

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF WASHINGTON

Case Name: **THE CATHOLIC BISHOP OF SPOKANE, a/k/a THE CATHOLIC DIOCESE OF SPOKANE, a Washington corporation sole, Debtor**

Case Number: **04-08822-PCW11**

NARRATIVE SUMMARY
(Required by LBR 2016-1(b)(1)(A) where
requested compensation exceeds \$10,000.00

Name of Applicant:	<u>Paine Hamblen LLP</u>
Position of Applicant:	<u>Attorneys for Debtor</u>
Application Number:	<u>Fourth Interim</u>

PAINE HAMBLLEN LLP has served as counsel for the CATHOLIC BISHOP OF SPOKANE, a/k/a THE CATHOLIC DIOCESE OF SPOKANE, ("Diocese" or "Debtor") since the filing of the Petition for Relief under Chapter 11 on December 6, 2004.

The Fourth Interim Application for Compensation (the "Fourth Application") filed by Paine Hamblen LLP as counsel for Debtor encompasses the time period from January 1, 2007 through May 31, 2007 (the "Application Period"). During the Application Period, the services performed by Paine Hamblen LLP on behalf of Debtor related to the following:

I. BACKGROUND OF THE CASE

On December 6, 2004, ("Petition Date"), the Debtor filed a voluntary petition in this Court for relief under Chapter 11 of Title 11 of the Bankruptcy Code (the "Case"). During the Application Period the Debtor continued to operate its business and manage its properties as a debtor-in-possession pursuant to §1107(a) and §1108 of the Bankruptcy Code. The background of the Debtor's bankruptcy case is set forth in the Diocese's First Amended Disclosure Statement filed March 7, 2007 under Docket No. 1773, which is incorporated herein by reference.

II. FINANCIAL CONDITION OF THE ESTATE

A. **Profit and Loss.** For the month of April, 2007 the Diocese reported total income of \$554,648 and expenses of \$530,426. Through April 30, 2007, year to date (fiscal¹) income

¹ The Debtor's fiscal year begins on July 1.

was \$6,265,012 and expenses were \$5,336,486.

B. **Amount of Cash on Hand or on Deposit.** As of April 30, 2006, the Diocese was holding cash deposits totaling \$3,341,524 (the "Cash"). The Cash does not include (1) proceeds from the sale of estate assets described in Section II.E. below; (2) proceeds from the Insurance Settlements described in Section II.F. below, and (3) proceeds from the Catholic Entities Settlements described in Section II.G. below.

C. **Amount of Accrued Unpaid Administrative Expenses.** As of May 31, 2007, a total of \$5,828,136 in Professional Fees had been paid to all the professionals employed in the Case and \$3,618,078 had been billed and remain unpaid.

D. **Amount of Unencumbered Funds in the Estate.** The Diocese believes that \$1,827,365 of the Cash is custodial in nature or otherwise subject to restrictions which prevent its use for payment of either operating expenses or professional fees.

E. **Asset Sales.**

- a. **Pastoral Center.** The Catholic Pastoral Center or Chancery, as it is known, was sold on January 22, 2007 for a purchase price of \$2,050,000. The net proceeds from the sale of the Chancery totaled \$1,834,251.08.
- b. **Chester Property.** The Chester Property, as it is known, was sold on June 8, 2007 for a purchase price of \$128,000. The net proceeds from the sale of the Chester Property totaled \$114,076.38.
- c. **Mattausch Farm Property.** The Mattausch Farm Property was sold in March 2007 in four separate closings as follows:

Whitman County Parcel No. 2-0000-44-20-07-4903
Purchase Price: \$175,000.00
Net proceeds from sale: \$170,439.65

Whitman County Parcel No. 2-0000-43-20-11-3900
Purchase Price: \$235,000.00
Net proceeds from sale: \$229,570.66

Spokane County Parcel No. 41183.9004
Purchase Price: \$266,000.00
Net proceeds from sale: \$243,331.34

Spokane County Parcel Nos. 31255.9001, 41302.9002, etc.
Purchase Price: \$1,000,000.00
Net proceeds from sale: \$916,149.78

- d. Bishop's Residence. The Bishop's Residence was sold on May 21, 2007 for a purchase price of \$235,870.00. The net proceeds from the sale of the Bishop's Residence totaled \$209,301.51.
- e. I-90 Property. Keen Realty has received one offer of \$1.1 million. The Debtor has not yet accepted that offer. Keen Realty's commission is 4% on the first \$950,000 and 8% on sale proceeds above \$950,000.

F. **Insurance Settlements**. On February 16, 2007, during the Application Period, the Court approved six separate insurance settlements between the Debtor and the following insurance companies: General Insurance Company of America, a/k/a Safeco, ACE Property & Casualty Insurance Company, Indiana Insurance Company, Oregon Automobile Insurance Company, Washington Insurance Guaranty Association, and CNA (the "Insurance Settlements"). Pursuant to the Insurance Settlements, the above-named insurance carriers paid to the Debtor during the month of May 2007 the total principal sum of \$19,814,289.99, together with interest which had accrued on some of the settlements in accordance with their terms. The sum of \$20,017,762.70 (all of the remaining insurance proceeds) was wired-transferred by the Applicant to the Plan Trustee, Gloria Nagler, on May 31, 2007. The sum of \$130,172.59 (also insurance proceeds) was previously distributed by the Applicant to the Plan Trustee and the Tort Claims Reviewer.

G. **Catholic Entity Settlements**. Pursuant to the Debtor's Confirmed Plan, the following Catholic Entities made the following settlement payments to the Debtor on June 6, 2007: Catholic Cemeteries of Spokane - \$4,000,000; Catholic Charities of Spokane - \$1,500,000; and Morning Star Boys' Ranch - \$450,000. The settlement payments from the Catholic Entities in the total amount of \$5,950,000, together with the net proceeds from the sale of the Bishop's Residence, have been deposited into an interest-bearing trust account established by Paine Hamblen, known as the Estate Fund.

III. STATUS OF THE CASE

This Chapter 11 case was filed on December 6, 2004. Between the date of filing and May 31, 2007, the Debtor served as a debtor-in-possession under the Code, and was authorized

to conduct its affairs in the ordinary course of business.

The Debtor filed a Plan and Disclosure Statement on October 10, 2005. The Debtor filed a First Amended Plan and Disclosure Statement on December 31, 2005.

The Debtor filed a consensual Plan² on January 4, 2007. On March 8, 2007, the Court approved the Debtor's First Amended Disclosure Statement. On April 24, 2007, the Court entered an order confirming the Debtor's Second Amended Plan of Reorganization. The Report of Balloting filed with the Court on April 17, 2007 showed that the Debtor's Second Amended Plan of Reorganization had received the unanimous approval of every creditor in each class that was entitled to vote on the Plan.

The Plan Trustee, Gloria Nagler, was appointed by the Court on April 13, 2007 (nunc pro tunc as of March 13, 2007). The Tort Claims Reviewer called for under the Debtor's Second Amended Plan of Reorganization, Katrina Pflaumer, was appointed by the Court on February 7, 2007 (nunc pro tunc as of January 5, 2007).

The Diocese and the parishes were reorganized during the Application Period. New parish entities (76) had to be formed after the date of confirmation and prior to the Effective Date. On May 31, 2007, all of the terms and conditions necessary for implementation of the Effective Date had take place. On Thursday, May 31, 2007 at 4:10 p.m. the Debtor formally emerged from Chapter 11.

During the Application Period, a Tort Claims Reviewer was appointed. A Plan Trustee was appointed. All six of the insurance settlements were approved by the Court and fully funded. All settlement payments were made by the Catholic Entities and those settlements were fully funded. A consensual plan was filed and approved by the Court. All of the adversary proceedings and the Declaratory Relief Action were dismissed with prejudice. A \$48,000,000 closing took place during the last two weeks of the Application Period. Most importantly, the Debtor successfully emerged from Chapter 11.

² The proponents of the Amended Plan include the Debtor, the Executive Committee of the Association of Parishes, the Tort Claimants' Committee and the Future Claims Representative. The Tort Litigants' Committee has agreed to support the Amended Plan.

IV. DESCRIPTION OF TASKS OR PROJECTS FOR WHICH COMPENSATION IS SOUGHT

A. *Adversary Proceeding No. 05-80024; Pacific Insurance Company, et. al. v. Catholic Bishop of Spokane, et al. (PH Client/Matter No. 33029-00031) (the "Declaratory Relief Action")*. During the Application Period 253.20 hours of time were categorized by Paine Hamblen attorneys under this matter number. On February 16, 2007, the Court entered orders approving six settlements between the Debtor and the following insurance companies: General Insurance Company of America, a/k/a Safeco, ACE Property & Casualty Insurance Company, Indiana Insurance Company, Oregon Automobile Insurance Company, Washington Insurance Guaranty Association, and CNA. During the Application Period Paine Hamblen resolved all of the remaining issues between the creditors' committees, the Future Claims Representative, Morning Star Boys' Ranch and the carriers, thereby making it possible for the entry of agreed orders at the time of the hearing on the insurance settlements on February 16, 2007. As a result of the orders approving the settlements with the carriers and the subsequent confirmation of the Debtor's Second Amended Plan of Reorganization, the carriers paid to the Debtor during the Application Period (i.e., in May), the principal sum of \$19,814,289.99, together with interest which had accrued on some of the settlements in accordance with their terms. In addition, during the Application Period Paine Hamblen assisted the Gordon Murray Tilden firm with the dismissal of the Declaratory Relief Action by Judge Quackenbush and the entry of related Bar Orders.

B. *Plan and Disclosure Statement (PH Client/Matter No. 33029-00011)*. During the Application Period 1,242.40 hours of attorney time were categorized under this matter. The great majority of the Applicant's efforts during the Application Period involved negotiating and assisting with the drafting of the Debtor's First Amended Disclosure Statement and Second Amended Plan of Reorganization, and the approval of that Disclosure Statement and Plan of Reorganization by the Court and the creditors in this case. These efforts contributed significantly to the confirmation of the Debtor's Second Amended Plan of Reorganization by the Court on April 24, 2007.

Between the date of confirmation and May 31, 2007, which was the date upon which the Debtor emerged from Chapter 11, the Applicant devoted hundreds of hours to assisting with

negotiating and drafting the closing documents and the coordination of what was essentially a massive \$48,000,000 closing. The Confirmed Plan provided for the execution of scores of promissory notes, deeds of trust and related agreements by, not only the Debtor, but numerous other entities, whose legal structures (specifically the parishes) had to be clarified as a matter of civil law prior to the time the closing could take place. In turn, the closing had to occur before the Effective Date could become a reality.

During the Application Period 76 parishes were separately incorporated as a matter of civil law in the State of Washington. The Applicant assisted with the restructuring of the Diocese and parishes so that the proper entities were in position to execute the proper collateral documents prior to May 31, 2007. Most of the closing documents were signed by the parties at Immaculate Heart Retreat Center on May 21, 2007. The signature process alone took over 10 hours. Paine Hamblen worked very closely with Spokane County Title to insure a smooth and effective closing during the month of May. The closing was closely coordinated with the Tort Claimants Committee, the Tort Litigants Committee, the Future Claims Representative, the Association of Parishes and the Plan Trustee.

C. **Claims Administration and Objections (PH Client/Matter No. 33029-00005).**
During the Application Period 497.80 hours of attorney time were categorized under claims administration and objections. During the Application Period Paine Hamblen attorneys and staff continued their review of the confidential claims. Time was devoted to the preparation and finalization of various settlements with several of the confidential claimants. Time involved in this category included review of claims involving other Catholic entities having a possible connection to the Debtor, for example, Morning Star Boys' Ranch, Rosalia School District and Mater Cleri. Paine Hamblen attorneys dealt with attorneys representing individual confidential claimants and attorneys representing priests who believed they were being wrongly accused. Paine Hamblen devoted time to conferences with confidential claimants who had no counsel and those who had counsel. Time was devoted to correspondence and emails with confidential claimants regarding the status of their claims and/or their settlement agreements, if applicable.

With regard to the continued analysis of claims during the Application Period, Paine Hamblen counsel prepared objections to claims and related affidavits. Paine Hamblen personnel finalized orders regarding the disallowance of certain claims.

Paine Hamblen staff and attorneys prepared numerous summaries and analyses for use by

the Tort Claims Reviewer. Greg Arpin met, corresponded with and spoke on numerous occasions to the Tort Claims Reviewer during the Application Period.

Paine Hamblen prepared motions and related pleadings for the allowance of claims which had been settled for more than \$45,000 and for the allowance of claims which had been settled for less than \$45,000.

Paine Hamblen personnel spent time reviewing and providing input to counsel regarding the claims protocol and related matrix, particularly with attorneys Shickich and Jackson.

During the Application Period orders were entered disallowing claims and approving 35 settlements.

D. **Case Administration (PH Client/Matter No. 33029-00004).** During the Application Period 213.10 hours of attorney time were categorized under case administration. Time during the Application Period under this category included preparation for and leading case scheduling hearings, preparing case scheduling orders for, not only the main case, but for the four individual adversary proceedings. Time under this category included numerous conferences with Bishop Skylstad and representatives of the Diocese, numerous telephone conferences with the Bishop and Diocese regarding the status of the case, and similar emails to and from the Bishop and other representatives of the Diocese.

Time under this category also included significant time responding to press inquiries, both locally and nationally. It also included coordination with all of the counsel involved in the case regarding the status of the case, various hearings, the status of funding commitments from the insurance carriers, the Catholic entities and other parties.

During the Application Period time under this category was devoted to coordinating all the efforts regarding the commitments and contributions from the Catholic Entities, including Catholic Cemeteries, Catholic Charities, Morning Star Boys' Ranch and Immaculate Heart Retreat Center.

Time under this category also included attendance at the monthly meetings of the Bishop's Finance Council and at parish meetings and meetings with the priests of the Diocese.

E. **Asset Disposition (PH Client/Matter No. 33029-00002).** During the Application Period 91.35 hours of attorney time were categorized under asset disposition. Paine Hamblen partner Michael Paukert was principally responsible for time devoted to the disposition of assets. During the Application Period, Mr. Paukert coordinated the sale of the Chancery, the sale of the

Mattausch Farm property, the sale of the Bishop's Residence, and the pending closing of the Chester Property (which closed on June 8, 2007). As previously mentioned, these sales resulted in net proceeds from the sales totaling \$3,692,518.80.

F. **Asset Analysis and Recovery (PH Client/Matter No. 33029-00001)**. During the Application Period 4.80 hours of attorney time were categorized under this matter.

G. **Fee/Employment Applications (PH Client/Matter No. 33029-00007)**. During the Application Period 6.0 hours were categorized under matters relating to fee/employment applications.

H. **Fee/Employment Objections (PH Client/Matter No. 33029-00008)**. During the Application Period 6.0 were categorized under matters relating to fee/employment objections.

I. **Business Operations (PH Client/Matter No. 33029-00003)**. During the Application Period 21.90 hours of attorney time were categorized under business operations.

J. **Adversary Proceeding No. 05-80038; Tort Litigants Committee v. Catholic Diocese of Spokane, et al. (PH Client/Matter No. 33029-00036)**. During the Application Period 0.80 hours of time were categorized in this matter.

K. **Adversary Proceeding No. 04-00291; Shea v. Catholic Diocese of Spokane (PH Client/Matter No. 33029-00020)**. During the Application Period 0.80 hours of time were categorized in this matter.

V. CHAPTER 11 CASE

A. **Status of the Plan and Disclosure Statement**. On March 8, 2007, the Court approved the Debtor's First Amended Disclosure Statement. On April 24, 2007, the Court approved the Debtor's Second Amended Plan of Reorganization. The Report of Balloting filed with the Court on April 17, 2007 showed that the Debtor's Second Amended Plan of Reorganization had received the unanimous approval of every creditor in each class that was entitled to vote on the Plan.

B. **Status of Submission of Monthly Operating Statements**. The Debtor has filed and served Monthly Operating Reports for all reporting periods through April 2007.

C. **Payment of Quarterly U.S. Trustee Fees**. The Diocese is current with the payment of the quarterly U.S. Trustee fees.

VI. OTHER INFORMATION

Paine Hamblen will file a Final Application, which will cover, in greater detail, its

services for the entire case. The Final Application will be filed on or about July 10, 2007. The Final Application will include additional information regarding the Chapter 11 and the Applicant's representation of the Debtor.

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