

**UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION**

**In re:** : **Chapter 11**  
:  
**LTV STEEL COMPANY, INC.,** : **Jointly Administered**  
**a New Jersey corporation, et al.,** : **Case No. 00-43866**  
:  
**Debtors.** : **Chief Judge Randolph Baxter**

**SECOND INTERIM FEE APPLICATION FOR COMPENSATION AND  
REIMBURSEMENT OF EXPENSES FOR THE PERIOD FROM  
NOVEMBER 1, 2001, THROUGH JANUARY 22, 2004, AND  
FIRST FINAL FEE APPLICATION FOR COMPENSATION AND  
REIMBURSEMENT OF EXPENSES FOR THE PERIOD FROM  
JANUARY 1, 2001, THROUGH JANUARY 22, 2004, OF  
COVINGTON & BURLING, SPECIAL COUNSEL FOR  
THE DEBTORS AND DEBTORS IN POSSESSION**

Name of Applicant: Covington & Burling  
Authorized to Provide Professional Services to: Debtors  
Date of Retention: April 24, 2001, *nunc pro tunc* to December 29, 2000  
Compensation Period: November 1, 2001, through January 22, 2004 (Second Interim)  
January 1, 2001, through January 22, 2004 (First Final)  
Compensation Sought: \$404,534.30 (Second Interim)  
\$550,345.54 (First Final)  
Expenses Sought: \$3,368.01 (Second Interim)  
\$7,367.09 (First Final)  
This is: Second Interim and First Final Application

Date Submitted	Period Covered	Requested		Approved	
		Fees	Expenses	Fees	Expenses
12/03/2001	01/01/2001 to 11/30/2001	\$155,811.24	\$3,999.08	\$145,811.24	\$3,999.08
03/22/2004	11/01/2001 <sup>1</sup> to 01/22/2004	\$404,534.30	\$3,368.01		

<sup>1</sup> Certain fees incurred in the month of November 2001, which were not included in Covington's first interim fee application, are included in this second interim and first final fee application.

**SUMMARY OF FEES AND EXPENSES  
FOR WHICH COMPENSATION AND REIMBURSEMENT  
IS REQUESTED BY THE SECOND INTERIM FEE APPLICATION**

Travelers Project (Republic Steel) and Bankruptcy Administration Fees <sup>2</sup>	Customary hourly rates in effect for the period in which the services were performed <sup>3</sup>	11 U.S.C. §330(a)	\$149,736.50
Travelers Project (Republic Steel) and Bankruptcy Administration Expenses	Related expenses incurred <sup>4</sup>	11 U.S.C. §330(a)	\$3,368.01
Settlement Project Fees	Court-approved contingency fee based on proceeds recovered for Debtors <sup>5</sup>	11 U.S.C. §328(a)	\$254,797.80
Settlement Project Expenses	Not compensable <sup>6</sup>	Not applicable	\$0
<b>TOTAL</b>			<b>\$407,902.31</b>

<sup>2</sup> With respect to fees and expenses for Bankruptcy Administration during the Compensation Period, Covington is only seeking compensation and reimbursement for such fees and expenses through May 31, 2002. From and after June 1, 2002, fees and expenses for Bankruptcy Administration are recorded in the category "Settlement Project" (as defined herein), for which compensation is based on a court-approved contingency fee, rather than an hourly basis.

<sup>3</sup> See the Retention Order (as defined herein), ¶6, and the Amended Covington Compensation Order (as defined herein), ¶8.

<sup>4</sup> See the Retention Order, ¶6, and the Amended Covington Compensation Order, ¶8.

<sup>5</sup> See the Amended Covington Compensation Order, ¶4.

<sup>6</sup> See the Amended Covington Compensation Order, ¶4.

**TRAVELERS PROJECT (REPUBLIC STEEL)  
AND BANKRUPTCY ADMINISTRATION  
COMPENSATION AT CUSTOMARY HOURLY RATES  
NOVEMBER 1, 2001, THROUGH JANUARY 22, 2004**

**HOURS AND AMOUNT RECORDED BY EACH ATTORNEY AND  
PARAPROFESSIONAL AT NORMAL HOURLY RATES**

Edward C. Britton	Partner; Corporate and Securities Law; Admitted to Bar 1985	\$540	11.50	\$6,210.00
Saul B. Goodman	Partner; Insurance Coverage; Admitted to Bar 1980	\$540	103.90	56,106.00
Michael St. Patrick Baxter	Partner; Corporate Law and Bankruptcy Reorganization; Admitted to Bar 1985	\$500	95.20	47,600.00
		\$540	6.90	3,726.00
John G. Buchanan, III	Partner; Insurance Practice Group; Admitted to Bar 1979	\$525	1.50	787.50
		\$525	.30	157.50
Benedict M. Lenhart	Of Counsel; Insurance Coverage and International Law; Admitted to Bar 1990	\$490	4.00	1,960.00
		\$450	19.70	8,865.00
Elizabeth I. Winston	Associate; Intellectual Property and Litigation; Admitted 1997	\$290	7.30	2,117.00
Andrew P. Schoeffler	Associate; Corporate and Securities Law; Admitted to Bar 1998	\$250	11.40	2,850.00
Richard A. Beckmann	Associate; Insurance Coverage; Admitted to Bar 2001	\$230	65.10	14,973.00
Juan Manuel Estrada	Associate; Real Estate Law and Bankruptcy; Admitted to Bar 2001	\$210	41.70	8,757.00

<b>Patricia Truitt</b>	<b>Paralegal Specialist</b>	<b>\$205</b>	<b>4.30</b>	<b>881.50</b>
<b>Karen Clayton</b>	<b>Paralegal Specialist</b>	<b>\$195</b>	<b>1.30</b>	<b>253.50</b>
<b>Paul C. Saunders</b>	<b>Lit. Staff</b>	<b>\$175</b>	<b>1.00</b>	<b>175.00</b>
<b>Total:</b>			<b>375.10</b>	<b>\$155,419.00</b>
<b>Blended Rate:</b>		<b>\$414.34</b>		
<b>Less Reduction:</b>				<b>\$5,682.50</b>
<b>Grand Total:</b>				<b>\$149,736.50</b>
<b>Blended Rate Charged:</b>		<b>\$399.19</b>		

**COMPENSATION BASED ON HOURLY RATES  
SOUGHT BY PROJECT CATEGORY**

<b>Travelers Project (Republic Steel)</b>	<b>327.00</b>	<b>\$143,437.00</b>
<b>Bankruptcy Administration (through May 31, 2002)</b>	<b>48.10</b>	<b>11,982.00</b>
<b>Total</b>	<b>375.10</b>	<b>\$155,419.00</b>

**EXPENSE SUMMARY**

Duplicating	Inhouse copying at \$0.10/page	926.16
Long Distance Telephone	AT&T	147.90
Metered Mail		5.30
Computer Research	Westlaw, Lexis	162.73
Travel		2,095.76
Facsimile Transmission		160.50
Federal Express		45.16
<b>Total</b>		<b>\$3,543.51</b>
<b>Less Reduction</b>		<b>175.50</b>
<b>Grand Total</b>		<b>\$3,368.01</b>

**SETTLEMENT PROJECT  
COMPENSATION BASED ON CONTINGENCY FEE  
JUNE 1, 2002, THROUGH JANUARY 22, 2004**

**CONTINGENCY FEE EARNED**

Andrew Weir	\$774,326.00	\$232,297.80
City General	\$75,000.00	\$22,500.00
<b>Total</b>	<b>\$849,326.00</b>	<b>\$254,797.80</b>

UNITED STATES BANKRUPTCY COURT  
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<b>In re:</b>	:	<b>Chapter 11</b>
	:	
<b>LTV STEEL COMPANY, INC.,</b>	:	<b>Jointly Administered</b>
<b>a New Jersey corporation, <u>et al.</u>,</b>	:	<b>Case No. 00-43866</b>
	:	
<b>Debtors.</b>	:	<b>Chief Judge Randolph Baxter</b>

**SECOND INTERIM FEE APPLICATION FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES FOR THE PERIOD FROM NOVEMBER 1, 2001, THROUGH JANUARY 22, 2004, AND FIRST FINAL FEE APPLICATION FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES FOR THE PERIOD FROM JANUARY 1, 2001, THROUGH JANUARY 22, 2004, OF COVINGTON & BURLING, SPECIAL COUNSEL FOR THE DEBTORS AND DEBTORS IN POSSESSION**

Covington & Burling (“Covington”), special counsel to the above-captioned debtors and debtors in possession (collectively, the “Debtors”), hereby submits this application (this “Application”) for (i) approval and allowance of compensation for services rendered and expenses incurred for the period from November 1, 2001, through January 22, 2004 (the “Compensation Period”),<sup>1</sup> and (ii) final approval and allowance of compensation for services rendered and expenses incurred for the period from January 1, 2001, through January 22, 2004 (the “First Final Compensation Period ”), and respectfully states:

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<sup>1</sup> Included in this Application is a request for compensation of \$3,823.00 in fees and reimbursement of \$5.84 in expenses for Bankruptcy Administration during November 2001. This time was not included in the Covington’s first interim fee application, which otherwise covered the period from January 1, 2001, through November 30, 2001. Paragraph 39 of the first interim fee application provided that Covington would seek compensation for fees and reimbursement of expenses that were not included in the first interim fee application but were incurred/expended during the compensation period covered by such application.

## I. BACKGROUND

1. On December 29, 2000 (the “**Petition Date**”), the Debtors commenced their respective reorganization cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the “**Bankruptcy Code**”). On February 8, 2002, two additional Debtors commenced their respective chapter 11 cases. By orders entered on the Petition Date and March 26, 2002, the Debtors’ chapter 11 cases have been consolidated for procedural purposes only and are being administered jointly.

2. The Debtors (other than Copperweld Corporation and its affiliates) are continuing in possession of their respective properties and are operating and managing their businesses, as debtors in possession, pursuant to sections 1107 and 1108 of the Bankruptcy Code.

3. By Order of Court dated December 29, 2000, this Court authorized Debtors and Debtors in Possession to Retain, Employ and Pay Certain Professionals, including Covington, in the ordinary course of their business (the “**Ordinary Course Order**”). Pursuant to the Ordinary Course Order, Covington provided post-petition legal services to the Debtors as ordinary course of business counsel. Covington received payment for such services in the amount of \$18,766.00.<sup>2</sup>

4. On January 10, 2001, the United States Trustee for the Northern District of Ohio (the “**U.S. Trustee**”) appointed a statutory committee of unsecured creditors in these chapter 11 cases (the “**Unsecured Creditors’ Committee**”), pursuant to section 1102 of the

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<sup>2</sup> The amount paid by the Debtors to Covington pursuant to the Ordinary Course Order is not included in this Application or in any prior application filed by Covington with the Court. Pursuant to the Ordinary Course Order, the Debtors were authorized to pay ordinary course professionals without prior review or subsequent approval of the Court.

Bankruptcy Code. On January 19, 2001, the U.S. Trustee appointed a statutory committee of noteholders in the Debtors' chapter 11 cases, pursuant to section 1102 of the Bankruptcy Code. On February 27, 2003, the U.S. Trustee appointed an amended statutory committee of administrative creditors in the LTV Steel case. On March 27, 2003, the U.S. Trustee filed its notice of disbandment of the Unsecured Creditors' Committee.

5. On January 31, 2001, this Court entered the Administrative Order, Pursuant to Sections 105(a) and 331 of the Bankruptcy Code Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals (the "**Fee Procedure Order**").

6. On April 6, 2001, the Debtors filed the Application for an Order Authorizing the Retention and Employment of Covington & Burling as Special Counsel (the "**Retention Application**"). On April 24, 2001, the Court entered an Order (the "**Retention Order**") authorizing the Retention of Covington as special counsel to perform any and all legal services on behalf of the Debtors as described in the Retention Application, nunc pro tunc as of the Petition Date.

7. On December 3, 2001, Covington filed its First Interim Fee Application for Compensation and Reimbursement of Expenses for the period from January 1, 2001, through November 30, 2001 (the "**First Interim Fee Application**"). On or about November 4, 2002, the Court entered an order approving and allowing compensation for fees in the amount of \$145,811.24 and reimbursement of expenses in the amount of \$3,999.08.

8. On or about November 19, 2001, the Debtors requested that Covington cease performing services as special counsel because the Debtors lacked necessary funding to pay for Covington's services on an hourly or modified-hourly basis as provided in the Retention



Order.<sup>3</sup> Thereafter, in an effort to continue to obtain Covington's assistance in the Debtors' ongoing efforts to realize the value of their insurance coverage for environmental and other liabilities, the Debtors inquired whether Covington would be willing to modify the original fee arrangement provided in the Retention Application and instead perform its services on a straight contingency fee basis for much of the remaining work relating to the Debtors' insurance coverage. As a result, the Debtors and Covington negotiated and executed a revised fee and expense agreement on August 29, 2002 (the "**Revised Fee Agreement**").

9. On October 23, 2002, the Debtors filed the Motion of Debtors and Debtors in Possession for Order Approving Amended Terms of Compensation for Covington & Burling as Special Counsel to the Debtors (the "**Motion for Amended Terms of Compensation**"). On or about November 12, 2002, the Court entered an order approving the Motion for Amended Terms of Compensation, and the Revised Fee Agreement nunc pro tunc to June 1, 2002 (the "**Amended Covington Compensation Order**").

10. For services rendered and expenses incurred during the Compensation Period prior to June 1, 2002, Covington was to be compensated and reimbursed pursuant to the terms of the Retention Order. Specifically, (a) with respect to Covington's work in seeking to secure a negotiated resolution of the Debtors' claims for coverage of environmental liabilities under LTV Steel's Youngstown line of coverage, Covington was to be compensated at seventy-five percent (75%) of its customary hourly rates in effect for the period in which the services

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<sup>3</sup> Following November 19, 2001, Covington incurred fees and expenses during the months of November and December 2001, and April 2002, in connection with (i) preparing the First Interim Fee Application, which sought Court approval and allowance of fees and expenses incurred on or before November 19, 2001, and (ii) attendance at a hearing for the First Interim Fee Application. These fees and expenses were entered under the Bankruptcy Administration category. Covington submitted Monthly Statements to the Debtors for fees and expenses during these months and received 80% of the fees and 100% of expenses requested.

were performed;<sup>4</sup> and (b) with respect to Covington's other insurance-related work for the Debtors, Covington was to be compensated at its customary hourly rates in effect for the period in which the services were performed. For both matters described above, Covington was to be reimbursed for its related expenses.

11. For services rendered and expenses incurred during the Compensation Period from and after June 1, 2002, Covington is to be compensated and reimbursed pursuant to the terms of the Amended Covington Compensation Order. Specifically (a) with respect to Covington's services rendered and expenses incurred in connection with representing the Debtors in their joint effort with International Steel Group, Inc. ("ISG") to secure a negotiated resolution of insurance coverage for environmental and other liabilities under various lines of coverage acquired by the Debtors and their predecessor companies (the "**Settlement Project**"), Covington is entitled to a contingency fee of thirty percent (30%) of the gross proceeds of all settlements entered into as a result of the Settlement Project;<sup>5</sup> and (b) with respect to Covington's services rendered and expenses incurred in connection with advising the Debtors regarding their rights and obligations under the June 30, 2000 settlement agreement (the "**June 2000 Agreement**") with The Travelers Indemnity Company and Travelers Casualty and Surety

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<sup>4</sup> For its work on LTV Steel's Youngstown line of coverage, Covington was also to receive an incentive payment if the results of its settlement-related efforts exceeded a performance threshold. There were no recoveries under LTV Steel's Youngstown line of coverage from the Petition Date to the effective date of the Amended Covington Compensation Order. Accordingly, Covington did not receive any incentive payment. This incentive payment arrangement has been superseded by the Revised Fee Agreement.

<sup>5</sup> Pursuant to the Amended Covington Compensation Order, Covington is obligated to retain, at its own expense, any consultants that Covington deems necessary to pursue the Settlement Project. The Amended Covington Compensation Order provides that Covington is to be compensated for its work and reimbursed for its expenses on the Settlement Project only on a contingency fee basis. If there is no recovery, Covington receives no payment for either its work or its expenses.

Company (collectively, “Travelers”) and assisting the Debtors in any negotiations relating to that settlement (the “Travelers Project”), Covington is to be compensated for its services based on its customary hourly rates in effect for the period in which the services are performed, and is to be reimbursed for its related expenses.

12. In accordance with the Amended Covington Compensation Order, any proceeds recovered as a result of the Settlement Project are initially to be paid to Covington and held in a segregated, interest-bearing account (the “Escrow Account”). Covington has a first-priority lien and security interest in the settlement proceeds in an amount equal to the unpaid amount of its contingency fee. Covington is to disburse to the Debtors and ISG their respective shares of any settlement proceeds recovered, less the amount of the contingency fee owed to Covington. Covington may seek interim compensation in respect to any contingency fees for the Settlement Project by submitting a Statement following receipt of settlement proceeds. Upon expiration of the review period for the Statement provided in the Fee Procedure Order, Covington may pay itself from the settlement proceeds an amount equal to the lesser of (a) 80% of the contingency fee, and (b) the amount of fees not subject to a timely objection.<sup>6</sup> Covington is entitled to disburse to itself from the Escrow Account the remaining unpaid portion of its contingency fee for the proceeds of each settlement upon the Court’s approval of Covington’s fee application applicable to such settlement.

13. Covington submits this Application pursuant to section 331 of the Bankruptcy Code, Rule 2016 of the Federal Rules of Bankruptcy Procedure, Local Rule 2016-1 of this Court, General Order No. 93-1 of the United States Bankruptcy Court for the Northern

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<sup>6</sup> Covington has to date not submitted any Statement to the Debtors for a contingency fee on account of settlement proceeds recovered for the Settlement Project.

District of Ohio, the Fee Procedure Order, the Retention Order and the Amended Covington Compensation Order.

14. For the Compensation Period, Covington seeks approval and allowance of compensation for fees in the aggregate amount of \$404,534.30, which includes (a) \$149,736.50 for services rendered at customary hourly-rates in connection with the Travelers Project and Bankruptcy Administration,<sup>7</sup> and (b) \$254,797.80 in contingency fees (to be paid from the Escrow Account) for proceeds recovered in connection with the Settlement Project. For the Compensation Period, Covington also seeks approval and allowance of reimbursement of costs for actual, necessary expenses in the amount of \$3,368.01.<sup>8</sup>

15. For the Compensation Period, Covington has submitted to the Debtors Monthly Statements for the months from November 2001 through June 2003, for services rendered and expenses incurred for its work on the Travelers Project and Bankruptcy Administration.<sup>9</sup> As of the date of the filing of this Application, Covington has received \$127,178.71 on account of fees and expenses provided in those Monthly Statements.

16. Covington's last Monthly Statement during the Compensation Period was submitted for its work on the Travelers Project during June 2003. Since then, Covington has

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<sup>7</sup> The amount requested reflects a reduction of \$5,682.50 to adjust for 50% of the time associated with non-working travel time that was (i) properly deducted from the August 2002 Monthly Statement for the Travelers Project (\$875.00), and (ii) inadvertently billed to the Debtors (\$1,627.50 during the period covered by the First Interim Fee Application, and \$3,180.00 during the Compensation Period).

<sup>8</sup> The amount requested reflects a reduction of \$175.50 to adjust for facsimile charges that were inadvertently billed to the Debtors (\$60.00 during the period covered by the First Interim Fee Application, and \$115.50 during the Compensation Period).

<sup>9</sup> During the Compensation Period, Covington recorded its services rendered and expenses incurred with respect to the Travelers Project under the project category "Insurance Coverage/Republic Steel."

only rendered services to the Debtors in connection with the Settlement Project, and, pursuant to the Amended Covington Compensation Order, Monthly Statements for this project are not required.

17. Except as disclosed in the Retention Application, the Declaration of Saul B. Goodman in support thereof, the First Interim Fee Application, the Motion for Amended Terms of Compensation, and this Application, Covington has received no payment and no promises of payment from any source other than the Debtors for services rendered in these chapter 11 cases. There is no agreement or understanding between Covington and any other person for the sharing of any compensation to be received for services rendered by Covington in the case.

18. All services for which compensation is requested by Covington pursuant to this Application were performed for or on behalf of the Debtors in this case, except that with respect to the Settlement Project and pursuant to the Amended Covington Compensation Order, Covington jointly represents the Debtors and ISG and is owed a contingency fee based on the gross proceeds of all settlements entered into as a result of the Settlement Project.

19. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue of this proceeding and this Application is proper in this district pursuant to 28 U.S.C. § 1409. The statutory predicates for the relief sought herein are 11 U.S.C. §§ 328(a), 330 and 331 and Federal Rules of Bankruptcy Procedure 2002(a) and 2016.

## **II. SUMMARY OF SERVICES RENDERED**

20. During the First Final Compensation Period, Covington has rendered complex and extensive professional services on behalf of the Debtors. These services in the

areas of insurance coverage and bankruptcy were rendered to Debtors in connection with their efforts to use Debtors' historical insurance assets to assist in resolving governmental claims that Debtors were liable under various federal, state and local environmental statutes, rules, regulations and ordinances for liquidated and non-liquidated, contingent and non-contingent, general unsecured, priority and administrative environmental claims (collectively, the "**Environmental Claims**"), and in efforts to recover insurance proceeds for environmental and other liabilities under policies acquired by the Debtors. For the purposes of seeking compensation for services rendered during the Compensation Period, Covington has divided its time into three categories.

21. A summary of the primary services rendered by Covington during the Compensation Period for each of these categories is provided below.<sup>10</sup> A description of these services performed by Covington attorneys and paraprofessionals on a task-by-task basis is set forth in **Exhibit A** and incorporated herein by reference.

**A. Settlement Project \$254,797.80**

During the Compensation Period, Covington assisted the Debtors in negotiating and documenting a comprehensive settlement of the Environmental Claims (the "**Global Settlement**") with the United States of America, the Commonwealth of Pennsylvania, the States of Ohio and Indiana, the City of Chicago (collectively, the "**Governments**") and Travelers. Pursuant to the Global Settlement, which was approved by the Court on August 20, 2003, Debtor LTV Steel Company, Inc. ("**LTV**") agreed to pay the Governments

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<sup>10</sup> A summary of the primary services rendered by Covington for the period from January 1, 2001, to November 30, 2001, is set forth in the First Interim Fee Application, which is incorporated herein by reference.

\$14,146,253.00, in return for which the Governments agreed to broad releases or covenants not to sue the Debtors for the Environmental Claims, which the Governments had estimated to total in excess of several hundred million dollars. Global Settlement ¶¶ 16, 18(b), 22(a)-(c); 24(a).

Given the significant difference between the cash payment and the Debtors' total alleged environmental liabilities, an important additional component of the Debtors' consideration to the Governments related to the Debtors' historical insurance assets, including (a) an agreement by Travelers to pay the Governments \$15,400,000.00, in return for broad releases and covenants not to sue Travelers, and (b) an assignment by the Debtors to the Governments of all net proceeds to which the Debtors would thereafter become entitled as a result of settlement negotiations with other insurers regarding coverage for Environmental Claims under policies that insured the Debtors' former steelmaking operations (the "Insurance Settlement Discussions") or, if those negotiations were unsuccessful, the net proceeds paid to the Debtors as a result of any ensuing coverage litigation. Id. ¶¶ 18(c), 18(e), 22(d), 24(b). Moreover, in connection with this assignment, the Debtors agreed to "continue to diligently pursue the recovery of insurance proceeds from insurers other than Travelers . . . through the Insurance Settlement Discussions or by coverage litigation." Id. ¶ 18(d).

In addition, to facilitate LTV's efforts to secure settlements from other insurers, the Global Settlement expressly provided a template for future insurance settlements, including an agreement by the Governments to provide to future settling insurers the same broad releases and covenants not to sue that had been provided to Travelers under the Global Settlement. Id. ¶¶ 22(e), 24(c), 25(b).

During the Compensation Period, Covington also assisted the Debtors in negotiations to secure settlements with other insurers of LTV. Those efforts included protracted

and complex transcontinental settlement negotiations with certain Underwriters at Lloyd's, London and certain London Market Insurance Companies (collectively, the “**London Market Insurers**”). As a result of these negotiations, Debtor the LTV Corporation, ISG, the London Market Insurers and a former captive insurer of LTV recently entered into a Confidential Settlement Agreement and Release, which generally provides for payment of certain amounts by each of the London Market Insurers in exchange for certain releases and covenants not to sue with respect to, among other things, insurance coverage for the Environmental Claims. These negotiations have also involved the Governments, which have recently entered into a stipulation (the “**Related Stipulation**”) that, in accordance with the settlement template set forth in the Global Agreement, would provide the settling London Market Insurers and LTV’s former captive insurer with broad releases and covenants not to sue. Debtor will soon be submitting the Confidential Settlement Agreement and Release and the Related Stipulation to this Court for approval.

During the process of negotiating with the London Market Insurers, Covington separately pursued claims with certain insolvent London Market Companies. Covington filed these separate claims to avoid missing applicable bar dates and forfeiting these claims. As a result of these filings, payments were received in the amounts of \$75,000.00 from City General Insurance Company Limited and \$774,326.00 from Andrew Weir Insurance Company Limited. These payments were allowed and paid without the need for Debtors to enter into separate settlement agreements. Pursuant to the Amended Covington Compensation Order, these proceeds were deposited in the Escrow Account.

Covington continues to assist Debtors in coverage negotiations with additional insurance companies that subscribed to LTV’s various lines of insurance coverage.



**B. Travelers Project \$143,437.00**

During the Compensation Period, Covington advised the Debtors regarding their rights and obligations under the June 2000 Agreement with Travelers. Covington also assisted Debtors in negotiations with Travelers to convert the June 2000 Agreement from a coverage-in-place agreement into new agreements to assist the Debtors in funding environmental settlements. As noted above, Travelers agreed to pay \$15,400,000.00 to the Governments in the Global Settlement. In addition, Travelers had earlier agreed to pay up to \$6,562,500.00 to fund an environmental settlement involving LTV, the State of New York, the City of Buffalo and other parties (the “**Buffalo Agreement**”) relating to LTV’s former steel works in Buffalo, New York. These payments by Travelers were instrumental to the Debtors in reaching both the Global Settlement and the Buffalo Settlement.

**C. Bankruptcy Administration \$11,982.00**

This category includes time spent preparing the First Interim Fee Application, analyzing and responding to the United States Trustee’s objection to the First Interim Fee Application and preparing for and attending the hearing on the First Interim Fee Application. As previously noted herein, with respect to fees and expenses for Bankruptcy Administration during the Compensation Period, Covington is only seeking compensation and reimbursement for such fees and expenses through May 31, 2002. From and after June 1, 2002, Covington attorneys and paraprofessionals recorded fees and expenses for Bankruptcy Administration under the Settlement Project category, for which compensation is determined on a court-approved contingency fee basis, rather than on an hourly basis.

### III. REQUEST FOR COMPENSATION AND REIMBURSEMENT

22. During the Compensation Period, with respect to services rendered on an hourly basis in connection with the Travelers Project and Bankruptcy Administration, Covington attorneys and paraprofessionals devoted 375.10 hours of their time providing professional services on behalf of the Debtors. Based upon the number of hours spent and the normal hourly billing rates established by Covington, the value of the recorded services rendered at normal hourly rates is \$155,419.00, of which Covington is seeking compensation in the amount of \$149,736.50.<sup>11</sup> With respect to Covington's services rendered in connection with the Settlement Project, Covington successfully recovered \$849,326.00 in proceeds for the Debtors, entitling Covington to a contingency fee in the amount of \$254,797.80 in accordance with the Amended Covington Compensation Order.

23. With respect to services rendered during the Compensation Period in connection with the Travelers Project and Bankruptcy Administration, a summary of the number of hours recorded by each attorney and paraprofessional and the corresponding value of those hours at Covington's normal hourly billing rates is provided above (p. iii-iv) in the table "Hours and Amount Recorded by Each Attorney and Paraprofessional at Normal Hourly Rates."

24. With respect to services rendered on an hourly basis during the Compensation Period in connection with the Travelers Project and Bankruptcy Administration, a summary of the number of hours recorded by each attorney and paraprofessional and the corresponding value of those hours at Covington's normal hourly billing rates for each category

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<sup>11</sup> As previously noted, the amount requested reflects a reduction of \$5,682.50 to adjust for 50% of the time associated with non-working travel time that was (i) properly deducted from the August 2002 Monthly Statement for the Travelers Project (\$875.00), and (ii) inadvertently billed to the Debtors (\$1,627.50 during the period covered by the First Interim Fee Application, and \$3,180.00 during the Compensation Period).

is set forth in **Exhibit B**, which is incorporated herein by reference. In accordance with the Amended Covington Compensation Order, Covington also is providing a summary of hours recorded by each attorney and paraprofessional in connection with the Settlement Project and the normal hourly billing rate for such attorneys and paraprofessionals, which summary is set forth in **Exhibit C** and is incorporated herein by reference.<sup>12</sup>

25. In rendering services to the Debtors during the Compensation Period with respect to the Travelers Project and Bankruptcy Administration, Covington has incurred actual, necessary expenses in the amount of \$3,543.51,<sup>13</sup> of which Covington is seeking reimbursement in the amount of \$3,368.01.<sup>14</sup> A breakdown of these expenses is provided in the table “Expense Summary” appearing above (p. v).

26. Based upon the foregoing, Covington seeks allowance of compensation for the Compensation Period in the amount of \$404,534.30 which includes (a) \$149,736.50 for services rendered at customary hourly-rates in connection with the Travelers Project and Bankruptcy Administration, and (b) \$254,797.80 in contingency fees (to be paid from the Escrow Account) for proceeds recovered as a result of the Settlement Project. In addition, Covington seeks allowance of reimbursement of its actual, necessary expenses incurred in the amount of

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<sup>12</sup> Paragraph 7 of the Amended Covington Compensation Order sets forth the information that Covington is required to submit in connection with any applications for contingency fees for the Settlement Project, and the information provided in the Application and Exhibits satisfies those requirements.

<sup>13</sup> During the Compensation Period, Covington also incurred more than \$45,000.00 in expenses on the Settlement Project. In accordance with the Amended Covington Compensation Order, Covington is not seeking reimbursement of any expenses incurred in connection with the Settlement Project.

<sup>14</sup> As previously noted, the amount requested reflects a reduction of \$175.50 to adjust for facsimile charges that were inadvertently billed to the Debtors (\$60.00 during the period covered by the First Interim Fee Application, and \$115.50 during the Compensation Period).

\$3,368.01. Accordingly, by this Application, Covington seeks a combined allowance of \$407,902.31 for the Compensation Period.

#### IV. ALLOWANCE OF FEES

##### A. **Travelers Project (Republic Steel) and Bankruptcy Administration - Fee Based on Customary Hourly Rates**

27 Covington is familiar with and has submitted this Application with the intention of complying with the compensation guidelines considered by courts in determining allowances of compensation. The compensation guidelines establish standards for evaluating requests for interim compensation. The starting point in the evaluation is a multiplication of the number of hours reasonably expended in the case by a reasonable or customary hourly rate. With respect to services rendered in connection with the Travelers Project and Bankruptcy Administration, this analysis is set forth in paragraph 22 above.

28. As indicated in paragraph 22 above, attorneys and paraprofessionals of Covington devoted 375.10 hours of their time in the rendition of professional services on behalf of the Debtors during the Compensation Period with respect to the Travelers Project and Bankruptcy Administration. Based upon the number of hours spent and the normal hourly billing rates established by Covington, the value of the recorded services rendered is \$155,419.00, of which Covington is seeking compensation for \$149,736.50. Because the Travelers Project involved novel and sophisticated legal issues and substantial insurance proceeds -- \$15,400,000.00 for the Global Settlement and up to \$6,562,500.00 for the Buffalo Settlement -- that were instrumental to Debtors in reaching both of those settlements, it required the involvement of senior Covington lawyers who had been involved in LTV's prior negotiations with Travelers in connection with the June 2000 Agreement and possessed the necessary skills and familiarity with the senior insurance company representative participating in the

negotiations. The blended hourly rate charged for all attorneys and paraprofessionals is approximately \$399.19, which is within the range of fees normally charged for similar services rendered in a chapter 11 case by major law firms in the Washington, D.C. area. The blended hourly rate charged reflects the total amount of fees being claimed, divided by the total number of hours spent.

29. Under the “lodestar” approach set forth in the compensation guidelines, the Court should next apply the following twelve factors to the fee request and increase or decrease the compensation accordingly:

- a. time and labor expended;
- b. novelty and difficulty of the questions raised;
- c. skill required to properly perform the legal services rendered;
- d. attorney’s opportunity cost in pursuing the matter;
- e. customary fee for like work;
- f. attorney’s expectations at the outset of the matter;
- g. time limitations imposed by the client or circumstances;
- h. amount in controversy and the results obtained;
- i. experience, reputation and ability of the attorney;
- j. undesirability of the case within the legal community in which the case arose;
- k. nature and length of the professional relationship between attorney and client; and
- l. attorney’s fee awards in similar cases.

**a. Time and Labor Expended**

30. The professional services rendered by Covington are outlined in paragraph 21 and set forth with particularity in Exhibit A. During the Compensation Period, Covington attorneys and paraprofessionals expended 375.10 recorded hours in providing the requested professional services in connection with the Travelers Project and Bankruptcy Administration.

**b-c. Novelty of the Questions Raised/Level of Required Skill**

31. During the Compensation Period, Covington has addressed complex and difficult legal problems in the areas of insurance coverage and bankruptcy all of which required specialized expertise and staffing predominantly by senior lawyers. As is more fully detailed above, Covington believes that it has been able to address many difficult and complex questions as they have arisen, in an expeditious and efficient manner.

**d. Attorney's Opportunity Cost in Pursuing the Matter**

32. Representation of the Debtors has required Covington to expend a great deal of attorney and paraprofessional time, which could have been spent in the representation of other clients at the same hourly rates.

**e. Customary Fee for Like Work**

33. With respect to services rendered in connection with the Travelers Project and Bankruptcy Administration, the hourly rates for the individual attorneys and paraprofessionals listed in the table "Hours and Amount Recorded by Each Attorney and Paraprofessional at Normal Hourly Rates" are normal and customary rates charged for their services. Covington believes and avers that its fees are comparable to those charged for similar services by other major Washington, D.C. law firms.

**f. Attorney's Expectations as to Compensation at the Outset of the Matter**

34. At the outset of this matter, Covington's expectations as to compensation was that it would be compensated in accordance with its usual hourly rates or on a modified-hourly basis, as provided in the Retention Application.

**g. Time Limitations Imposed by the Client or Circumstances**

35. On many occasions, Covington attorneys rendered services on behalf of the Debtors under severe time constraints. Often, the services were performed well after regular business hours.

**h. Amount in Controversy and the Results Obtained**

36. LTV has a significant portfolio of historical insurance policies that are available to assist LTV in addressing its environmental liabilities. Covington's services have furthered the Debtors' objectives of using their insurance assets to secure broad governmental releases of environmental liabilities and recovering insurance proceeds under their policies.

**i. Experience, Reputation and Ability of the Attorney**

37. Covington's services have been rendered in a highly efficient manner by attorneys who have achieved a high degree of skill and expertise in the areas of insurance coverage and bankruptcy. As discussed above, Covington's highly professional and expert group of attorneys has ensured that these matters have been administered in the most efficient and expeditious manner under the circumstances.

**j. Undesirability of the Case in the Legal Community**

38. This factor is not applicable to this Application.

**k. Nature and Length of the Professional Relationship Between the Attorney and the Client**

39. Since 1997, Covington has assisted LTV with respect to efforts to secure insurance coverage for environmental liabilities. Covington has obtained valuable institutional knowledge of the Debtors' insurance coverage and environmental liabilities as a result of their representation of the Debtors over the past seven years.

**I. Attorney's Fee Awards in Similar Cases**

40. The hourly fees charged for the Travelers Project and Bankruptcy Administration are comparable to fees normally requested for similar services rendered in chapter 11 cases of this size and complexity, based on time expended and customary hourly rates charged by major law firms in the Washington, D.C. area. Covington submits that, in light of the circumstances of the case and the significant benefits derived from Covington's assistance, compensation in the amount requested is fair and reasonable.

**B. Settlement Project - Contingency Fee**

41. As noted in paragraph 34 above, at the outset of Covington's representation of the Debtors, Covington's expectations as to compensation was that it would be compensated in accordance with its usual hourly rates or on a modified-hourly basis, as provided in the Retention Application. On or about November 19, 2001, however, the Debtors requested that Covington cease performing services as special counsel because the Debtors lacked necessary funding to pay for Covington's services on an hourly or modified-hourly basis. Thereafter, in an effort to continue to obtain Covington's assistance in the Debtors' ongoing efforts to realize the value of their insurance coverage for environmental and other liabilities, the Debtors inquired whether Covington would be willing to modify the original fee arrangement provided in the Retention Application and instead perform its services on a straight contingency fee basis for much of the remaining work regarding Debtors' insurance coverage. As a result, the Debtors and Covington negotiated the Revised Fee Agreement, which was approved nunc pro tunc to June 1, 2002, pursuant to section 328(a) of the Bankruptcy Code by the Court's Amended Covington Compensation Order. The contingency fee provided in the Revised Fee Agreement was developed by the Debtors and Covington for the specific and unique



circumstances of this case, and is not comparable to practices customarily employed by Covington.

42. Pursuant to the Amended Covington Compensation Order, Covington is to receive a contingency fee of thirty percent (30%) of the gross proceeds of all settlements entered into as a result of the Settlement Project. During the Compensation Period, Covington successfully recovered \$849,326.00 in proceeds for the Debtors, entitling Covington to a contingency fee in the amount of \$254,797.80. Pursuant to the Amended Covington Compensation Order, these proceeds were paid into the Escrow Account, and Covington's contingency fee is to be paid from these funds.

43. Covington requests allowance of the contingency fee pursuant to the Amended Covington Compensation Order and section 328(a) of the Bankruptcy Code. Covington is entitled to receive its court-approved contingency fee compensation unless the contingency fee terms "prove to have been improvident in light of developments not capable of being anticipated at the time of the fixing of such terms and conditions." 11 U.S.C. § 328(a). Allowance of the contingency fee requested is proper under section 328(a) of the Bankruptcy Code. Since entering into the Revised Fee Agreement, no developments have occurred that were not capable of being anticipated at the time the Revised Fee Agreement was entered into and which would render the terms and conditions of the Revised Fee Agreement improvident in light of such unanticipated developments.

44. By agreeing to accept a straight contingency fee on the Settlement Project, Covington solely assumed the risk that it would be successful in recovering insurance proceeds. If insurance proceeds were not recovered, Covington would have received nothing for its substantial commitment of time and the expenses that it incurred in connection with the project.

In consideration for Covington's assumption of this risk and the fact that the arrangement was in the interests of the Debtors and their respective estates, the Court, in the Amended Covington Compensation Order, approved a contingency fee of thirty percent (30%) of the gross proceeds recovered for the Debtors' estates. The contingency fee requested is in accordance with the terms of the Amended Covington Compensation Order.<sup>15</sup>

### CONCLUSION

45. Covington's services have resulted in significant benefits to the Debtors and their estates. Accordingly, Covington's request for compensation and reimbursement of expenses on the Travelers Project and Bankruptcy Administration is reasonable and proper, is justified by the benefits received by the Debtors and their estates, and, therefore, should be allowed in full. In addition, Covington's request for its contingency fee for proceeds recovered pursuant to the Settlement Project is in accordance with the Amended Covington Compensation Order, and therefore should be allowed in full.

46. By this Application, Covington requests compensation for services rendered during the Compensation Period in the aggregate amount of \$404,534.30, which includes (a) \$149,736.50 for services rendered at customary hourly-rates in connection with the Travelers Project and Bankruptcy Administration, and (b) \$254,797.80 in contingency fees (to be paid from the Escrow Account) for proceeds recovered pursuant to the Settlement Project. Covington also requests reimbursement of actual and necessary expenses incurred during the Compensation Period in the amount of \$3,368.01.

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<sup>15</sup> Covington has been advised by ISG's counsel that ISG -- which Covington represents jointly with the Debtors in the Settlement Project -- supports Covington's motion for the contingency fee payment.

47. By this Application, Covington also requests final allowance of \$557,712.63 for the First Final Compensation Period, representing (a) \$550,345.54 as compensation for professional services rendered, which includes (i) \$145,811.24 in fees previously approved by the Court on an interim basis for the First Interim Fee Application, (ii) \$149,736.50 for services rendered at customary hourly-rates in connection with the Travelers Project and Bankruptcy Administration during the Compensation Period, and (iii) \$254,797.80 in contingency fees (to be paid from the Escrow Account) for proceeds recovered pursuant to the Settlement Project during the Compensation Period; and (b) \$7,367.09 as reimbursement for actual and necessary expenses Covington incurred during the First Final Compensation Period. These amounts include all compensation and reimbursement previously approved by the Court on an interim basis for the First Interim Fee Application, which is incorporated herein by this reference, and the fees and expenses presented by this Application. As a result of this Court's approval of the First Interim Fee Application, and payments made by the Debtors for the Monthly Statements for November 1, 2001, through June 30, 2003, Covington has received \$265,170.10 for fees and expenses to date.

48. For the First Final Compensation Period, set forth in **Exhibit D**, which is incorporated herein by this reference, are summaries of (a) the number of hours recorded by each attorney and paraprofessional and the corresponding value of those hours at Covington's normal hourly billing rates for services rendered on an hourly or modified-hourly basis; (b) the expenses incurred in connection with services rendered on an hourly or modified-hourly basis; and (c) the contingency fee earned by Covington for proceeds recovered pursuant to the Settlement Project.

49. For the First Final Compensation Period, set forth in **Exhibit E**, which is incorporated herein by reference, is a summary of (a) the number of hours recorded by each

attorney and paraprofessional and the corresponding value of those hours at Covington's normal hourly billing rates for each category billed on an hourly or modified hourly basis, and (b) the number of hours and hourly billing rates for each attorney and paraprofessional rendering services on the Settlement Project.

WHEREFORE, Covington respectfully requests the Court (1) to approve interim compensation of \$404,534.30 for professional services rendered, which includes (a) \$149,736.50 for services rendered at customary hourly-rates in connection with the Travelers Project and Bankruptcy Administration, and (b) \$254,797.80 in contingency fees (to be paid from the Escrow Account) for proceeds recovered pursuant to the Settlement Project; and \$3,368.01 for reimbursement of actual and necessary expenses incurred during the Compensation Period; (2) to approve final compensation of \$550,345.54 representing (a) \$145,811.24 in fees previously approved by the Court on an interim basis for the First Interim Fee Application, (b) \$149,736.50 for services rendered at customary hourly-rates in connection with the Travelers Project and Bankruptcy Administration during the Compensation Period, and (c) \$254,797.80 in contingency fees (to be paid from the Escrow Account) for proceeds recovered pursuant to the Settlement Project during the Compensation Period; and \$7,367.09 as reimbursement for actual and necessary expenses Covington incurred during the First Final Compensation Period; (3) to authorize Covington, without further order of the Court, to disburse \$254,797.80 in contingency fees to

itself from the Escrow Account; (4) to direct the Debtors to pay the remaining amounts of allowed fees and expenses owed to Covington; and (5) to grant such further relief as is just and proper.

Respectfully submitted,

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Dated: March 22, 2004

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