

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

Hearing: 9/29/99  
2:30 p.m.

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In re

Chapter 11  
Case No. 95 B 43065 (PCB)

PCG CORP. I, et al.,

Debtors.  
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**APPLICATION OF HAHN & HESSEN LLP FOR ALLOWANCE  
OF FINAL COMPENSATION AS ATTORNEYS FOR  
THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS**

TO THE HONORABLE PRUDENCE C. BEATTY, UNITED STATES BANKRUPTCY JUDGE:

The application of Hahn & Hessen LLP ("Applicant") respectfully represents that:

1. Applicant is a firm of attorneys with offices at 350 Fifth Avenue, New York, New York 10118, whose members are duly admitted to practice in the courts of the State of New York and various courts of the United States, including this Court. Applicant has rendered legal services to the Official Committee of Unsecured Creditors (the "Committee") of PCG Corp.I ("PCG"), f/k/a Plaid Clothing Group, Inc., and its affiliated debtors (collectively with PCG, the "Debtors") throughout this proceeding.

2. By previous orders of this Court, Applicant has received interim compensation for the period of July 26, 1995 through July 31, 1997 (the "Interim Compensation Period") in the sum of \$493,842.27, plus reimbursement of its out-of-pocket expenses incurred during that period totaling \$36,107.35. The four applications for interim allowance (the "Interim Applications") submitted by Applicant are incorporated by reference herein.

3. Applicant submits this application for an allowance of final compensation pursuant to Section 330 of the United States Bankruptcy Code (the "Bankruptcy Code") for the professional services rendered as attorneys to the Committee in the sum of \$705,659.10 (the "Final

Compensation"). This amount is comprised of \$493,842.27 in fees received for the Interim Period, \$156,067.83 in fees held back during the Interim Period, and \$55,749.00 for the period of August 1, 1997 through July 8, 1999 (the "Final Compensation Period"). After deducting the fees previously received, the net amount of Final Compensation requested by Applicant is \$211,816.83.

4. Applicant also seeks reimbursement of the actual and necessary expenses incurred in connection with its services to the Committee in the sum of \$37,263.88 (the "Final Expenses"). This amount is comprised of \$36,107.35 for expenses incurred during the Interim Period and \$1,156.53 for expenses incurred during the Final Compensation Period. After deducting the expenses previously received, the net amount of the Final Expenses requested by Applicant is \$1,156.53.

### **Background**

5. On July 17, 1995 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. The Debtors' Chapter 11 cases were consolidated for procedural purposes and were jointly administered pursuant to an Order dated July 18, 1995. Pursuant to an Order dated July 8, 1999, issued in conjunction with the Order confirming the Debtors' Joint Liquidating Plan of Reorganization, the Debtors' Chapter 11 cases were substantively consolidated.

6. On July 26, 1995, the Committee was duly appointed by the United States Trustee (the "UST"). On July 28, 1995, the UST amended its appointment of the Committee by adding two members. The Committee's retention of Applicant as its counsel and BDO Seidman ("BDO") as its accountants, both effective as of July 26, 1995, were approved by orders of this Court dated August 8, 1995.

7. During the Final Compensation Period, and as set forth more fully below, Applicant diligently monitored all aspects of this proceeding and analyzed the impact of same upon

the Debtors' creditors. This entailed preparation for and attendance at Court hearings and meetings with the Debtors and their representatives and other parties in connection with various matters. It was also necessary for Applicant to review and analyze all papers filed with this Court and documents received in connection with various issues in this case, as well as financial information regarding the Debtors' operations. Applicant concentrated its services on behalf of the Committee during the Final Compensation Period in the following areas:

**A. Debtors' Joint Liquidating Plan of Reorganization**

8. The majority of Applicant's services during this Final Compensation Period were focused on assisting the Debtors in their development of a plan of reorganization. As set forth in the Interim Applications, the Debtors sold the majority of their assets (the "Sale") to Hartmarx Corporation ("Hartmarx"), pursuant to an order of this Court dated November 22, 1996. Hartmarx, in connection with the Sale, agreed to provide additional consideration in the form of warrants (the "Warrants") to be issued to the Debtors' unsecured creditors, subsequent to confirmation of the Debtors' plan, for an aggregate of 400,000 shares of Hartmarx common stock. Shortly after discussions began with respect to the terms of the Debtors' plan, Applicant was advised of a proposal (the "Proposal") made by Hartmarx which it claimed would simplify the procedure for the receipt of Hartmarx common stock by the Debtors' general creditors. The Proposal provided for the issuance of 125,000 shares of Hartmarx common stock (the "Stock") directly to the liquidating Debtors instead of the Warrants to general creditors. Upon liquidation of the stock, the proceeds would be distributed to the Debtors' general creditors.

9. After discussion with counsel for Hartmarx and the Debtors, Applicant advised the Committee that the issuance of the Stock directly to the Debtors would eliminate the cost of registering the shares as well as the administrative burden and expense of first issuing the Warrants, rather than shares. In addition, it would no longer be necessary to provide a mechanism for

determining how and when to exercise the Warrants. Applicant further advised that the Stock would be deemed "restricted" securities and subject to a one-year holding period during which the Stock could not be sold.

10. Applicant entered into discussions with counsel for Hartmarx in an effort to develop an alternative to the Proposal which might prevent general creditors from losing the opportunity to sell the Stock during the holding period in the event that the price of the Stock increased during that time. Although Hartmarx ultimately refused to modify the terms of the Proposal, it was agreed that after the expiration of the holding period, the Stock would only be sold upon the Committee's consent. After further discussion with the Committee, which agreed that the advantages of the Proposal outweighed the possible financial risk imposed by the holding period, Applicant advised counsel for the Debtors and Hartmarx of the Committee's acceptance of the Proposal. The terms thereof were subsequently incorporated into the Debtors' plan.

11. Applicant received several drafts of the Debtors' proposed plan and disclosure statement and provided numerous comments and suggestions thereto which were incorporated by the Debtors. Applicant kept the Committee apprised of the status of the development of the Debtors' proposed plan and of the Debtors' efforts to resolve outstanding matters which could impact the terms of the Debtors' plan. Applicant advised the Committee that, in addition to their investigation of possible causes of action against the recipients of possible preferential payments, the Debtors were involved in an intensive review of the administration claims filed against their estate, which claims had been filed in an aggregate amount in excess of \$16 million. The recovery of preference payments and the anticipated expungement of the majority of the administration claims were crucial components of the Debtors' plan.

12. Applicant also discussed with the Committee the Debtors' negotiations with National Union Fire Insurance Company of Pittsburgh, PA, for the return of the overfunding of the

Debtors' workers' compensation insurance. In addition, Applicant advised the Committee that the most important issue to be resolved prior to the finalization of the terms of the Debtors' plan was the determination of the amount of excise tax for which the Debtors were liable in connection with their recovery of their pension plan overfunding. Applicant advised the Committee that if the Internal Revenue Service prevailed in its assertion that the tax was 50% of the recovered amount, instead of 20% as argued by the Debtors, and/or the excise tax due was deemed to be an administrative expense instead of a general unsecured claim, the Debtors' estate would be rendered administratively insolvent, necessitating the conversion of this proceeding to a Chapter 7 liquidation.

13. Applicant was provided with copies of the various objections to administration and priority claims filed by the Debtors and advised the Committee of the Debtors' success in achieving a substantial reduction in the allowed amount of such claims. Upon learning that the Debtors had achieved favorable resolutions of their pension fund and workers' compensation overfunding issues, Applicant advised the Committee accordingly. In addition, the Debtors' settlement discussions with Shearman & Sterling ("S&S") in connection with the recovery of possible preference payments resulted in a settlement agreement which provided, among other things, for the payment by S&S to the Debtors' estate of approximately \$103,000.00. Applicant advised the Committee of the Debtors' assertion that their estate would be administratively solvent upon confirmation and that sufficient funds would be on available with which to make a nominal distribution to general creditors.

14. Applicant reviewed the final version of the Debtors' proposed joint liquidating plan of reorganization (the "Plan") and accompanying disclosure statement (the "Disclosure Statement") and analyzed extensive financial information and other documentation provided by the Debtors in order to confirm the feasibility of the Plan. Applicant advised the Committee that, in

addition to the proceeds from the liquidation of the Stock, general unsecured creditors were expected to receive a *pro rata* distribution from the Debtors' estate of approximately 1%. After discussion of the Plan with the Committee, Applicant advised the Debtors of the Committee's support thereof, and prepared a letter to that effect to be distributed by the Debtors to their general creditors..

15. Applicant responded to inquiries from numerous creditors and parties in interest with respect to the Plan and, in particular, the distribution of the Stock and the eventual liquidation of same for the benefit of general creditors. In addition, Applicant reviewed and provided comments to drafts of the Debtors' Amended Plan and Amended Disclosure Statement. On July 8, 1999, Applicant attended the hearing on confirmation of the Plan, at which it reiterated the Committee's support for the Plan. An order confirming the Plan was signed at the conclusion of the Confirmation Hearing.

**B. Miscellaneous Matters**

16. As set forth in the Interim Applications, a settlement (the "Settlement") agreement had been entered into by the Debtors, the Committee and a group of the Debtors' former and current non-union employees (the "Employees") which provided for the allowance of the Employee's administrative expense claims in a reduced amount and payment of a percentage of that allowed amount. The parties agreed that the most expedient method for implementing the terms of the Settlement was through the commencement of an adversary proceeding by the Employees in order to establish a class of administrative expense creditors that would participate in the distribution provided for in the Settlement. During this Final Compensation Period, Applicant attended the pre-trial conference in the adversary proceeding, at which the Court was advised of the resolution of the dispute with the Employees and the terms of the Settlement. Applicant also participated in negotiations between counsel for the Employees and the Debtors with respect to the

second and third installment payments of the Settlement amount that were made during this Final Compensation Period.

17. As set forth above, the Debtors had determined the existence of possible causes of action against S&S with respect to preference payments. Pending the outcome of the settlement discussions between the Debtors and S&S, Applicant agreed to periodic extensions of the Debtors' time in which to commence an action against S& S. Upon settlement of the matter, Applicant was provided with the proposed stipulation of settlement which it reviewed and discussed with the Committee. Applicant provided counsel for the Debtors with various comments to the proposed stipulation which were incorporated into the stipulation ultimately presented for approval by this Court.

18. During this Final Compensation Period, Applicant discussed with the Committee all aspects of this proceeding and the various matters under deliberation. Applicant advised the Committee of material developments in the Debtors' case and polled Committee members on issues of importance, including the Proposal. In addition, Applicant has reviewed all notices, motions and proposed orders submitted by the Debtors and other parties throughout this Final Compensation Period, all of which are referred to in Applicant's time records.

19. Since the inception of this case, Applicant has received inquiries by mail and telephone from creditors and other interested parties as to the status thereof. Applicant expended considerable time corresponding and discussing this matter with said parties.

#### **APPLICANT'S REQUEST FOR COMPENSATION**

20. Applicant was engaged in the performance of the foregoing services for a total of 241.00 hours from August 1, 1997 through July 8, 1999. Exhibit "A" annexed hereto contains a breakdown of the time expended during the Final Compensation Period according to the person performing such services. Exhibit "A-1" sets forth a breakdown of the time billed to each matter.

21. The names and hourly rates<sup>1</sup> of all Applicant's professionals and paraprofessionals whose fees are included in the compensation requested for the Final Compensation Period are as follows:

David I. Blejwas	\$400/\$420/\$450
Cara M. Goldstein	\$225/\$260
Karen E. Reilly	\$115/\$120

22. Applicant seeks an allowance of Final Compensation in the sum of \$705,659.10 for the services rendered as counsel to the Committee, which Applicant believes to be the fair and reasonable value of such services. This amount includes \$649,910.10 for the Interim Period and \$55,749.00 for the Final Compensation Period. Applicant has received interim compensation in the sum of \$493,842.27 and, accordingly, seeks the net amount of Final Compensation in the sum of \$211,816.83.

23. Applicant has had to incur out-of-pocket expenses in the amount of \$37,263.88 in connection with its services on behalf of the Committee. Exhibit "B" annexed hereto contains a detailed breakdown of the expenditures incurred during the Final Compensation Period. Applicant believes these disbursements were reasonably and necessarily made and respectfully requests reimbursement of same. Applicant has previously received the sum of \$36,107.35 for reimbursement of expenses and, accordingly, seeks a net amount of Final Expenses in the sum of \$1,156.53.

24. As counsel for the Committee, Applicant focused its services on ensuring that the maximum amount of assets became--and remained--available for distribution to the Debtors' unsecured creditors. Applicant is cognizant of the fee setting process, which necessarily begins with an examination of the nature and extent of the services rendered, referred to as the "time spent"

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<sup>1</sup> Billing rate increases were effective 7/1/97, 7/1/98 and 7/1/99.



standard. Exhibit "C" to this application consists of Applicant's detailed time records stating the nature and performer of services provided during the Final Compensation Period.

25. Applicant's firm, in determining the Final Compensation requested of \$705,659.10, has taken into consideration such factors as the hourly rates normally charged for the services performed and balanced this with the basic tenet of "economy of administration" in bankruptcy cases. Applicant has made a considerable effort to restrict the number of attorneys actively involved in this case and to assign the performance of all tasks to the least senior attorney capable of performing it consistent with sound legal representation and supervision. To the greatest extent possible, paralegals have been utilized.

26. Applicant anticipates approval of its Final Compensation and Final Expenses by the Chairman and Vice-Chairman of the Committee, who received copies of this Application prior to its filing with the Court.

WHEREFORE, Applicant respectfully requests that it be allowed the sum of \$705,659.10 as Final Compensation for the legal services it has rendered as attorneys to the Committee and that it be paid the unpaid portion of the Final Compensation in the sum of \$211,816.83. Applicant also requests that it be allowed the sum of \$37,263.88 for its Final Expenses incurred in connection with such services and that it be paid the unpaid portion of the

Final Expenses in the sum of \$1,156.53.

Dated: New York, New York  
August 24, 1999

HAHN & HESSEN  
Attorneys for the Official Committee  
of Unsecured Creditors of  
Plaid Clothing Group, Inc., et al,  
Debtor

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