

IN THE UNITED STATES BANKRUPTCY COURT RECEIVED

FOR THE DISTRICT OF DELAWARE

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IN RE:

Montgomery Ward Holding Corp.,
a Delaware corporation, et al.,

Debtors.

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Jointly Administered

Case No. 97-1409 (PJW)

Chapter 11

BANKRUPTCY COURT
DISTRICT OF DELAWARE

**SIXTH INTERIM AND FINAL VERIFIED APPLICATION OF
JONES DAY REAVIS & POGUE
FOR COMPENSATION AND FOR REIMBURSEMENT OF EXPENSES**

VOLUME 1 OF II

5471

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:)	
)	
MONTGOMERY WARD HOLDING CORP.,)	Jointly Administered
a Delaware corporation, et al.,)	Case No. 97-1409 (PJW)
)	
Debtors.)	Chapter 11
)	

APPLICATION FOR COMPENSATION AND
FOR REIMBURSEMENT OF EXPENSES

Name of Applicant: Jones, Day, Reavis & Pogue

Authorized to Provide Professional Services to: Montgomery Ward Holding Corp. and its affiliated debtors

Date of Retention: July 8, 1997

Period for which compensation and reimbursement is sought: July 7, 1997 through August 1, 1999

Amount of Compensation requested: \$6,490,112.15¹

Amount of Expense Reimbursement requested: \$921,158.80

This is an: interim final application.

The total time expended for the preparation of this application is approximately 200 hours and the corresponding compensation requested is approximately \$30,000.00.²

If this is not the first application filed, disclose the following for each prior application:

Date Filed	Period Covered	Requested Fees, Expenses	Approved Fees, Expenses
12/12/97	07/07/97-10/31/97	\$1,601,384.87	N/A
04/14/98	11/01/97-02/28/98	\$1,426,291.66	N/A
08/18/98	03/01/98-06/30/98	\$1,376,416.17	N/A
12/16/98	07/01/98-10/31/98	\$1,009,950.82	N/A
04/19/99	11/01/98-02/28/99	\$1,057,036.95	N/A

Attorneys' blended hourly rate: \$215.88.

1. Jones Day also has requested the allowance of \$40,000.00 in (a) estimated fees and expenses incurred after August 1, 1999 in preparing this Application and with respect to related fee matters and (b) estimated expenses incurred prior to August 1, 1999 but not yet billed due to delays in the applicable billing cycle for such expenses. Once the actual fees and expenses incurred by Jones Day for these matters are determined, the payment of the estimated fees and expenses will be reconciled pursuant to the procedures described in the Application.
2. These figures include estimates based on the anticipated number hours that have been and will be spent by Jones Day attorneys and paralegals after August 1, 1999 in preparing this Application and addressing related fee matters.

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Exhibit I - Proposed Order

Hearing Date: 12/29/99 @ 1:00 p.m.
Objection Deadline: To Be Determined

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

IN RE: :
 :
Montgomery Ward Holding Corp., : Jointly Administered
 : Case No. 97-1409 (PJW)
a Delaware corporation, et al., :
 :
 : Chapter 11
Debtors. :

**SIXTH INTERIM AND FINAL APPLICATION OF
JONES, DAY, REAVIS & POGUE FOR ALLOWANCE
OF COMPENSATION AND REIMBURSEMENT OF EXPENSES**

Jones, Day, Reavis & Pogue ("Jones Day"), counsel to the above-captioned debtors and reorganized debtors (collectively, the "Debtors"), hereby submits this sixth application (the "Application") for (i) interim allowance of compensation of \$879,625.30 and reimbursement of related expenses of \$125,691.39 for the period March 1, 1999 through August 1, 1999 (the "Sixth Compensation Period"); (ii) final allowance of compensation of \$6,490,112.15 and reimbursement of related expenses of \$921,158.80 for the period July 7, 1997 through August 1, 1999 (the "Combined Compensation Period");¹ and (iii) final allowance of \$40,000.00 in (A) estimated fees and expenses incurred after the conclusion of the Combined Compensation Period for the preparation of this Application and related fee matters and (B) estimated expenses incurred by Jones Day during the Combined Compensation Period but

¹ The Combined Compensation Period is comprised of the Sixth Compensation Period and the following additional interim compensation periods for which Jones Day has previously filed fee applications in these cases (collectively, the "Prior Compensation Periods"): (a) July 7, 1997 through October 31, 1997 (the "First Compensation Period"); (b) November 1, 1997 through February 28, 1998; (c) March 1, 1998 through June 30, 1998; (d) July 1, 1998 through October 31, 1998; and (e) November 1, 1998 through February 28, 1999 (the "Fifth Compensation Period").

not yet billed due to delays in the applicable billing cycle for such expenses (collectively, the "Estimated Fees and Expenses"). In support of this Application, Jones Day respectfully represents as follows:

PRELIMINARY STATEMENT

As counsel to the Debtors, Jones Day aggressively pursued the Debtors' goal of achieving an expeditious reorganization of their businesses that maximizes the value of their estates for the benefit of all parties. With this goal in mind, Jones Day actively participated in all of the key developments in these cases and assumed an instrumental role in the progress of these cases toward a successful conclusion. After more than two years of effort advising the Debtors in the reorganization process and overcoming numerous obstacles, Jones Day assisted the Debtors in achieving their ultimate goal at the conclusion of the Sixth Compensation Period — the confirmation and implementation of a consensual joint plan of reorganization (the "Plan").

Upon the commencement of these cases on July 7, 1997 (the "Petition Date"), Jones Day assisted the Debtors in stabilizing their businesses and achieving a "soft landing" in chapter 11. In the months following the Debtors' successful transition to chapter 11, Jones Day worked with the Debtors to (a) administer these cases, (b) take appropriate steps to streamline the Debtors' businesses and implement their business plan, (c) review and reconcile claims asserted against their estates and (d) thereby develop the foundation for a successful reorganization. Jones Day continued to perform these and other essential case administration activities throughout the course of these cases.

In particular, to achieve a soft landing, the Debtors' paramount objective at the outset of these cases was to obtain financing in an amount sufficient to meet their working capital needs and to reassure vendors of the Debtors' ability to pay for merchandise. Among other things, it was the Debtors' inability to obtain such financing outside of chapter 11 that

precipitated the commencement of these cases. Accordingly, Jones Day lawyers devoted significant time during the initial week of these cases to obtaining final approval of a \$1 billion postpetition financing facility (the "DIP Facility") with General Electric Capital Corporation ("GECC") on terms that were negotiated in the days leading up to the Petition Date. On July 8, 1997, the Debtors obtained an order approving the DIP Facility on an interim basis, which provided the Debtors with immediate access to an interim credit line of \$300 million. Thereafter, Jones Day lawyers assisted the Debtors in obtaining final Court approval for the DIP Facility and completing the steps necessary to implement this new financing. As a result of these efforts, the Debtors obtained the liquidity necessary to operate their businesses, improve vendor and supplier confidence and complete a successful reorganization.

This improved liquidity permitted the Debtors to address certain critical business issues at the outset of these cases. For example, concurrently with the interim approval of the DIP Facility, Jones Day assisted the Debtors in obtaining authority to pay certain critical prepetition claims, including customer obligations and employee wages and benefits, which were necessary to maintain a "business as usual" atmosphere and preserve the value of the Debtors' businesses. In addition, Jones Day devoted a substantial amount of time in the immediate postpetition period to investigating and responding to (a) approximately 500 reclamation demands made by trade vendors involving shipments of merchandise with a total invoice cost approaching \$150 million and (b) certain related lawsuits. To address these reclamation demands and lawsuits most effectively and efficiently, Jones Day assisted the Debtors in developing a comprehensive reclamation program to resolve all reclamation claims and, in the process, seek enhanced trade credit from the Debtors' vendors. After obtaining approval of this program, Jones Day worked with the Debtors over the following months to complete the reconciliation and resolution of all reclamation claims at a substantial discount.

To lay the necessary groundwork for a successful reorganization, the Debtors also realized that they needed to provide appropriate financial incentives to key employees to remain with the Debtors throughout the reorganization process. Accordingly, at the outset of these cases, Jones Day assisted the Debtors in developing and obtaining approval of a key employee retention program and an enhanced compensation package for the Debtors' key executives. These retention programs helped ensure that the employees most important to the Debtors' successful reorganization remained with the Debtors and provided their highest level of service throughout the pendency of these cases.

In addition to these activities to achieve a smooth transition to operations in chapter 11, Jones Day assisted the Debtors in their efforts to implement a new business strategy to streamline their business operations in the period immediately following the Petition Date. Among other things, the Debtors commenced a review of their various retail store locations to identify underperforming operations and examine opportunities to close stores, liquidate inventory, sell other owned assets and reject or assign related unexpired leases and executory contracts. Although this process continued throughout the pendency of these cases, the Debtors made significant progress on these matters almost immediately.

In the days following the Petition Date, the Debtors made the decision to close all the Lechmere, Home Image and EA&More stores. The Debtors determined that these stores were a significant cash drain on their estates and had no reasonable prospect of achieving acceptable levels of performance. Jones Day therefore assisted the Debtors during the First Compensation Period in obtaining Court authority to close these stores and conduct store closing sales at these locations. Thereafter, throughout the course of these cases, the Debtors identified additional Montgomery Ward stores that were unprofitable and, based on the Debtors' analysis, were not likely to become profitable in the future. Accordingly, Jones Day assisted the Debtors

in obtaining Court authority to close these stores and conduct store closing sales at these additional locations.

To obtain the relief necessary to complete successful store closings, Jones Day prepared comprehensive pleadings and related documents to ensure that the benefits to the Debtors' estates were maximized. For example, Jones Day worked with the Debtors to develop, obtain approval of and implement bidding procedures to maximize the value recovered as a result of the store closing sales. Similarly, Jones Day assisted in negotiating and drafting agreements with experienced liquidation agents to conduct the store closing sales for the benefit of the Debtors' estates. The liquidation agents were responsible not only for the traditional task of liquidating inventory and related hard goods at the closed store locations, but also for marketing owned real estate and unexpired store leases for sale pursuant to the established bidding procedures. After completion of these marketing activities, Jones Day assisted the Debtors in obtaining approval of any real estate or lease dispositions achieved through this sale process. Finally, to avoid the unnecessary depletion of estate assets, Jones Day assisted the Debtors in (a) identifying any burdensome unexpired leases and executory contracts relating to the closed store locations and (b) obtaining approval of the rejection of these leases and contracts, as well as any store leases that could not be successfully marketed by the liquidation agents.

In many cases, the disposition of unexpired leases and other activities relating to the Debtors' store closings were subject to substantial dispute with lessors and other interested parties. Accordingly, Jones Day devoted significant resources during the pendency of these cases to resolving these disputes, including by prosecuting necessary litigation. Through these efforts, the Debtors successfully closed approximately 150 stores, rejected approximately

85 related leases and contracts and completed the sale of numerous related leases and other property to the significant benefit to the Debtors' estates and creditors.

In addition to closing unprofitable stores and streamlining business operations, the success of the Debtors' business plan relied on the ongoing availability the Debtors' private label credit card program. The Debtors determined at the outset of these cases that it was essential to ensure the uninterrupted operation of their credit card program, which historically has provided the credit mechanism for approximately half of the Debtors' retail sales.

To preserve this program, the Debtors immediately sought to assume the underlying credit card program agreements (the "Credit Card Agreements") with certain affiliates of GECC (the "Credit Card Companies"). This request was approved on an interim basis on July 8, 1997, subject to review by other parties. Unfortunately, this attempt to maintain the credit card program was subject to significant controversy and was opposed by the Official Committee of Unsecured Creditors (the "Creditors' Committee") upon its formation. Accordingly, in the early stages of these cases, Jones Day lawyers devoted considerable time attempting to resolving disputes relating to this critical component of the Debtors' reorganization efforts.

After weeks of effort, no agreement with the Creditors' Committee could be reached and, in October 1997, the Credit Card Companies filed a motion to compel the assumption or rejection of the Credit Card Agreements. With no final resolution of this critical issue imminent, Jones Day began preparations for anticipated litigation of disputed issues relating to the Debtors' credit card program. Because the Debtors believed that the success of their reorganization efforts and the very survival of their businesses were at issue, significant resources were devoted to preparing for this litigation. After largely completing these preparations, Jones Day assisted the Debtors in reaching a resolution with the Creditors' Committee and GECC that permitted the Debtors to maintain their private label credit card

program for the duration of their chapter 11 cases. Jones Day's efforts were instrumental in permitting the Debtors overcome this potentially significant obstacle to completing a successful reorganization.

Another component of the Debtors' business plan was to explore opportunities to sell certain non-core assets and to identify other opportunities to achieve and maximize value from existing assets for the benefit of the Debtors' estates. Jones Day assisted the Debtors in this process throughout these cases. For example, in the months following the Petition Date, the Debtors examined the possibility of selling their interest in The Signature Group ("Signature"). Signature is a leading provider of fee-based membership services offered to customers through direct response marketing. Although Signature was not a debtor in these cases, the Debtors' ownership interest in Signature constituted a highly valuable estate asset. Therefore, Signature retained investment advisors to determine whether its value could be maximized as a result of a sale or merger. The work of these investment advisers included the solicitation and receipt of bids and discussions with potential purchasers. Jones Day assisted the Debtors in monitoring this process and analyzing potential sale opportunities. Ultimately, with Jones Day's help, the sale of Signature to GECC was negotiated and served as a key component to the funding of the Plan.

The Debtors also determined that significant value could be achieved by the sale of the various buildings comprising the Debtors' corporate complex in Chicago (the "Corporate Complex"). As a result, Jones Day assisted the Debtors in developing and obtaining approval of a process to sell the Corporate Complex, including appropriate bid procedures. After assisting in the implementation of the bid procedures, Jones Day sought and obtained approval of (a) the sale of the Corporate Complex to Ocean Atlantic Development Corp. ("Ocean Atlantic") and (b) the leaseback of the Debtors' corporate office tower from Ocean Atlantic. Subsequently, however,

Ocean Atlantic determined not to go forward with these transactions. Consequently, Jones Day worked with the Debtors and their other professionals to develop and implement strategies to identify a replacement purchaser for the Corporate Complex. These efforts ultimately bore fruit during the Sixth Compensation Period, when the sale of the Corporate Complex (excluding the Debtors' corporate office tower) to a new purchaser was finalized. From the outset, Jones Day played an instrumental role in all aspects of the Corporate Complex sale and certain related litigation with Ocean Atlantic following its determination not to fulfill its purchase obligations.

Another substantial asset examined by the Debtors was their overfunded pension plan (the "Pension Plan"). Along with the Debtors' other professionals, Jones Day assisted the Debtors in evaluating their options to complete a restructuring of the Pension Plan to recover excess Pension Plan assets for the benefit of the Debtors estates and creditors, while at the same time protecting the rights of all current and former employees and retirees who participate in the Pension Plan. Among other things, Jones Day devoted resources to analyzing the tax and business implications of potential restructuring alternatives. Ultimately, with Jones Day's help, a mechanism was developed to (a) restructure the Pension Plan by using certain pension assets to establish a qualified replacement pension plan and (b) recapture substantial excess pension funds for the benefit of the Debtors and their estates. Jones Day then prepared a motion and took the other steps necessary to complete the Pension Plan restructuring.

With the Debtors' businesses stabilized and the implementation of their business plan well underway, the Debtors began to focus their attention on the claims process in early 1998. With the goal of preparing for an expeditious completion of the reorganization process, the Debtors immediately began the process of reviewing and categorizing claims, prosecuting claim objections and developing claim estimates necessary to formulate a plan of reorganization and a disclosure statement. To initiate the process, Jones Day lawyers coordinated and

participated in numerous meetings to establish procedures to address the claims asserted in these cases. With Jones Day's assistance, substantive claims teams were established and began the arduous process of reviewing and analyzing the liabilities asserted against the Debtors' estates. In light of the substantial number of claims asserted in these cases — including approximately 23,000 proofs of claim and unmatched scheduled claims with an aggregate face amount exceeding \$66 billion — the Debtors focused significant resources on the essential tasks of reviewing, reconciling and estimating claims.

Through the established claims teams, the Debtors made steady progress in addressing, analyzing and resolving critical claims issues. Jones Day assisted the Debtors in each of these activities, including by performing research on key claims issues. In the fall of 1998, Jones Day prepared and filed an initial round of omnibus claims objections seeking the disallowance of approximately 1,400 claims asserting liabilities aggregating in excess of \$49 billion. Thereafter, Jones Day assisted the Debtors in filing and prosecuting more than 70 additional omnibus and individual claims objections addressing the most significant disputed claims in these cases. A majority of these claims matters were resolved by Jones Day without significant Court involvement. In addition, Jones Day assisted the Debtors in negotiating and obtaining approval of a number of significant claims settlements, including: (a) a global settlement with certain state and federal environmental agencies and other potentially responsible parties (collectively, the "Environmental Settlement Parties"), resolving billions of dollars of asserted environmental liabilities; (b) a settlement of a significant tax claim asserted by the Internal Revenue Service (the "IRS"), eliminating millions of dollars in potential priority tax liabilities; (c) the liquidation of the Debtors' more than \$1 billion in unsecured prepetition bank debt; and (d) the reconciliation of certain private placement note obligations aggregating more than \$276 million.

A number of additional claims disputes — particularly with respect to the assertion of large dollar claims arising out of lease rejection damages and pending prepetition causes of action against the Debtors — required the Debtors to engage in significant litigation activities. Jones Day played a leading role in prosecuting this claims litigation, which continued through the conclusion of the Sixth Compensation Period. In many cases, this litigation was resolved on favorable terms or was prosecuted to a successful conclusion. Numerous other claims litigation matters remain pending.

Through these various claims activities, Jones Day played an instrumental role in eliminating liabilities improperly asserted against the Debtors' estates. Equally important, Jones Day led the Debtors' efforts to prepare detailed claims estimates needed to develop the Plan. These claims estimates were developed based on the claims review and reconciliation activities performed by each claims team and related legal analyses performed by Jones Day. To maximize the usefulness of these estimates in examining potential restructuring alternatives, the estimates were prepared by category of claim for each Debtor or applicable group of Debtors. Moreover, as additional claims analysis and reconciliation activities were completed, the claims estimates were refined and updated. By December 1998, the claims estimates had reached a sufficient level of refinement for use in developing the Plan.

Building on these efforts and the other case activities described above, the plan of reorganization process began in earnest at the end of 1998 with the Debtors' focused on their goal of emerging from chapter 11 by the summer of 1999. Jones Day worked closely with the Debtors and their other professionals to (a) develop an outline of the Plan and (b) review and analyze issues critical to the development and confirmation of the Plan. Among other things, Jones Day devoted time to (a) examining various financing, corporate structure and tax issues critical to plan development, (b) analyzing confirmation issues arising from proposed

reorganization structures and (c) further refining the claims estimates in light of potential plan structures. In conjunction with these activities, Jones Day also assisted the Debtors in initiating plan discussions with the Creditors' Committee, GECC and other parties in interest.

Concurrently with these discussions, Jones Day began to draft the Plan and a related disclosure statement (the "Disclosure Statement").

Despite the Debtors' efforts to obtain consensus on a plan structure among the major constituencies, reaching such consensus initially proved elusive. Having reached apparent stalemates at several points, the Creditors' Committee began preparations for significant litigation that threatened to upset the plan process. In particular, the Creditors' Committee alleged that GECC, as the major stockholder of the Debtors, exercised inappropriate control over the Debtors' affairs and that, accordingly, the reorganization process was not proceeding properly. In light of these allegations, the Debtors' believed that the threatened litigation likely would (a) challenge the Debtors' ability to manage their businesses and the reorganization process by seeking the appointment of a trustee, (b) seek the termination of the Debtors' exclusivity periods to propose and solicit acceptances of a plan of reorganization and/or (c) request the conversion of the Debtors' chapter 11 cases to liquidation cases under chapter 7 of the Bankruptcy Code. Because of the potentially devastating impact of the Creditors' Committee's threatened actions, Jones Day devoted a substantial amount of time to preparing for this potential litigation, while concurrently working to complete the Plan and Disclosure Statement and continuing to explore opportunities resolve the differences among the parties. These efforts ultimately were rewarded.

On February 1, 1999, after weeks of discussions and preparations for potentially disruptive litigation, the Debtors announced that they had reached an agreement with the Creditors' Committee and GECC on the framework of a consensual plan of reorganization.

Following the announcement of this agreement, Jones Day intensified its efforts to complete initial drafts of the Plan and the Disclosure Statement. In addition to its continued work on drafting the Plan and the Disclosure Statement and analyzing related reorganization issues, Jones Day devoted significant resources to preparing for meetings with the Creditors' Committee and GECC to review plan issues, including the substantiation of the Debtors' claims estimates, the analysis of the Debtors' plan distribution models and the identification of other key plan development issues. These various activities — including discussions among the Debtors, the Creditors' Committee and GECC to develop the details of the Debtors' reorganization — were completed on an expedited basis.

During the spring of 1999, the Debtors, Jones Day and the Debtors' other professionals, along with the Creditors' Committee, GECC and their professionals, continued to work toward the completion of the Debtors' reorganization. The combined efforts of these various parties ultimately resulted in the filing of the Plan and the Disclosure Statement, on a consensual basis, on or about May 26, 1999. Thereafter, Jones Day assisted the Debtors in (a) obtaining approval of the Disclosure Statement, (b) resolving certain objections to the confirmation of the Plan, (c) achieving confirmation of the Plan at a hearing on July 15, 1999 (the "Confirmation Hearing") and (d) taking the steps necessary to implement the Plan. Upon the completion of the transactions contemplated by the Plan, the Plan became effective in accordance with its terms and the Debtors emerged from chapter 11 on August 2, 1999 (the "Effective Date").

In sum, Jones Day's services in connection with the foregoing matters and the other matters described in this Application and the Prior Applications (as defined herein) demonstrate Jones Day's central role in enabling the Debtors to achieve their business and legal objectives in these cases. Because of the substantial success that Jones Day has helped bring to

these cases, Jones Day is entitled to the interim and final allowance of the fees and reimbursement of the expenses requested herein.

BACKGROUND

1. On the Petition Date, the Debtors commenced their respective reorganization cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Bankruptcy Code"). Pursuant to an order entered on the Petition Date, the Debtors' chapter 11 cases have been consolidated for procedural purposes and are being administered jointly.

2. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and Article XI of the Plan. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

3. On July 15, 1999, the Court entered an order (the "Confirmation Order") confirming the Plan. As described above, the Plan became effective pursuant to its terms, and the Debtors emerged from chapter 11 as reorganized entities, on the Effective Date.

Retention of Jones Day and the Scope of Its Employment

4. On the Petition Date, the Debtors sought to retain and employ Jones Day as their counsel to assist the Debtors in administering their chapter 11 cases and in reorganizing their businesses. On July 8, 1997, the Court entered an order (the "Retention Order")² authorizing the retention of Jones Day as the Debtors' counsel to perform all necessary or appropriate legal services on behalf of the Debtors in connection with these chapter 11 cases. Jones Day charged for its services in these cases in accordance with its ordinary and customary

² A copy of the Retention Order is attached hereto as Exhibit A and incorporated herein by reference.

hourly rates in effect on the dates that services were rendered. These hourly rates are identical to those charged by Jones Day for similar services in other bankruptcy and nonbankruptcy matters.

Jones Day's Qualifications

5. Jones Day was particularly well-suited to represent the Debtors in these cases, having both the breadth and depth of expertise necessary to address effectively the myriad bankruptcy, corporate, financing, litigation, real estate, employee benefits and tax issues that arose in these chapter 11 cases. Jones Day is one of the largest law firms in the world and its Bankruptcy/Restructuring Practice Area (the "Bankruptcy Practice Area"), with approximately 50 lawyers nationwide, is among the most experienced in the nation. Jones Day's attorneys have played significant roles in many of the largest and most complex cases under the Bankruptcy Code, including the chapter 11 cases of Allegheny Health, Education and Research Foundation (creditors' committee); CSC Industries, Inc./Copperweld Steel Company (debtor); Cardinal Industries, Inc. (debtor/chapter 11 trustee); The Clotheshime, Inc. (debtor); Coleco Industries, Inc. (creditors' committee); The Drexel Burnham Lambert Group, Inc. (creditors' committee); Edison Brothers, Inc. (creditors' committee); The Elder-Beerman Stores Corp. (debtor); Everything's A Dollar, Inc. (creditors' committee); Fairfield Communities Co. (debtor); Federated Department Stores, Inc. and Allied Stores Corporation (debtor); First Executive Corp. (creditors' committee); Fruehauf Trailer Corporation (debtor); Gantos, Inc. (debtor); Great American Communications Company (debtor); Herman's Sporting Goods, Inc. (debtor); HomePlace Stores, Inc. (creditors' committee); Loewen Group International, Inc. (debtor); Mercury Finance Company (creditors' committee); MobileMedia Communications, Inc. (creditors' committee); Morrison Knudsen Corporation (debtor); Olympia & York Developments Limited (creditors' committee); Phar-Mor, Inc. (bank group); R.H. Macy & Co., Inc. (joint plan proponent/debtor); Resorts International, Inc. (creditors' committee); Trans World Airlines, Inc.

(debtor); USG Corporation (debtor); Venture Stores (bank group); and Woodward & Lothrop, Inc. (creditors' committee).

6. While providing the Debtors with the highest quality legal services, Jones Day also has been mindful of the need to provide cost-effective services. A relatively small team of lawyers has provided most of Jones Day's services to the Debtors. Jones Day has involved lawyers other than this core team only when necessary to deliver services in the most efficient manner. As a result, Jones Day's services reflect the highest degree of professionalism without sacrificing efficiency.

7. The lawyers having principal responsibility for representing the Debtors during the Sixth Compensation Period were Richard M. Cieri, Richard A. Chesley, Jeffrey B. Ellman and Kelley M. Griesmer.

Incorporation of Prior Fee Applications

8. As identified on the cover sheet attached to this Application, Jones Day has filed five prior fee applications in these cases requesting interim allowance of fees and reimbursement of expenses for the Prior Compensation Periods (collectively, the "Prior Applications"). In support of the final allowance of fees and reimbursement of expenses sought in this Application, Jones Day incorporates the Prior Applications herein by reference.

RELIEF REQUESTED

Authority for Relief

9. Jones Day makes this Application pursuant to the following:
(a) sections 330(a) and 331 of the Bankruptcy Code; (b) Rule 2016 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"); (c) the Order Establishing Procedures for Interim Compensation and Reimbursement of Professionals, dated July 8, 1997 (the "Original

Interim Compensation Order"); (d) the Order Granting Relief from Certain Provisions of the Administrative Order, Pursuant to Section 331 of the Bankruptcy Code, Establishing Procedures for Interim Compensation of Reimbursement of Professionals, dated December 5, 1997 (the "Amendment to Interim Compensation Order");³ (e) certain applicable provisions of the Guidelines for Applications for Compensation and Reimbursement of Expenses of Professionals adopted by the Office of the United States Trustee (the "Guidelines"); and (f) Local Order #32 (Revising and Rescinding Order #27) of the United States Bankruptcy Court for the District of Delaware ("Local Rule 32").

10. Jones Day also makes this Application in accordance with the requirements of the Order Appointing Fee Auditor and Establishing Related Procedures Concerning the Allowance and Payment of Compensation and Reimbursement of Expenses of Professionals and Consideration of Fee Applications, dated June 16, 1998 (the "Fee Auditor Order"), which, among other things, appointed Stuart, Maue, Mitchell & James as fee auditor in these cases (the "Fee Auditor"). In accordance with the Fee Auditor Order, the Fee Auditor has prepared reports with respect to the fees and expenses requested by Jones Day in each of the Prior Applications (collectively, the "Fee Auditor Reports"). As discussed below, Jones Day has (a) prepared a response to the Fee Auditor Reports and (b) adjusted certain of the fees and expenses sought herein to address certain concerns raised by the Fee Auditor in the Fee Auditor Reports.

³ Copies of the Original Interim Compensation Order and the Amendment to Interim Compensation Order (collectively, the "Interim Compensation Order") are attached hereto collectively as Exhibit B and incorporated herein by reference.

*Request for Interim and Final Allowance of Compensation
and Reimbursement of Expenses*

11. Jones Day hereby seeks interim allowance of compensation and reimbursement of expenses for the Sixth Compensation Period as follows:

a. Compensation of \$879,625.30 in connection with services rendered during the Sixth Compensation Period. Jones Day has summarized each of its professional's and paraprofessional's status and hourly billing rate as part of the professional summary attached hereto as Exhibit C and incorporated herein by reference. A summary of the total hours incurred and fees charged for each billing category — along with the related monthly time detail — is attached hereto as Exhibit D and incorporated herein by reference; and

b. Reimbursement of actual and necessary expenses of \$125,691.39 incurred in connection with Jones Day's services. A summary and itemization of these expenses is included as part of the schedule attached hereto as Exhibit E and incorporated herein by reference.

12. In addition, Jones Day hereby seeks final allowance of compensation and reimbursement of expenses for the Combined Compensation Period as follows:

a. Compensation of \$6,490,112.15 in connection with services rendered during the Combined Compensation Period. Jones Day has summarized each professional's and paraprofessional's status and hourly billing rate for each month of the Combined Compensation Period in Exhibit C to this Application and in similar exhibits attached to each of the Prior Applications. The total hours incurred and fees charged for each major project area for each month of the Combined Compensation Period are set forth on Exhibit D to this Application and in similar exhibits attached to each of the Prior Applications. Likewise, the supporting monthly time detail for each month of the

Combined Compensation Period is included in Exhibit D to this Application and in similar exhibits attached to each of the Prior Applications; and

b. Reimbursement of actual and necessary expenses of \$921,158.80 in connection with Jones Day's services during the Combined Compensation Period.

Summaries and itemizations of these expenses are attached as Exhibit E to this Application and in similar exhibits attached to each of the Prior Applications.

c. Estimated Fees and Expenses in the amount of \$40,000.00, which either (i) have been or will be incurred after August 1, 1999 in connection with the preparation of this Application, Jones Day's Monthly Statement for July 1999 and related fee matters or (ii) relate to expenses incurred during the Combined Compensation Period but not yet billed due to delays in the applicable billing cycle for such expenses. Jones Day proposes that the payment of the Estimated Fees and Expenses will be subject to the following procedures (the "Estimated Fee and Expense Procedures"):

- The Estimated Fees and Expenses will be paid in full by the Debtors upon approval by the Court.
- As promptly as possible, but in no event later than 20 business days after the date that an order is entered approving this Application (the "Entry Date"), Jones Day will provide an invoice to the Debtors (the "Invoice") detailing the actual fees and expenses incurred by Jones Day after August 1, 1999 on matters included in the Estimated Fees and Expenses. The Debtors may review the Invoice for reasonableness of the charges and, if the parties are unable to agree on the reasonableness of the fees and expenses for the services performed, the Debtors may petition the Court for a determination of reasonableness.
- If the actual incurred fees and expenses are less than the Estimated Fees and Expenses, Jones Day will either (i) return the overpayment to the Debtors by check along with the Invoice or at such other time as the actual fees and expenses are finally established or (ii) with the Debtors' consent, apply the amount of the overpayment as a credit against future billings.
- If the actual incurred fees and expenses are more than the Estimated Fees and Expenses, the Debtors may pay the additional amounts to Jones Day, provided that any such additional fees and expenses paid by the Debtors

do not exceed 10% of the amount of the Estimated Fees and Expenses. Jones Day may file a supplemental application with the Court no later than 30 business days after the Entry Date seeking approval of any additional amounts not paid by the Debtors. Jones Day may not seek any compensation for its time or reimbursement for its expenses incurred in connection with such supplemental application, if any.

13. In accordance with paragraph 47 of the Confirmation Order, this

Application seeks the allowance of compensation and reimbursement of expenses for the period up to and including the Effective Date.

Monthly Statements, Prior Payments and Retainer

14. Pursuant to the Interim Compensation Order and as permitted by paragraph 3(b) of the Fee Auditor Order, professionals in these chapter 11 cases were authorized to submit a statement of fees and expenses (a "Monthly Statement") to the Debtors for payment on a monthly basis. The Debtors were directed to pay 80% of the fees requested in a professional's Monthly Statement and 100% of the expenses incurred, unless one of the Fee Parties (as defined in the Interim Compensation Order) objected to the Monthly Statement within 15 days after delivery of the Monthly Statement. The remaining 20% of the professional fees requested in the Monthly Statement have been held back until a hearing on allowance of such fees, at which time they will become payable to the extent allowed by the Court.

15. Jones Day has submitted the following Monthly Statements to the Debtors with respect to the Sixth Compensation Period:

a. For March 1, 1999 through March 31, 1999 — fees of \$255,946.60 and expenses of \$26,396.44;

b. For April 1, 1999 through April 30, 1999 — fees of \$222,699.80 expenses of \$30,419.85;

c. For May 1, 1999 through May 31, 1999 — fees of \$145,878.60 and expenses of \$17,051.09;

d. For June 1, 1999 through June 30, 1999 — fees of \$168,714.40 and expenses of \$14,640.91; and

e. For July 1, 1999 through August 1, 1999 — fees of \$87,498.90 and expenses of \$37,183.10.

In total, therefore, Jones Day has submitted Monthly Statements during the Sixth Compensation Period for fees of \$879,625.30 and expenses of \$125,691.39.⁴ None of the Fee Parties objected to Jones Day's Monthly Statements for the Sixth Compensation Period. The Monthly Statements for the Prior Compensation Periods are described in the Prior Applications.

16. During the Sixth Compensation Period and thereafter through the date of this Application, Jones Day received the following payments from the Debtors:

a. On March 22, 1999, Jones Day received a payment of \$172,110.74, which was applied in satisfaction of 80% of Jones Day's fees and all of Jones Day's expenses for December 1998;

b. On April 8, 1999, Jones Day received a payment of \$238,004.28, of which \$233,812.28 was applied in satisfaction of 80% of Jones Day's fees and all of Jones Day's expenses for January 1999 and \$4,192.00 was applied as a credit to Jones Day's February 1999 bill;

c. On April 9, 1999, Jones Day received a payment of \$269,285.47, which (along with an overpayment credit of \$4,192.00 from the April 8, 1999 payment) was applied in satisfaction of 80% of Jones Day's fees and all of Jones Day's expenses for February 1999;

⁴ Upon Jones Day's review of these fees and expenses in connection with the preparation of this Application, Jones Day wrote off certain fees aggregating \$1,113.00 which were included in the Monthly Statements for March 1, 1999 through August 1, 1999. These additional write-offs are further described in paragraphs 47 and 48 below and in the attached Exhibits D and E.

d. On June 14, 1999 Jones Day received a payment of \$231,757.28, which was applied in satisfaction of 80% of Jones Day's fees and all of Jones Day's expenses for March 1999;

e. On July 21, 1999, Jones Day received a payment of \$208,579.69, which was applied in satisfaction of 80% of Jones Day's fees and all of Jones Day's expenses for April 1999; and

f. On August 16, 1999, Jones Day received a payment of \$133,753.97, which was applied in satisfaction of 80% of Jones Day's fees and all of Jones Day's expenses for May 1999.

None of the foregoing payments has been shared by Jones Day with any other party, nor are these or any other payments subject to a sharing agreement between Jones Day and any third party. Jones Day has not yet received a payment from the Debtors relating to fees and expenses for June 1999 or July 1999.

17. Additional payments received by Jones Day prior to the Sixth Compensation Period have been disclosed in the Prior Applications. In total, as of the date of this Application, Jones Day has received payments from the Debtors aggregating \$5,947,562.44, comprised of \$5,046,231.72 on account of services rendered on behalf of the Debtors in these cases and reimbursement of related expenses in the amount of \$901,330.72.⁵

18. Prior to the Petition Date, the Debtors paid a retainer to Jones Day of \$700,000.00 (the "Retainer"). Jones Day applied \$576,749.75 from the Retainer in satisfaction of fees and expenses incurred prior to the Petition Date. As of the date of this Application, the

⁵ To date, no hearings have been conducted with respect to the Prior Applications and, accordingly, the amounts sought in the Prior Applications have not yet been approved by the Court. All amounts paid by the Debtors to Jones Day to date have been made solely pursuant to Jones Day's Monthly Statements and terms of the Interim Compensation Order.

remaining balance of the Retainer is \$119,688.93 (the "Remaining Retainer Amount"). Jones Day intends to apply the Remaining Retainer Amount to any unpaid fees and expenses approved on a final basis pursuant to this Application.

Description of Services Rendered During the Sixth Compensation Period

Overview

19. As described briefly above, during the Sixth Compensation Period, Jones Day assisted the Debtors in achieving the successful completion of these cases. In particular, through the combined efforts of the Debtors, Jones Day, the Debtors' other professionals and the other major constituencies in these cases, the Debtors developed and obtained confirmation of the Plan on a consensual basis. Jones Day also engaged in numerous other essential activities on behalf of the Debtors during the Sixth Compensation Period, including (a) ensuring the smooth day-to-day administration of the Debtors' chapter 11 cases; (b) analyzing and addressing issues relating to the Debtors' numerous executory contracts and unexpired leases, including the assumption and rejection of certain of these contracts and leases; (c) responding to and resolving requests to modify the automatic stay imposed by section 362 of the Bankruptcy Code; (d) assisting the Debtors in the negotiation and consummation of certain asset sales, including the sale of the Corporate Complex and the sale of Signature in connection with the implementation of the Plan; (e) providing essential tax advice on a variety of topics; (f) assisting in the negotiation, documentation and approval of a global environmental settlement; (g) objecting to and resolving numerous claims asserted in these cases and developing related claims estimates needed for the formulation of the Plan and the preparation of the Disclosure Statement; (h) defending and prosecuting litigation on behalf of the Debtors; (i) addressing professional retention issues; and (j) representing the Debtors at hearings before the Court on a variety of matters, including the Confirmation Hearing.

20. As described in the attached Exhibit D, Jones Day professionals and paraprofessionals have billed their time to 19 distinct project billing categories, which have been approved by the Fee Auditor in accordance with paragraph 4(e) of the Fee Auditor Order. Below is a summary of the primary activities performed by Jones Day during the Sixth Compensation Period, organized by project billing category. Although this summary is intended to highlight areas of particular importance in these cases, a complete description of all such activities is found in the contemporaneous, daily time records included in the attached Exhibit D. Moreover, the descriptions of services performed during the Prior Compensation Periods are contained in the Prior Applications and the daily time records attached thereto.

Case Administration (238.60 hours; \$20,054.90)

21. Jones Day devoted a substantial amount of time during the Sixth Compensation Period to counseling the Debtors on the administration of these chapter 11 cases and the performance of their obligations under the Bankruptcy Code as debtors in possession. Moreover, in light of the number of interested parties in these cases, the number of pleading and other papers filed in these cases on a regular basis and the complexity of the Debtors' business affairs, Jones Day has been required to devote significant resources to ensure the smooth and efficient operation of these chapter 11 cases.

22. Specifically, Jones Day lawyers participated in the following activities, among others, related to the administration of these chapter 11 cases during the Sixth Compensation Period:

- Jones Day monitored the docket for the Debtors and addressed the issues raised in the over 1,511 pleadings filed during the Sixth Compensation Period.
- Jones Day reviewed and analyzed general case correspondence and other papers relating to the day-to-day administration of the Debtors' chapter 11 cases.

- Jones Day maintained files of pleadings and other important documents in connection with the Debtors' reorganization cases.

Jones Day believes that its considerable attention to the efficient administration of these cases has created cost savings that inure to the direct benefit of the Debtors and their estates.

Meetings (170.30 hours; \$43,388.00)

23. Throughout the Sixth Compensation Period, Jones Day lawyers have participated in numerous meetings with the Debtors and other parties in interest to, among other things: (a) keep all major constituencies and their professionals in these cases informed of the status of chapter 11 events; (b) assist in the negotiation and formulation of the Plan; (c) coordinate the claims review, reconciliation, objection and estimation process; and (d) provide assistance and guidance to the Debtors in addressing the numerous other matters arising in these chapter 11 cases. By these activities, Jones Day believes that it assisted the Debtors in fostering an environment in which each of the Debtors' key constituencies, as appropriate, was given an opportunity to provide input and comment upon issues arising in these cases. Additionally, these activities promoted the development of a fully consensual Plan and assisted the Debtors in fulfilling their obligations as chapter 11 debtors in these cases.

24. In particular, Jones Day's participation in meetings during the Sixth Compensation Period included the following:

- Jones Day coordinated and participated in meetings with the Debtors in connection with the administration of the claims process in these cases.
- Jones Day participated in numerous claims settlement meetings with landlords to resolve disputed rejection damage claims.
- Jones Day participated in numerous meetings with the Debtors to develop strategies for the successful resolution of various pending or anticipated adversary proceedings and to prepare for related litigation activities.

- Jones Day participated in meetings with the Debtors' top management to develop and discuss appropriate strategies for activities in these chapter 11 cases, including strategies to complete the Debtors' successful reorganization.
- Jones Day attended and participated in meetings with the Debtors, the Creditors' Committee, GECC and their respective professionals in connection with the negotiation and formulation of a fully consensual plan of reorganization.

Executory Contracts and Unexpired Leases (201.30 hours; \$40,029.50)

25. During the Sixth Compensation Period, Jones Day continued to spend a substantial amount of time and effort assisting the Debtors in executory contract and unexpired lease matters. Among other things, Jones Day counseled the Debtors in connection with their efforts to (a) identify and analyze executory contracts and unexpired leases, (b) preserve their rights under beneficial contractual arrangements, (c) extinguish their obligations under burdensome contractual arrangements and (d) where appropriate, complete the disposition of certain contracts and leases. The Debtors made significant progress in all of these matters during the Sixth Compensation Period.

26. For example, in consultation with the Debtors' other professional advisors, Jones Day assisted the Debtors in the following matters related to the Debtors' executory contracts and unexpired leases during the Sixth Compensation Period:

- Jones Day prepared motions and obtained Court approval for (a) the rejection or termination of a number of burdensome unexpired leases and executory contracts and (b) the assumption of certain beneficial unexpired leases and executory contracts. In connection with these activities, Jones Day devoted significant time to resolving issues and concerns raised by the nondebtor contract parties and other parties in interest, including disputes with respect to curing defaults under assumed contracts.
- Jones Day assisted the Debtors in responding to and settling motions filed by nondebtor contract parties seeking to compel the assumption or rejection of their contracts and leases or to compel the performance of certain contracts or leases.

- At the conclusion of the Fifth Compensation Period, the Court entered an order granting the Debtors' motion to (a) close 39 Montgomery Ward retail stores and 17 automobile service centers and (b) conduct store closing sales at these locations. At the beginning of the Sixth Compensation Period, the Debtors conducted an auction for the disposition of the Debtors' interests in 28 of these properties on terms approved by the Court. Jones Day actively assisted the Debtors in all aspects of these transactions, including by drafting all of the necessary pleadings, conducting the auctions, negotiating the settlement of disputed issues relating to these matters and, where necessary, engaging in litigation to resolve any outstanding issues. As appropriate, time relating to certain of these activities has been charged under the billing categories for asset sales and litigation matters.

Automatic Stay/Adequate Protection (57.50 hours; \$10,138.50)

27. During the Sixth Compensation Period, the Debtors were faced with numerous issues relating to the imposition of the automatic stay under section 362 of the Bankruptcy Code. Jones Day, therefore, devoted significant time to advising the Debtors on the application and effects of the automatic stay and addressing numerous requests from third parties relating to the automatic stay. Jones Day's efforts on these matters included the following:

- Jones Day assisted the Debtors in responding to motions for relief from the automatic stay filed primarily by plaintiffs seeking to proceed with pending nonbankruptcy litigation against the Debtors. In addition to preparing and filing necessary pleadings and other papers with the Court, Jones Day assisted the Debtors in reaching favorable consensual resolutions of these contested matters. In certain instances, these settlements resulted in the automatic stay being modified to the extent of insurance or other proceeds, without the necessity of the Debtors expending additional funds. In other cases, the Debtors agreed to modifications of the automatic stay to permit litigants to liquidate their claims in a nonbankruptcy forum.
- Jones Day also responded to numerous requests of litigants for consensual modifications of the automatic stay. These requests typically were resolved on terms similar to the resolutions of motions for relief from stay described above.
- Jones Day advised the Debtors in connection with, and responded to, certain violations or potential violations of the automatic stay, including attempts of certain parties to prosecute or initiate nonbankruptcy litigation against the Debtors.

Plan of Reorganization/Disclosure Statement (227.40 hours; \$54,078.80)

28. As described above, the plan of reorganization process began in earnest during the Fifth Compensation Period. At the beginning of the Sixth Compensation Period, Jones Day continued to work closely with the Debtors and their other professionals to (a) develop and refine the terms of the Plan and (b) review and analyze issues critical to the development and confirmation of the Plan and the preparation of the Disclosure Statement. Among other things, Jones Day devoted time to: (a) examining various financing, corporate structure and tax issues critical to plan development; (b) analyzing confirmation and postconfirmation issues arising from proposed reorganization structures and preparing detailed summaries of these analyses; (c) developing refined claims estimates and plan distribution analyses necessary for the formulation of the Plan and the preparation of the Disclosure Statement; and (d) revising certain Plan provisions and preparing sections of the Disclosure Statement. In conjunction with these activities, Jones Day also assisted the Debtors in ongoing plan discussions with the Creditors' Committee, GECC and other parties in interest.

29. Following the solicitation of the Plan, Jones Day assisted the Debtors in resolving certain requests, pursuant to Bankruptcy Rule 3018, for temporary allowance of claims for purposed of voting on the Plan. Jones Day also assisted in the resolution of certain objections to the Plan, particularly the objection raised by the IRS. Finally, following confirmation of the Plan, Jones Day provided assistance to the Debtors in implementing the Plan, including by negotiating payoff letters with respect to certain secured mortgage claims.

Use, Sale and Lease of Assets (251.50 hours; \$53,726.00)

30. During the Sixth Compensation Period, Jones Day assisted the Debtors in negotiating, analyzing and obtaining Court approval of the use, sale and lease of assets outside the ordinary course of business. These activities included the following:

- Prior to the Sixth Compensation Period, Jones Day assisted the Debtors in their efforts to sell the various properties comprising the Debtors' Corporate Complex. In particular, Jones Day previously sought and obtained approval of (a) the sale of the Corporate Complex to Ocean Atlantic and (b) the leaseback of the Debtors' corporate office tower from Ocean Atlantic. However, Ocean Atlantic ultimately determined not to go forward with these transactions, despite efforts by Jones Day to secure more time for Ocean Atlantic to conduct due diligence. Consequently, Jones Day worked with the Debtors and their other professionals during the Sixth Compensation Period to develop and implement strategies to identify a replacement purchaser for the Corporate Complex. The Debtors' efforts during the Sixth Compensation Period, with the assistance of Jones Day, were rewarded when the Debtors announced that a new purchaser had been identified for a substantial portion of the Corporate Complex. On March 26, 1999, the Debtors agreed to sell to AG Realty Acquisition Corp. a portion of the Corporate Complex (i.e., two buildings and certain vacant land, but not the Debtors' corporate office tower) for an aggregate purchase price of \$62 million. Jones Day also played a significant role in representing the Debtors in subsequent litigation with Ocean Atlantic regarding the termination of the original sale and leaseback agreement.
- Prior to the Sixth Compensation Period, Jones Day devoted significant time to preparing a motion and engaging in certain related activities in connection with the Debtors' request to (a) terminate a ground lease for certain nonresidential real property at the Merle Hay Mall in Des Moines, Iowa and (b) sell the building located on the property to Merle Hay Mall, L.P. ("Merle Hay"), subject to higher and better offers. An auction for this property was conducted on February 18, 1999, at which Merle Hay was the only bidder. At the hearing to approve the transaction, however, Merle Hay disclosed a side agreement with The May Department Store Company ("May") under which May would acquire the fee interest in the underlying property from Merle Hay following the Court's approval of Merle Hay's bid. In light of this disclosure and certain objections by the Debtors, the Court ordered that a new auction be conducted during the Sixth Compensation Period. Jones Day then prepared an adversary complaint seeking a declaratory judgment that Merle Hay had violated section 363(n) of the Bankruptcy Code by entering into its side agreement with May. The parties consensually resolved this issue and, at the subsequent auction, Merle Hay again was the successful bidder for the

Merle Hay Mall property. Nevertheless, various disputes relating to these issues required Jones Day's attention during the Sixth Compensation Period. As appropriate, time relating to certain of these activities has been charged under the billing category for litigation matters.

- As described above, Jones Day assisted the Debtors in completing the sale of certain owned properties and leasehold interests relating to closed store locations, including by (a) developing an obtaining approval of certain bidding procedures, (b) conducting the auction and otherwise implementing the approved bidding procedures and (c) resolving certain disputes related to the completion of these sale transactions (including a significant dispute with one landlord regarding the enforceability of a right of first refusal). Given the number of parties involved in these matters and the importance of these issues to the Debtors' estates, Jones Day lawyers devoted considerable resources to these issues during the Sixth Compensation Period. As appropriate, time relating to certain of these activities has been charged under the billing category for litigation matters.
- Jones Day assisted the Debtors in negotiating stipulations with certain secured banks regarding the application of certain asset sale proceeds to secured debt obligations.

Cash Collateral/DIP Financing (41.10 hours; \$8,722.00)

31. During the Sixth Compensation Period, Jones Day lawyers assisted the Debtors in addressing issues arising in connection with the DIP Facility, including by analyzing certain proposed amendments or modifications to the DIP Facility. Jones Day also assisted the Debtors in negotiating and implementing certain beneficial insurance premium financing agreements by (a) obtaining requisite approvals under the DIP Facility and (b) preparing the necessary pleadings and taking the other steps required to obtain the Court approval of these agreements.

Claims Administration (1,874.40 hours; \$344,691.00)

32. During the Sixth Compensation Period, the Debtors continued to make considerable progress in addressing, analyzing and resolving critical claims issues. In light of the substantial number of claims asserted in these cases and the need to resolve claims in

connection with the formulation, proposal, solicitation and implementation of the Plan, the Debtors focused significant resources on the essential tasks of reviewing and reconciling claims. Jones Day played a key role in the Debtors' efforts to address these claims issues, including by asserting and prosecuting claims objections.

33. Jones Day's efforts in pursuing claims objections resulted in significant progress in resolving disputed claims issues. For example, at the beginning of the claims process, the Debtors were faced with more than 23,000 proofs of claim and unmatched scheduled claims asserting liquidated liabilities of \$66 billion. By contrast, at the conclusion of the Sixth Compensation Period, (a) 4,882 proofs of claim and scheduled claims aggregating \$59.5 billion had been disallowed, (b) 1,576 proofs of claims and scheduled claims had been reconciled and reduced, eliminating an additional several hundred million dollars in liquidated and unliquidated liabilities and (c) an additional 718 proofs of claim and scheduled claims in the amount of \$520 million were subject to pending objections.

34. Among other things, Jones Day participated in the following claims administration activities during the Sixth Compensation Period:

- Jones Day devoted significant time to counseling the Debtors regarding the claims process and assisting the Debtors in implementing procedures to analyze the multitude of claims that have been asserted in these cases. As part of these activities, Jones Day assisted in coordinating the efforts of numerous claims teams organized by the Debtors to address the claims asserted in a variety of substantive categories.⁶

⁶ The claims teams include, among others, (a) the Accounts Payable Claims Team, (b) the Advertising Claims Team, (c) the Bank Debt and Notes Payable Claims Team, (d) the Real Property Contract and Lease Claims Team, (e) the Non-Real Property Contract and Lease Claims Team, (f) the Tax Claims Team, (g) the Employee Wage and Benefit Claims Team, (h) the General Litigation Claims Team, (i) the Environmental Claims Team and (j) the Intercompany Claims Team. Each claims team is comprised of (a) employees of the Debtors or consultants with appropriate expertise in the applicable substantive area and (b) Jones Day lawyers and, where appropriate, other professionals.

- Jones Day counseled and assisted the Debtors in connection with (a) the analysis of intercompany claims among the Debtors and certain nondebtor affiliates, (b) the development and refinement of claims estimates for all categories of claims and (c) the development of other related corporate information necessary in connection with the development and confirmation of the Plan. Additionally, Jones Day assisted the Debtors in preparing presentations to top management and other key constituencies (including GECC and the Creditors' Committee) regarding these issues and other claims matters in connection with the development and implementation of the Debtors' overall reorganization strategy.
- Jones Day prepared and filed numerous omnibus and individual claims objections during the Sixth Compensation Period. These objections, many of which remain pending as of the date of this Application, sought the disallowance, reduction or reclassification of approximately 3,000 claims asserting liabilities aggregating in excess of \$50 billion. To date, Jones Day has filed more than 75 claims objections and related pleadings on behalf of the Debtors, resulting in orders disallowing or reducing approximately \$60 billion in asserted liabilities.
- In light of the significant number of claims objections filed during and prior to the Sixth Compensation Period, Jones Day attorneys devoted a substantial amount of time to (a) reviewing and analyzing responses to pending objections, (b) researching legal and factual issues raised in these responses, (c) conducting negotiations to resolve these claims disputes, (d) preparing agreed orders, stipulations and similar documentation to memorialize the resolution of claims disputes and (e) maintaining detailed reports summarizing the status of each contested claim. Among the general types of claims addressed by Jones Day during the Sixth Compensation Period were (a) lease and contract rejection damage claims, (b) custom bond claims, (c) bank and insurance note claims, (d) letter of credit claims, (e) insurance and workers' compensation claims, (f) employee benefit claims, (g) litigation claims, (h) vendor claims, (i) reclamation claims, (j) unclaimed property claims, (k) property tax claims and (l) other tax claims.
- Jones Day devoted time to researching and/or analyzing numerous important claims issues, including: (a) the calculation and treatment of real property lease rejection damages and related claims; (b) the allowability of claims asserted by lenders to the Debtors' landlords; (c) the treatment of prepetition guaranty and letter of credit claims; (d) the calculation and classification of real and personal property tax claims, sales tax claims, unclaimed property claims and other asserted tax liabilities, including the treatment of tax claims based on amended returns as potential priority tax liabilities; (e) the permissibility and treatment of class proofs of claim and related claim estimation issues; (f) the liquidation of insurance claims; (g) the calculation and use of appropriate discount rates in liquidating bank debt and other claims; (h) the

availability of setoff and recoupment remedies by claimants; (i) the proper classification and treatment of workers' compensation claims; (j) the ability of the Debtors' unsecured bank group to assert postpetition attorneys' fees as part of its claim for prepetition unsecured debt; (k) excusable neglect standards in connection with the filing of late proofs of claim; (l) the applicability of agency law concepts to identify the proper party to assert certain liabilities; (m) the application of claim subrogation issues in complex multiparty situations; (n) equitable defenses to property damage liabilities and other claims; and (o) other issues relating to the analysis of claims asserted against the Debtors. Where appropriate, Jones Day prepared memoranda summarizing their analysis of the foregoing issues or including such analyses in pleadings filed with the Court.

- Jones Day assisted the Debtors in completing the informal reconciliation of numerous claims during the Sixth Compensation Period, including a substantial number of trade and expense claims.
- Jones Day advised and assisted the Debtors in connection with negotiations to reduce the approximately \$167 million priority claim asserted by the IRS to a maximum liability of \$29.5 million. Jones Day then sought and obtained Court approval of this settlement, which was critical to establishing the feasibility of the Plan.
- Jones Day assisted the Debtors in liquidating (a) the more than \$1 billion in unsecured prepetition bank debt asserted by The Bank of Nova Scotia, as agent to the Debtors' bank group, and (b) the approximately \$276 million in unsecured private placement note obligations.
- Jones Day assisted the Debtors in settling and drastically reducing the claim asserted by the State of Illinois for more than \$80 million of alleged unclaimed property liabilities. In addition, Jones Day has devoted and continues to devote substantial attention to resolving the remaining unclaimed property claims asserted by other states.
- Jones Day devoted significant resources to negotiating and, where required, litigating the resolution of numerous large dollar claims for rejection damages and other amounts alleged to be owing under real property leases and related agreements. Where appropriate, time relating to certain of these activities has been charged under the billing category for litigation matters.
- Jones Day devoted time to reviewing, investigating and responding to numerous creditor inquiries regarding the claims process in these cases. Among other things, Jones Day (a) assisted in resolving requests for leave to file late proofs of claim, (b) addressed and resolved requests for setoff and (c) answered other general claims inquiries.

- Given the number of claims matters to be addressed in these cases, Jones Day maintained a detailed work in process report and certain related reports to track the progress of claims and claims-related issues. These reports have been an important tool to assist Jones Day and the Debtors in assigning task responsibilities, tracking deadlines and avoiding duplication of effort in connection with claims matters in these cases.

Court Hearings (182.00 hours; \$50,778.00)

35. Jones Day's activities during the Sixth Compensation Period included preparation for and participation in court hearings on a variety of matters described elsewhere in this Application. In particular, during the Sixth Compensation Period, Jones Day devoted significant time in connection with hearings on, among other things: (a) the confirmation of the Plan; (b) the closure of certain of the Debtors' stores, the approval of going out of business sales and related relief; (c) the assumption and rejection of certain executory contracts and unexpired leases; (d) certain asset sales, including the proposed sale of the Debtors' Corporate Complex; (e) objections to certain claims; and (f) numerous other matters heard at regular status hearings. In addition, Jones Day assisted in providing information to local counsel in connection with the preparation of agenda letters for these hearings.

Environmental (78.00 hours; \$13,902.00)

36. Jones Day advised and assisted the Debtors in connection with the negotiation of a global settlement of environmental liabilities with the Environmental Settlement Parties. Jones Day also devoted time to preparing a comprehensive motion to approve the global environmental settlement, which (a) eliminated approximately \$50 billion in potential asserted liabilities, (b) resolved numerous pending environmental disputes and (c) established a mechanism to resolve future environmental liabilities based on the Debtors' prepetition activities. This global environmental settlement was approved by the Court on June 17, 1999. Thereafter,

Jones Day assisted the Debtors in obtaining Court approval of a similar environmental claims settlement with the New York State Department of Environmental Conservation.

Tax Advice (61.40 hours; \$13,263.50)

37. During the Sixth Compensation Period, Jones Day tax lawyers provided advice to the Debtors on a variety of tax issues. In particular, Jones Day provided assistance to the Debtors in connection with the negotiation of a closing agreement with the IRS to resolve all of the parties disputes relating to certain federal tax assessment issues for audit years 1991 through 1996. Through these efforts, the Debtors achieved a favorable resolution of their prepetition federal tax liabilities. In addition, Jones Day assisted the Debtors in resolving tax assessment disputes with various state taxing authorities and prepared motions to obtain Court approval of these settlements. Jones Day also was actively involved in addressing numerous unclaimed property claims asserted by various states, and played an instrumental role in resolving the \$80 million unclaimed property claim asserted by the State of Illinois on favorable terms.

Litigation/Adversary Proceedings (865.10 hours; \$178,612.50)

38. During the Sixth Compensation Period, Jones Day lawyers assisted the Debtors in connection with a variety of litigation matters. Among other things, Jones Day has spent time litigating issues relating to (a) landlord opposition to the Debtors' proposed disposition of certain leases of nonresidential real property, (b) the resolution of tax disputes, (c) the prosecution of objections to claims asserted against the Debtors' estates and the resolution of a variety of related claims disputes, (d) the assertion of avoidance actions and (e) the protection of the Debtors' interests in certain third party litigation matters.

39. By way of example, Jones Day participated in the following litigation

matters during the Sixth Compensation Period:

- Jones Day provided advice to the Debtors in connection with a purported class action asserted on behalf of the Debtors' commissioned sales employees (the "Trent Action"). The Trent Action sought damages (potentially exceeding \$200 million for the class) based on allegations that the Debtors improperly calculated and paid sales commissions. During the Fifth Compensation Period, the United States District Court for the District of Wyoming denied the plaintiffs' request for class certification of the Trent Action on procedural grounds. Jones Day then assisted the Debtors in developing a strategy to remove this dispute to the bankruptcy court for final resolution. This strategy ultimately succeeded, resulting in the plaintiffs' filing of a class proof of claim and a request for class certification with this Court during the Sixth Compensation Period. Thereafter, Jones Day assisted the Debtors in addressing issues arising in this litigation and in negotiating a settlement with the representatives of the putative class. With Jones Day's assistance, a favorable settlement of this litigation ultimately was finalized after the conclusion of the Sixth Compensation Period.
- Jones Day continued to assist the Debtors in connection with an adversary proceeding commenced in the United States District Court for the Southern District of New York between Union Bank of Switzerland ("UBS") and Deutsche Financial Services Corp. ("DFS"). Pursuant to this litigation, UBS and DFS sought a determination of their respective rights in connection with a certain floorplan financing program initially provided to the Debtors by DFS. Although none of the Debtors were named as parties to this proceeding, the Debtors were served with subpoenas to provide information in connection with this dispute. As a result, Jones Day continued to assist the Debtors in responding to discovery requests propounded by both parties to this litigation. This matter ultimately was settled by the parties.
- Jones Day was actively involved in litigation with certain lessors in connection with disputes over, among other things, (a) the disposition of the lessors' unexpired store leases and (b) the Debtors' requests to extend the time to assume or reject these leases, pursuant to section 365(d)(4) of the Bankruptcy Code. Most of these disputes were resolved prior to the conclusion of the Sixth Compensation Period on terms favorable to the Debtors.⁷

⁷ Certain of these disputes are described in greater detail above under the billing categories for executory contract and unexpired lease matters and asset sale matters. Once litigation activities began in connection with these disputes, however, time typically was billed

(continued...)

- Jones Day was actively involved in protecting the Debtors' rights and interests in connection with certain litigation (the "Reliance Litigation") between Reliance Insurance Company ("Reliance") and Forum Insurance Company, a nondebtor affiliate of Signature ("Forum"). Pursuant to the Reliance Litigation, Reliance has sought to enforce certain agreements allegedly requiring Forum to indemnify Reliance for losses on surety bonds issued on behalf of the Debtors. The outcome of this litigation could significantly impact any claims that Reliance may have against the Debtors with respect to the surety bonds. The Reliance Litigation remains pending. In addition, Jones Day has initiated a breach of contract action on behalf of the Debtors in an adversary proceeding against Reliance. Pursuant to this action, the Debtors seek the payment of interest on \$10 million in cash collateral held by Reliance to secure the Debtors' obligations under the surety bonds.
- To assist in resolving claims for Plan solicitation and distribution purposes, during the Fifth and Sixth Compensation Periods, Jones Day initiated litigation with respect to certain large dollar proofs of claims, primarily relating to disputed lease rejection damages and liabilities asserted in prepetition lawsuits. During the Sixth Compensation Period, Jones Day continued to devote significant time litigating these claims, including by conducting necessary discovery, attending status hearings, presenting motions and legal arguments to the Court and participating in related litigation activities. In addition, Jones Day has assisted the Debtors in settlement negotiations with respect to all of these matters. During the Sixth Compensation Period, more than 50 such contested matters were pending.
- During the Sixth Compensation Period the Debtors filed an adversary proceeding against the Treasurer of Cook County, Illinois ("Cook County") seeking (a) the turnover of substantial property tax refunds owed to the Debtors' estates by Cook County as a result of the overvaluation of certain taxable property by the Cook County Assessor and (b) the disallowance of a related proof of claim filed by Cook County. Jones Day devoted significant resources to this litigation, including by (a) preparing responses to Cook County's motion to dismiss the Debtors' complaint or, in the alternative, for the Court to abstain from hearing the dispute, (b) conducting research in support of this response, (c) engaging in various discovery activities, (d) developing materials to assist in establishing the underlying property valuations and (e) participating in settlement discussions.

⁷(...continued)

under the litigation billing category.

- During the Sixth Compensation Period, Jones Day initiated an adversary proceeding against American Insurance Group ("AIG") to recover certain preferential transfers made during the 90 days prior to the Petition Date. Specifically, AIG received a \$5 million cash payment from the Debtors approximately two weeks before the Petition Date to secure reimbursement and indemnification obligations under various insurance programs provided by AIG.
- Jones Day assisted the Debtors in litigation with the City of Oakland, California ("Oakland") relating to a property dispute. The Debtors agreed to sell certain real property to Oakland and to demolish certain structures on the property. In addition, the Debtors and Oakland agreed to jointly redevelop the property into retail space and to share equally in the profits of the venture. In the midst of the demolition process, however, a local interest group was successful in having one of the buildings declared an historical landmark, rendering further demolition and redevelopment of the property impossible. After numerous pleadings were filed by each party, Jones Day assisted the Debtors in reaching a favorable settlement with Oakland regarding this matter.
- Jones Day assisted the Debtors in litigation with Ameritech Credit Corp. in connection with a request for payment of an administrative claim arising from an equipment lease that had been renegotiated postpetition. Ultimately, Jones Day assisted the Debtors in negotiating a settlement of this matter on favorable terms.

Professional Retention/Fee Issues (56.60 hours; \$6,379.20)

40. In connection with its retention as the Debtors' counsel, Jones spent time during the Sixth Compensation Period preparing supplemental disclosures of Jones Day's relationships with parties in interest in these cases. In addition, Jones Day assisted in preparing an application for the Debtors to retain Oppenheimer, Wolff, Donnelly & Bayh as special counsel for certain specific tax matters.

Preparation of Fee Applications (281.80 hours; \$42,032.90)

41. During the Sixth Compensation Period, Jones Day prepared and filed its fifth interim fee application and engaged in certain advance activities in preparation of this Application, including the preparation of Monthly Statements and related fee application exhibits. In addition, Jones Day devoted time to (a) reviewing and responding to the Fee Auditor Reports with respect to Jones Day's Prior Applications and (b) preparing materials in response to the issues raised therein:

Other Services

42. As detailed in the attached Exhibit D, Jones Day lawyers and paralegals rendered a limited amount of services in certain other areas during the Sixth Compensation Period, including services relating to creditor inquiries (4.20 hours; \$731.50) and general corporate and real estate matters (1.00 hours; \$210.00).

Description of Expenses Incurred

43. Jones Day seeks reimbursement for actual, necessary expenses (the "Expenses") incurred in rendering services during the Sixth Compensation Period and the Combined Compensation Period. The total amount of the Expenses is (a) \$125,691.39 for the Sixth Compensation Period and (b) \$921,158.80 for the Combined Compensation Period. The Expenses were reasonable and necessary in light of the services provided.

44. Jones Day maintains the following policies with respect to Expenses:
- In accordance with paragraph 8(b) of the Fee Auditor Order, Jones Day has retained documentation for all Expenses in excess of \$25.00, and upon request will provide such documentation to the Court, the United States Trustee, the Debtors, the Creditors' Committee and the Fee Auditor. In accordance with paragraph 8(d) of the Fee Auditor Order, all overnight delivery and messenger charges are supported by appropriate documentation. Additionally, in accordance with paragraph 8(b) of the

Fee Auditor Order, appropriate documentation of all outside Expenses over \$100.00 has been submitted to the Fee Auditor.

- No amortization of the cost of any investment, equipment or capital outlay is included in the Expenses, nor does Jones Day make a profit on any Expense. In addition, for those items or services that Jones Day justifiably purchased or contracted from a third party (such as outside copy services), Jones Day seeks reimbursement only for the exact amount billed to Jones Day by the third party vendor and paid by Jones Day to the third party vendor. Accordingly, all of the Expenses are billed at Jones Day's "actual cost," as defined in paragraph 8(a) of the Fee Auditor Order.
- Photocopying by Jones Day was charged at \$0.15 per page pursuant to the rules of this Court and paragraph 8(c) of the Fee Auditor Order.⁸ To the extent practicable, Jones Day utilized less expensive, outside copying services.
- Telecopying by Jones Day was charged at \$1.00 per page for outgoing long distance transmissions and \$.50 for local outgoing transmissions. Incoming telecopies were charged at \$.50 per page for documents over 10 pages. Jones Day does not charge for incoming telecopies of documents under 10 pages. Likewise, Jones Day does not separately charge for actual long distance carrier charges for outgoing telecopies. In accordance with paragraph 8(e) of the Fee Auditor Order, the attached Exhibit E and the similar exhibits attached to the Prior Applications identify whether each telecopy charge relates to an incoming or outgoing transmission.
- As further described below, Jones Day used Federal Express or similar express mail delivery and third-party messenger services only for emergency or exigent circumstances or when less costly than other available alternatives.
- Local mileage was charged at the prevailing rate allowed by the IRS for tax deductions for mileage.
- All airfare Expenses are for coach class travel.

⁸ As described in the Fee Auditor Response (as defined below), Jones Day originally charged \$0.20 per page for internal photocopies made prior to June 9, 1998, when the Court established \$0.15 per page as the maximum allowable amount for photocopy charges. In response to the Fee Auditor Reports, Jones Day has agreed to reduce all photocopy charges incurred prior to June 9, 1998 to \$0.15 per page. Accordingly, Jones Day has reduced its Expenses for the Combined Compensation Period by \$17,687.40. See Fee Auditor Response at 8.

- Computer assisted legal research was used only when time pressures rendered it impracticable to conduct such research manually or where the use of such computer services was determined to be more cost efficient. Computer assisted research is billed on a per-search and/or per-minute basis, depending upon the provider. Jones Day used computer research in the following instances in connection with certain internal legal memoranda and in preparation of pleadings filed with the Court:
 - ▶ shepardization of cases cited in pleadings filed with the Court; and
 - ▶ case law research regarding particularly pressing or important issues.

With computer assistance, the total shepardization and research time was greatly reduced. To complete this shepardizing and research manually would have taken significantly more lawyer time, resulting in a greater cost to the Debtors' estates.

45. As set forth in the attached Exhibit E and in the similar exhibits attached to the Prior Applications, Jones Day was required to incur substantial Expenses for telephone, telecopy, copying and overnight delivery service. These expedited communications Expenses were necessitated by, among others, the following factors:

- The size and complexity of the Debtors' chapter 11 cases, the geographic diversity of the Debtors' key constituencies and their professionals and the complexity of certain issues arising in these chapter 11 cases, which together dramatically increased the scope and volume of communications among numerous parties.
- The numerous filing deadlines in these chapter 11 cases, which often necessitated Jones Day's circulation of pleadings and other papers by overnight delivery or telecopier to obtain comments and revisions before the applicable filing deadline.
- The need to transmit time-sensitive materials, such as meeting and conference preparation materials, to the Debtors and others to facilitate meaningful and informed discussions between the parties on issues requiring immediate action by those parties.
- The need to transmit dated materials regarding the Debtors' businesses and pending bankruptcy proceedings to the Debtors and other parties in interest, which, if not received and reviewed in a timely manner, would lose their significance and value to the Debtors' reorganization efforts.

Accordingly, although Jones Day is mindful of its obligation to use the most economical method of communications, these expedited communication Expenses are necessary and appropriate.

Response to Fee Auditor Reports

46. After reviewing the Fee Auditor Reports, Jones Day responded to these reports in a letter to the Fee Auditor dated September 16, 1999 (the "Fee Auditor Response").⁹ Although Jones Day does not believe that any material issues were raised by the Fee Auditor Reports with respect to Jones Day's requested fees and Expenses, Jones Day has used its best efforts to address each of the concerns identified by the Fee Auditor. Moreover, in an effort to resolve certain of the issues raised in the Fee Auditor Reports, Jones Day agreed to voluntarily reduce its fees and Expenses for the Prior Compensation Periods by an additional \$55,857.21 (the "Fee Auditor Write-Offs"). These reductions were implemented primarily to address certain billing errors and discrepancies identified by the Fee Auditor. In addition, certain amounts were written-off by Jones Day in a good faith effort to address the Fee Auditor's articulated concerns that certain charges could be viewed as unreasonable. A schedule summarizing the Fee Auditor Write-Offs (the "Write-Off Summary") is attached hereto as Exhibit G and incorporated herein by reference. The Fee Auditor Write-Offs are described in greater detail in the Fee Auditor Response.

Other Adjustments to Fees and Expenses

47. Consistent with its own internal policies and to comply with the "reasonableness" requirements of section 330 of the Bankruptcy Code and other applicable requirements, Jones Day has reviewed the service descriptions and expense detail for the Sixth

⁹ A copy of the Fee Auditor Response, without its voluminous enclosures, is attached hereto as Exhibit F and incorporated herein by reference.

Compensation Period and the Combined Compensation Period and has determined that certain fees and Expenses should not be charged to the Debtors. This Application reflects these adjustments. The adjustments made by Jones Day result from, among other things: (a) the deletion of time charged by lawyers or paralegals who are not integral providers of services in the Debtors' cases; (b) the reduction of fees where the time charged for particular services rendered exceeded the time that, in Jones Day's estimation, it should have taken the lawyer or the paralegal to render such services; (c) the elimination of all fees for nonworking travel in accordance with the rules of this Court; (d) the elimination of charges for duplicative or nonproductive services; (e) the Fee Auditor Write-Offs made in response to the Fee Auditor Reports; and (f) other adjustments considered appropriate by Jones Day or required by applicable rules.

48. In total, for the Sixth Compensation Period, Jones Day has voluntarily written off (a) 206.50 hours of time charges aggregating \$39,852.70 (including 40.00 hours of time charges aggregating \$9,125.00 relating to nonworking travel) and (b) Expenses aggregating \$3,872.91. Detailed descriptions of the fees and Expenses written off by Jones Day during the Sixth Compensation Period are included in the attached Exhibits D and E.

49. Similarly, for the Combined Compensation Period, Jones Day has voluntarily written off (a) approximately 1,700 hours¹⁰ of time charges aggregating \$608,176.01 (including approximately 840 hours of time charges aggregating \$229,752.70 relating to nonworking travel) and (b) Expenses aggregating \$66,471.27. These amounts include

¹⁰ Because certain write-offs of time charges were implemented as a means of compromising issues raised in the Fee Auditor Reports, these write-offs do not correlate directly to any particular time entries. Accordingly, the estimated hours represented by these write-offs have been calculated by dividing (a) the total amount of fees written off pursuant to the Fee Auditor Write-Offs (i.e., \$22,476.10) by (b) the blended hourly rate for all of Jones Day's professionals and paraprofessionals in these cases (i.e., \$204.62).

(a) \$39,852.70 in write-offs for the Sixth Compensation Period, as described above and detailed in the attached Exhibits D and E; (b) \$493,673.00 in write-offs for the Prior Compensation Periods, as described in the Prior Applications and detailed in the exhibits thereto; (c) \$55,857.21 in Fee Auditor Write-Offs, as described in the Fee Auditor Response and summarized on the Write-Off Summary; and (d) \$9,269.00 in additional write-offs for the Prior Compensation Periods (the "Additional Write-Offs") arising from the deletion of time charged by lawyers or paralegals who, upon final review in connection with the preparation of this Application, were identified as individuals who were not integral providers of services in the Debtors' cases. The Additional Write-Offs are identified on the attached Exhibit D.

LEGAL ARGUMENT

Applicable Legal Standard

50. Section 330 of the Bankruptcy Code provides, in pertinent part, for the payment of:

(1) reasonable compensation for actual, necessary services rendered by such trustee, examiner, professional person, or attorney, as the case may be, and by any paraprofessional persons employed by such trustee, professional person, or attorney, as the case may be, based on the nature, the extent, and the value of such services, the time spent on such services, and the cost of comparable services other than in a case under this title; and

(2) reimbursement for actual, necessary expenses.

11 U.S.C. § 330(a). To grant a request for compensation pursuant to section 330 of the Bankruptcy Code, a court must find that such request is reasonable. The reasonableness of a compensation request is determined by taking into account the nature, extent and value of the services provided by the professional and the cost of comparable services in nonbankruptcy contexts. Zolfo Cooper & Co. v. Sunbeam-Oster Co., 50 F.3d 253, 258 (3d Cir. 1995); In re Busy Beaver Building Ctr., Inc., 19 F.3d 833, 849 (3d Cir. 1994).

51. Under the "market-driven approach" to compensation requests adopted by the Third Circuit, the primary focus of the inquiry is on the cost of comparable services in nonbankruptcy contexts. Zolfo Cooper, 50 F.3d at 258; see also Busy Beaver, 19 F.3d at 849-50 (recognizing that Congress intended as a matter of policy that bankruptcy practitioners should be compensated at the same rates as nonbankruptcy practitioners to attract and retain top caliber attorneys to the practice of bankruptcy law); In re Fine Paper Antitrust Litig., 751 F.2d 562, 583 (3d Cir. 1984) ("The value of an attorney's time generally is reflected in his normal billing rate."); This market-based approach permits flexibility in billing arrangements. Although the so-called "lodestar" method (hourly rate multiplied by hours worked) currently is the most widely utilized method for compensation arrangements, the Third Circuit recognizes that, if the market were to dictate some other form of compensation arrangement, section 330 of the Bankruptcy Code is flexible enough to accommodate requests for compensation on that basis. See Busy Beaver, 19 F.3d at 849 n.21, 856. Regardless of the manner in which compensation is calculated, however, "the baseline rule is for firms to receive their customary rates." Zolfo Cooper, 50 F.3d at 259.

52. In accordance with its practice in nonbankruptcy matters, Jones Day has utilized the lodestar method for calculating its compensation requests submitted in the Monthly Statements and in this Application. There is a strong presumption that the lodestar product is reasonable under section 330 of the Bankruptcy Code. See Pennsylvania v. Delaware Valley Citizens' Council for Clean Air, 478 U.S. 546, 565 (1986); In re Drexel Burnham Lambert Group, Inc., 133 B.R. 13, 22 (Bankr. S.D.N.Y. 1991). Moreover, Jones Day's lodestar calculation is based upon hourly rates that are well within the range of rates that are charged by comparable firms in other large bankruptcy cases. Accordingly, Jones Day's lodestar calculation

is reasonable under sections 330 of the Bankruptcy Code. See Drexel Burnham Lambert, 133 B.R. at 22.

Jones Day's Fees Were Reasonable

53. Jones Day's fees during the Sixth Compensation Period and the Combined Compensation Period were reasonable under the prevailing legal standard and should be allowed on an interim and final basis. The amount of these fees is not unusual given the complexity and size of the Debtors' chapter 11 cases, and these fees are commensurate with fees that Jones Day has been awarded in other chapter 11 cases and that other attorneys of comparable experience and expertise have charged and been awarded in similar chapter 11 cases.

54. Additionally, as described herein and in the Prior Applications, Jones Day has encountered difficult legal problems during the course of these chapter 11 cases involving many areas of legal expertise, including bankruptcy, corporate transactions and finance, real estate, employee benefits, tax and litigation. The professional services rendered in these chapter 11 cases have been performed by attorneys with broad expertise and high levels of skill in the areas in which they have provided services. This highly professional and expert group of attorneys has ensured that the Debtors' cases have progressed in an efficient and expeditious manner.

55. Moreover, for all of the reasons described herein, Jones Day's services have significantly benefitted the Debtors, their estates and creditors and have furthered the Debtors' ultimate goals of completing a successful reorganization of their businesses and maximizing the value of their estates for the benefit of all stakeholders.

Jones Day's Expenses Were Actual and Necessary

56. Section 330(a)(1)(B) of the Bankruptcy Code permits reimbursement for actual, necessary expenses. As noted above, Jones Day already has (a) conducted an extensive review to ensure that the Expenses comply with section 330(a)(1)(B), Local Rule 32, the Guidelines and other applicable requirements and (b) eliminated any expenses that it deemed "not necessary" or otherwise inappropriate. Accordingly, Jones Day has properly requested reimbursement only of actual, necessary and appropriate Expenses.

57. In light of the Debtors' successful emergence from chapter 11 pursuant to a fully consensual plan of reorganization, Jones Day submits that its services (a) contributed substantial benefit to the Debtors' estates, (b) promoted the rehabilitation of the Debtors and (c) furthered the ultimate goals of the Debtors.¹¹

Available Funds

58. Based on the financial information provided by the Debtors to date, Jones Day believes that the Debtors have sufficient cash on hand to pay the fees and Expenses requested herein immediately upon approval of such amounts by the Court.

Review by the Debtors

59. A copy of this Application has been sent to the Debtors for their review. To date, the Debtors have not expressed whether they approve the amounts requested in this Application.

¹¹ In addition, no agreement or understanding exists between Jones Day or any third person for the sharing of compensation, except as allowed by section 504(b) of the Bankruptcy Code and Bankruptcy Rule 2016 with respect to sharing of compensation between and among partners in Jones Day. All the services for which compensation is requested in this Application were rendered at the request of and solely on behalf of the Debtors.

Certification

60. In accordance with Local Rule 32 and the Guidelines, the Certification of Richard A. Chesley is attached hereto as Exhibit H and incorporated herein by reference.

NOTICE

61. In accordance with the Interim Compensation Order and the Fee Auditor Order, copies of this Application have been served on counsel to the Creditors' Committee, the United States Trustee and the Fee Auditor. Additionally, as required by paragraph 4(d) of the Fee Auditor Order, the Fee Auditor also has been served with a software version of this Application in a computer-readable format approved by the Fee Auditor.

CONCLUSION

62. The professional services rendered by Jones Day during the Sixth Compensation Period and the Combined Compensation Period required a high degree of professional competence and expertise to ensure that the numerous issues requiring evaluation and response by the Debtors were addressed in an appropriate and timely manner. The provision of such services, therefore, has required the expenditure of substantial time and effort. Jones Day submits that the services rendered to the Debtors were performed efficiently, effectively and economically and that the results obtained in these cases by the confirmation of the Plan on a consensual basis have benefitted not only the Debtors, but also other parties in interest.

63. Accordingly, for all of the reasons described herein, the fees requested in this Application are reasonable and reflect the value of the services provided on behalf of the Debtors in these chapter 11 cases. Moreover, Jones Day has requested reimbursement only of actual and necessary expenses incurred in connection with these services.

WHEREFORE, Jones Day respectfully requests that the Court enter an order substantially in the form of the order attached hereto as Exhibit I: (i) granting this Application and the Prior Applications; (ii) allowing on an interim basis compensation of \$879,625.30 for services rendered by Jones Day during the Sixth Compensation Period; (iii) allowing on an interim basis the reimbursement of Expenses of \$125,691.39 incurred in connection with Jones Day's services during the Sixth Compensation Period; (iv) allowing on a final basis compensation of \$6,490,112.15 for services rendered by Jones Day during the Combined Compensation Period; (v) allowing on a final basis reimbursement of Expenses of \$921,158.80 incurred in connection with Jones Day's services during the Combined Compensation Period; (vi) allowing on a final basis \$40,000.00 in Estimated Fees and Expenses, subject to the Estimated Fee and Expense Procedures; (vii) authorizing and directing the Debtors to pay to Jones Day (A) the unpaid balance of all approved fees and Expenses, plus (B) the Estimated

Fees and Expenses minus (C) the Remaining Retainer Amount, which will be applied to the unpaid balance owed to Jones Day; and (viii) granting such other and further relief as the Court may deem proper.

Dated: October 1, 1999

Respectfully submitted,

Richard A. Chesley / JMW
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ATTORNEYS FOR THE DEBTORS

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

IN RE: :
 : Jointly Administered
Montgomery Ward Holding Corp., :
 : a Delaware corporation, et al. : Case No. 97-1409 (PJW)
 :
 : Debtors. : Chapter 11

**ORDER AUTHORIZING DEBTORS AND DEBTORS IN POSSESSION TO
RETAIN AND EMPLOY JONES, DAY, REAVIS & POGUE AS COUNSEL**

This matter coming before the Court on the Application for an Order Authorizing the Retention and Employment of Jones, Day, Reavis & Pogue as Counsel (the "Application") filed by the above-captioned debtors and debtors in possession (collectively, the "Debtors"); the Court (a) having reviewed (i) the Application, (ii) the Affidavit of David S. Kurtz, a partner in the law firm of Jones, Day, Reavis & Pogue ("Jones Day"), attached to the Application as Exhibit A (the "Kurtz Affidavit"), and (iii) the Disclosure of Compensation of Jones Day in Accordance with Section 329 of the Bankruptcy Code, Rule 2016(b) of the Federal Rules of Bankruptcy Procedure and Rule 8.3 of the Local Rules for the District of Delaware (the "Disclosure of Compensation") attached to the Application as Exhibit B (the "Disclosure of Compensation") and (b) having heard the statements of counsel in support of the relief requested in the Application at a hearing before the Court (the "Hearing"); the Court finding that (a) the Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334, (b) this is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A) and (c) notice of the Application was sufficient under the circumstances; and the Court having determined that the legal and factual bases set forth in the Application, the Kurtz Affidavit and the Disclosure of Compensation and at the Hearing establish just cause for the relief granted herein;

THE COURT HEREBY FURTHER FINDS THAT:

A. The Application, the Kurtz Affidavit and the Disclosure of Compensation are in compliance with all applicable provisions of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Bankruptcy Code"), the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and the Local Rules for the District of Delaware (the "Local Rules"). Jones Day does not hold or represent any interest adverse to the Debtors' estates and is a "disinterested person," as defined in section 101(14) of the Bankruptcy Code and as required by section 327(a) of the Bankruptcy Code.

B. The Debtors' employment of Jones Day in accordance with the Application and this Order is in the best interests of the Debtors and their estates and creditors.

IT IS HEREBY ORDERED THAT:

1. The Application is GRANTED.
2. The Debtors are authorized to retain and employ Jones Day as their counsel in these chapter 11 cases, pursuant to section 327 of the Bankruptcy Code.
3. Jones Day is authorized to perform any and all legal services for the Debtors that are necessary or appropriate in connection with these chapter 11 cases.
4. Jones Day shall be compensated for such services and reimbursed for any related expenses in accordance with applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and any future orders of this Court.

Dated: July 8, 1997


UNITED STATES BANKRUPTCY JUDGE