

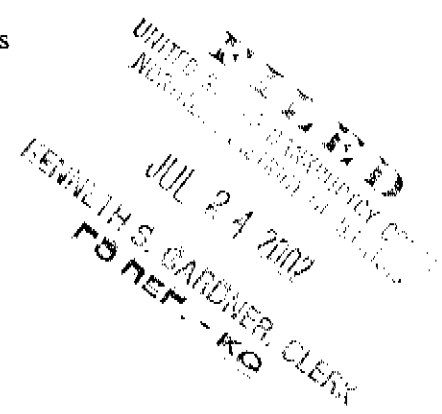
EOD JUL 25 2002

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

In re:	)	Chapter 11
KMART CORPORATION, <u>et al.</u> ,	)	(Jointly Administered)
Debtors	)	Case No. 02-02474 (SPS)


**REPORT BY JA&A SERVICES, LLC OF  
COMPENSATION EARNED AND EXPENSES INCURRED  
FOR THE PERIOD OF MAY 1, 2002 THROUGH MAY 31, 2002**

- Exhibit A Summary of Additional Temporary Employees and Functions
- Exhibit B Summary of Expenses
- Exhibit C - Summary of Services


 UNITED STATES BANKRUPTCY COURT  
 Northern District of Illinois  
 JUL 24 2002  
 BENNETH S. GARDNER, CLERK  
 RB DEF. - KQ

Dated: July 23, 2002

**HONIGMAN MILLER SCHWARTZ AND COHN LLP**  
Attorneys for JA&A Services, LLC

By:   
**Sheldon S. Toll (P-21490)**  
 2290 First National Building  
 Detroit, MI 48226  
 (313) 465-7582

**JA&A Services, LLC**

Summary of Additional Temporary Employees and Functions – Kmart Corporation, et al.  
 May 1, 2002 through May 31, 2002

<b>Additional Temporary Staff Employees</b>				
<b>Name of Professional</b>	<b>Description of Function</b>	<b>Hourly Rate</b>	<b>Hours Billed</b>	<b>Total Compensation</b>
Thomas A. Morrow	Cash Management, Vendor Management and Advisor Bankruptcy Interface and Planning	\$450.00	231.6	\$104,220.00
Laurence E. Leonard	Operating Plan Development, SG&A Rationalization and Advisor Bankruptcy Interface and Planning	400.00	308.9	123,560.00
Deborah C. Rieger-Paganis	ROTO Productivity	420.00	267.4	112,308.00
Richard R. Vanderbeek	Vendor Management and Advisor Bankruptcy Interface and Planning	340.00	238.0	80,920.00
Timothy Kreatschman	SG&A Rationalization and ROTO Productivity	340.00	253.4	86,156.00
Margaret L. Anderson	SG&A Rationalization	420.00	228.2	95,844.00
David M. Ashcraft	SG&A Rationalization	340.00	93.1	31,654.00
Eric J. Larson	SG&A Rationalization	420.00	215.7	90,594.00
Chuck V. Callan	SG&A Rationalization	590.00	231.3	136,467.00
Tim Gallagher	SG&A Rationalization	420.00	14.0	5,880.00
Joseph R. Szmazdzinski	Information Systems Review	620.00	57.7	35,774.00
David McNally	Information Systems Review	520.00	76.7	39,884.00
Mcade Monger	Accounts Payable and Claims Processing	520.00	162.8	84,656.00
Erik Post	Accounts Payable and Claims Processing	520.00	29.5	15,340.00
Charles Cipione	Accounts Payable and Claims Processing	400.00	182.5	73,000.00
Kerri Hook	Accounts Payable and Claims Processing	300.00	233.4	70,020.00
Adam Sanderson	Accounts Payable and Claims Processing	300.00	100.2	30,060.00
Mysti Newberry	Accounts Payable and Claims Processing	165.00	204.3	33,709.50
			<u>3,128.7</u>	<u>\$1,250,046.50</u>
	<i>Voluntary Fee Accommodation</i>			<i>\$(58,826.25)</i>
	<b>TOTAL FEES</b>			<b><u>\$1,191,220.25</u></b>

**JA&A Services, LLC**  
Summary of Expenses – Kmart Corporation, et al.  
May 1, 2002 through May 31, 2002

---

<b>Expense Categories</b>	<b>Month - Yr</b>
Airfare	\$52,079.62
Cab Fare / Ground Transportation	5,894.28
Computerized Research	89.55
Fax Charges	16.81
Lodging	27,685.33
Long Distance Calls	201.33
Meals & Tips	5,057.45
Mileage	343.85
Parking & Tolls	1,143.00
Rental Car	6,105.82
<b>Total</b>	<b><u>\$98,617.04</u></b>

**JA&A Services, LLC**  
Summary of Services – Kmart Corporation, et al.  
May 1, 2002 through May 31, 2002

---

Cash Management

- Monitored DIP compliance reporting;
- Analyzed 13 week cash forecast vs. DIP budget;
- Measured impact of asset sales on DIP facility and liquidity;
- Monitored cash forecasting and financial reporting;
- Resolved issues related to pre-petition standby letters of credit;

SG&A Rationalization

- Worked with DVP of Accounting Operations to reorganize and downsize AP, AR, and merchandise accounting/inventory reporting departments through automation and process improvement methods;
- Developed restructuring initiatives with senior management team;
- Developed “playbook” to incorporate cost reduction initiatives from all areas;
- Prepared distribution center capacity and network cost savings analysis;
- Led discussions with division budget heads to identify potential cost cutting opportunities and SG&A reductions;
- Reviewed detailed store operations SG&A expense budgets by division;
- Analyzed corporate overhead and sales and margin merchandising plan;
- Reviewed car leasing program and identified lower cost alternatives;
- Developed analysis and cost justification of company airplane program;

Vendor Management

- Prepared agenda and developed presentation for vendor subcommittee meeting;
- Developed agenda and presentations for meeting with Key vendors in June;
- Organized vendor management group to facilitate vendor communications and improve vendor terms;
- Monitored tracking of court approved pre-petition payments;

**JA&A Services, LLC**  
Summary of Services – Kmart Corporation, et al.  
May 1, 2002 through May 31, 2002

---

- Developed agenda and presentation to vendor factors;
- Analyzed consignment program and developed strategic alternatives to Unsecured Creditors' and Financial Institutions' Committee opposition;
- Addressed various issues related to reclamation, PACA, vendor return program, call center and credit limits;
- Led discussions with key vendors regarding continuing to ship merchandise;

AP and Claim Processing

- Improved processes, automated procedures and eliminated AP late payment problems;
- Developed streamlined process and consistent format for agreements for utility requests for adequate assurances;
- Managed approximately 300 requests for nearly \$50 million resulting in deposit of approximately \$20 million;
- Created Utility Task Force to eliminate shut-off notices due to backlog of 4,000 invoices and eliminated backlog of 4,000 invoices through process improvements and automation;
- Resolving account issues on 10,000 utility accounts due to poor transition to all new account numbers upon bankruptcy filing;
- Performed cost-benefit analysis of outsourcing utilities payable processing to a third party;
- Developing systemic procedure to reconcile pre-petition claims including coordination with the company and vendors regarding the same;
- Investigated receiving and costing problems and took corrective action where necessary;
- Developed database system to track settlements of pre-petition claims;
- Assisting advertising with its AP system to improve overall payables and rebates procedures;

**JA&A Services, LLC**  
Summary of Services – Kmart Corporation, et al.  
May 1, 2002 through May 31, 2002

---

- In process of reviewing database of executory contracts and investigating methods for identifying contracts to reject and calculation of rejection claims;
- Developed process to calculate potential preference claims;
- Assisted company in evaluating pre-petition debit balance claims and formulated method for resolution;

Advisor and Bankruptcy Interface

- Analyzed severance, non-qualified pension payments and other issues raised by Unsecured Creditors' and Financial Institutions' Committees;
- Responded to information requests by financial advisors to the Unsecured Creditors' and Financial Institutions' Committees, including detail behind 2002 Budget, information on guarantor subsidiary and weekly, monthly, quarterly and year to date financial results information;
- Participated in meetings with and coordinated meetings for financial advisors to the Unsecured Creditors' and Financial Institutions' Committees to review information provided and respond to questions and issues raised;
- Developed and refined external financial and operational reporting for the financial advisors to the Unsecured Creditors' and Financial Institutions' Committees;
- Prepared weekly flash report with latest financial information for Unsecured Creditors' and Financial Institutions' Committees;
- Participated in the Unsecured Creditors' and Financial Institutions' Committees meetings;
- Supervised the preparation of reports required by the Bankruptcy Court;
- Developed and implement procedures for paying for Ordinary Course Professionals and Retained Professionals;
- Prepared a presentation for upcoming Section 341 meeting with creditors;
- Developed and implemented program for paying US Trustee quarterly fees;
- Reviewed store closing results and developed summary reporting for management and financial advisors to the Unsecured Creditors' and Financial Institutions' Committees.

**JA&A Services, LLC**  
Summary of Services - Kmart Corporation, et al.  
May 1, 2002 through May 31, 2002

---

Operating Plan Development

- Conducted store visits with senior management to explore store level operations issues;
- Revised current 2002 Operating Plan and Capital Budget;
- Reviewed “ideal store” initiative, “in stock” process, and the “Chicago pilot” project;
- Prepared summary analysis of proposed 2002 budgeted GMM sales and gross margin;
- Assisted management in developing an operating strategy as it pertains to unit integrity, store simplification, and price management;
- Prepared summary analysis of Big 4 project rationalization;
- Developed business plan presentation to senior management including major assumptions;
- Developed a preliminary strategic planning model;

Information Systems Review

- Developed IT cost reduction program and coordinated implementation with IT;
- Developed Application portfolio review model for IT function;
- Analyzed shadow IT costs, telecommunications costs, and current IT staffing levels;
- Explored outsourcing alternatives for IT data center;

ROTO Productivity

- Analyzed maximizing ROTO effectiveness and efficiency;
- Led discussions in cross functional meetings to develop scope and next steps for ROTO project;
- Analyzed ROTO project planning interface with Design Forum.