

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 JUNE 1, 2002 THROUGH JUNE 30, 2002**

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

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UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
AUG 14 2002
**KENNETH S. GARDNER, CLERK
PUBLIC SERVICE COUNTER**

Dated: August 13, 2002

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JA&A Services, LLC
Summary of Additional Temporary Employees and Functions – Kmart Corporation, et al.
June 1, 2002 through June 30, 2002

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Additional Temporary Staff Employees				
Name of Professional	Description of Function	Hourly Rate	Hours Billed	Total Compensation
Thomas A. Morrow	Cash Management, Vendor Management and Advisor Bankruptcy Interface and Planning	\$450.00	208.90	\$ 94,005.00
Laurence E. Leonard	Operating Plan Development, SG&A Rationalization and Advisor Bankruptcy Interface and Planning	400.00	192.90	77,160.00
Deborah C. Rieger-Paganis	ROTO Productivity	420.00	218.60	91,812.00
Richard R. Vanderbeek	Vendor Management and Advisor Bankruptcy Interface and Planning	340.00	194.70	66,198.00
Timothy Kreatschman	SG&A Rationalization	340.00	242.30	82,382.00
Margaret L. Anderson	SG&A Rationalization	420.00	148.50	62,370.00
David M. Ashcraft	SG&A Rationalization	340.00	214.00	72,760.00
Eric J. Larson	SG&A Rationalization	420.00	102.20	42,924.00
Chuck V. Callan	SG&A Rationalization	590.00	192.70	113,693.00
Tim Gallagher	SG&A Rationalization	420.00	103.60	43,512.00
Joseph R. Szmazdzinski	Information Systems Review	620.00	46.60	28,892.00
David McNally	Information Systems Review	520.00	120.20	62,504.00
Meade Monger	Accounts Payable and Claims Processing	520.00	64.70	33,644.00
Erik Post	Accounts Payable and Claims Processing	520.00	175.60	91,312.00
Charles Cipione	Accounts Payable and Claims Processing	400.00	109.30	43,720.00
Kerri Hook	Accounts Payable and Claims Processing	300.00	188.20	56,460.00
Adam Sanderson	Accounts Payable and Claims Processing	300.00	7.00	2,100.00
Michael C. Han	Accounts Payable and Claims Processing	235.00	194.40	45,684.00
Mysti Newberry	Accounts Payable and Claims Processing	165.00	185.90	30,673.50
			<u>2,910.30</u>	<u>\$1,141,805.50</u>
				<u>(\$63,071.00)</u>
				<u>\$1,078,734.50</u>

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Summary of Expenses – Kmart Corporation, et al.
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Airfare \$ 46,495.49

	Expense Categories	Amount
Cab Fare / Ground Transportation	7,590.24	
Computer Supplies / Support	15.89	
Fax Charges	24.99	
Lodging	38,787.45	
Long Distance Calls	249.82	
Meals & Tips	5,734.84	
Mileage	922.01	
Overnight Mail Charges	71.35	
Parking & Tolls	713.00	
Rental Car	7,063.19	
Total	<u>\$ 107,668.27</u>	

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Cash Management

- Monitored DIP compliance reporting;
- Analyzed new 13 week cash forecast, EBITDAR reconciliation, DIP collateral review and weekly borrowing base reports;
- Presented 2002 Budget to DIP lenders;
- Monitored cash forecasting and financial reporting;
- Resolved issues related to pre-petition 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;
- Led discussions with division budget heads to identify potential cost cutting opportunities and SG&A reductions;
- Developed restructuring initiatives including strategic alternatives for BlueLight;
- Analyzed corporate overhead through the use of a headcount tracking model;
- Developed “playbook” to incorporate cost reduction initiatives from all areas and presented to senior management;
- Finalized opportunity inventory and budget analysis for senior management review;
- Prepared distribution center capacity and network cost savings analysis;
- Reviewed detailed store operations SG&A expense budgets by division;
- Performed analysis of cost reduction opportunity in cross-functional reengineering of KRC;
- Conducted store visits with senior management to explore store level operations issues such as receiving, Chaintrack implementation, Vendor Direct, DC and Fleming;
- Assisted management in developing an operating strategy as it pertains to unit integrity, store simplification, and price management;

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- Developed a preliminary strategic planning model;
- Analyzed car lease program with GECC and assisted in restructuring lease program to return 150 unassigned cars at no cost to Kmart;

Vendor Management

- Prepared agenda and developed presentation for vendor subcommittee meeting;
- Attended and participated in meeting with Key vendors;
- Organized vendor management group to facilitate vendor communications and improve vendor terms;
- Monitored tracking of court approved pre-petition payments;
- Developed agenda and presentation to vendor factors;
- Analyzed consignment program and developed strategic alternatives to Unsecured Creditors' and Financial Institutions' Committee opposition;
- Addressed issues related to reclamation, PACA, vendor return and consignment programs;
- Led discussions with key vendors and merchants regarding continuing to ship merchandise;

AP and Claim Processing

- Improved processes, automated procedures and eliminated AP late payment problems;
- Developed tracking system for liens and logistics payments;
- Managed approximately 300 requests for nearly \$50 million of utility deposits resulting in reduction of required deposits to \$20 million;
- Led Utility Task Force which eliminated backlog of 4,000 invoices through process improvements and automation and resulting shut-off notices;
- Resolved account issues on 10,000 utility accounts due to poor transition to all new account numbers upon bankruptcy filing;

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- Reorganized Accounts Payable department and developed a plan to outsource utilities payable processing to a third party;
- Developed systemic procedure to reconcile pre-petition claims including coordination with the company and vendors;
- Developed database system to track settlements of pre-petition claims;
- Started 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, supplemental pension payments and other issues raised by Unsecured Creditors' and Financial Institutions' Committees;
- Analyzed and responded to SERP and consignment objections raised by the Financial Institutions' Committee;
- Responded to information requests by financial advisors to the Unsecured Creditors' and Financial Institutions' Committees for detail behind 2002 Budget including DC, restructuring charges, SG&A expenses as well as information on guarantor subsidiary;
- 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 new weekly flash report format 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;

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- Implemented procedures and monitored payments to Ordinary Course Professionals and Retained Professionals;
- Conducted store visits of “Chicago pilot” project with Unsecured Creditors’ and Financial Institutions’ Committees professionals;
- Implemented and monitored program for paying US Trustee quarterly fees;
- Prepared analysis in connection with billing and budget for Joint Fee Review Committee presentation;
- Reviewed store closing results and developed summary reporting for management and financial advisors to the Unsecured Creditors’ and Financial Institutions’ Committees.

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, Teradata system costs and current IT staffing levels;
- Developed and implemented Project Sunrise workplan;
- Explored outsourcing alternatives for IT data center;

ROTO Productivity

- Developed reporting format to track ROTO effectiveness;
- Led discussions in cross functional meetings to develop scope and next steps for ROTO project;
- Presented ROTO effectiveness program to CEO;
- Implemented changes in ROTO project including timeline and planning process for 2002 Ad Plan.