

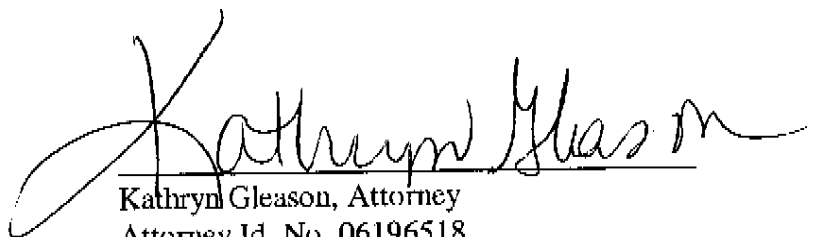
IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

In re: )  
 ) Case No. **02 B 02474**  
 ) (Jointly Administered)  
 ) Chapter 11  
**KMART CORPORATION, et al.** )  
 ) Hon. Susan Pierson Sonderby  
 )  
 Debtors. )  
 )  
 )

**NOTICE OF FILING ADDITIONAL INFORMATION  
REGARDING THE FINAL FEE APPLICATION OF  
ROCKWOOD GEMINI ADVISORS  
IN THE KMART MATTER**

To: See Attached Service List

PLEASE TAKE NOTICE that on January 28, 2004, the United States Trustee, by his Attorney, Kathryn Gleason, caused a copy of the **ADDITIONAL INFORMATION REGARDING THE FINAL FEE APPLICATION OF ROCKWOOD GEMINI ADVISORS IN THE KMART MATTER** to be filed with the Clerk of the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division, a copy of which is attached hereto and herewith served upon you.



Kathryn Gleason, Attorney  
Attorney Id. No. 06196518  
OFFICE OF THE U.S. TRUSTEE  
227 West Monroe Street, Suite 3350  
Chicago, Illinois 60606  
(312) 886-3327

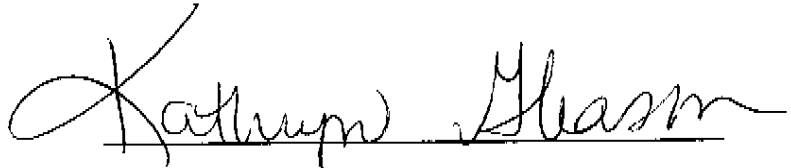
**FILED**  
UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS

JAN 28 2004

KENNETH S. GARDNER, CLERK  
PS REP. - KG

**CERTIFICATE OF SERVICE**

I, Kathryn Gleason, Attorney, state that I caused a copy of the above **NOTICE OF FILING**, together with a copy of the **ADDITIONAL INFORMATION REGARDING THE FINAL FEE APPLICATION OF ROCKWOOD GEMINI ADVISORS IN THE KMART MATTER** to be mailed to all parties on the attached service list before the hour of 5:00 p.m. on January 28, 2004.

A handwritten signature in cursive script that reads "Kathryn Gleason". The signature is written in black ink and is positioned above a horizontal line.

**SERVICE LIST**  
**CASE NO. 02-02474**

Mark A. McDermott  
Skadden Arps Slate Meagher & Flom  
333 West Wacker Drive, Suite 2100  
Chicago, IL 60606

William Barrett  
Barack, Ferrazzano Kirschbaum,  
Perlman & Nagelberg  
333 West Wacker, Suite 2700  
Chicago, IL 60606

Paul E. Harner, Ray C. Schrock  
Ilana N. Glazier  
Jones Day Reavis & Pogue  
77 West Wacker, Suite 3500  
Chicago, IL 60601-1692

Matthew J. Botica  
David W. Wirt  
Winston & Strawn  
35 West Wacker, 40<sup>th</sup> Floor  
Chicago, IL 60601

Randall L. Klein  
Goldberg, Kohn et al.  
55 East Monroe, Suite 3700  
Chicago, IL 60603

Glenn B. Rice, Scott Hazan  
Otterbourg Steindler et al.  
230 Park Avenue, 29<sup>th</sup> Floor  
New York, NY 10169

Michael P. Deighan  
Rockwood Gemini Advisors  
29600 Southfield Road  
Second Floor  
Southfield, Michigan 48076

John F. Hartmann  
Kirkland & Ellis LLP  
200 East Randolph Drive  
Chicago, IL 60601

Todd Rosen  
Saybrook Capital, LLC  
401 Wilshire Boulevard, Suite 850  
Santa Monica, CA 90401  
(310) 899-9101

Linda K. Cooper  
Stuart Maue  
3820 McKelvey Road  
St. Louis, MO 63044

Landmark Document Services  
308 West Randolph Street, Suite 500  
Chicago, IL 60606

## ROCKWOOD REALTY ASSOCIATES, LLC

29600 SOUTHFIELD ROAD  
SECOND FLOOR  
SOUTHFIELD, MICHIGAN 48076  
(248) 569-7800  
TELEFAX (248) 552-8640  
Email: mdeighan@rockwoodrealty.com

January 20, 2003

Ms. Kathryn M. Gleason  
Office of the United States Trustee  
227 West Monroe Street  
Suite 3350  
Chicago, Illinois 60606

Via Facsimile 312-886-5794

Re: Kmart Corporation Case No. 02-02474

Dear Ms. Gleason:

I am writing to you on behalf of Rockwood Gemini Advisors ("RGA") in response to your letter dated January 16, 2004 regarding RGA's pending Final Fee Application in the Kmart cases. We appreciate the time and effort that the Committee has spent in attempting to determine that the fees charged to the estate by its service providers were reasonable in relation to the benefits received. RGA is very interested in reaching a resolution with your Office and the Committee and would like to accomplish that as quickly as possible.

You state in your letter that our "Application and Invoices do not comply with the requirements of Local Bankruptcy Rule 5082-1 and case law governing applications for compensation and reimbursement for professional services". The Final Order entered employing RGA states that:

"provided, however, that in light of RGA's flat fee arrangement, (i) monthly invoices required pursuant to the interim compensation order entered in these cases need only consist of a brief narrative of the services provided during the previous month (redacted to protect confidential information but otherwise sufficient to describe the services provided) and the amount of any expenses for which reimbursement is sought, and (ii) in interim and final fee applications, a listing of time spent by day by individual RGA personnel and a description of the services provided by RGA during the application period (redacted to protect confidential information but otherwise sufficient to describe the services provided) may be substituted for detailed individual time entries."

RGA's monthly statements and Interim and Final Fee Applications comply with these requirements. We are not subject to the more formal timekeeping requirements accorded to the hourly fee professionals. RGA has submitted five Fee Applications with the Court and to each member of the Fee Review Committee throughout the pendency of this case without any objections as to form or content.

It should be further noted that the total time spent by RGA professionals performing its tasks in this case exceeded 14,500 hours. Unlike the hourly fee providers, the more time RGA spent on the case, the less money we made and the less time we could spend servicing other clients.

We feel quite strongly that RGA added considerable value throughout the entire reorganization process. The Kmart case was the largest retail real estate case in United States Bankruptcy Court history. RGA inventoried, valued and analyzed 3,922 real estate properties including:

327	Non-Operating leased stores
1,726	Operating leased stores
122	Operating owned stores
31	Owned and leased shopping centers
567	Tire, Battery and Automotive Centers
65	Restaurants
169	Parcels of non-operating improved and unimproved land and buildings
23	Distribution centers
2	office buildings
292	Potential outlots
686	Pre-petition lease assignments, expirations or terminations

Additionally, the Company was able to successfully reject 655 and assign 100 leases as a direct result of the analyses and recommendations of RGA. This work by RGA was necessary for Kmart to realize billions of dollars in future rent and tax payment savings resulting from these transactions.

RGA's involvement in this case was crucial to Kmart's timely and successful emergence. RGA assisted in the preparation, presentation and settlement of more than 1,500 real estate related pleadings as well as providing valuation testimony in court and in depositions. RGA's interaction with the advisors to the Statutory Committees resulted in the Committee's approval of the vast majority of the real estate matters being put before the Court. RGA worked extensively with the senior executive officers of the Company and its financial and legal advisors on a 24/7 basis. We also oversaw two separate marketing and auction disposition programs providing in excess of \$100 million to the estate.

RGA was actively involved in both store closing programs. We provided current market valuations on the entire store base together with lease rejection calculations for each of the operating

stores in the portfolio. These store closings together with the first day lease rejections and the sale of leases and fees provided a net reduction of nearly \$7 billion in future lease obligations of the estate. These savings could not have been accomplished without the direct involvement of RGA.

Finally, we would like to touch on the third sentence of your letter which states "Rockwood is barred from any further requests for compensation." As the Committee is fully aware, RGA was asked by Kmart, with the approval of its statutory committees and ESL Investments, to provide professional staff to operate as senior officers of the Real Estate Department.

A second request was made to provide a team of legal personnel to abstract approximately 1,400 of the company's remaining real estate leases to provide the company with a standard lease abstract database to be used internally. RGA agreed to perform both of these non-restructuring services using outside contractors. RGA provided these services to Kmart from September 2002 through May 31, 2003. These were the same type of services provided by Alix Partners and many of the other ordinary course services providers and were contracted for by Kmart in order to substantially reduce the operating costs of the Company.

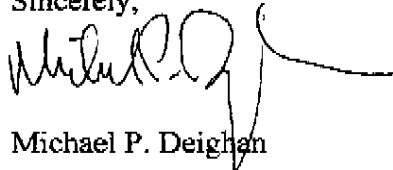
During the late 1990's Kmart had spent two and a half years and millions of dollars attempting to abstract and secure its leases through document imaging and the creation of a user-friendly lease abstract and property information database without success. Last Spring, RGA brought in a team of lawyers to successfully abstract all of the remaining store leases in less than 3 months. The Company, and in particular its real estate and legal departments, are now able to get immediate answers to lease document and property queries, which in the past consumed a considerable amount of staff and management time to analyze.

Since Kmart's successful emergence from Bankruptcy, RGA has been promised to be paid for these expenses and has not yet been paid. RGA is justly and fairly owed these monies and was told by inside and outside counsel to Kmart that these services were ordinary course and outside of the Bankruptcy procedures. Any settlement by RGA must include a payment of these past due invoices.

RGA is also very interested in amicably resolving its claims with the estate, but we are unwilling to accept the Committee's offer of 10%. We are willing to accept a 5% reduction. We will file an affidavit of compliance with the billing and expense guidelines this week. However, this offer is contingent upon RGA receiving full payment for the work it performed on Kmart's behalf as an ordinary course service provider. Please call me so that we may resolve this matter in a manner beneficial to all parties.

Once again, please let me know if there is any additional information you may require.  
Thank you for your kind assistance in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael P. Deighan", with a long horizontal flourish extending to the right.

Michael P. Deighan

MPD/dm

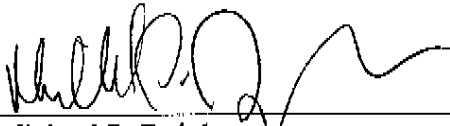
cc: Bill Donohue  
Mike Elliott  
John Magee





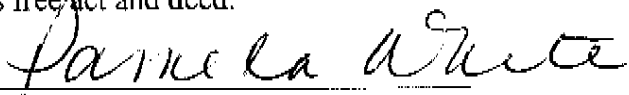
4. RGA submits this affidavit in support of its First, Second, Third, Fourth and Fifth and Final Fee Applications.

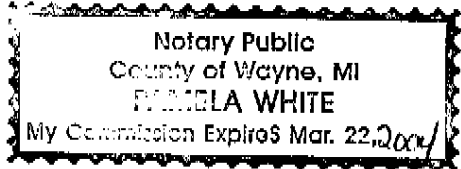
**FURTHER AFFIANT SAYETH NOT.**

  
\_\_\_\_\_  
Michael P. Deighan

STATE OF MICHIGAN     }  
  } ss.  
COUNTY OF OAKLAND   }

On January 22, 2004, before me personally appeared Michael Deighan, to me known to be the person described in and who executed the foregoing instrument and acknowledged that he executed the same as his free act and deed.

  
\_\_\_\_\_  
PAMELA WHITE, Notary Public  
WAYNE County Michigan  
My commission expires: 3-22-04  
ACTING IN OAKLAND COUNTY



**KMART BILLING AND EXPENSE GUIDELINES**

<b>Fees</b>		<b>Guidelines</b>
1.	Long Billing Days	Over 14 hours – Skadden, Arps Over 10 hours – All other professionals
2.	Too Few Hours	Under 10 hrs./month
3.	Travel Time	½ hourly rate
4.	Intra Office Conferences	5% or less of overall fees
5.	Multiple Attendees	
	a. Court Hearings	Will be reviewed for reasonableness
	b. Depositions	
	c. Statutory Committee Meetings	
	d. All Other	
6.	Professionals performing administrative or clerical tasks	Not reimbursed
7.	Stewardship Investigation	Will be reviewed for reasonableness
8.	Lumped Entries	1 hour increments or more of lumped time will be reviewed
9.	Vague Descriptions	Will be reviewed for reasonableness
10.	Technical Billing Discrepancies	Professionals will be requested to correct any mistakes

<b>Expenses</b>		<b>Guidelines</b>
3.	Overhead Expenses	
a.	Local meals	Not reimbursed
b.	Secretarial, Clerical, and Word Processing, including overtime	Not reimbursed
c.	Local Telephone	Not reimbursed
d.	Courier Service/Messenger	Actual Cost
e.	Overnight Service	Actual Cost
f.	Computer Assisted Research	Actual Cost

Expenses		Guidelines
1.	Photocopies	10¢/page
2.	Facsimiles	Incoming faxes not reimbursed. Outgoing faxes reimbursed at actual cost.
3.	Travel Expenses	
a.	Airfare	Coach fare
b.	Hotel Expenses	
	1. Rates	\$250/night – Chicago \$350/night – New York
	2. Dry Cleaning	Not reimbursed
	3. Mini-Bar	Not reimbursed
	4. In-House Movies	Not reimbursed
c.	Business Meals – while travelling	Actual expenses up to \$100/day
d.	Mileage	IRS rates
e.	Entertainment – including alcoholic beverages	Not reimbursed
f.	Limousines and Car Services	Actual expenses at less costly service available.

Date	Category	Description	Amount
7/8/2002	Car	XYZ Car Service Aaron Franklin	\$ 32.64
7/8/2002	Car	XYZ Car Service Aaron Franklin	\$ 33.64
8/19/2002	Meals	Campanaro Drinks	\$ 204.70
10/11/2002	Meals	Pizza from Le Mirage for a working lunch with R. Hauer, B. Donohue, S. Doyle, C. Vachris, and Dave Brown.	\$ 65.80
10/14/2002	Meals	Working breakfast from Dunkin Donuts in New York City.	\$ 26.46
10/15/2002	Car	Classic Car Service - Montgomery	\$ 59.04
10/24/2002	Meals	Working lunch from Alonti for R. Hauer, B. Donohue, S. Murphy, R. Mollett, D. Brown, and C. Vachris.	\$ 69.55
10/25/2002	Meals	Lunch @ Alonti Cafe in New York, NY with R. Hauer (RGA) (worked through lunch to meet client deadline).	\$ 23.27
10/25/2002	Meals	Meal at Alonti while working through lunch on 10.25.02 final report.	\$ 11.90
10/30/2002	FEDEX	Fedex package to Kuritar	\$ 11.59
1/27/2003	Car	Limo-Wilcox	\$ 194.00
5/31/2003	Phone	Rob Abrams Cell phone	\$ 120.10
			<b>\$ 852.69</b>