

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

-----))	Chapter 11
In re:))	
Montgomery Ward Holding Corp.,))	Case Nos.: 97-1409 (P JW)
a Delaware corporation, <u>et al.</u> ,))	through 97-1468 (P JW)
Debtors))	Judge Peter J. Walsh
-----))	Jointly Administered

**APPLICATION FOR PROFESSIONAL COMPENSATION AND
FOR REIMBURSEMENT OF EXPENSES**

Type of Application: Interim Final

Name of Applicant: **Zolfo Cooper, LLC**
 Authorized to Provide Professional Services to: The Debtors
 Date of Order Authorizing Employment: January 8, 1998 (nunc pro tunc to December 10, 1997)

U.S. BANKRUPTCY COURT
 DISTRICT OF DELAWARE
 OCT 11 12 57 PM '99

Compensation Sought:

Application Date: October 2, 1999
 Application Period: December 10, 1997 to August 2, 1999

	<u>Hours</u>	<u>Amount</u>
Professional Fees	5,454.0	\$1,437,957.50
Paraprofessional Fees	126.5	9,442.50
Expense Reimbursement		181,164.72
Total		<u>\$1,628,564.72</u>

\$1,447,400

This is the **Final** application filed.

5475

**Summary of
Professional Fees by Professional
December 10, 1997 to August 2, 1999**

Name of Professional	Years of Experience	Hours Billed	Rate	Total
<u>Partners:</u>				
Stephen Cooper	28	254.3	\$395	\$100,448.50
Steve Panagos	15	54.5	405	22,072.50
Steve Panagos	15	793.7	395	313,511.50
Norman Lavin	30	6.9	395	2,725.50
<u>Professional Staff:</u>				
Micheal Winschuh	12	1,100.3	315	346,594.50
Micheal Connolly	7	229.7	240	55,128.00
Gerald Lombardo	7	1,136.9	240	272,856.00
Lyle Potash	13	1,152.0	225	259,200.00
David Orłowski	5	3.0	200	600.00
Daan Goedkoop	2	707.9	90	63,711.00
Jason Capone	1	14.8	75	1,110.00
Subtotal		5,454.0		1,437,957.50
<u>Paraprofessional:</u>				
Giulia Noto		30.5	75	2,287.50
Dawn Bliss		55.0	75	4,120.00
Rosalind C. Padgett		33.0	75	2,475.00
Robert French		8.0	70	560.00
Subtotal		126.5		9,442.50
Total		5,580.5		\$1,447,400.00
Average Blended Hourly Rate				\$259.37

Is this a first application? Yes No

Prior Fee Application Information:

Date Filed	Period Covered	<u>Total Fees and Expenses</u>	
		<u>Requested</u>	<u>Approved</u>
12-Apr-98	December 10, 1997 through February 28, 1998	\$566,245.75	Pending
12-Aug-98	March 1, 1998 through June 30, 1998	846,112.31	Pending
15-Dec-98	July 1, 1998 to October 31, 1998	136,544.01	Pending
12-Apr-99	November 1, 1998 to February 28, 1999	48,282.10	Pending
Total		\$1,597,184.17	
Aggregate Fees and Expenses Paid to Date (1)			\$1,313,464.42

(1) The aggregate fees and expenses paid to date do not include any payments received for the fee statements from March 1999 through July 1999.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

-----)	Case Nos.: 97-1409 (PJW)
)	through 97-1468 (PJW)
In re:)	
)	In Proceedings for a
Montgomery Ward Holding Corp.,)	Reorganization Under Chapter
a Delaware corporation, <u>et. al.</u> ,)	11 of the Bankruptcy Code
Debtors)	
)	Jointly Administered
-----)	

**FIFTH INTERIM AND FINAL APPLICATION OF ZOLFO COOPER, LLC
FOR ALLOWANCE OF COMPENSATION FOR SERVICES RENDERED
AS SPECIAL FINANCIAL ADVISORS AND BANKRUPTCY CONSULTANTS
TO THE DEBTORS
AND FOR REIMBURSEMENT OF EXPENSES UNDER 11 U.S.C. § 330(a)**

TO THE HONORABLE PETER J. WALSH,
UNITED STATES BANKRUPTCY JUDGE:

1. On July 7, 1997 (the "Filing Date"), Montgomery Ward Holding Corp., and 59 of its wholly-owned subsidiaries (Collectively, the "Debtors") filed voluntary petitions for reorganization under chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101 et seq. (the "Bankruptcy Code"). Since the Filing Date, the Debtors have continued to operate their businesses and manage their properties as debtors-in-possession pursuant to Bankruptcy Code §§ 1107(a) and 1108.

2. The Debtors are very large, complex enterprises, principally engaged in retail merchandising and related businesses, with operations located throughout the United States. Montgomery Ward is among the nation's largest retailers of prominent name brand electronics, appliances, furniture and fine jewelry. Other major product offerings include apparel, domestics, housewares and automotive parts and services. Montgomery Ward operates 300 retail stores in 37 states (with approximately 23 million total square feet of selling space). In addition,

Montgomery Ward operates six liquidation centers which sell overstock merchandise, 15 distribution facilities and 82 product service centers. As of December 31, 1997, Montgomery Ward and its subsidiaries generated over \$5.4 billion in annual revenue and employed over 46,000 full-time and part-time employees. Accordingly, the Debtors required the services of experienced Special Financial Advisors and Bankruptcy Consultants to assist them in rehabilitating the business and developing, negotiating and confirming a plan of reorganization.

3. The Bankruptcy Court entered an order (the "Retention Order") on January 8, 1998, nunc pro tunc to December 10, 1997 authorizing the retention of ZC to:

- (a) Advise and assist management in communicating with customers, lenders, suppliers, employees, shareholders and other parties in interest;
- (b) Assist management in designing and implementing programs to manage or divest assets, improve operations, reduce costs and restructure as necessary with the objectives of rehabilitating and enhancing the value of the business;
- (c) Advise the Debtors concerning interfacing with Official Committees, other constituencies and their professionals, including the information required by such parties and/or the Bankruptcy Court;
- (d) Advise and assist management in the development of strategies and tactics to drive the formulation of a Business Plan designed to serve as the basis for a Plan of Reorganization;
- (e) Provide such other services as may be required by the Debtors.

A copy of the Order authorizing the retention of ZC as Special Financial Advisors and Bankruptcy Consultants to the Debtors, along with the related application to the Bankruptcy Court for such retention authority and the supporting Affidavit and the Supplemental Affidavit of Stephen F. Cooper, is attached as Exhibit A.

4. The Retention Order authorized the Debtors to pay the fees for services rendered and ZC's out-of-pocket expenses in accordance with the procedures established for interim compensation and reimbursement of expenses of professionals by the Bankruptcy Court in its Administrative Order dated July 8, 1997 (the "Administrative Order"), and in its Order Granting Relief of Certain Provision of the Administrative Order dated December 5, 1997 (the "Administrative Relief Order"). Pursuant to the terms of the Administrative Order and the Administrative Relief Order, the Debtors are to pay 80% of the fees and 100% of out-of-pocket expenses reflected on each monthly invoice at the expiration of fifteen days following receipt of such invoice (due no later than 25 days after the end of the month), except that payment of fees or expenses as to which an objection has been served is to be deferred and resolved in the manner set forth in the Administrative Order and the Administrative Relief Order. All such payments are on account of and subject to formal application for allowance of compensation and reimbursement of out-of-pocket expenses, and all such payments are subject to final allowance by the Bankruptcy Court.

Certification

5. The affiant, a principal in the firm of ZC, as the professional designated by the Applicant with the responsibility for compliance with the United States Trustee Guidelines, certifies that except as otherwise noted elsewhere herein:

- 1)
 - a) He has read this application,
 - b) To the best of his knowledge, information and belief, formed after reasonable inquiry:
 - i. This application complies with the mandatory provisions of the United States Trustee Guidelines,
 - ii. The fees and out-of-pocket expenses are billed in accordance with the billing practices described below, and except as otherwise indicated therein fall within the United States Trustee Guidelines,
 - iii. Except to the extent prohibited by the United States Trustee Guidelines, the fees and out-of-pocket expenses sought herein have been billed at rates and in accordance with practices customarily employed by the Applicant and accepted by the Applicant's clients, and
 - iv. The time descriptions included with the invoices attached as Exhibit "C" comply with the requirements as set forth in Order #32 issued by the United States Bankruptcy Court for the District of Delaware.
- 2) As of the date of the filing of this application, the Debtors have not indicated that they have reviewed and approved this application; however, the Debtors have previously received copies of each monthly invoice issued by ZC covering services rendered and out-of-pocket expenses incurred during the Application Period. Prior to the date of the hearing, the Applicant will file an affidavit stating that this application has been reviewed and approved by the Debtors.
- 3) The Debtors, the Counsel to the Debtors, the Trustee and the Counsel to the Committee have each been provided, no later than twenty-five days after the end of each month within the Application Period, a statement of fees for services and out-of-pocket expenses accrued during such month and containing a list of professionals providing services, their respective billing rates, and the aggregate hours expended by each such person. The Debtors also received a general description of the services rendered, summarized by discrete project; and a detailed description of the services performed by each professional and the time expended.

- 4) The Debtors, the Counsel to the Debtors, the Trustee and the Counsel to the Committee will have each been provided a copy of this final application for allowance of fees and reimbursement of out-of-pocket expenses.
- 5) With respect to expenses and reimbursable services incurred for which reimbursement is sought, ZC:
 - a) Does not make a profit;
 - b) Does not include in the amount for which reimbursement is sought the amortization of the cost of any investment, equipment or capital outlay; and
 - c) Seeks reimbursement of services purchased from or contracted for with a third-party vendor only in the amount billed to the Applicant by and paid or to be paid by the Applicant to the vendor.

The affiant presently intends to attend the fee hearing; however, if he is unable to do so, he will arrange for a member of the firm, authorized to speak for the firm, to be present.

Relief Requested

6. This application is made for final allowance of compensation for services rendered by ZC as Special Financial Advisors and Bankruptcy Consultants to the Debtors and for reimbursement of necessary out-of-pocket expenses actually incurred during the Application Period. ZC filed four (4) applications for allowance of interim compensation and reimbursement of out-of-pocket expenses during the Application Period.

7. During the Application Period, ZC provided an aggregate of 5,580.5 hours of services as Special Financial Advisors and Bankruptcy Consultants to the Debtors, 5,454.0 hours for professional services and 126.5 hours for paraprofessional and support services, thereby incurring fees of \$1,447,400.00 in the aggregate, \$1,437,957.50 for professional services and \$9,442.50 for paraprofessional and support services, and out-of-pocket expenses of \$181,164.72.

During the Fifth Interim Fee Application Period from March 1, 1999 through August 2, 1999 (the "Fifth Interim Period"), ZC provided an aggregate of 171.2 hours of services as Special Financial Advisors and Bankruptcy Consultants to the Debtors, 169.2 hours for

professional services and 2.0 hours for paraprofessional and support services, thereby incurring fees of \$30,385.50 in the aggregate, \$30,235.50 for professional services and \$150.0 for paraprofessional and support services, and out-of-pocket expenses of \$995.05.

A summary of the monthly invoices issued during the Application Period, showing the hours expended and the amounts of fees and out-of-pocket expenses incurred is set forth below:

Month/Year	Hours			Fees			Expenses	Total Fees & Expenses
	Pro- fessional	Parapro- fessional	Total	Pro- fessional	Parapro- fessional	Total		
December 1997	180.7	10.0	190.7	\$59,463.50	\$750.00	\$60,213.50	\$12,831.86	\$73,045.36
January 1998	969.2	21.0	990.2	251,874.50	1,572.50	253,447.00	40,824.72	294,271.72
February 1998	733.8	12.5	746.3	170,921.50	935.00	171,856.50	27,051.37	198,907.87
March 1998	1,013.7	12.0	1,025.7	275,712.50	900.00	276,612.50	27,483.22	304,095.72
April 1998	842.7	17.5	860.2	227,623.00	1,312.50	228,935.50	29,386.50	258,322.00
May 1998	666.2	21.0	687.2	191,414.00	1,575.00	192,989.00	23,876.62	216,865.62
June 1998	235.6	7.0	242.6	62,598.50	525.00	63,123.50	3,603.02	66,726.52
July 1998	73.5	11.0	84.5	20,896.00	785.00	21,681.00	5,270.00	26,951.00
August 1998	77.5	1.5	79.0	18,270.00	112.50	18,382.50	3,028.10	21,410.60
September 1998	119.0	3.0	122.0	31,543.00	225.00	31,768.00	3,081.47	34,849.47
October 1998	200.5	5.0	205.5	52,407.00	375.00	52,782.00	522.29	53,304.29
November 1998	91.8	3.0	94.8	26,902.00	225.00	27,127.00	1,817.39	28,944.39
December 1998	42.4	0.0	42.4	10,709.50	0.00	10,709.50	437.25	11,146.75
January 1999	35.4	0.0	35.4	6,757.00	0.00	6,757.00	582.99	7,339.99
February 1999	2.8	0.0	2.8	630.00	0.00	630.00	220.97	850.97
March 1999	1.0	0.0	1.0	225.00	0.00	225.00	9.75	234.75
April 1999	111.3	2.0	113.3	20,385.00	150.00	20,535.00	130.19	20,665.19
May 1999	26.9	0.0	26.9	2,421.00	0.00	2,421.00	391.62	2,812.62
June 1999	15.7	0.0	15.7	1,413.00	0.00	1,413.00	21.45	1,434.45
July 1999	14.3	0.0	14.3	5,791.50	0.00	5,791.50	442.04	6,233.54
Adjustment *							151.90	151.90
	<u>5,454.0</u>	<u>126.5</u>	<u>5,580.5</u>	<u>\$1,437,957.50</u>	<u>\$9,442.50</u>	<u>\$1,447,400.00</u>	<u>\$181,164.72</u>	<u>\$1,628,564.72</u>

* Incorrect credit on copy charges, in November 1998 invoice.

7. Copies of the invoices related to the Fifth Interim Period are attached as Exhibit "C" to this final application for allowance of compensation and reimbursement of out-of-pocket expenses. Accompanying each invoice is a list of professionals providing services; their respective billing rates; the aggregate hours expended by each professional; a general description of the services rendered, summarized by discrete project; a detailed description of the services performed by each professional, and the time expended, organized by day and a detailed breakdown of the disbursements incurred.

8. Detailed analysis of professional fees by professional and by project, and out-of-pocket expenses incurred, showing the amount incurred in each expense category by professional for the Application Period is attached as Exhibit "B" to this final application for allowance of compensation and reimbursement of out-of-pocket expenses.

Also included in Exhibit "B" is a detailed analysis of professional fees by professional and by project, and out-of-pocket expenses incurred, showing the amount incurred in each expense category by professional for the Fifth Interim Period. Similar monthly breakdowns are attached to each invoice included in Exhibit "C".

9. A recap of professional fees and out-of-pocket expenses invoiced from the Filing Date through the end of the Application Period, showing the amounts incurred, the amounts held back pursuant to the terms of the Retention Order pending future application to the Bankruptcy Court, the amounts previously awarded by the Bankruptcy Court, the amounts paid by the Debtors to the date of this final application, and the amounts unpaid are attached as Exhibit "D" to this final application for allowance of compensation and reimbursement of out-of-pocket expenses.

Billing Practices

10. It is ZC's customary practice to charge fees based on actual hours expended to perform its services at standard hourly rates established for each principal and employee as adjusted annually. The Firm does not bill clients for travel time unless work is performed en route. Time entries are recorded in six minute increments. Fees reflect economies resulting from the use of paraprofessional and support personnel to develop schedules and analyses, input computer data, perform research, work on fee applications, and other activities necessary to the efficient administration of a case. So as not to burden clients who do not require such services, ZC does not include support services in the firm's overhead for the purpose of establishing billing rates. Billing rates are generally representative of prevailing market rates, as awarded by other Courts in similar circumstances, for practitioners providing such services at a national level who have comparable skill and experience.

ZC charges its clients only for reasonably incurred, out-of-pocket expenses associated with an assignment. Except as necessary to comply with applicable court-mandated guidelines for allowance of professional fees and expenses or an applicable Administrative Order, all such expense billings are in accordance with the Firm's customary practices. ZC personnel stay at convenient, quality hotels and eat at quality restaurants; ZC does not incur costs for luxury accommodations or deluxe meals and when prohibited by applicable administrative order does not bill clients for first class airfare. Except as follows, all expenses are billed at actual cost, exclusive of amortization of the cost of any investment, equipment or capital outlay: (i) internal charges for outgoing facsimile transmissions are \$1.00 per page (no charges are included for incoming facsimile transmissions), and (ii) internal photocopy charges are \$.15 per page.

ZC maintains contemporaneous records of the time expended and out-of-pocket expenses incurred in support of its billings for services. All such records are located in the Firm's offices and are available for inspection, subject to certain matters contained therein that may be privileged.

Staffing and Approach

11. ZC is a nationally recognized independent financial advisory and consulting firm specializing in advising debtors, creditors' committees, investors and court-appointed officials in formal Bankruptcy proceedings and out-of-court workouts. A substantial portion of ZC's work is advisory and involves ZC's professionals counseling senior client personnel regarding high-level strategic and tactical issues. Consistent with its relatively unique practice, ZC's staff consists primarily of seasoned professionals. A typical new employee at ZC is a former "Big 5" partner or manager frequently with from 5 to more than 7 years of experience. Indeed, more than 50% of ZC's professionals have in excess of ten years of relevant business experience. The firm's internal structure and work approach are designed around its unusual staff composition of senior professionals. Individual staff members are assigned project manager or project staff roles, to bring to bear their particular talents and experience in view of the specific requirements of the

engagement. ZC provides high value for its fees, efficiently leveraging its experienced professionals by directing client personnel to perform routine tasks.

Stephen F. Cooper, the principal in charge of this engagement, has over 28 years of experience, primarily in working with troubled companies. He has gained significant experience in production, marketing and sales as well as finance across a broad industry base. A graduate of Occidental College and a Wharton MBA, Mr. Cooper enjoys a national reputation as an effective problem solver capable of forging consensual coalitions among parties with disparate economic interests. Mr. Cooper is assisted by Steven G. Panagos, a principal, who is responsible for all aspects of engagement administration and coordination of the efforts of the assigned staff. Mr. Panagos has 15 years of experience, including 10 years advising troubled companies.

Conferences, meetings and worksessions among the members of the engagement team are integral to ZC's team approach, essential to minimizing misunderstandings and assuring continuity of service in a large, multifaceted case such as this one. Ongoing communications and review of workproduct facilitate the sharing of information and assure continued alignment with established priorities and objectives, thereby reducing the time expended and avoiding duplicative efforts. ZC communicates continually with its clients on the status and results of its work efforts and interfaces with other professionals to improve coordination and ensure that it does not duplicate services rendered by other professionals retained in the case.

Summary of Services Provided and Results Achieved

12. The Debtors filed bankruptcy petitions on July 7, 1997. For a period prior to the filing of these petitions and through the Fall of 1997, the Debtors faced a host of issues that negatively impacted operations and profitability, which included:

- Liquidity constraints;
- Negative press regarding a potential liquidation;
- Abnormal vendor relationships caused by the filings; and
- A very public dispute with the Official Committee of Unsecured Creditors (the “Committee”) regarding the Debtors’ motion to assume certain contracts with the vendors for its Montgomery Ward credit card program, which exacerbated the aforementioned issues.

During the first five months of this case, the Debtors made substantial progress in stabilizing operations. The Debtors mended vendor relationships by entering into a \$1 billion debtor-in-possession (DIP) financing facility agreement and by successfully obtaining a court-approved reclamation program. These actions restored a regular flow of fresh goods to Montgomery Ward stores, resulting in improved comparable store trends for each month since the bankruptcy filings. Additionally, the Debtors proactively closed approximately 100 unprofitable stores, including the entire Lechmere, Electric Avenue & More and Home Image chains in August 1997 and 47 full-line stores in the fourth quarter of 1997.

During this five-month period, management had retained the services of Ernst & Young (“E&Y”) as its financial advisors. In December 1997, management began to focus on a plan to emerge from bankruptcy and decided that due to the complex nature of the restructuring process, the Debtors needed additional focused assistance on a Plan of Reorganization and decided to

retain Zolfo Cooper, LLC (“ZC”) to draw upon ZC’s successful experience in leading a vast number of debtors to a successful plan of reorganization (“POR”). ZC was officially retained with Bankruptcy Court approval on January 8, 1998 nunc pro tunc to December 10, 1997.

At the Debtors’ request, E&Y continued to provide limited services to the Debtors related to:

- Supporting the Debtors’ negotiations regarding the interim credit card agreement which was settled consensually on April 3, 1998;
- The liquidation and final accounting of the 47 full-line Montgomery Ward stores which commenced going-out-of-business (“GOB”) sales in the Fall of 1997. E&Y’s efforts focused on marketing the real estate for closed locations and facilitating the auction process concluded on February 24, 1998;
- Assembling a preliminary database for the valuation of fee-owned property and leasehold interests for the remaining 301 stores; and
- Certain other specific matters.

Obviously, some time was required to transfer E&Y’s responsibilities to ZC as the lead restructuring advisors. However, such required time was minimal and only performed to allow an efficient transition on specific matters, which enabled ZC to effectively leverage off of any work previously performed by E&Y. The work areas that required such transition were primarily related to the preliminary consolidated liquidation analysis prepared by E&Y to support its testimony regarding the interim credit card agreement, and the preliminary real estate database assembled by E&Y that had been provided to the Committee’s professionals to value leasehold interests. As previously stated, ZC’s time spent transitioning responsibilities from E&Y was required, but efficient and minimal.

ZC's primary work efforts have supported the Debtors on the following matters:

- Assisted management and counsel in outlining a timeframe, including interim milestones, to emerge from bankruptcy by June 30, 1999. This timeline was communicated to the Committee on February 10, 1998;
- Assisted management and counsel in outlining achievable operating targets that would be the basis of a successful Plan of Reorganization ("POR");
- Developed a detailed work plan for all major activities to be accomplished in order for the Debtors to emerge from bankruptcy. This included specific actions, responsible persons for completing the activities and budgeted hours by project to efficiently manage ZC's efforts;
- Assisted management in finalizing the Spring and Fall 1998 Plans, and reviewed opportunities and risks associated with achieving these plans. ZC specifically advised the Debtors to distinguish between Internal Projections (which are used to drive management and set benchmarks for incentive compensation programs) from the External Projections (which are used to communicate the expected level of achievement to creditor constituencies);
- Assisted management in the presentation of the Spring 1998 Plan including the preparation of presentation materials, and participation at meetings with the following creditor representatives:
 - Sub-committee of the Committee on January 29, 1998;
 - Full Committee on February 10, 1998; and
 - Pre-Petition Lender Group on February 26, 1998.
- Assisted management in the presentation of the Fall 1998 Plan including the preparation of presentation materials, and participation at meetings with the following creditor representatives:

- Full Committee on April 22, 1998; and
- Full Committee on May 28, 1998, regarding Spring YTD results, current operating trends and incremental advertising programs implemented by the Debtors in an effort to boost lagging furniture and appliance sales.
- Attended and participated in UCC meetings;
- Coordinated the flow of information to the Committee's financial advisors and facilitated meetings with management during the Committee's due diligence efforts relative to the Spring and Fall 1998 Plans;
- Interfaced with creditor committee professionals to facilitate the flow of information and manage their information requests;
- Began the Three-Year Strategic Business Plan planning process, which included:
 - Preparing of a detailed workplan to efficiently manage ZC's and the Debtors' work efforts;
 - Developing competitive and strategic analytics for store level analysis by line of business, by region, by distribution center, and by advertising market; and
 - Conducting meetings with management to challenge assumptions and merchandising strategies related to the Three-Year Strategic Business Plan model.
- Reviewed, challenged, and provided feedback to management on the Three-Year Strategic Business Plan, its Executive Summary and supporting assumptions;
- Developed preliminary POR valuation analyses and assumptions, and distribution matrices identifying recoveries by claim class, under various financial and operating assumptions;
- Assisted management in reviewing, challenging and modifying the 5-year operating projections for the Signature subsidiary. These projections were used to obtain the \$125 million refinancing commitment at Signature and used by the Debtors' investment

bankers in preparing the Confidential Offering Memorandum for the solicitation of offers for the Signature business;

- Assisted members of Signature management in the preparation and review of an information package to be distributed to prospective buyers;
- Prepared to provide expert testimony for a court hearing on the interim credit card agreement scheduled for March 24, 1998, which was postponed and consensually settled without a trial on April 3, 1998;
- Assisted counsel in preparing management to provide testimony at the interim credit card agreement hearing scheduled for January 1998, including the development of financial exhibits to support their testimony. On the morning of the scheduled hearing, a six-month settlement was reached, which obviated the need for such testimony, but the preparation was required and supported settlement discussions;
- Prepared for testimony regarding a consolidated liquidation analysis;
- Assisted Debtors' counsel in preparation and development of Disclosure Statement and the Debtors' POR regarding the Debtors' range of liquidation value.
- Prepared, revised and refined a consolidated liquidation analysis for various time periods, which was used to satisfy the best interest test in the Debtors' POR and Disclosure Statement, with respect to:
 - DIP loan liability;
 - GOB results;
 - Owned real-estate valuation;
 - Leasehold interest valuation and lease rejection claims;
 - Signature valuation;
 - Wind-down costs, non-core assets, and credit card claims;
 - Administrative claims;
 - Lechmere claims;

- Claims recovery; and
- Other issues.
- Revised and refined a consolidated liquidation analysis report with documented assumptions used in developing the analyses;
- Communicated with the Debtors' personnel and management to understand and analyze the liquidation analysis with respect to the above mentioned issues and revisions.
- Prepared, revised and refined a detailed legal entity by entity liquidation analysis for the 60 Debtors and 3 non-Debtors, which may have been used to satisfy the best interest test in the Debtors' POR and Disclosure Statement;
- Assisted management in finalizing the real estate database assembled by E&Y (and was provided to the Committee's professionals) which was integral to the Company's and the Committee's estimates of leasehold interest;
- Prepared, revised and refined supporting analysis for the development of liquidation and POR analyses, which includes, but is not limited to:
 - A valuation analysis of 300 owned and leased retail property, 16 distribution centers and other miscellaneous real estate property; and
 - A lease rejection claim analysis of relevant property, equipment leases and advertising contracts.
- Developed a database on the 298 owned and leased auto centers to assist management in evaluating various strategic alternatives for the auto service business; and
- Assisted the Debtors in evaluating their investment in Ha-Lo warrants, of which the Debtors' estates may realize amounts up to, or in excess of, \$8,182,536.43 over the next six-year period.

During the Fifth Interim Period, ZC's primary work efforts supported the Debtors on the following matters:

- Prepared for testimony and attended court on July 15, 1999 confirmation hearing, regarding the Debtors' range of liquidation value in support of the Debtors' POR;
- Reviewed the Debtors' Disclosure Statement in preparation for confirmation hearing on July 15, 1999;
- Revised and refined the consolidated liquidation analysis for Board of Directors meeting;
- Assisted Debtors' counsel in preparation and development of Disclosure Statement and the Debtors' POR regarding the Debtors' range of liquidation value;
- Revised and refined a consolidated liquidation analysis, with respect to:
 - Inventory realization rates based on the latest GOB results;
 - Paydown to the DIP facility from GOBs proceeds;
 - Owned and leased property valuation and lease rejection claims;
 - Leasehold interest based on latest 39 store closing;
 - Signature valuation;
 - Lechmere claims;
 - Claims recovery; and
 - Other issues.

These efforts were instrumental in the Plan of Reorganization process through the establishment of a common benchmark (the liquidation analysis) from which all parties negotiated. The liquidation analysis served as the cornerstone for the Debtors' negotiations with the Committee and GECC. Further, the consolidated liquidation analysis was relied on by management, the Board of Directors, the Committee and GECC for establishing a framework for a POR proposal and benchmarking values.

Summarized below is a more detailed description of the services provided by ZC to the Debtors organized by each significant service area.

Project #1 – Chapter 11 Process: Since its retention by the Debtors, ZC has organized and managed the Debtors’ resources to effectively and efficiently plan, and coordinate the chapter 11 process. This work also includes gaining a complete understanding of the significant case events prior to ZC’s involvement, such as reviewing the Debtors’ monthly operating reports filed with the Court. During the Fifth Interim Period, ZC did not provide any services in this project area.

Project #2 – Business Operations: Since its retention by the Debtors, ZC assisted the Debtors and made recommendations to develop, design, and monitor programs to divest assets, reduce costs and improve operations. The objective of these activities is to rehabilitate the Debtors’ operations. Specifically, ZC:

- Met with senior level operations management to review store performance reports and understand how management monitors and evaluates store performance;
- Participated in management meetings to understand specific programs identified to reduce costs and improve operating efficiencies (Profit Improvement Committee meetings);
- Assisted management in outlining its plan to consolidate several distribution centers (“DCs”) and estimate related annual cost savings;
- Analyzed management’s analysis of potential store closings and advised management regarding the conclusions and alternative methodologies to assessing store performance prior to completion of the Three-Year Business Plan;

- Monitored sales results by department on a daily, weekly and monthly basis and conducted follow-up interviews with Merchandising management to understand operating trends;
- Analyzed management's incremental advertising programs to understand the costs and the estimated boost in furniture and appliance sales anticipated by implementing these programs;
- Reviewed and analyzed monthly sales and operating results, trends and forecasts; and
- Examined the impact of advertising promotions on sales.

During the Fifth Interim Period, ZC did not provide any services in this project area.

Project #3 – Communication with Interested Parties: Since its retention by the Debtors, ZC communicated with the Committee, its professionals, the U.S. Trustee, and other parties-in-interest including attending and participating in meetings. Specifically, ZC:

- Coordinated the flow of information to the Committee's financial advisors and facilitated meetings with management during the Committee's due diligence efforts relative to the Spring and Fall 1998 Plans;
- Met individually with members of the Committee to discuss the Company's operations and various other case matters to understand creditor issues and provide appropriate feedback to management;
- Assisted management in the presentation of the Spring and Fall 1998 Plans including the preparation of presentation materials, and participation at meetings with the following creditor representatives:
 - Sub-committee of the Committee on January 29, 1998;
 - Full Committee on February 10, 1998;
 - Pre-Petition Lender Group on February 26, 1998;

- Full Committee on April 22, 1998; and
- Full Committee on May 28, 1998, regarding Spring YTD results, current operating trends and incremental advertising programs implemented by the Debtors in an effort to boost lagging furniture and appliance sales.
- Attended and participated in a UCC meeting on July 21, 1998; and
- Coordinated the flow of information to creditor committee professionals regarding monthly sales and inventory balances, and store closing analyses.

As a result of ZC's efforts, the information requests by Committee and their financial advisors were fully satisfied.

During the Fifth Interim Period, ZC did not provide any services in this project area.

Project #4 – Business Plan Development: Since its retention by the Debtors, ZC assisted the Debtors in developing, designing, drafting, and challenging the Seasonal and Multi-Year Business Plans including related assumptions and rationale. Specifically, ZC:

- Assisted the Debtors by analyzing the bottoms-up plan by line item for sales, margin and inventory and conducted review sessions with the Debtors' personnel to understand the historical and current trends, the implementation of new merchandising strategies, planned advertising, the competition in the marketplace, and the achievability of the Plan;
- Reviewed and challenged expense reduction initiatives, including:
 - The supporting analyses of the administrative costs by department in the Fall 1998 Plan;
 - The information supporting the six major initiatives being undertaken by the information services department, and the operating efficiencies to be achieved through its ongoing investment in these initiatives and other related projects, including the utilization of off-shore programming facilities;

- The proposed consolidation and reduction of distribution centers and the related streamlining of the flow of softline goods to the retail stores;
 - The reduction in advertising expense, and the new approach to advertising and promotion through better planning, which results in more effective, better quality advertising of merchandise, with reduced expenditures; and
 - The underlying assumptions for the balance sheet and cash flow projections.
- Met with store operations management to understand the initiatives being undertaken to reduce store tasks, re-align management infrastructure, and optimize the store staffing model;
 - Reviewed the opportunities and risks associated with achieving the Spring and Fall 1998 Plans, and advised the Debtors to distinguish between Internal Projections (which are used to drive management and set benchmarks for incentive compensation programs) from the External Projections (which are used to communicate the expected level of achievement to creditor constituencies); and
 - Began the planning process for the Three-Year Strategic Business Plan by:
 - Analyzing and challenging management's assumptions with respect to comparable store sales, margin rate, and inventory turns;
 - Preparing a detailed workplan including specific actions, responsible persons for completing the activities, and completion dates to effectively manage the Company's work efforts;
 - Conducting planning meetings with management to challenge assumptions and to manage the timetables for the completion of each segment of the Three-Year Business Plan;
 - Participating in merchandise planning sessions to understand and challenge the new merchandising strategies and the competition in the marketplace for all areas of

merchandising, including apparel, footwear, fine jewelry, furniture, soft home, appliances, electronics, and auto;

- Reviewed, challenged, and provided feedback to management on the Three-Year Strategic Business Plan, its Executive Summary and supporting assumptions; and
- Developed and finalized the segmented financial statements to assist management in analyzing their operations by line of business, by region, by distribution center, and by advertising market.

During the Fifth Interim Period, ZC did not provide any services in this project area.

Project #5 – POR Development: ZC's activities in this area include developing the Debtors' Plan of Reorganization and Disclosure Statement, and negotiating such Plan with various parties-in-interest. Since its retention by the Debtors, ZC's activities included:

- Evaluation of performance target levels related to core operations;
- Identification of non-core assets and operations for divestiture;
- Estimation of a range of value for these assets;
- Outlining of a framework and timetable for a successful plan of reorganization;

Specifically, ZC:

- Estimated a range of values for non-core assets and operations for divestiture;
- Performed market and industry analysis to determine relative EBITDA multiples for the Debtors on a going-concern basis; and
- Developed preliminary POR valuation analyses and supporting assumptions, and distribution matrices identifying recoveries by claim class, under various financial and operating assumptions.

During the Fifth Interim Period, ZC did not provide any services in this project area.

Project #6 – Cash Management: ZC’s activities in this area include forecasting, planning and controlling cash and the cash position, analyzing cash variance from forecast. Since its retention by the Debtors, ZC:

- Met with Treasury management and budgeting personnel to understand the Debtors’ assumptions and methodology employed to prepare the thirteen-week cash flow projections; and
- Assisted management in evaluating alternatives for restricted cash held by the Lechmere subsidiary and understanding the modifications sought by the Debtors to the DIP loan covenants.

During the Fifth Interim Period, ZC did not provide any services in this project area.

Project #7 – Testimony: ZC’s activities in this area include preparing for and providing testimony concerning the extensions of exclusivity, adequate disclosure, insolvency, feasibility of a Plan of Reorganization, avoidance actions and other matters that may arise in the case. Since its retention by the Debtors, ZC assisted counsel and management in preparing for the potential litigation surrounding the interim credit card agreement, which included:

- (i) Developing a litigation strategy;
- (ii) Preparing management for testimony;
- (iii) Preparing financial exhibits to support management’s testimony; and
- (iv) Anticipating questions likely to be asked during cross-examination of management.

During the Fifth Interim Period, ZC:

- Prepared for testimony and attended court on July 15, 1999 confirmation hearing, regarding the Debtors’ range of liquidation value in support of the Debtors’ POR;
- Reviewed the Debtors’ Disclosure Statement in preparation for confirmation hearing on July 15, 1999;

Project #8 – Executory Contracts: ZC did not provide any services in this project area during the Application Period.

Project #9 – Valuation: ZC's efforts in this project area include assessing likely ranges of value of the Debtors' assets or business units under sales and/or liquidation scenarios. Since its retention by the Debtors, ZC:

- Developed, revised and refined a detailed legal entity by legal entity liquidation analysis, which may have been used to satisfy the best interest test in the Debtors' POR and Disclosure Statement. This integrated financial model computes estimated liquidation values for each of the 60 debtor and 3 non-debtor entities, which automatically re-computes recoveries for each creditor class at each debtor entity for any changes in asset realization, wind-down costs or claim amounts. Such a model is implicitly complex because it must account for inter-company relationships including inter-company receivables and payables and investments in subsidiaries, in addition to jointly owned real estate properties;
- Developed, revised and refined a consolidated liquidation analysis for various time periods, which was used to satisfy the best interest test in the Debtors' POR and Disclosure Statement, with respect to:
 - Wind-down and GOB costs;
 - Employee severance;
 - Non-cash accrued liabilities;
 - Credit card receivables and losses;
 - 1999 DIP projection and DIP loan liability;
 - Paydown to the DIP facility from GOBs proceeds;
 - Inventory realization rates based on the latest GOB results;

- Administrative claims;
 - Lechmere claims;
 - Pre-petition and post-petition credit card claims,
 - Claims recovery by claim class;
 - Owned and leased property valuation and lease rejection claims;
 - Owned real-estate valuation for revised assumptions on real-estate commissions and additional store closing in 1998;
 - Impact of leasehold interest value under various discount rates;
 - Lease rejection claims for 14 distribution centers;
 - Signature valuation; and
 - Other issues.
- Communicated with the Debtors' personnel and management to understand and analyze the liquidation analysis with respect to the above mentioned issues and revisions;
 - Developed a comparative summary identifying differences in methodology and claims recovery under consolidated and unconsolidated liquidation scenarios;
 - Prepared a consolidated liquidation analysis report with documented assumptions used in developing the analyses;
 - Finalized a preliminary real estate database, which was used and relied upon by both the Debtors and the Committee's financial advisors in preparation of the liquidation analysis. A substantial effort was undertaken by ZC and the Debtors' real estate department personnel to complete this work activity;
 - Developed, revised and refined a valuation analysis of 300 owned and leased retail property, 16 distribution centers and other miscellaneous real estate property;
 - Communicated with the Debtors' personnel to understand the Company's historical experience in recoveries on inventories through GOB sales based upon the 47 store closings commenced in the Fall of 1997;

- Read and analyzed documents related to the Credit Card Agreement, and performed analyses to develop preliminary and potential claims related to the Credit Card Agreement, under liquidation and going-concern valuation; and
- Analyzed various documents to understand specifics about the Debtors' assets, costs to liquidate and likely claims (both on and off the Debtors' books) in a liquidation scenario, including the:
 - Debtors' 1999 Projected Financial Statements and 1999 DIP balances;
 - Debtors' Projected Balance Sheet as of 03/31/99; and
 - Debtors' Interim Credit Card Agreement.

During the Fifth Interim Period, ZC at the request of management:

- Assisted Debtors' counsel in preparation and development of Disclosure Statement and the Debtors' POR regarding the Debtors' range of liquidation value;
- Revised and refined a consolidated liquidation analysis report with documented assumptions used in developing the analyses;
- Revised and refined the consolidated liquidation analysis for Board of Directors meeting;
- Revised and refined a consolidated liquidation analysis, with respect to:
 - Inventory realization rates based on the latest GOB results;
 - Paydown to the DIP facility from GOBs proceeds;
 - Owned and leased property valuation and lease rejection claims;
 - Leasehold interest based on latest 39 store closing;
 - Signature valuation;
 - Lechmere claims;
 - Claims recovery; and
 - Other issues.

- Communicated with the Debtors' personnel and management to understand and analyze the liquidation analysis with respect to the above mentioned issues and revisions.

Project #10 – Claims Process: At the request of management and counsel, ZC analyzed certain executory contracts formally rejected by the Debtors and quantified damage claims based upon contract termination clauses and provisions of the Bankruptcy Code. During its retention by the Debtors, ZC's work activities in this area included:

- Meetings with management and other personnel for clarification of facts and estimates of potential mitigation factors;
- Compilation of the relevant property and equipment leases, and advertising contracts;
- Preparation and refinement of a lease rejection claim analysis, to determine priority and claim amount under various scenarios; and
- Consultation with counsel.

During the Fifth Interim Period, ZC did not provide any services in this project area.

Project #11 – Special Projects: At the request of management, ZC has assisted the Debtors in numerous special projects. Since its retention by the Debtors, ZC:

- Evaluated the Debtors' investment in Ha-Lo warrants. ZC's analysis of the Ha-Lo Warrant Agreement identifies an incremental benefit of \$3,518,882 for the Debtors' estates. In addition, ZC's advice will allow the Debtors' estates to realize additional amounts up to, or in excess of, \$8,182,536.43 over the next six-year period, provided that Montgomery Ward vests in and exercises the remaining Warrants under the terms of the Warrant Agreement, as amended;

- Outlined approaches and developed a database of the 298 owned and leased auto centers to assist management in evaluating various strategic alternatives for the auto service business; and
- Assisted Signature management in the preparation and review of an information package to be distributed to prospective buyers.

During the Fifth Interim Period, ZC did not provide any services in this project area.

Project #12 – Engagement Administration: ZC staff members participated in conferences and meetings with other engagement members to:

- Facilitate the sharing of information;
- Assure continued alignment with established priorities and objectives;
- Coordinate work flow; and
- Minimize the duplication of services.

During the Application Period, ZC's work activities in this area also included:

- Preparation of ZC's Interim Fee Applications;
- Responding to the Fee Auditor's Initial Reports regarding ZC's Interim Fee Applications; and
- Providing documentation regarding ZC's Interim Fee Applications, at the request of the Fee Auditor.

During the Fifth Interim Period, ZC's work efforts in this area consisted of the following:

- Preparation of ZC's Fourth Interim Fee Application;
- Responding to the Fee Auditor's Initial Reports regarding ZC's 2nd and 3rd Interim Fee Applications; and
- Providing documentation regarding ZC's 4th Interim Fee Applications, at the request of the Fee Auditor.

In addition, ZC staff performed various duties with respect to preparing organizing, controlling and maintaining various engagement files necessary for the case. Additionally, ZC incurred fees associated with the preparation of monthly fee statements and detailed time descriptions of services rendered.

Summary

During the Application Period, ZC's primary work efforts supported the Debtors in achieving the following:

- Revisions to and refinement of a consolidated liquidation analysis report with documented assumptions used in developing the analyses;
- Revisions to and refinement of a consolidated liquidation analysis for various time periods, which was used to satisfy the best interest test in the Debtors' POR and Disclosure Statement, with respect to:
 - Inventory realization rates based on the latest GOB results;
 - Paydown to the DIP facility from GOBs proceeds;
 - Owned and leased property valuation and lease rejection claims;
 - Leasehold interest based on latest 39 store closing;
 - Signature valuation;
 - Lechmere claims;
 - Claims recovery; and
 - Other issues.
- Communication with the Debtors' personnel and management to understand and analyze the liquidation analysis with respect to the above mentioned issues and revisions.

These efforts were instrumental in the Plan of Reorganization process through the establishment of a common benchmark (the liquidation analysis) from which all parties negotiated. The liquidation analysis served as the cornerstone for the Debtors' negotiations with the Committee and GECC. Further, the consolidated liquidation analysis was relied on by management, the Board of Directors, the Committee and GECC for establishing a framework for a POR proposal and benchmarking values.


Compensation Sought

13. In view of the assistance provided at a sustained, intensive level necessitated by the circumstances which precluded other employment, the results achieved, the value added, the requirement for ZC to finance its deferred and unpaid compensation, ZC requests that it be awarded a final allowance of compensation for professional services rendered in the sum of \$1,447,400.00 and for actual and necessary out-of-pocket expenses incurred in the sum of \$181,164.72.

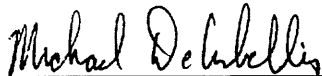
The Debtor has paid \$1,157,920.00 of professional fees invoiced and \$180,847.87 of out-of-pocket expenses incurred, \$1,338,767.87 in total. The unpaid balance / holdback of \$289,796.85 consists of \$289,480.00 representing 20% of the professional fees held back during the Application Period, and \$316.85 for unpaid expenses.

WHEREFORE, ZC respectfully requests that it be granted an allowance of final compensation of 100% of fees for professional services rendered as Special Financial Advisors and Bankruptcy Consultants to the Debtors during the period December 10, 1997 through and including August 2, 1999 in the sum of \$1,628,564.72. ZC respectfully requests that the Bankruptcy Court order a final payment of \$289,796.85 for the outstanding professional fees and out-of-pocket expenses.

Dated: October 1, 1999
New York, New York



Steven G. Panagos
ZOLFO COOPER, LLC
Special Financial Advisors and Bankruptcy
Consultants
292 Madison Avenue
New York, NY 10017
(212) 213-5555



Notary Public

MICHAEL A. DECUBELLIS
Notary Public, State of New York
No. 01DE6026042
Qualified in New York County
Commission Expires June 7, 2001