

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

In re:) Chapter 11
)
MEDICAL RESOURCES, INC. &) Case No. 00-11446 (PCB)
MRI-MADISON RESOURCES, INC.)
)
Debtors.)

**FINAL APPLICATION OF ERNST & YOUNG FOR
ALLOWANCE OF COMPENSATION AND FOR REIMBURSEMENT OF EXPENSES**

Name of Applicant: Ernst & Young

Authorized to Provide
Professional Services to: Debtors

Date of Retention: Order entered September 25, 2000

Period for which compensation and
reimbursement is sought: September 25, 2000 through February 26, 2001

Amount of Compensation sought
as actual, reasonable, and necessary: \$454,552 (a summary of the professionals providing
services is attached).

Amount of Expense Reimbursement sought
as actual, reasonable and necessary: \$1,011

This is a final fee application.

FEE SUMMARY

<u>Date Filed</u>	<u>Period Covered</u>	<u>Requested Fee</u>	<u>Requested Expenses</u>	<u>Approved Fees</u>	<u>Approved Expenses</u>
1/4/01	09/25/00 – 11/10/00	87,598	\$151		
2/8/01	11/11/00 – 12/31/00	226,239	\$304		
	01/01/01 – 02/26/01	140,715	\$556		

HOURS AND FEES DURING SEPTEMBER 25, 2000 THROUGH FEBRUARY 26, 2001 FOR WHICH COMPENSATION IS BEING SOUGHT

A. Preparation and Review of Tax Returns				
<u>Tax Professional/Practice Area</u>	<u>Position</u>	<u>Hours</u>	<u>Rate*</u>	<u>Amount</u>
Kenneth L. Robin (Compliance)	Partner	12.0	(**)	5,400
Jeffrey B. Hill (Compliance)	Senior Manager	35.3	(**)	13,696
James Degnan (Compliance)	Senior Manager	2.5	(**)	970
John Lanza (Tax Compliance)	Senior Engagement Coordinator	15.5	(**)	5,580
Michael Floro (Tax Compliance)	Tax Specialist	36.0	(**)	6,696
Melissa Avallone (Tax Compliance)	Tax Specialist	1.0	(**)	186
Hui-Fen Shu (Tax Compliance)	Tax Specialist	6.0	(**)	1,116
John Bilotti (Tax Compliance)	Tax Specialist	454.0	(**)	84,444
Jennifer Piscopo (Tax Compliance)	Tax Staff	241.6	(**)	33,341
Mary Lombardi (Tax Compliance)	Tax Staff	95.2	(**)	13,138
Brian Nocella (Tax Compliance)	Tax Staff	173.2	(**)	23,902
	Subtotal	1,072.3		140,625(****)

NOTE: The two previously filed fee applications inadvertently used rates, which were not in accordance with our Engagement letter dated June 29, 2000. We have recalculated the fees for the period September 25, 2000 through November 10, 2000 and November 11, 2000 through December 31, 2000 to reflect the proper rates. In addition, we have reduced our final fee application by the overstatement in the two previous applications (\$8,028).

B. Representation Before Internal Revenue Service				
<u>Tax Professional/Practice Area</u>	<u>Position</u>	<u>Hours</u>	<u>Rate*</u>	<u>Amount</u>
Kenneth L. Robin (Tax Consulting-General)	Partner	19.0	600	11,400
Nunzio Donato (Tax Consulting-IRS Practice & Procedures)	Principal	.5	539	270
Jeffrey B. Hill (Tax Consulting-General)	Senior Manager	86.4	517	44,669
Rene Corbet (Tax Consulting-IRS Practice & Procedures)	Senior Manager	50.5	517	26,109
James Degnan (Tax Consulting – International)	Senior Manager	3.5	517	1,810
Peter DiGiovanni (Tax Consulting – General)	Manager	1.0	457	457
Raymond Andrews (Tax Consulting-IRS Practice & Procedures)	Senior	2.5	286	715
Allen Traub (Tax Consulting-IRS Practice & Procedures)	Senior	.5	286	143
	Subtotal	163.9		85,573

C. Miscellaneous Tax Consulting Services Regarding Company's Reorganization				
<u>Tax Professional/Practice Area</u>	<u>Position</u>	<u>Hours</u>	<u>Rate*</u>	<u>Amount</u>
Kenneth L. Robin (Tax Consulting-General)	Partner	29.0	600	17,400
Diane Herndon (National Office-Accounting Methods)	Partner	3.0	600	1,800
Barry Bidjarano (Human Resource - Consulting)	Partner	4.0	600	2,400
Stephen Sacks (Tax Consulting-M&A)	Principal	31.0	539	16,709
Richard Stern (Tax Consulting-M&A)	Principal	.5	539	270
Jeffrey B. Hill (Tax Consulting-General)	Senior Manager	198.7	517	102,728
Karen Moncrieff (Tax Consulting-M&A)	Senior Manager	4.0	517	2,068
Peter DiGiovanni (Tax Consulting-General)	Manager	6.5	457	2,971

Howard Gold (Tax Consulting-M&A)	Senior	38.5	391	15,054
Felicia Tucker (Tax Consulting-M&A)	Senior	4.0	264	1,056
John Bilotti (Tax Compliance)	Specialist	4.4	212	933
Jennifer Piscopo (Tax Compliance)	Staff	14.1	157	2,214
	Subtotal	337.7		165,603

D. Miscellaneous Tax Consulting Services as Requested by Debtor

i. Deductibility of Certain Legal Settlement Costs

<u>Tax Professional/Practice Area</u>	<u>Position</u>	<u>Hours</u>	<u>Rate*</u>	<u>Amount</u>
Richard Stern (Tax Consulting-M&A)	Principal	.5	539	270
Steve Madsen (Tax Consulting-M&A)	Principal	6.0	539	3,234
Howard Gold (Tax Consulting-M&A)	Senior	4.5	391	1,760
Kenneth Martin (Tax Consulting-General)	Senior	15.8	391	6,178
Salvatore DiCostanzo (Tax Consulting-M&A)	Staff	17.0	264	4,488
	Subtotal	43.8		15,930

ii. Assistance with New York State Audit and Other State & Local Tax Issues

Jeffrey B. Hill (Tax Consulting-General)	Senior Manager	1.2	517	620
Harry Tuul (Tax Consulting-State & Local Tax)	Senior Manager	34.5	517	17,837
James Degnan (Tax Consulting-International)	Senior Manager	4.0	517	2,068
Ernest Barbaris (Tax Consulting-State & Local Tax)	Senior Manager	2.7	517	1,396
Joanne Kammerer (Tax Consulting-State & Local Tax)	Manager	13.5	361	4,874
Chaim Celnik (Tax Consulting-State & Local Tax)	Staff	9.5	248	2,356
Heather Breton (Tax Consulting-State & Local Tax)	Staff	2.0	115	231

Tiffany White (Tax Consulting-State & Local Tax)	Staff	5.5	115	634
	Subtotal	72.9		30,016

E. Review of Ernst & Young LLP Work Papers by Arthur Anderson LLP				
<u>Tax Professional/Practice Area</u>	<u>Position</u>	<u>Hours</u>	<u>Rate*</u>	<u>Amount</u>
Donald Richards (Audit)	Partner	4.0	600	2,398
John Riggs (Audit)	Partner	3.0	539	1,617
Richard Horbacz (Audit)	Senior Manager	10.0	507	5,070
David Wiessel (Audit)	Manager	17.0	384	6,528
Anthony Sciarillo (Audit)	Staff	8.0	149	1,192
	Subtotal	42.0		16,805
	Total	1,732.6		454,552

* Billing rates for consulting engagements are approximately 10% greater than compliance engagements.

** Compliance work is performed on a fixed fee based on the letter of engagement dated June 29, 2000.

*** Includes 61.1 hours of time related to the preparation and review of the three fee applications.

**** Summary of fee for compliance engagement:

Agreed upon fee	\$185,000
Less: Amount Previously Billed	(\$146,981)
Amount Currently Billed	(\$38,019)
Subtotal fee remaining to be billed	<u>\$0</u>

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MRI-MADISON RESOURCES, INC.)	
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Debtors.)	

**FINAL APPLICATION BY ERNST & YOUNG FOR ALLOWANCE
OF COMPENSATION AND FOR REIMBURSEMENT OF EXPENSES**

Pursuant to 11 U.S.C. §§ 330 and 331 and Rule 2016 of the Federal Rules of Bankruptcy Procedure, the accounting firm of Ernst & Young (“E&Y”) hereby moves this Court for an Order awarding it reasonable compensation with respect to Medical Resources, Inc. and MRI-Madison Resources, Inc. (the “Debtors”) for professional tax services rendered to the Debtors in the amount of \$454,552 together with reimbursement for actual and necessary expenses incurred in the amount of \$1,011 for the period commencing September 25, 2000 through and including February 26, 2001. In support of its application, E&Y respectfully represents as follows:

1. E&Y was employed to represent the Debtor as tax advisors in connection with the Debtor’s Chapter 11 case pursuant to an Order entered by this Court on September 25, 2000. That order authorized E&Y to be compensated on an hourly basis and to be reimbursed for actual and necessary out-of-pocket expenses.

Compensation Paid and its Source

2. All services for which compensation is requested by E&Y were performed for or on behalf of the Debtor.

3. This final application covers the period of September 25, 2000 through and including February 26, 2001 (the "Application Period") and seeks final allowances of all fees and expenses incurred by the Debtor during such period. Pursuant to an order entered by this Court on September 25, 2000 allowing reimbursement of one hundred percent (100%) of fees and one hundred percent (100%) of expenses (the "Interim Compensation Order"), E&Y has previously submitted two fee application's to the Debtor, the United States Trustee and counsel for the debtors.

4. On January 4, 2001, E&Y filed the First Application for Interim Allowance of Compensation and for Reimbursement of Expenses for the period from September 25, 2000 through and including November 10, 2000 (the "First Interim Application"). E&Y sought payment of \$87,598 in fees and \$151 in disbursements for the period. On February 8, 2001, E&Y filed a second application for Interim Allowance of Compensation and for Reimbursement of Expenses for the period November 11, 2000 through and including December 31, 2000 (the "Second Interim Application"). E&Y sought payment of \$226,239 in fees and \$304 in disbursements for the period. During the preparation of the final fee application, E&Y noticed that the rates used in the preparation of its first two fee applications were not in accordance with the rates stated in its engagement letter dated June 29, 2000. In preparing this final fee application, E&Y has reduced its final requested fee by \$8,028 to account for such error. Please see Exhibit A which includes a summary of all three fee applications and time records for the periods September 25, 2000 through November 10, 2000 (amended); November 11, 2000 through December 31, 2000 (amended); and January 1, 2001 through February 26, 2001.

This final fee application will include a summary of the two previously filed fee applications as well as a request for reimbursement of fees and expenses for the period January 1,

2001 through February 26, 2001 (the effective date). E&Y is requesting payment of \$454,552 in fees and \$1,011 in expenses for the period September 25, 2000 through and including February 26, 2001. This final fee application includes a request for reimbursement of \$140,715 in fees and \$556 in expenses related to the period January 1, 2001 through and including February 26, 2001.

General Summary of Services Rendered During the Pendency of the Chapter 11 Case

5. E&Y was appointed to provide miscellaneous tax services including, but not limited to, the following: preparation and review of the Debtors' US consolidated corporate income tax return for the period ended December 31, 1999; preparation and review of the state and local income and franchise tax returns for December 31, 1999; completion of a study of the effect of the Internal Revenue Code (IRC) Section 382 on the Debtors' ability to utilize their net operating loss carry forwards; represent the debtors in their current Internal Revenue Service examination; provide miscellaneous tax consulting services regarding the Company's reorganization; and, provide miscellaneous tax consulting services as requested by the Company from time to time.

Summary of Services Rendered from January 1, 2001 through February 26, 2001

6. Annexed hereto as Exhibit "A" are the monthly statements for January through and including February 26, 2001 (the effective date), the time period covered by the Third Application Period. These statement contain daily time logs describing the time expended by each professional during the Third Application Period.

The professionals of E&Y who rendered professional services in this case from January 1, 2001 through February 26, 2001 are as follows: Kenneth L. Robin (Tax Consulting-General), Jeffrey B. Hill (Tax Consulting-General), Stephen Sacks (Tax Consulting-M&A), Barry Bidjarano (Human Resource – Consulting), Rene Corbet (Tax Consulting-IRS

Practice & Procedures), Richard Stern (Tax Consulting-M&A), Harry Tuul (Tax Consulting – State & Local Tax), Ernest Barbaris (Tax Consulting – State & Local Tax), James Degnan (Tax Consulting – International), Kenneth Martin (Tax Consulting – General), John Lanza (Tax Compliance), Joanne Kammerer (Tax Consulting – State & Local Tax), John Bilotti (Tax Compliance), Melissa Avallone (Tax Compliance), Brian Nocella (Tax Compliance), Chaim Celnik (Tax Consulting – State & Local Tax), Raymond Andrews (Tax Consulting-IRS Practice & Procedures), Allen Traub (Tax Consulting-IRS Practice & Procedures), and Nunzio Donato (Tax Consulting-IRS Practice & Procedures).

7. A detailed and exhaustive description of E&Y services for the Third and Final Application Period is included in E&Y monthly time reports of professional fees and disbursements attached hereto as Exhibit “A”. These services included the following:

a. Preparation and Review of Federal and State Corporate Income Tax Returns

The Debtors have engaged E&Y to prepare and review the federal and state corporate income tax returns for the year ended December 31, 1999. During the Third and Final Application Period, E&Y has completed the preparation and review process of the entities listed in Exhibit B hereto. During the Third and Final Application Period, E&Y has begun the preparation process of the entities listed in Exhibit C hereto. E&Y spent 472.4 hours during the Application Period on these matters and billed the Debtors \$38,019 for such services. This amount constitutes the final payment in accordance with the previously agreed upon fee by the Debtor.

b. Representation before Internal Revenue Service

During the Application Period, E&Y met with Janice Moore of the IRS on two occasions (January 16, 2001 and February 15, 2001). The purpose of these two meetings was to discuss the Debtors' bad debt policies as well as the bad debt deduction claimed on the 1997 federal return. We also discussed previously filed amended tax returns for the periods ending December 31, 1994 and 1995 which the IRS has not yet acted on. In addition to the two meetings; members of the E&Y team conducted multiple internal discussions and telephone calls and spent time preparing for the two meetings, with the IRS. E&Y spend 85.6 hours during the application period on these matters and billed the Debtor \$44,320 for such services.

c. Miscellaneous Tax Consulting Services Regarding Company's Reorganization

During the Third and Final Application period, E&Y performed miscellaneous consulting services as requested by the Debtor. A significant portion of the work related to the preparation and review of miscellaneous tax projections summarizing the estimated tax position of the Company for the years ending December 31, 2000, 2001, 2002 and 2003. These projections calculated the estimated tax liability of the Company for such periods including a summary of the estimated cash flow. In addition to the research, analysis and discussion performed in preparing and reviewing the tax projections, E&Y held one meeting with

the Debtor to discuss such information. On January 15th, Jeffrey Hill, Kenneth Robin, Stephen Sacks and Ken Martin, met with Geoff Whynot and Steve Vella to discuss the updated projections as well as the potential deductibility of certain transaction costs. On February 20, 2001, Kenneth Robin, Jeffrey Hill and Barry Bidjarano conducted a conference call with Geoff Whynot and Chris Joyce (CO-CEO's of MRI) to discuss the plan of reorganization and golden parachute implications of various payment structures. In addition to the actual meeting and conference call, additional time was spent to prepare for the meeting and conference call and multiple telephone conversations between Jeffrey Hill and Steve Vella occurred during the period January 1, 2001 through February 26, 2001. E&Y spent 35.6 hours during the application period and billed the Debtor \$19,611 for such services.

d. Miscellaneous Tax Consulting Services as Requested by Debtor

i. During the Third and Final Application Period, E&Y performed miscellaneous research regarding the deductibility of certain legal settlement costs. Richard Stern of the E&Y Mergers and Acquisitions group and Ken Martin (Tax Consulting – General), reviewed miscellaneous documentation received from the Debtor and multiple statutory provisions (Internal Revenue Code/court cases, rulings etc.) to determine the deductibility of certain legal settlement payments. On February 22, 2001, Ken Martin conducted a conference call with Roger Rumsey (Lazard) to inquire about the nature of services provided to

the Debtor, as well as to request an analysis of the investment banking fees by specific category. In addition, Ken Martin prepared a technical memorandum, which supports the allocation of fees for substantiation of a tax return filing position with respect to the Lazard fee. E&Y spent 9.1 hours during the Application Period and billed the Debtor \$3,632 for such services.

ii. Assistance with New York State Sales Tax Audit – During the Third and Final Application Period, Harry Tuul and Joanne Kammerer of the E&Y State and Local Tax group, assisted the Company with miscellaneous questions and follow up issues regarding the tax audits for Bronx Medical Resources, Inc., Brooklyn Resources, Inc., Albany MRI Capstone, Inc., Centereach Resources, Inc., Diagnostic Imaging Services of NY, Inc., MRI Capstone Resources, Inc., North Bronx Resources, Inc., Queens King Resources, Inc., Staten Island Resources, Inc., and Queens Medical Resources, Inc. for the period 1996 through 2000 and the proposed assessment for the respective entities. In addition to assisting the Company with the New York state sales tax audits, the Company requested E&Y to assist in two New Jersey corporate business tax audits for Essex Passaic Resources and East Bergen Resources. During this period, Harry Tuul, Ernest Barbaris and Joanne Kammerer of the E&Y State and Local Tax group were required to prepare a formal protest of an assessment related to Essex Passaic Resources. The protest also required the assistance of Jeffrey

Hill and James Degnan in order to provide a history of certain facts related to Essex Passaic Resources. The protest was filed with the State of New Jersey Division of Taxation on February 20, 2001. E&Y spent 52.4 hours during the application period and billed the Debtor \$22,429 for such services.

8. Fee Application Preparation. During the third and Final Application Period, E&Y prepared its own fee application with respect to the period between January 1, 2001 and February 26, 2001. E&Y spent 40.1 hours during the Third and Final Application Period and billed the Debtors \$20,732 for such services. A portion of the time related to preparing this fee application was incurred after February 26th and is included as part of this final fee application.

Disbursements

9. E&Y incurred out-of-pocket disbursements for the Third and Final Application Period in the amount of \$556. This disbursement sum is broken down into the following categories: travel \$122, photocopies \$434 and faxes. E&Y does not build in a profit component into these disbursements and charges the estate only E&Y's actual out-of-pocket expenses. Photocopy charges are billed at \$0.20 per page. Telecopy is billed at \$1.25 per page for outgoing faxes. No fee is charged for incoming faxes.

Valuation of Services

10. E&Y Partners, Principals, Senior Managers, Managers and other Professional Staff expended a total of 695.2 hours in connection with this matter during this third and Final Application Period as follows:

<u>Tax Professionals</u>	<u>Position</u>	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>
Kenneth L. Robin (Tax Consulting-General) (Compliance)	Partner	20.0	600	12,000
		10.0	450	4,500
Stephen Sacks (Tax Consulting-Mergers & Acquisitions)	Principal	2.0	539	1,078
Jeffrey B. Hill (Tax Consulting-General) (Compliance)	Senior Manager	105.5	517	54,544
		29.5	388	11,446
Rene Corbet (Tax Consulting-IRS Practice & Procedures)	Senior Manager	25.0	517	12,925
James Degan (Tax Consulting-International) (Compliance)	Senior Manager	7.5	517	3,878
		2.5	388	970
John Lanza (Tax Compliance)	Senior Engagement Coordinator	8.7	360	3,132
John Bilotti (Tax Compliance)	Tax Specialist	247.5	186	46,035
Brian Nocella (Tax Compliance)	Tax Staff	173.2	138	23,902
Melissa Avallone (Tax Compliance)	Specialist	1.0	186	186
Barry Bidjarano (Human Resource - Consulting)	Partner	3.0	600	1,800
Richard Stern (Tax Consulting-M&A)	Principal	.5	539	270
Harry Tuul (Tax Consulting-State & Local Tax)	Senior Manager	21.5	517	11,116
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Joanne Kammerer (Tax Consulting-State & Local Tax)	Manager	13.5	361	4,874

Kenneth Martin (Tax Consulting-General)	Senior	8.6	391	3,363
Chaim Celnik (Tax Consulting-State & Local Tax)	Staff	9.5	248	2,356
Raymond Andrews (Tax Consulting – IRS Practice & Procedures)	Senior	2.5	286	712
Allen Traub (Tax Consulting – IRS Practice & Procedures)	Senior	.5	286	142
Nunzio Donato (Tax Consulting – IRS Practice & Procedures)	Principal	.5	539	270
	Total	695.2		200,895*

1. The reasonable value of the services rendered by E&Y for the Third and Final Application Period as tax advisors to the Debtors in these cases under chapter 11 is \$200,895 which equates to an average hourly billable rate of \$288.97. The reasonable value of services rendered by E&Y for the Chapter 11 case as Tax Advisors to the Debtor is \$454,552, which equates to an average hourly billable rate of \$262.35.

2. In accordance with the factors enumerated in 11 U.S.C. §330, the amount requested is fair and reasonable given (a) the complexity of this case, (b) the time expended, (c) the nature and extent of the services rendered, (d) the value of such services, and (e) the costs of comparable services other than in a case under this title.

*Limited to \$140,715 – please see Exhibit A.

WHEREFORE, Ernst & Young respectfully requests that final allowance be made to it in the sum of \$454,552 as compensation for necessary professional services rendered to Medical Resources, Inc. et al for the period of September 25, 2000 through and including February 26, 2001, and the sum of \$1,011 for reimbursement of actual necessary costs and expenses incurred during the Application Period, and for such other and further relief as this Court may deem just and proper.

Dated: Iselin, New Jersey

ERNST & YOUNG

A handwritten signature in cursive script, appearing to read "Kenneth L. Robin", is written over a horizontal line.

Kenneth L. Robin

Jeffrey B. Hill

99 Wood Avenue South

Iselin, NJ 08830

(732) 516-4200

Tax Advisors for the Debtor

VERIFICATION

STATE OF NEW JERSEY)
)
COUNTY OF MONMOUTH)


SS

KENNETH L. ROBIN, after being duly sworn according to law, deposes and says.

1. I am a Partner of the accounting firm of Ernst & Young, tax advisors to the Debtors herein, and I am a Certified Public Accountant licensed in the State of New Jersey. I have personal knowledge of the facts set forth herein, and if called upon to do so, could and would competently testify to those facts.

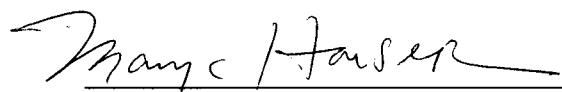
2. I performed many of the professional services rendered by Ernst & Young and am familiar with all other work performed on behalf of Debtors by the professionals at Ernst & Young.

3. The facts set forth above in the foregoing Application are true and correct to the best of my knowledge, information and belief.



KENNETH L. ROBIN

SWORN TO AND SUBSCRIBED
before me this 4 day of April 2001



Notary Public

MARY C. HAUSER
Notary Public of New Jersey
My Commission Expires Dec 28, 2002