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

IN RE:

KMART CORPORATION, et al.

Debtors.

Case No. 02-02474 (SPS)

Chapter 11

JOINTLY ADMINISTERED

FILED
UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
JUL 30 2003

KENNETH S. GARDNER, CLERK
PS REP: = MJ

O'NEILL & BORGES' APPLICATION FOR ALLOWANCE OF ORDINARY COURSE
PROFESSIONAL FEES AND EXPENSES UNDER CHAPTER 11 ADMINISTRATION

TO THE HONORABLE SUSAN PIERSON SONDERBY,
UNITED STATES BANKRUPTCY JUDGE:

The application of O'Neill & Borges ("Applicant"), as Special Counsel to Kmart Corporation, et al., for allowance of "Ordinary Course" legal fees and expenses under Chapter 11, respectfully shows:

BACKGROUND

1. On January 22, 2002, Kmart Corporation and its thirty-seven subsidiaries and affiliates (collectively referred to hereinafter as "Debtors") filed a voluntary petition in this Court for relief under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101 et. seq. Thereafter, the Debtors continued to operate their businesses and manage their properties as debtors-in-possession pursuant to Sections 1107(a) and 1109 of the Bankruptcy Code.

2. On January 22, 3002, Debtors filed a Motion for an Order Pursuant to 11 U.S.C. 105(a), 327(a), and 331 Authorizing Retention of Professionals Utilized by Debtors in the Ordinary Course of

Business. Docket no. 31. In their motion, Debtors relate that they customarily use the services of various attorneys, accountants, and other professionals to assist them in matters arising in the ordinary course of business. Anticipating that they would need to retain said professionals and special counsel in the bankruptcy cases filed on that same date, Debtors filed the referred motion seeking the Court's authorization to retain ordinary course professionals without the necessity of a separate formal retention application approved by this Court for each ordinary course professional, and to compensate the ordinary course professionals for postpetition services rendered without the necessity of additional court approval, under certain conditions set forth in the motion. In the motion, Debtors proposed that each ordinary course professional that is an attorney be required to file with the court and serve upon the United States Trustee an affidavit of ordinary course professional within sixty days of the date of the order granting said motion.

3. On January 25, 2002, the Court approved Debtors' Motion Authorizing Retention of Professionals Utilized by Debtors in the Ordinary Course of Business. Docket no. 143. Thereafter, on February 13, 2003, the court issued a final order approving the retention of ordinary course professionals. Docket no. 706.

4. On February 25, 2002, Debtors filed an Amendment and Restatement of and First Supplement to List of Professionals

Utilized by Debtors in the Ordinary Course of Business. Docket no. 967.

5. Thereafter, on April 19, 2002, Applicant O'Neill & Borges, through its partner Mario Pabón, filed the required declaration of ordinary course professional. Docket no. 2357. On April 29, 2003, O'Neill & Borges, through attorney Pabón, filed an amended declaration of ordinary course professional. Docket no. 2610. A true and correct copy of the Amended Declaration of Ordinary Course Professional is attached hereto as Exhibit A.

6. On May 10, 2002, Debtors filed another Supplemental Affidavit of Ordinary Course Professional, Docket no. 3025, although upon information and belief, it had no relation to O'Neill & Borges. Thereafter, on various dates, Debtors made supplemental filings of similar nature, although upon information and belief, they did not relate to Debtors' utilization of O'Neill & Borges (Docket Nos. 3319, 3391, 4907, 6545, 6990, 7218, 11296).

7. On April 23, 2003, this Court entered an order confirming the First Amended Joint Plan of Reorganization of Debtors. The Plan became effective on May 6, 2003.

8. On May 16, 2003, Trumbull Associates LLC filed an Affidavit in the Court Regarding Service of Notice Regarding (a) Entry of Order Confirming The First Amended Joint Plan of Reorganization of Debtors, (b) Occurrence of Effective Date, and (c) Notice of the Administrative Bar Date. Docket no. 11904. In

the same notice, Debtors indicated that "Key Ordinary Course Professional Claims . . . must be filed no later than July 31, 2003." This application is intended to comply with that requirement (if applicable) and 11 U.S.C. § 330 generally.

9. As previously shown, the Applicant was retained by Debtors as an ordinary course professional during Debtors' Chapter 11 cases.

10. This application is the first, final, and only request for an allowance of the fees and expenses incurred by Applicant as an ordinary course professional under Debtors' Chapter 11 proceedings.

11. All services for which compensation is requested by Applicant were performed for and on behalf of the Debtors and not on behalf of any individual, creditor, any committee, or other person.

12. Applicant received compensation for the services rendered and expenses incurred under Debtor's Chapter 11 pursuant to the terms and conditions set forth in Debtor's Motion for an Order Pursuant to 11 U.S.C. 105(a), 327(a), and 331 Authorizing Retention of Professionals Utilized by Debtors in the Ordinary Course of Business Applicant, except for the following: (a) a payment in the amount of \$431.00, upon Applicant's invoice no. 107 dated April 11, 2003 for matter no. S0714.403; (b) a payment in the amount of \$389.90, upon Applicant's invoice no. 110 dated June 30, 2002 for

matter no. S0714.403; (c) a payment in the amount of \$1,834.09, upon Applicant's invoice no. 115 dated September 30, 2002 for matter no. S0714.403; and (d) a payment in the amount of \$405.32, upon Applicant's invoice no. 23 dated June 30, 2002 for matter no. S0714.405. Copy of these invoices are described later in this application and attached hereto as Exhibit D.

13. There are no agreements between Applicant and any other person for sharing any of the compensation to be received, other than the intrapartnership agreement of O'Neill & Borges.

PROJECT CATEGORIES

14. The categories of work include matters arising from the Debtors' operations in Puerto Rico, described in general terms as: (I) consumer regulatory compliance and claim defense, primarily at the Puerto Rico Department of Consumer Affairs ("DACO"); (II) Enforcement of the bankruptcy stay and related issues; (III) Real Estate; (IV) pending or recent legislation relative to incentive programs (including tax-related measures); and (V) permits/licensing for liquor sales, sugar imports, coffee imports, and other agricultural products. More detailed descriptions of the matters appears below, and the identity, time, rate and amount of compensation requested for each professional and para-professional within these categories is detailed in exhibits attached to this application.

PROJECT SUMMARIES (in numerical sequence)

- (1) Matter S0710.012 - Litigation: Counsel and represent Debtors with regards to numerous complaints filed at the Department of Consumer Affairs ("DACO").
- (2) Matter S0710.4000 - Governmental Affairs: Assist Debtors with regards to the State Electoral Commission's threat to file a complaint against Debtors for an ad featuring the Governor.
- (3) Matter S0710.829 - Litigation: Enforcement of bankruptcy stay in plenary fora; secure and evidence authorization of law firm to enforce stay on behalf of debtors.
- (4) Matter S0710.830 - Litigation: Counsel Debtors with regards to contract for incentive hiring by contract with Zaga Management Corporation.
- (5) Matter S0722.000 - Corporate (including taxation): Assist Debtors with regards to general matters, such as legislative bills awarding tax incentives to those corporations that establish centers of operation in Puerto Rico, and Treasury Department's notification regarding excise taxes on cigarettes and liquor.
- (6) Matter S0714.403 - Real Estate: Sale of Debtor's property in the Municipality of Mayagüez, Puerto Rico.
- (7) Matter S0714.405 - Real Estate: Sale of Debtor's property in the Municipality of Ponce, Puerto Rico.
- (8) Matter S0722.006, 008, 016, and 017 - Permit/Licenses: Assist Debtors with regards to the liquor licenses for the stores identified below:
 - a. Matter no. S0722.006: Store no. 4332 in the Municipality of Trujillo Alto;
 - b. Matter no. S0722.008: Store no. 7446 in the Municipality of Cayey, Puerto Rico;
 - c. Matter S0722.016: Store no. 7783 located in Plaza Las Americas Shopping Center, in the Municipality of San Juan, Puerto Rico; and

- d. Matter S0722.017: Store no. 7788 located in Rexville Plaza Shopping Center, in the Municipality of Bayamón, Puerto Rico.
- (9) Matter S0723.002 - Permit Licenses: Assist Debtors with regards to general matters related to the license for importation of sugar, and further specific consultation as to stores identified as follows:
- a. Matter S0723.003 - Store no. 3896 located in the Municipality of San German, Puerto Rico;
 - b. Matter S0723.004 - Store no. 4494 located in the Municipality of Trujillo Alto, Puerto Rico;
 - c. Matter S0723.005 - Store no. 4732 located in the Municipality of Aguadilla, Puerto Rico;
 - d. Matter S0723.006 - Store no. 3882 located in the Municipality of Mayaguez, Puerto Rico;
 - e. Matter S0723.007 - Store no. 7566 located in the Municipality of Arecibo, Puerto Rico;
 - f. Matter S0723.009 - Store no. 3679 located in the Municipality of Vega Baja, Puerto Rico;
 - g. Matter S0723.010 - Store no. 7741 located in the Municipality of Ponce, Puerto Rico;
 - h. Matter S0723.019 - Store no. 7784 located in the Municipality of Vega Alta, Puerto Rico;
 - i. Matter S0723.012 - Store no. 3993 located in the Municipality of Juana Díaz, Puerto Rico;
 - j. Matter S0723.013 - Store no. 4490 located in the Municipality of San Juan, Puerto Rico;
 - k. Matter S0723.014 - Store no. 4844 located in the Municipality of Rio Piedras, Puerto Rico;
 - l. Matter S0723.015 - Store no. 7570 located in the Municipality of Bayamón, Puerto Rico;
 - m. Matter S0723.016 - Store no. 7783 located in the Municipality of San Juan, Puerto Rico;

- n. Matter S0723.017 - Store no. 7788 located in the Municipality of Bayamon, Puerto Rico;
- o. Matter S0723.018 - Store no. 9789 located in the Municipality of Rio Piedras, Puerto Rico;
- p. Matter S0723.019 - Store no. 7768 located in the Municipality of Guaynabo, Puerto Rico;
- q. Matter S0723.020 - Store no. 7446 located in the Municipality of Cayey, Puerto Rico;
- r. Matter S0723.021 - Store no. 7665 located in the Municipality of Carolina, Puerto Rico;
- s. Matter S0723.022 - Store no. 4858 located in the Municipality of Caguas, Puerto Rico;
- t. Matter S0723.023 - Store no. 7419 located in the Municipality of Caguas, Puerto Rico;
- u. Matter S0723.024 - Store no. 3853 located in the Municipality of Guayama, Puerto Rico;
- v. Matter S0723.025 - Store no. 9326 located in the Municipality of Juncos, Puerto Rico; and
- w. Matter S0723.026 - Store no. 9394 located in the Municipality of Fajardo, Puerto Rico.

(10) Matter S0724.002 - Permits/ Licenses: Assist Debtors with regards to general matters related to the license for importation of coffee, and further specific consultation as to stores identified as follows:

- a. Matter S0724.004 - Store no. 4494 located in the Municipality of Trujillo Alto, Puerto Rico;
- b. Matter S0724.005 - Store no. 4732 located in the Municipality of Aguadilla, Puerto Rico;
- c. Matter S0724.006 - Store no. 3882 located in the Municipality of Mayaguez, Puerto Rico;
- d. Matter S0724.007 - Store no. 7566 located in the Municipality of Arecibo, Puerto Rico;

- e. Matter S0724.008 - Store no. 7752 located in the Municipality of Yauco, Puerto Rico;
- f. Matter S0724.009 - Store no. 3679 located in the Municipality of Vega Baja, Puerto Rico;
- g. Matter S0724.010 - Store no. 7741 located in the Municipality of Ponce, Puerto Rico;
- h. Matter S0724.011 - Store no. 7784 located in the Municipality of Vega Alta, Puerto Rico;
- i. Matter S0724.012 - Store no. 3993 located in the Municipality of Juana Diaz, Puerto Rico;
- j. Matter S0724.013 - Store no. 4490 located in the Municipality of San Juan, Puerto Rico;
- k. Matter S0724.014 - Store no. 4844 located in the Municipality of Rio Piedras, Puerto Rico;
- l. Matter S0724.015 - Store no. 7570 located in the Municipality of Bayamón, Puerto Rico;
- m. Matter S0724.017 - Store no. 7788 located in the Municipality of Bayamón, Puerto Rico;
- n. Matter S0724.018 - Store no. 9789 located in the Municipality of Rio Piedras, Puerto Rico;
- o. Matter S0724.019 - Store no. 7768 located in the Municipality of Guaynabo, Puerto Rico;
- p. Matter S0724.020 - Store no. 7446 located in the Municipality of Cayey, Puerto Rico;
- q. Matter S0724.021 - Store no. 7665 located in the Municipality of Carolina, Puerto Rico;
- r. Matter S0724.022 - Store no. 4858 located in the Municipality of Caguas, Puerto Rico;
- s. Matter S0724.023 - Store no. 7419 located in the Municipality of Caguas, Puerto Rico;
- t. Matter S0724.024 - Store no. 3853 located in the Municipality of Guayama, Puerto Rico;

- u. Matter S0724.025 - Store no. 9326 located in the Municipality of Juncos, Puerto Rico; and
 - v. Matter S0724.026 - Store no. 9394 located in the Municipality of Fajardo, Puerto Rico.
- (11) Matter S0725.002 - Corporate: Counsel Debtors with regards to general matters related to the license for importation of poultry meat (including specifically Las Catalinas store, as indicated:
- a. Matter S0725.003 - Corporate: Assist Debtors with regards to the license for importation of poultry meat for store no. 4858 located in Las Catalinas Shopping Center, in the Municipality of Caguas, Puerto Rico.
- (12) Matter S0726.003 - Corporate: Assist Debtors with regards to the license for importation of "agricultural products" (not specific to poultry) for store no. 4858 located in Las Catalinas Shopping Center, in the Municipality of Caguas, Puerto Rico.
15. The summary of compensation for each project is included in the Exhibits attached to this application.

ITEMIZATION OF SERVICES RENDERED

16. Detailed analyses of the services performed by Applicant from January 23, 2002 through May 6, 2003 are shown on the invoices attached as Exhibit D, which total ONE HUNDRED TWELVE THOUSAND ONE HUNDRED TWENTY EIGHT DOLLARS WITH FIFTY CENTS (\$112,128.50) for professional fees and SEVEN THOUSAND THREE HUNDRED ONE DOLLARS WITH FIFTY-FIVE CENTS (\$7,301.55) for disbursements, such as photocopying, telephone and faxes, messenger, postage, overnight delivery, IRS stamps, secretarial overtime, travel mileage, and toll expenses. As indicated, narratives and charges and description

of the matter are included in the invoices. These fees were calculated using the hourly rates shown in the table of time charges for each matter (or group of closely-related matters), and the average rate¹ of each time-keeper is also supplied. Also included is the year of bar admission for each attorney.

FINAL COMPENSATION REQUESTED

16. By this Application, Applicant O'Neill & Borges requests final allowance of ONE HUNDRED TWELVE THOUSAND ONE HUNDRED TWENTY EIGHT DOLLARS WITH FIFTY CENTS (\$112,128.50) for services rendered from January 23, 2002 through May 6, 2003 as compensation for professional services rendered during the Chapter 7 period and SEVEN THOUSAND THREE HUNDRED ONE DOLLARS WITH FIFTY-FIVE CENTS (\$7,301.55) as reimbursement for actual and necessary expenses incurred by Applicant. Applicant submitted the invoices to the Debtors in the ordinary course of business in the amounts shown. To date, Applicant has received payments from the Debtors in the aggregate of ONE HUNDRED SIXTEEN THOUSAND THREE HUNDRED SIXTY NINE DOLLARS WITH SEVENTY FOUR CENTS (\$116,369.74); consequently, THREE THOUSAND AND SIXTY DOLLARS WITH THIRTY ONE CENTS (\$3,060.31) remain outstanding.

¹ Average rates will be lower than current standard rates because: (A) in some instances paralegals work is not charged; (B) Standard Rates are reviewed annually on December 1. The \$5-10 rate increases effective December 1, 2002 are disclosed in the detail of attorney hours and related tables in this Application.

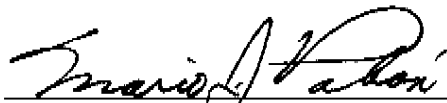
WHEREFORE, Applicant O'NEILL & BORGES prays for an allowance of ONE HUNDRED TWELVE THOUSAND ONE HUNDRED TWENTY EIGHT DOLLARS WITH FIFTY CENTS (\$112,128.50) as compensation for professional services rendered from January 23, 2002 to May 6, 2003 and the sum of SEVEN THOUSAND THREE HUNDRED ONE DOLLARS WITH FIFTY-FIVE CENTS (\$7,301.55) as reimbursement of actual and necessary expenses, all incurred as Ordinary Course Professionals representing the Debtors for Puerto Rico matters only, for a total final aggregate allowance of ONE HUNDRED NINETEEN THOUSAND FOUR HUNDRED THIRTY DOLLARS WITH FIVE CENTS (\$119,430.05), of which ONE HUNDRED SIXTEEN THOUSAND THREE HUNDRED SIXTY NINE DOLLARS WITH SEVENTY FOUR CENTS (\$116,369.74) have been paid, and THREE THOUSAND AND SIXTY DOLLARS WITH THIRTY ONE CENTS (\$3,060.31) remain to be paid.

In San Juan, Puerto Rico on July 29, 2003.

O'NEILL & BORGES

Ordinary Course Professional
For Kmart Corporation
American International Plaza
250 Muñoz Rivera Ave., Suite 800
San Juan, Puerto Rico 00918-1813
Telephone: (787) 764-8181
Facsimile: (787) 753-8944

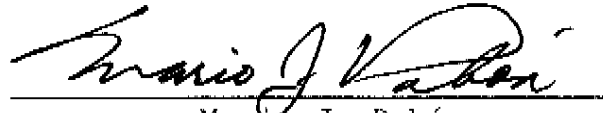
By:



Mario J. Rabón

USDC-PR 122212

On this same date, I have sent a true copy of the foregoing by overnight delivery with all attachments, to each of the addressees on the annexed abbreviated service List.



Mario J. Pabón

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

IN RE:

KMART CORPORATION, et al.

Debtors.

Case No. 02-02474 (SPS)

Chapter 11

JOINTLY ADMINISTERED

ACCOUNTING MANAGER'S CERTIFICATION

I, MARIBEL ALONSO, of legal age, single, Accounting Manager of O'Neill & Borges, and resident of Guaynabo, Puerto Rico, do certify under penalty of perjury that the foregoing is true and correct:

1. The figures shown in Exhibit B to the Application for Final Allowance of Ordinary Course Professional's Fees and Expenses (Recap of Invoices from February 28, 2002 to March 31, 2003) show the attorney and paralegal time rates per hour and charges for professional service. Charges for disbursements which were actually incurred appear in Exhibit B and also in Exhibit C titled "Disbursements Summary". These figures were accounted for in the regular course of business in the offices of O'Neill & Borges.

2. An accurate account of time is kept at all times in the ordinary course of business of O'Neill & Borges:


a. Attorneys, law clerks and paralegals submit daily time slips to my department, which processes the information with the aid of the "Juris" computerized billing system. Long distance telephone calls, fax and photocopy charges are tracked by client

matter using the "Equitrac" system. This system is linked electronically to the "Juris" billing system. As a result, information containing attorney time, rates, photocopy, fax, and telephone charges is processed using an interacting computer tracking system under the supervision of our accounting department personnel, who report to me.

b. An invoice to the client is generated by the Juris Program on a periodic basis, usually monthly. The invoice includes a list of disbursements, as well as a daily description of hours worked (obtained from daily time records) and charges tracked by matter.

3. The invoices to the Debtors for the period February 1, 2002 to March 31, 2003, appear in Exhibit D of the Application for Final Allowance of Ordinary Course Professional's Fees and Expenses.

Executed in San Juan, Puerto Rico, on July 29, 2003.


Maribel Alonso