

NOV 4 - 2002
FILED
UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS

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

NOV 01 2002
KENNETH S. GARDNER, CLERK
TEAM - B

In re:)	Chapter 11
)	
K MART CORPORATION, <u>et al.</u> ,)	(Jointly Administered)
)	
Debtors)	Case No. 02-02474 (SPS)
)	

**REPORT BY AP SERVICES, LLC OF
COMPENSATION EARNED AND EXPENSES INCURRED
FOR THE PERIOD OF SEPTEMBER 1, 2002 THROUGH SEPTEMBER 30, 2002**

- Exhibit A – Summary of Additional Temporary Employees and Functions
- Exhibit B – Summary of Expenses
- Exhibit C – Summary of Services

Dated: October 31, 2002

HONIGMAN MILLER SCHWARTZ AND COHN LLP
Attorneys for AP Services, LLC

By: _____
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AP Services, LLC

Summary of Additional Temporary Employees and Functions – Kmart Corporation, et al.
September 1, 2002 through September 30, 2002

Additional Temporary Staff Employees				
Name of Professional	Description of Function	Hourly Rate	Hours Billed	Total Compensation
Thomas A. Morrow	Cash Management, Vendor Management and Advisor	\$450.00	195.80	\$88,110.00
Laurence E. Leonard	Bankruptcy Interface and Planning Operating Plan Development and Advisor Bankruptcy Interface and Planning	400.00	203.60	81,440.00
Richard R. Vanderbeek	Vendor Management and Advisor Bankruptcy Interface and Planning	340.00	190.50	64,770.00
Michael Hojnacki	Advisor Bankruptcy Interface and Planning	235.00	200.70	47,164.50
Deborah C. Rieger-Paganis	ROTO Productivity	420.00	160.80	67,536.00
David M. Ashcraft	ROTO Productivity	340.00	197.10	67,014.00
Jason Muskovich	Accounts Payable and Claims Processing	300.00	165.90	49,770.00
Diane Peppers	Accounts Payable and Claims Processing	165.00	83.20	13,728.00
Timothy Kreatschman	SG&A Rationalization and Financial Planning	340.00	178.60	60,724.00
Sarah Sanderson	Accounts Payable and Claims Processing	165.00	171.80	28,347.00
Meade Monger	Accounts Payable and Claims Processing	520.00	38.30	19,916.00
Erik Post	Accounts Payable and Claims Processing	520.00	177.40	92,248.00
Cliff Campbell	Accounts Payable and Claims Processing	300.00	113.60	34,080.00
Kerri Hook	Accounts Payable and Claims Processing	300.00	175.00	52,500.00
Adam Sanderson	Accounts Payable and Claims Processing	300.00	2.20	660.00
Joshua Damon	Accounts Payable and Claims Processing	235.00	44.80	10,528.00
Ryan Dalton	Accounts Payable and Claims Processing	165.00	42.70	7,045.50
Michael C. Han	Accounts Payable and Claims Processing	235.00	209.80	49,303.00
Mysti Newberry	Accounts Payable and Claims Processing	165.00	185.80	30,657.00
			2,737.60	\$ 865,541.00
	<i>Voluntary Fee Accommodation</i>			<i>(58,432.25)</i>
			2,538.15	\$ 807,108.75
	<i>July & August Fee Correction</i>			<i>(26,099.50)</i>
	TOTAL FEES			\$ 781,009.25

AP Services, LLC
Summary of Expenses – Kmart Corporation, et al.
September 1, 2002 through September 30, 2002

Expense Categories	Amount
Airfare	\$ 36,966.53
Cab Fare / Ground Transportation	7,241.13
Computer Supplies / Support	69.10
Computerized research	9.95
Other	95.00
Lodging	29,075.42
Long Distance Calls	136.14
Meals & Tips	4,362.64
Mileage	1,229.35
Overnight Mail Charges	90.35
Parking & Tolls	1,671.78
Rental Car	8,557.02
Total	\$ 89,504.41

AP Services, LLC
Summary of Services – Kmart Corporation
September 1, 2002 through September 30, 2002

Cash Management

- Monitored DIP compliance reporting;
- Analyzed new 13 week cash forecast and weekly borrowing base reports;
- Identified balance sheet cash opportunities;
- Monitored cash forecasting and financial reporting;
- Analyzed revised DIP budget and related assumptions;

SG&A Rationalization

- Worked with DVP of Accounting Operations to reorganize and downsize AP, AR, and merchandise accounting/inventory reporting departments through automation and process improvement methods;
- Prepared executive briefing on BlueLight e-commerce;
- Modified financial forecast for BlueLight;
- Developed and proposed structure for new BlueLight/GSI relationship;
- Analyzed corporate overhead using contractor summary and overhead ownership reports;

Vendor Management

- Organized vendor management group to facilitate vendor communications and improve vendor terms;
- Developed presentation for and participated in vendor action team meetings;
- Analyzed pantry purchasing and inventory;
- Monitored tracking of court approved pre-petition payments;
- Developed agenda and presentation to vendor factors for monthly meeting;
- Assisted in development of vendor term change model;

AP Services, LLC
Summary of Services – Kmart Corporation
September 1, 2002 through September 30, 2002

- Addressed issues related to factors, reclamation settlement, PACA, vendor return and consignment programs;
- Developed metrics on vendor credit limits;
- Led discussions with key vendors and merchants to safeguard merchandise shipments and alleviate potential credit limit issues;

AP and Claim Processing

- Managed tracking system for liens and logistics payments;
- Implemented Utility outsourcing plan;
- Prepared periodic reporting on PACA and Reclamation Claims and tracking of settlements;
- Managed allocation of Utility bills being sent to Kmart vs. Outsourcing agent;
- Developed systemic procedure to reconcile pre-petition claims including coordination with the company and vendors;
- Completed reconciliation for test vendors;
- Analysis of Trumbull Claims register to categorize and prioritize Proof's of Claim;
- Developed database system to track settlements of pre-petition claims;
- Reviewed database of executory contracts and investigated methods for identifying contracts to reject as well as calculation of rejection claims;
- Developed process to calculate potential preference claims;
- Assisted company in evaluating and resolving pre-petition debit balance claims and formulated method for resolution;

Advisor and Bankruptcy Interface

- Analyzed July 2002 shrink adjustment, EBITDA calculation, revised DIP forecast, reorganization items and other issues raised by Unsecured Creditors' and Financial Institutions' Committees;

AP Services, LLC
Summary of Services – Kmart Corporation
September 1, 2002 through September 30, 2002

- Developed de minimus claims and asset sales procedures;
- Responded to information requests by financial advisors to the Equity, Unsecured Creditors' and Financial Institutions' Committees regarding store level P&L data, the BlueLight ISP sale as well as liabilities subject to compromise information;
- Responded to detailed September 24, 2002 information request by financial advisors to the Financial Institutions' Committees;
- Participated in meetings with and coordinated meetings for financial advisors to the Equity, Unsecured Creditors' and Financial Institutions' Committees to review information provided and respond to questions and issues raised;
- Developed and refined July and August briefing reports for the financial advisors to the Equity, Unsecured Creditors' and Financial Institutions' Committees;
- Prepared weekly flash reports for Equity, Unsecured Creditors' and Financial Institutions' Committees;
- Participated in the Equity, Unsecured Creditors' and Financial Institutions' Committees meetings;
- Supervised the preparation of reports required by the Bankruptcy Court;
- Implemented procedures and monitored payments to Ordinary Course Professionals and Retained Professionals;
- Implemented and monitored program for paying US Trustee quarterly fees;
- Prepared analysis in connection with billing and budget for Joint Fee Review Committee presentation;

ROTO Productivity

- Led discussions in cross functional meetings to develop scope and next steps for advertising effectiveness;
- Continued refinement of advertising planning and production process;
- Managed project to automate the buyers worksheet for ad item submissions;

AP Services, LLC
Summary of Services – Kmart Corporation
September 1, 2002 through September 30, 2002

- Implemented changes in ROTO project including timeline and planning process for 2003 Ad Plan;
- Continued development of planning tools to assist merchants in measuring and forecasting;
- Facilitated development of metrics to eliminate irrelevant ad items;
- Prepared various ad hoc analyses on planned ROTO events to facilitate item selection and improve financial impact.