

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

In re:	)	Hon. John H. Squires
	)	
National Steel Corporation and certain of its	)	Case No. 02-08699
Subsidiaries, Affiliates, Debtors and	)	(Jointly Administered)
Debtors-in-Possession	)	Chapter 11
	)	
Debtors.	)	

**FILED**  
UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
FEB 02 2004  
KENNETH S. GARDNER, CLERK  
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**FINAL FEE APPLICATION OF  
ERNST & YOUNG CORPORATE FINANCE LLC FOR  
ALLOWANCE OF COMPENSATION AND REIMBURSEMENT  
OF EXPENSES FOR THE PERIOD FROM  
MARCH 6, 2002 THROUGH MAY 19, 2003**

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Dated: January 25, 2004

Robert P. Wujtowicz  
Managing Director  
ERNST & YOUNG CORPORATE FINANCE LLC  
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FINANCIAL AND RESTRUCTURING  
ADVISOR FOR THE ESTATES OF NATIONAL  
STEEL CORPORATION AND CERTAIN OF ITS  
SUBSIDIARIES, AFFILIATES, DEBTORS AND  
DEBTORS-IN-POSSESSION

Pursuant to 11 U.S.C. §§ 330(a), 331, 503(b), and 507(a)(1); Federal Rules of Bankruptcy Procedure 2002(a)(6), (c)(2), and (k), 2016, and 9034(e)<sup>1</sup>; Local Bankruptcy Rule 607; and this Court's Administrative Order Establishing Procedures for Periodic Compensation and Reimbursement of Expenses of Professionals as entered by the Court on March 7, 2002 (the "**Administrative Order**"), ERNST & YOUNG CORPORATE FINANCE LLC ("**EYCF**"), financial and restructuring advisor to National Steel Corporation and certain of its Subsidiaries, Affiliates, Debtors and Debtors-in-Possession (collectively referred to hereinafter as the "**Debtors**"), in the above-captioned, jointly-administered cases, hereby makes its final fee application (the "**Application**") for approval and allowance of compensation of \$2,894,409.00 and expense reimbursement of \$120,513.00 for the period of March 6, 2002 through May 19, 2003 (the "**Application Period**"). In support of this Application, EYCF respectfully represents as follows:

## **BACKGROUND**

### *General*

1. On March 6, 2002 (the "**Petition Date**"), the Debtors each filed voluntary petitions in this Court for reorganization relief under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101-1330 (as amended, the "**Bankruptcy Code**"). The Debtors continue to manage and operate their businesses as debtors and debtors-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code.

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<sup>1</sup> Unless otherwise noted, all code section references herein are made to title 11 of the United States Code, 11 U.S.C. §§ 101 - 1330 (the "**Bankruptcy Code**"). Similarly, and unless otherwise noted, all rule-related references herein are made to the Federal Rules of Bankruptcy Procedure (the "**Bankruptcy Rules**").

2. On March 18, 2002, the United States Trustee appointed the Official Committee of Unsecured Creditors of the Debtors (the "**Committee**"). No trustee or examiner has been appointed.

3. This Court has jurisdiction over this Motion pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). Venue in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

4. The statutory predicates for the relief requested herein are sections 363 and 105 of the Bankruptcy Code.

5. On March 7, 2002, this Court entered that certain Administrative Order Pursuant to 11 U.S.C. §§ 105(a) and 331 Establishing Procedures for Periodic Compensation and Reimbursement of Expenses of Professionals (Docket No. 34) (the "**Administrative Order**").

6. Pursuant to the Administrative Order, EYCF and other professionals retained in this case are authorized to file and serve, upon the parties identified in the Administrative Order, fee applications every month (the "**Monthly Fee Statement**"). Upon expiration of the 20-day objection period, the Debtors are authorized to pay EYCF and other professionals ninety percent (90%) of the fees and one hundred percent (100%) of the expenses requested in the Monthly Fee Statement. If an objection is received, then the Debtors shall be authorized to pay ninety percent (90%) of the fees and one hundred percent (100%) of the expenses that are not the subject of the objection. Thereafter, at four-month intervals or at such other intervals as the Court may otherwise direct, each of the Professionals must file with the Court and serve on the Notice Parties a request (an "**Interim Fee Application Request**") for Court approval and allowance for any unpaid amounts. Upon conclusion of professional services rendered each of the professionals must file with the Court and serve on the Notice Parties a request (a "**Final Fee**

Application Request") for final Court approval and allowance for any and all fees and/or expenses, paid and unpaid.

**EYCF's Retention**

7. On April 8, 2002, this Court entered that certain Order Pursuant to 11 U.S.C. §§ 327(a) and 328(a) Authorizing the Debtors' Retention of Ernst & Young Corporate Finance LLC as Financial and Restructuring Advisors to the Debtors (Docket No. 385).

8. In accordance with the Administrative Order, EYCF hereby submits this Application. On April 8, 2002 the Court approved a Monthly Advisory Fee to EYCF of \$200,000.00, in accordance with the terms of the Debtors' Application and EYCF's Engagement Letter. The nature of this fee arrangement is consistent with the current practices of EYCF for financial and restructuring advisory services provided to companies in other bankruptcy and non-bankruptcy matters.

9. EYCF has not shared or agreed to share any of its compensation with any other person, other than as permitted under § 504 of the Bankruptcy Code and Bankruptcy Rule 2016 and except as provided under the subcontract agreement with Ernst & Young LLP ("E&Y") for the services of certain partners and/or employees of E&Y. No partners or employees of E&Y who are subcontracted to perform services for the Debtor will be or will have been engaged to provide audit services for either the Debtors or the Debtors' majority stockholder. On September 1, 2001, a separation agreement between E&Y and EYCF (f/k/a E&Y Capital Advisors LLC) became effective. E&Y, the sole member of EYCF, a Delaware limited liability company, has a variety of legal and financial rights, including the right to receive dividends under legally appropriate circumstances. As of December 8, 2000, the

Board of Managers of EYCF approved a dividend to E&Y. The dividend represents approximately 12% of the total revenue of EYCF for fiscal year 2000.

## **RELIEF REQUESTED AND REASONS THEREFOR**

### **Summary of Relief Requested**

10. EYCF makes this Application pursuant to §§ 330(a), 331, 503(b), and 507(a)(1) of the Bankruptcy Code; Bankruptcy Rules 2002(a)(6), (c)(2), and (k), 2016, and 9034(c); Local Bankruptcy Rule 607; and the Administrative Order. EYCF hereby seeks approval and allowance of compensation for services rendered and reimbursement of expenses incurred for the Application Period as follows:

a. Compensation of \$2,894,409.00 in connection with services rendered during the Application Period (the "**Final Fee Request**").

b. Reimbursement of one hundred percent (100%) of actual and necessary expenses of \$120,513.00 incurred in connection with EYCF's services rendered during the Application Period (the "**Final Expense Request**").

### **Payments to EYCF For the Period From March 6, 2002 to May 19, 2003**

11. In accordance with the Administrative Order authorizing the Debtors' retention of EYCF as Financial and Restructuring Advisors to the Debtors; the Debtors paid to EYCF a retainer in the amount of \$200,000 (the "**Retainer**")

12. On April 25, 2002, EYCF filed its First Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from March 6, 2002 through March 31, 2002 ("**First Monthly Fee Statement**"). On May 29, 2002, the Debtors paid ninety percent (90%) of the Allowed Fees, or \$150,968.00, and one hundred

percent (100%) of the Allowed Expenses, or \$7,313.00, for a total of \$158,281.00, to EYCF for the services rendered and reimbursement of expenses for the period from March 6, 2002 through March 31, 2002. However, on February 21, 2002, the Debtor paid EYCF \$167,742.00 in advance for post-petition March services, resulting in a net overpayment for the period from March 6, 2002 through March 31, 2002 of \$167,742.00.

13. On May 25, 2002, EYCF filed its Second Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from April 1, 2002 through April 30, 2002 ("**Second Monthly Fee Statement**"). On June 12, 2002, the Debtors paid one hundred percent (100%) of the Allowed Fees, or \$200,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$13,305.00, for a total of \$213,305.00, to EYCF for the services rendered and reimbursement of expenses for the period from April 1, 2002 through April 30, 2002. The Debtors' payment to EYCF of one hundred percent (100%) of the Allowed Fees for the period, or \$200,000.00, including the ten percent (10%), or \$20,000.00, which was subject to holdback, resulted in a cumulative net overpayment of \$187,742.00 for the period from March 6, 2002 through April 30, 2002.

14. On June 17, 2002, EYCF filed its Third Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from May 1, 2002 through May 31, 2002 ("**Third Monthly Fee Statement**"). On July 25, 2002, the Debtors paid zero percent (0%) of the Allowed Fees, and fifty percent (50%) of the Allowed Expenses, or \$7,744.00, for a total of \$7,744.00, to EYCF for the services rendered and reimbursement of expenses for the period from May 1, 2002 through May 31, 2002. The Debtors underpaid in order to offset the previous overpayments, resulting in a zero balance at May 31, 2002.

15. On July 25, 2002, EYCF filed its Fourth Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from June 1, 2002 through June 30, 2002 ("**Fourth Monthly Fee Statement**"). On August 22, 2002, the Debtors paid ninety percent (90%) of the Allowed Fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$12,362.00, for a total of \$192,362.00, to EYCF for the services rendered and reimbursement of expenses for the period from June 1, 2002 through June 30, 2002.

16. On August 26, 2002, EYCF filed its Fifth Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from July 1, 2002 through July 31, 2002 ("**Fifth Monthly Fee Statement**"). On September 30, 2002, the Debtors paid ninety percent (90%) of the allowed fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$13,585.00, for a total of \$193,585.00 to EYCF for the services rendered and reimbursement of expenses for the period from July 1, 2002 through July 31, 2002.

17. On August 26, 2002 EYCF filed its First Interim Fee Statement to request payment of the 10% holdback for the interim period, March 6, 2002 through July 31, 2003 (the "**First Interim Fee Statement**"). On October 15, 2002, the debtors paid \$96,456.00 to EYCF representing the Hold-back Amount for the period from March 6, 2002 through July 31, 2003.

18. On September 25, 2002, EYCF filed its Sixth Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from August 1, 2002 through August 31, 2002 ("**Sixth Monthly Fee Statement**"). On October 24, 2002, the Debtors paid one hundred percent (90%) of the Allowed Fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$15,073.00, for a total of

\$195,073.00, to EYCF for the services rendered and reimbursement of expenses for the period from August 1, 2002 through August 31, 2002.

19. On October 25, 2002, EYCF filed its Seventh Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from September 1, 2002 through September 30, 2002 ("**Seventh Monthly Fee Statement**"). On November 21, 2002, the Debtors paid ninety percent (90%) of the Allowed Fees, or \$180,000, and one hundred percent (100%) of the Allowed Expenses, or \$11,391.00, for a total of \$191,391.00, to EYCF for the services rendered and reimbursement of expenses for the period from September 1, 2002 through September 30, 2002.

20. On November 25, 2002, EYCF filed its Eighth Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from October 1, 2002 through October 31, 2002 ("**Eighth Monthly Fee Statement**"). On December 23, 2002, the Debtors paid ninety percent (90%) of the Allowed Fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$7,540.00, for a total of \$187,540.00, to EYCF for the services rendered and reimbursement of expenses for the period from October 1, 2002 through October 31, 2002.

21. On December 24, 2002, EYCF filed its Ninth Monthly Fee Statement as part of this Second Interim Fee Application to seek compensation for the services rendered and reimbursement of expenses for the period from November 1, 2002 through November 30, 2002 ("**Ninth Monthly Fee Statement**"). On January 29, 2003, the Debtors paid ninety percent (90%) of the allowed fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$6,370.00, for a total of \$186,370.00 to EYCF for the services rendered and reimbursement of expenses for the period from November 1, 2002 through November 30, 2002.



22. On December 24, 2002 EYCF filed its Second Interim Fee Statement to request payment of the 10% holdback for the interim period, August 1, 2002 through November 30, 2002 (the "**Second Interim Fee Statement**"). On January 29, 2002, the debtors paid \$80,060.00 to EYCF representing the Hold-back Amount for the period from August 1, 2002 through November 30, 2002 in addition to \$60.00 of previously unbilled expenses from the period July 1, 2002 through July 30, 2003.

23. On January 25, 2003, EYCF filed its Tenth Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from December 1, 2002 through December 31, 2002 ("**Tenth Monthly Fee Statement**"). On February 24, 2002, the Debtors paid one hundred percent (90%) of the Allowed Fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$2,108.00, for a total of \$182,108.00, to EYCF for the services rendered and reimbursement of expenses for the period from December 1, 2002 through December 31, 2002.

24. On February 25, 2003, EYCF filed its Eleventh Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from January 1, 2003 through January 31, 2003 ("**Eleventh Monthly Fee Statement**"). On March 21, 2003, the Debtors paid ninety percent (90%) of the Allowed Fees, or \$180,000, and one hundred percent (100%) of the Allowed Expenses, or \$3,156.00, for a total of \$183,156.00, to EYCF for the services rendered and reimbursement of expenses for the period from January 1, 2003 through January 31, 2003.

25. On March 25, 2003, EYCF filed its Twelfth Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from February 1, 2003 through February 28, 2003 ("**Twelfth Monthly Fee Statement**"). On April

23, 2003, the Debtors paid ninety percent (90%) of the Allowed Fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$8,280.00, for a total of \$188,280.00, to EYCF for the services rendered and reimbursement of expenses for the period from February 1, 2003 through February 28, 2003.

26. On April 25, 2003, EYCF is filing its Thirteenth Monthly Fee Statement as part of this Third Interim Fee Application to seek compensation for the services rendered and reimbursement of expenses for the period from March 1, 2003 through March 31, 2003 ("**Thirteenth Monthly Fee Statement**"). On May 16, 2003, the Debtors paid ninety percent (90%) of the allowed fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$1,900.00, for a total of \$181,900.00 to EYCF for the services rendered and reimbursement of expenses for the period from March 1, 2003 through March 31, 2003.

27. On April 25, 2003 EYCF filed its Third Interim Fee Statement to request payment of the 10% holdback for the December 1, 2002 through March 31, 2003 (the "**Third Interim Fee Statement**"). On May 16, 2003, the debtors paid \$80,000.00 to EYCF representing the Hold-back Amount for the period from December 1, 2002 through March 31, 2003.

28. On May 25, 2003, EYCF filed its Fourteenth Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from April 1, 2003 through April 30, 2003 ("**Fourteenth Monthly Fee Statement**"). On June 20, 2003, the Debtors paid ninety percent (90%) of the Allowed Fees, or \$180,000.00, and one hundred percent (100%) of the Allowed Expenses, or \$1,383.00, for a total of \$181,383.00, to EYCF for the services rendered and reimbursement of expenses for the period from April 1, 2003 through December 30, 2003.

29. On June 25, 2003, EYCF filed its Fifteenth Monthly Fee Statement to seek compensation for the services rendered and reimbursement of expenses for the period from May 1, 2003 through May 19, 2003 ("**Fifteenth Monthly Fee Statement**"). As of the date of this Final Fee Application, the Debtors have paid zero percent (0%) of the prorated Allowed Fees of \$114,000, (\$200,000 divided by 30 days and multiplied by 19 days to equal \$126,667 multiplied by ninety percent to equal \$114,000) and zero percent (0%) of the Allowed Expenses of \$1,222, for a total of \$115,222, to EYCF for the services rendered and reimbursement of expenses for the prorated period from May 1, 2003 through May 19, 2003.

30. On August 25, 2003 EYCF filed its Fourth Interim Fee Statement to request payment of the 10% holdback for the period, April 1, 2003 through May 19, 2003 and 100% of fees and expenses for the period, May 1, 2003 through May 19, 2003 (the "**Fourth Interim Fee Statement**"). As of the date of this Final Fee Application, the Debtors have paid zero percent (0%) of holdback of \$32,667, for the period April 1, 2003 through May 19, 2003, and zero percent (0%) of the Allowed Fees of \$114,000 and zero percent (0%) of the Allowed Expenses of \$1,222, for the prorated period May 1, 2003 through May 19, 2003.

31. As set forth above, the Debtor withheld a total of ten percent (10%) of the Allowed Fees for the period from April 1, 2003 through April 30, 2003 and the Debtor has made no payments with respect to services rendered or expenses incurred during the prorated period May 1, 2003 through May 31, 2003, a total of \$147,889. In addition, on October 20, 2003 the Debtor requested reimbursement of the Retainer less all unpaid fees and expenses. In response EYCF, on December 10, 2003 issued payment to the Debtor in the amount of \$52,111, which represents the Retainer of \$200,000 less Allowed and unpaid fees of 146,667 plus Allowed and unpaid expenses of \$1,222.

32. Other than those payments noted in paragraphs 11-30 above, during the Application Period, EYCF did not receive any payments or promises of payments from any source for services rendered or to be rendered in connection with these Chapter 11 cases.

### SERVICES RENDERED BY EYCF

33. The professional services rendered by EYCF during the Application Period required a high degree of professional competence and expertise, so that the numerous issues requiring evaluation and response by the Debtors could be addressed with skill and dispatch. The provision of such services, therefore, required the expenditure of substantial time and effort. EYCF submits that the services rendered to the Debtors were performed efficiently, effectively, and economically and that the results obtained have provided a significant benefit to the Debtors' estate and creditors.

34. EYCF professionals billed their time to twenty-five distinct subject matter categories. Below is a summary of the activities performed by EYCF professionals during the Application Period, organized by project code description ("PCD").

#### PCD 1 – Planning, Supervision, Administration and Review

In order to assist management in effectively managing the Debtors' Chapter 11 proceedings and restructuring efforts, EYCF spent time developing its workplan and action items and coordinating such work internally and with the Debtors' management. As with any case of this size and complexity, effective planning is critical to the efficient restructuring of the Debtors' operations and the ultimate development of a financial restructuring plan and successful emergence from Chapter 11.

#### PCD 4 – General Communications with Creditors and their professionals

In order to facilitate the flow of information and establish a productive working relationship with the Official Committee of Unsecured Creditors (the "**Committee**"), the Ad Hoc Committee of Bondholders ("**Bondholders**"), and their respective professional advisors, EYCF communicated on a frequent basis with these constituencies. This included reviewing the significant amount of due diligence information requested by the Committee and the Bondholders and conducting discussions with the professionals to the Committee and Bondholders regarding the information provided by the Debtors. These services have been crucial to the creation

of an open and fair dialogue and exchange of ideas between the various constituencies in this case, the existence of which will hopefully facilitate an orderly Chapter 11 process benefiting all creditors.

PCD 5 – Preparation and Review of Information Requests and Related Matters

EYCF facilitated the flow of information between the Debtors and the various parties-in-interest involved in these Chapter 11 cases. EYCF reviewed and responded in a timely fashion to requests for information from the Committee, the Bondholders, the Debtor-in-Possession lenders, the holders of certain capital leases, and their respective advisors. EYCF identified, compiled, and distributed information which was readily available, and worked with Debtors' management to expeditiously fulfill requests for information not immediately available or not in the format requested by the various constituencies and their advisors.

PCD 9 – Analysis of Long-Term Business Plan and Related Matters

EYCF has played a significant role in assisting the Debtors in the development of a stand-alone business plan. Performing this role has included, but was not limited to, the following activities: (i) analyzing the cost structure of the primary operating units and the administrative office; EYCF analyzed the Debtors' status quo cost structure, the implications of utilizing outside processing on customer markets, the cost-competitiveness of the operating units with other steel companies and opportunities to improve the cost structure; (ii) analyzing alternative commercial strategies identified by the Debtors' management; and (iii) analyzing various business strategies, which included several alternative operating configurations. These services will enable the Debtors to assess alternative restructuring alternatives, compare the stand-alone plan with other strategic alternatives, and develop a Plan of Reorganization that maximizes value for all creditors.

PCD 10 – Analysis of Current Operating Results and Related Matters

EYCF assisted the Debtors in their analysis of current operating performance, including near term restructuring and bankruptcy issues including, but not limited to: (i) the weekly analysis of cash flow projections compared to budget and discussions with management regarding the same; (ii) analysis of monthly and quarterly operating results and discussion of such results with outside creditor constituencies; and (iii) analysis of near-term Chapter 11 and restructuring issues. These services are necessary to the Debtors in order to effectively communicate these issues to and negotiate with external parties, identify and address near term issues and opportunities and to support the development of longer term business plans, and the evaluation of the restructuring alternatives available to the Debtors.

PCD 11 – Analysis of Weekly/Monthly Flash Reports

EYCF assisted the Debtor in the preparation of weekly flash reports containing operational and financial data for distribution to the Debtors' creditor constituencies and other parties-in-interest. EYCF was responsible for developing the reports, obtaining the pertinent information from management, and distributing and discussing the contents of the reports with the Debtors' creditor constituencies.

PCD 12 - Analysis of Bankruptcy Schedules and Statement of Financial Affairs

EYCF assisted the Debtors with respect to the gathering of information for preparation of the Schedules of Assets and Liabilities (Schedules) and the Statement of Financial Affairs (SOFA). EYCF worked closely with the Debtors to facilitate the flow of information between Debtors' management, Debtors' legal counsel, and the outside firm that assisted the Debtors in preparing the Schedules and SOFA. EYCF also assisted Debtors' management in drafting footnotes to the Schedules and SOFA.

PCD 15 - Preparation for and Attendance at Court Hearings

EYCF attended and assisted the Debtors in preparation for various Bankruptcy Court hearings, including those related to First Day Motions and the Interim and Final Debtor-in-Possession Financing facilities.

PCD 21 - Analysis of Liabilities Subject to Compromise

EYCF participated in various meetings and conference calls with Debtors' management and their legal counsel to identify and analyze liabilities subject to compromise. This role included, but was not limited to, the following activities: (i) review of the Debtors' pre- and post-petition accounts payable; (ii) analysis of contracts and leases being considered for rejection and (iii) researching the pre-petition accounting treatment utilized by other steel companies operating in Chapter 11.

PCD 24 - 341 Meetings

EYCF assisted Debtors' management in preparation for the 341 meeting and attended the 341 meeting with Debtors' management.

PCD 25 - Strategic Meetings and Conference Calls with Management and Counsel

EYCF participated in various meetings and conference calls with the Debtors' management and counsel with respect to strategic and operational issues. During these meetings and calls, EYCF provided the Debtors' management with valuable insights and advice regarding all of the issues facing the Debtors as it commenced its Chapter 11 cases, including roles and responsibilities, relationships with various constituencies and others. These strategic meetings and conference calls also helped insure a smooth transition to Chapter 11 operations and in positioning the Debtors for its potential reorganization.

PCD 26 - Preparation for and Meetings with Secured and Unsecured Creditors and Advisors

EYCF played a significant role in assisting the Debtors with their interaction with the Debtors' secured and unsecured creditors. This role has included, but was not limited to the following activities: (i) planning for and participating in meetings and conference calls with the Debtors' creditors to discuss the issues facing the Debtors during the early stages of this matter; (ii) acting as primary liaison between the Debtors' creditors and their advisors and the Debtors; (iii) assisting the Debtors' management in the analysis and preparation of materials for presentation to the

Debtors' creditors and their advisors; (iv) coordinating with the Debtors' creditors regarding daily funding request items; and (v) interacting with the Debtors' creditors on flash reports and information requests. EYCF's role has allowed management to focus on operating its business and developing operational improvement initiatives, mitigating the potential disruptions caused by the Chapter 11 filing.

#### PCD 29 – Meetings with Other Parties

EYCF played a significant role in assisting the Debtors with their interaction with other outside parties, including the professional advisors to certain capital leaseholders and significant customers of the Debtors. This role has included, but was not limited to, the following activities: (i) planning for and participating in meetings and conference calls with outside parties to discuss the issues facing the Debtors during the early stages of this matter; (ii) acting as primary liaison between outside parties and the Debtors; (iii) assisting the Debtors' management in the analysis and preparation of materials for presentation to outside parties; and (iv) coordinating with outside parties regarding daily funding request items. EYCF's role has allowed management to focus on operating its business and developing operational improvement initiatives, mitigating the potential disruptions caused by the Chapter 11 filing.

#### PCD 30 – Analysis of Employee Severance, Pension, Retention and Bonus Program

EYCF assisted the Debtors in capturing information needed for completion of a Key Employee Retention Program (KERP). These services included, but were not limited to: (i) identification of the approved KERPs in other steel industry Chapter 11 cases that would provide the relevant basis for comparison; (ii) identification and review of unique issues related to the development of KERPs by other steel companies operating in Chapter 11; (iii) analysis of the cash flow impact of various severance and retention/emergence package scenarios; and (iv) review of the allocation of pension costs among unit cost centers. EYCF facilitated the flow of information between the Debtors' management and the Debtors' outside employee benefits advisor.

#### PCD 34 – Analyze Motions to Assume/Reject Contracts Excluding Real Property

EYCF assisted the Debtors in determining whether to accept or reject executory contracts. This service included a review of executory contracts by division. EYCF participated in meetings of an ad hoc executory contracts committee formed by Debtors' management to review the contracts. EYCF also participated in various meetings with Debtors' management to evaluate the financial impact of contract rejection.

#### PCD 36 – Analysis of DIP Facility Matters

EYCF provided significant assistance to the Debtors in the negotiation of Debtor-in-Possession Financing (“**DIP Financing**”), the preparation of related DIP projections and other supporting analyses. EYCF assisted the Debtors in developing DIP Financing terms and in discussing DIP reporting and financial issues with the Debtors' DIP lenders. These services included, but were not limited to: (i) assistance

in the preparation of the DIP forecast; (ii) development of appropriate financial covenants; and (iii) discussion of DIP issues with the Committee's financial advisors. These services were a critical component of the process to obtain appropriate DIP Financing for the Debtors, thereby providing the liquidity necessary to effectively manage the business and avoid disruption to customers.

PCD 41 – Participate in Negotiation and Formulation of Plan of Reorganization

Throughout the application period, the EYCF advised the Debtor and its counsel as to the financial aspects of its various proposed plans of reorganization. In addition to the work reviewing various plans, EYCF has been involved evaluating settlement offers from the Debtor, Debtor's Advisors, Bondholders and Bondholders' Advisors, and the Unsecured Creditors Committee and its advisors. On several occasions, EYCF participated in discussions among the various constituencies on aspects of the plan of reorganization.

PCD 45 - Firm Retention

In order to comply with internal and bankruptcy court requirements, EYCF spent time preparing the necessary documents in support of its retention, including extensive research into possible connections which should be disclosed to the bankruptcy court.

PCD 46 – Preparation of Fee/Expense Applications

In order to comply with the interim compensation procedures established by the bankruptcy court, EYCF prepared monthly fee statements and interim fee applications in support of its request for payment of monthly fees and out-of-pocket expense reimbursements. EYCF compiled these documents in accordance with local bankruptcy court rules, including the preparation of exhibits containing detailed time diary entries and categorization of out-of-pocket expenses. These documents were then distributed on a timely basis by Debtors' counsel to the parties on the official service list.

PCD 56 – Liquidity Management Related Issues

EYCF assisted Debtors' management in monitoring and managing the Debtors' liquidity. This role has included, but was not limited to, the following activities: (i) updating the Debtors' DIP financing projections; (ii) preparation of a liquidity analysis for inclusion in the weekly flash report; and (iii) meetings with Debtors' management to review alternative operating scenarios.

PCD 58 – Strategic and Operational Assessment Matters

EYCF assisted the Debtors in evaluating various strategic and operational alternatives. EYCF performed various analyses at the request of Debtors' management and participated in meetings with Debtors' management to assess these alternatives. As part of these services, EYCF conducted an analysis of the cost to produce certain products at each of the Debtors' operating units. EYCF also researched and analyzed competitors' cost to produce these products. EYCF prepared a report summarizing these findings and presented the report to Debtors' management. EYCF also prepared various analyses of alternative operating scenarios



and participated in meetings of an ad hoc strategy committee to review the alternatives.

PCD 60 – Analysis of Turnaround/Operational Plan and Related Matters

EYCF has played a significant role in assisting the Debtors in development of a stand-alone turnaround plan. These services have included, but not been limited to, the following activities: (i) assisting Debtors' management in developing its financial model used to assess various operating scenarios; (ii) analyzing management's five-year base case business plan and analyzing alternative operating scenarios proposed by Debtors' management; and (iii) conducting research and reviewing critical operating assumptions.

PCD 74 – Meeting with Professionals Regarding Case Status and Develop Strategy

EYCF participated in various meetings with the Debtors' investment bankers and legal counsel to coordinate presentations to Debtors' senior management, the Debtors' Board of Directors and to various constituent groups.

PCD 75 – Assistance with Asset Marketing Efforts

EYCF assisted the Debtors and their investment bankers in the marketing of the Debtors' assets. This included providing assistance in the development of management presentations to potential buyers, participating in meetings and discussions regarding the sale process, and assisting in the development of due diligence information for distribution to potential buyers.

PCD 76 – Analysis and Preparation of DIP Financing Budget and Short-Term Cash Flow Projections

EYCF played a significant role in assisting and advising the Debtors with respect to the development of its financial projections used in connection with the Debtors' efforts to secure an appropriate DIP Financing facility (see PCD 36, above). Additionally, EYCF assisted the Debtors in constructing weekly variance reports for distribution to creditor constituencies to provide the Debtors and other parties-in-interest with the ability to monitor and manage its cash flow levels and liquidity.

### CERTIFICATION

35. The undersigned has reviewed the requirements of Local Bankruptcy Rule 607 and certifies to the best of his information, knowledge and belief that this application complies with such rule.

### CONCLUSION

36. The nature of EYCF's fee arrangement is consistent with the current practices of EYCF for restructuring advisory services provided to companies in other bankruptcy and non-bankruptcy matters.

37. No agreement or understanding exists between EYCF or any third person for the sharing of compensation, except as allowed by § 504(b) of the Bankruptcy Code and Bankruptcy Rule 2016 and except as provided under the subcontract agreement with Ernst & Young LLP.

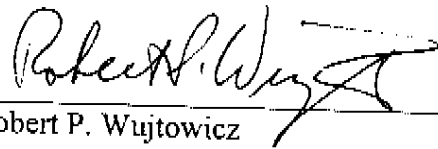
38. All the services for which compensation is requested, along with all expenses for which reimbursement is requested hereunder, were rendered at the request of and/or solely on behalf of the Debtors, and not on behalf of any other entity.

**WHEREFORE**, EYCF respectfully requests that an Order be entered, pursuant to the terms of the Administrative Order:

- A. Granting the final approval and allowance for all fees previously paid to EYCF for services rendered as Financial and Restructuring Advisor to the Debtors.
- B. Granting the final approval and allowance of all expenses incurred in the ordinary course and paid to EYCF in connection with its services as Financial and Restructuring Advisor to the Debtors.

- C. Authorizing EYCF to have applied all unpaid and previously approved fees and expenses against the Retainer.
- D. Approving and allowing for the fees and expenses previously paid pursuant to the Administrative Order.
- E. Granting such other and further relief as the Court deems just.

Dated: January 25, 2004



Robert P. Wujtowicz  
Managing Director

ERNST & YOUNG CORPORATE FINANCE LLC

FINANCIAL AND RESTRUCTURING  
ADVISOR FOR NATIONAL STEEL  
CORPORATION AND CERTAIN OF ITS  
SUBSIDIARIES, AFFILIATES, DEBTORS AND  
DEBTORS-IN-POSSESSION