on issues including but not limited to both the pre and post-petition operation of the Debtor's businesses or



segments thereof, and the desirability of the continuance of such businesses, and any other matter relevant to the discharge of the Committee's fiduciary duties including the formulation of a plan;

- c) To advise and participate in the formulation of a plan(s) and to advise the Court and those represented by such Committee of the Committee's determination as to any plan(s) formulated;
- d) To analyze and explore strategic alternatives for the reorganization of the Debtors and oversee the implementation of such strategies;
- e) To advise the Committee with regard to business and financial content of motions, orders and other documents and to appear on behalf of the Committee at all necessary court hearings, and if required, to appear and/or on behalf of the Committee in adversary proceedings and contested matters; and
- f) To assist the Committee in performing such other services as may be necessary, including (i) assistance in analyzing the business and financial condition and reorganization alternatives available; (ii) tax structure and consulting services and (iii) reviewing business plans and the performance of other necessary services, special projects or reports relative to potential reorganization scenarios.

6. Andersen has not requested or received a retainer from the Debtors.

7. Applicant has complied with the Administrative Order, Under 11 U.S.C. § 331, Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals entered by this Court on February 22, 2001.

8. This is Andersen's Twenty-Seventh interim application submitted to this Court in the above captioned cases.

9. Accordingly, pursuant to the Administrative Order, Applicant submits this Application for allowance of reasonable interim compensation for necessary professional services and reimbursement of actual and necessary expenses incurred for the Application Period.

10. Pursuant to Local Order #32, prefixed to this Application is a cover sheet, which sets forth summary information regarding this Application.

11. Annexed to this Application is the Supplemental Declaration of Jerry L. Turner under Bankruptcy Rule 2016 in support of this Application.

SUMMARY OF SERVICES RENDERED BY ANDERSEN

12. Applicant has performed valuable services as accountants and financial advisors on behalf of the Committee. Summary descriptions of the services performed by category and the related time and gross fees incurred are as follows:

A. Long-Term Care Andersen worked with counsel for the Committee in order to evaluate the change in the Debtor's PL/GL liability projections. As part of this analysis, Andersen reviewed historic loss projections and reported insurance coverage levels. Andersen attended numerous meeting and researched substantial documentation to chronicle the changes in anticipated losses and the levels of insurance maintained against such losses.

Applicant's services under this category were valuable and necessary. Andersen incurred 101.8 hours and gross fees of \$24,470.00 at the blended rate of \$240.37.

B. Fee Application/Monthly Billings Applicant compiled detailed time descriptions for its services and performed other tasks required to comply with the Compensation Orders and Local Order #32. Applicant also spent a reasonable amount of time describing the services performed during the Application Period. Applicant made every effort to minimize the time and fees incurred for activities in this category.

Applicant's time incurred for these activities was reasonable and necessary. Total hours expended regarding these activities were 22.0 resulting in gross fees of \$6,160.00 at a blended hourly rate of \$280.00.

13. While the above summary of the services rendered by Andersen during the Application Period cannot entirely convey the full extent of the services provided to the Committee (for the benefit of all of the constituencies in these cases), such summary will give this Court a sense of the amount, breadth, and complexity of the work performed by the Applicant and of the results achieved.

### RELIEF REQUESTED

14. Pursuant to Sections 330 and 331 of the Bankruptcy Code, Local Order #32, and the Administrative Order, Andersen submits this Application in connection with professional services rendered as restructuring advisors to the Committee during the Application Period. The statement attached as Exhibit B includes a summary of the fees and expenses incurred by the Applicant during the Application Period and sets forth the hours, rates and fees for each professional who performed services on behalf of the Committee. Exhibit B also includes categorizations of the time and fees incurred by nature of the services provided. Applicant incurred \$30,630.00 in fees and \$125.18 in actual and necessary expenses for an aggregate total of \$30,755.18 during the Application Period.

15. The individual time detail supporting the fees incurred by the Applicant during the Application Period is attached as Exhibit C. The itemizations included in Exhibit C are set forth according to the nature of the service performed and the professional performing the service. The itemizations of time describe each service for which compensation has been requested, identify the parties with whom the professional has conferred and the nature of each conference, and list, in segments of 1/10 hours, the time spent performing each service. The itemizations of time comply with the requirements set forth in Local Order #32.

16. Applicant expended a total of 123.8 hours during the Application Period at an average blended hourly rate of approximately \$247.42. Applicant made every effort to keep the time expended to the lowest amount practicable and to have the work performed by the least expensive professional capable of performing the tasks.

17. Applicant further submits that the professional services rendered as financial advisors to the Committee have been valuable, necessary and appropriate and have not been duplicative of services performed by other professionals retained in these cases. Andersen shared a great portion of its information, accumulated in connection with its services provided to the Committee, with the professionals representing the Debtors and the Bank Group. This sharing of information was intentional so as to minimize duplication of efforts by other professionals and resulted in significant cost savings to the Debtors' estates.

18. The amount of compensation sought by Applicant reflects the customary and reasonable rates charged by Applicant in similar cases for the time incurred. Applicant has applied the rates that were approved by the Retention Order and set forth in Andersen's

retention application and the affidavit in support of the retention application. Applicant believes the compensation sought is fair and reasonable for the professional services provided.

19. The time and fees incurred by Applicant in rendering professional services on behalf of the Committee must be considered in light of: (a) the novelty and complexity of the issues presented, (b) the number of distinct and separate operating entities of the Debtors, (c) the amounts involved and the results achieved, (d) the skills required to properly perform the financial advisory services, (e) the highly decentralized businesses and operations of the Debtors, (f) the turnover of management and key personnel of the Debtors, (g) the limited personnel resources of the Debtors, (h) the preclusion of other employment, (i) the customary fee to a client for the services rendered outside of bankruptcy, (j) awards in comparable cases, (k) time constraints required by the urgency of the case and related operational issues, including the frequency and amount of time required to be devoted other than during regular business hours, and (l) the experience, reputation and ability of the professionals rendering services. Applicant believes that the consideration of these criteria more than justifies the compensation requested.

20. Applicant requests reimbursement of actual and necessary out of pocket expenses of \$125.18 incurred during the Application Period. The individual expense record detail supporting the actual and necessary reimbursements sought are attached as Exhibit D. Applicant's expenses were incurred primarily as a result of the necessity for Applicant to travel to attend meetings with Committee and Debtors representatives and counsel. Additional information concerning the nature of specific expenses is included in Exhibit D.

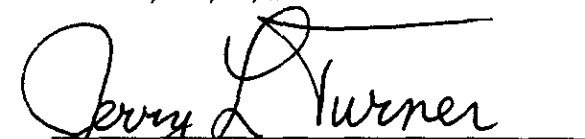
21. Applicant made every effort to minimize the amount of out of pocket expenses. Applicant believes the reimbursements sought for actual expenses incurred are necessary and reasonable.

WHEREFORE, Applicant respectfully requests that: (i) it be awarded and allowed compensation for the Application Period of \$30,630.00 for professional services rendered as accountants and financial advisors to the Committee, (ii) it be reimbursed for \$125.18 of actual and necessary expenses incurred by Andersen during the Application Period; (iii) the Debtors be authorized and ordered to pay Andersen the balance due to the Applicant of \$30,755.18 incurred during the Application Period; and (v) the Court grant such other and further relief as is just.

Respectfully submitted,

ARTHUR ANDERSEN LLP  
Accountants and Financial Advisors to the Official  
Committee of Unsecured Creditors of Integrated  
Health Services, Inc., et., al.

By

  
Jerry L. Turner  
Arthur Andersen LLP  
33 West Monroe Street  
Chicago, IL 60603

Dated: 7/30/2002  
Chicago, Illinois