

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

EOD SEP 9 - 2002

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

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

Exhibit A – Summary of Additional Temporary Employees and Functions

Exhibit B – Summary of Expenses

Exhibit C – Summary of Services

FILED
UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS

SEP 06 2002

KENNETH S. GARDNER, CLERK
TEAM - B

Dated: September 5, 2002

HONIGMAN MILLER SCHWARTZ AND COHN LLP
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By: 

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JA&A Services, LLC
Summary of Additional Temporary Employees and Functions – Kmart Corporation, et al.
July 1, 2002 through July 31, 2002

| 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 | 209.7 | \$ 94,365.00 |
| Laurence E. Leonard | Operating Plan Development, Advisor Bankruptcy Interface and Planning | 400.00 | 257.8 | 103,120.00 |
| Richard R. Vanderbeek | Vendor Management and Advisor Bankruptcy Interface and Planning | 340.00 | 176.5 | 60,010.00 |
| Mark Hojnacki | Advisor Bankruptcy Interface and Planning | 235.00 | 11.6 | 2,726.00 |
| Deborah C. Rieger-Paganis | ROTO Productivity | 420.00 | 226.5 | 95,130.00 |
| David M. Ashcraft | ROTO Productivity | 340.00 | 218.0 | 74,120.00 |
| Chuck V. Callan | SG&A Rationalization | 590.00 | 77.2 | 45,548.00 |
| Margaret L. Anderson | SG&A Rationalization | 420.00 | 84.2 | 35,364.00 |
| Timothy Krcatschman | SG&A Rationalization | 340.00 | 181.0 | 61,540.00 |
| Joseph R. Szmazdzinski | Information Systems Review | 620.00 | 23.5 | 14,570.00 |
| David McNally | Information Systems Review | 520.00 | 118.1 | 61,412.00 |
| Meade Monger | Accounts Payable and Claims Processing | 520.00 | 116.5 | 60,580.00 |
| Erik Post | Accounts Payable and Claims Processing | 520.00 | 156.6 | 81,432.00 |
| Charles Cipione | Accounts Payable and Claims Processing | 400.00 | 23.9 | 9,560.00 |
| Cliff Campbell | Accounts Payable and Claims Processing | 300.00 | 9.6 | 2,880.00 |
| Kerri Hook | Accounts Payable and Claims Processing | 300.00 | 167.7 | 50,310.00 |
| Adam Sanderson | Accounts Payable and Claims Processing | 300.00 | 2.9 | 870.00 |
| Ryan Dalton | Accounts Payable and Claims Processing | 235.00 | 183.9 | 43,216.50 |
| Michael C. Han | Accounts Payable and Claims Processing | 235.00 | 230.2 | 54,097.00 |
| Mysti Newberry | Accounts Payable and Claims Processing | 165.00 | 202.9 | 33,478.50 |
| | | | <u>2,678.3</u> | <u>\$ 984,329.00</u> |
| | | | | <u>(55,158.50)</u> |
| | | | | <u>\$ 929,170.50</u> |

Voluntary Fee Accommodation

(55,158.50)

TOTAL FEES

\$ 929,170.50

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

| Airfare | \$ 24,685.69 | | |
|----------------------------------|--|--------------------|--------|
| | <table border="1"><thead><tr><th style="text-align: center;">Expense Categories</th><th style="text-align: center;">Amount</th></tr></thead></table> | Expense Categories | Amount |
| Expense Categories | Amount | | |
| Cab Fare / Ground Transportation | 8,727.38 | | |
| Computer Supplies / Support | 9.73 | | |
| Computerized Research | 109.08 | | |
| Lodging | 28,705.71 | | |
| Long Distance Calls | 65.93 | | |
| Meals & Tips | 3,990.96 | | |
| Mileage | 976.02 | | |
| Overnight Mail Charges | 125.75 | | |
| Parking & Tolls | 927.00 | | |
| Rental Car | 6,090.08 | | |
| Supplies | 37.25 | | |
| Total | <u>\$ 74,450.58</u> | | |

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

Cash Management

- Monitored DIP compliance reporting;
- Analyzed new 13 week cash forecast and weekly borrowing base reports;
- Identified balance sheet cash opportunities;
- 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;
- Participated in kickoff meeting with business unit leaders regarding SG&A cost reduction initiatives and related targets;
- Briefed Executive Leadership Team regarding July 2002 forecast and potential EBITDA shortfall;
- Analyzed alternatives to close EBITDA gap;
- 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;
- 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;
- Organized vendor management group to facilitate vendor communications and improve vendor terms;
- Monitored tracking of court approved pre-petition payments;

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Summary of Services – Kmart Corporation, et al.
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- 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 and potential credit limit issues;

AP and Claim Processing

- Developed tracking system for liens and logistics payments;
- Reorganized Accounts Payable department and implemented 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;
- Reviewed database of executory contracts and investigated methods for identifying contracts to reject as well as 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 supplemental pension payments, shrink, store of the future 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 Equity, Unsecured Creditors' and Financial Institutions' Committees for detail behind 2002 Budget including divisional sales and margins as well as information on guarantor subsidiary and Bluelight.com;

JA&A Services, LLC
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- Participated in meetings with and coordinated meetings for financial advisors to the Equity, 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 Equity, Unsecured Creditors' and Financial Institutions' Committees;
- Prepared new weekly flash report format with latest financial information for Equity, 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;
- Implemented procedures and monitored payments to Ordinary Course Professionals and Retained Professionals;
- Conducted Canton distribution center visits 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 data network utilization costs, telecommunications costs and current IT staffing levels;
- Developed and implemented Project Sunrise workplan;
- Prioritized next steps for data center outsourcing project plan;

ROTO Productivity

- Developed reporting format to track ROTO effectiveness;

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- Led discussions in cross functional meetings to develop scope and next steps for ROTO project;
- Developed daily event sales reporting and forecasting model;
- Participated in discussions with Design Forum regarding layout of new store;
- Developed proposed ad event planning calendar and lift matrix;
- Implemented changes in ROTO project including timeline and planning process for 2002 Ad Plan.