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COUNSEL FOR STEERING COMMITTEE OF
NOTEHOLDERS OF FLAG TELECOM HOLDINGS LIMITED

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	Chapter 11
	:	
FLAG TELECOM HOLDINGS LIMITED,	:	Case Nos.02-11732-36 (ALG)
et al.,	:	through 02-11775-79 (ALG)
	:	
	:	
Debtors.	:	(Jointly Administered)

LIMITED APPLICATION OF THE STEERING COMMITTEE OF NOTEHOLDERS OF FLAG TELECOM HOLDINGS LIMITED FOR ALLOWANCE OF COMPENSATION FOR LEGAL FEES AND FOR REIMBURSEMENT OF EXPENSES PURSUANT TO 11 U.S.C. § 503(b)

TO: THE HONORABLE ALLAN L. GROPPER
UNITED STATES BANKRUPTCY JUDGE

The steering committee (the "Steering Committee")[1] of the committee of holders (the "Committee") of the 11.625% Senior Dollar Notes Due 2010 and 11.625% Senior Euro Notes Due 2010 (collectively, the "Notes," and each holder of Notes, a "Noteholder") issued by FLAG Telecom Holdings Limited, a reorganized debtor in the above-captioned cases (the "Debtor" or "FLAG"), through its counsel, Kasowitz, Benson, Torres & Friedman LLP ("KBTF" or the "Firm"), submits this limited application for allowance of compensation for professional services

[1] The members of the Steering Committee are Värde Partners, Inc., Elliott International, L.P., and Cerberus Capital Management LP. York Capital was a member until August 5, 2002.

rendered, and for reimbursement of expenses incurred in connection with such services, and hereby moves the Court for entry of an order pursuant to section 503(b)(3) and (4) of title 11, United States Code (the "Bankruptcy Code"), and Rule 2016 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") awarding it limited compensation for postpetition professional services and reimbursement for actual and necessary expenses from the Petition Date (as defined herein) through the hearing on this application (the "Compensation Period"). In support of its application, the Steering Committee respectfully represents as follows:

PRELIMINARY STATEMENT

By any measurement, FLAG's reorganization was exceptional. In March of 2002, just six and a half months ago, FLAG, like many of its competitors in the telecommunications industry, was on the brink of oblivion; its stock was nearly worthless, it and its subsidiaries were overextended with debt that was trading at steep discounts, it had no means by which to meet its vendor liabilities, and its main product -- international telecommunications capacity -- suffered from extreme overcapacity, and the concomitant result of competitors slashing prices to try to create new demand. FLAG was a dying enterprise and, most importantly from the Committee's perspective, the Noteholders were heading to a liquidation-level "recovery" from a company that would not do well in liquidation. Moreover, company after company in the telecommunications industry was failing, investors were fleeing, and capital was (and generally still is) inaccessible. The outlook for FLAG, its competitors, and a once high flying industry was grim.

In anticipating the eventual total dissipation of FLAG's cash, a group of Noteholders decided to take action, and retained KBTF to negotiate a restructuring of the Notes with FLAG. Soon after, in order to improve efficiency in the negotiation process, from the larger Committee, the Steering Committee was formed to deal directly with FLAG.

On April 12, 2002, after the Banks (as defined below) accelerated certain loans previously made to certain FLAG subsidiaries, FLAG, and several subsidiaries filed emergency voluntary chapter 11 petitions, literally at 3:00 in the morning. Over the next three and a half months, the Steering Committee, through KBTF, worked intensively to negotiate a transaction that would create value for all creditors and provide the platform for a viable business plan and a successful reorganization. The Steering Committee, through KBTF, not only contributed, but significantly drove the efforts to negotiate the terms of an overall debt restructuring that, with strategic planning and execution, was accomplished in less than 6 months. KBTF devised the terms and negotiated and drafted several of the documents necessary to effectuate the Effective Date closing. Most importantly, the Steering Committee, which is not an official committee and owes no fiduciary duties to other Noteholders, achieved a result that benefited <u>all</u> Noteholders, not just themselves.

FLAG's brief and relatively smooth postpetition, pre-confirmation life proved the strength of the transaction and, the Steering Committee submits, its substantial contribution to this chapter 11 case. And, through the efforts of the Firm, the Plan was confirmed, and went effective soon after.

The purpose of this Application is to reimburse the Steering Committee one-fifth of its professional expenses. By agreement, the Steering Committee agreed not to seek repayment from the estate of more than $125,000.00. *This is far less then what was actually incurred in fees and expenses by the Steering Committee during the course of FLAG's bankruptcy case*.

The Steering Committee's actual professional expenses amounted to approximately $1,050,000.00[2], of this amount approximately $363,000.00 has been voluntarily reimbursed by other Noteholders -- leaving $687,000.00 in outlay of professional expenses by the Steering Committee. As more fully set forth below, the Steering Committee retained KBTF to act on behalf of the Steering Committee and for the benefit of all Noteholders. The Steering Committee paid all of KBTF's fees and expenses incurred during the Compensation Period. Although such amounts were to be paid in full out of the Noteholder recoveries as negotiated by sophisticated parties and fully set forth in the Plan (as defined below), the Steering Committee and KBTF, in order to allow the Plan to be confirmed without potential significant delays, agreed to take a reduced amount from the Noteholder recoveries. The Steering Committee seeks a partial recovery from the Debtor's estate pursuant to section 503(b) in the manner provided for in the Confirmation Order (as defined below).

INTRODUCTION

1. In March 2002 the Committee formed to address FLAG's dwindling cash resources and to work with FLAG to undertake a potential financial restructuring.

2. On or about April 11, 2002, FLAG Atlantic Limited's banks (the "Banks") accelerated the repayment terms of certain loans. In response, FLAG transferred approximately $210 million to a non-U.S., non-debtor affiliate.

3. On April 12, 2002 (the "Petition Date"), the Debtor, and four of its subsidiaries (the "First Affiliated Debtors") filed their voluntary petitions under chapter 11 of the Bankruptcy Code. On April 23, 2002, certain other FLAG affiliates (collectively with the Debtor and the First Affiliated Debtors, the "Debtors") filed their voluntary bankruptcy petitions.

4. On July 3, 2002, the Debtors filed their plan of reorganization. After subsequent

[2] KBTF "capped" its charges at this amount.

amendments, on or about August 5, 2002, the Debtor filed its third amended plan of reorganization. On September 12, 2002, the Debtor made certain nonmaterial modifications, and filed the third amended, modified plan of reorganization (the "Plan"). On or about August 8, 2002, the Court approved the Debtors' related disclosure statement (the "Disclosure Statement").

5. On September 26, 2002 the Court confirmed the Plan and entered the related confirmation order (the "Confirmation Order").

6. On October 9, 2002 (the "Effective Date"), the Plan went effective.

RELIEF REQUESTED

7. Pursuant to this Application and section 503(b) of the Bankruptcy Code, the Steering Committee requests reimbursement for compensation and expenses incurred in connection therewith to KBTF in the limited amount of $125,000.00 for the Compensation Period. Summaries of KBTF's time records and disbursements are annexed hereto as Exhibits A and B, respectively.

8. The Firm maintains computerized records of the time spent by its attorneys and paraprofessionals in connection with its representation of the Steering Committee. Copies of these computerized records will be or have been furnished to counsel to the Debtor and the Office of the United States Trustee (the "UST").

JURISDICTION AND VENUE

9. This Court has jurisdiction over these cases and this Application pursuant to 28 U.S.C. §§ 157 and 1334, venue of these proceedings and this application is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicates for the relief sought herein are section 503(b) of the Bankruptcy Code and Bankruptcy Rule 2016.

GROUNDS FOR THE RELIEF REQUESTED

A. Formation of the Committee and Retention of KBTF

10. In March 2002, various holders of the Notes, including the eventual members of the Steering Committee, reviewed FLAG's financial condition and determined that it was unlikely that FLAG would be financially able to survive. Although FLAG then had over $400 million in cash holdings, its cash "burn rate" was exceedingly high, it had never turned a profit, it had over $600 million in bond debt at FLAG and had hundreds of millions of dollars of financing debt at its subsidiaries. The capital markets for future funding had disappeared for FLAG. At that time many telecommunications companies were failing or on the brink of failure. Like FLAG, many of the failing or failed telecom concerns had raised hundreds of millions of dollars, never turned a profit, and burned through cash at an alarming rate.

11. Initially, a group of Noteholders holding approximately 50% of the outstanding principal amount of the Notes formed the Committee to negotiate directly with FLAG in connection with a potential financial restructuring, when there was still time and cash resources to provide a meaningful recovery to creditors. The Committee then selected the Steering Committee to represent the Committee's interests. Thereafter, the size of the Committee grew significantly. At April 19, 2002, the Committee held approximately 79% of the outstanding principal of the Notes. By April 30, 2002, the Committee further grew to Noteholders owning just under 90% of the outstanding principal of the Notes.

12. The Steering Committee resolved to act before FLAG was out of money. After approaching FLAG, and after preliminary negotiations between the Steering Committee and FLAG, and negotiating an engagement letter, dated April 10, 2002 (the "Engagement Letter") to pay the fees of the Steering Committee in connection with the negotiation of a potential restructuring, the Debtor and the First Affiliate Debtors filed their voluntary bankruptcy petitions

on an emergency basis in order to protect themselves after an acceleration of their debt by the Banks. However, due to the emergency filing, the Engagement Letter went unsigned (the Engagement Letter and KBTF's fee arrangement are more fully discussed below).

13. The Steering Committee chose KBTF because of its insolvency strength and its experience in complicated restructurings. The Committee submits that KBTF has brought substantial experience to this case, and its expertise has inured to the benefit of the estates and their creditors. David S. Rosner, a partner in KBTF's bankruptcy and insolvency group, and lead counsel for the Steering Committee, has worked on many complex and multi-faceted bankruptcies and restructurings, including several in this District. Mr. Rosner is an established expert in his field, recognized for his role as lead counsel to the bondholders who introduced the innovative telecommunications restructuring model in the Covad Communications, Inc. reorganization. Mr. Rosner currently represents the MCI Communications Corporation bondholders in the WorldCom, Inc. reorganization, and the creditors committee in the Polymer Group, Inc. reorganization. Together with his partners, Mr. Rosner represents official creditors committees in Adelphia Communications, Inc., Sunbeam Corporation, and NextWave Personal Communications, Inc. and has represented issuers including Trump Hotels and Casinos, Questron Technology, Inc., and New Valley Corporation. KBTF's bankruptcy group has been active in many other major Chapter 11 cases, including representation of the debtors in SLM International, Inc., Buddy L Inc., Deltacorp Inc., MAI Systems Corp., The Ormond Shops, and Bon-Art International. KBTF also has represented statutory and unofficial committees in the bankruptcy cases of Converse, Inc., Multicare AMC, Inc., Marvel Entertainment Group, Allegheny International, LTV Steel Corp., Revco D.S. Inc., Trans World Airlines, and has represented major parties-in-interest in Enron Corp., Bradlees Stores, Inc., Bidermann Industries,

Caldor Stores, Continental Airlines Inc., Federated Department Stores, Southeast Banking Corp., Texaco, and Thinking Machines Corp. and the chapter 7 trustee in FoxMeyer Corporation.

THE ENGAGEMENT LETTER AND PAYMENT OF KBTF FEES

14. After the Committee selected KBTF as counsel, KBTF negotiated, on behalf of the Steering Committee, a letter agreement, dated April 10, 2002 (the "Engagement Letter") by which FLAG would compensate KBTF for its work on behalf of the Steering Committee. Although the terms of the Engagement Letter represented the final agreement between FLAG and KBTF, as counsel to the Steering Committee, the Engagement Letter was not executed by FLAG because of FLAG's emergency bankruptcy filing on April 12, 2002.

15. The Engagement Letter provided that FLAG would pay the reasonable fees and expenses of KBTF in connection with its representation of the Steering Committee and analyzing the condition of FLAG and any related financial restructuring of FLAG. In addition, the Engagement Letter provided for FLAG to pay a percentage of the Noteholders' recoveries to KBTF in connection with a restructuring of FLAG (the "Deferred Fee"). The Deferred Fee, as set forth in the Engagement Letter, provided that the Firm would be entitled to a fee equal to a minimum amount of .25% to a maximum amount of 1.25% (the percentage to chosen at the sole discretion of the Steering Committee) of the consideration received by the *Noteholders* as part of a restructuring, including cash, securities, or any other interests or forms of consideration

16. The Engagement Letter was not executed nor assumed during this case; thus prior to the Petition Date, the Steering Committee's legal fees and expenses were not being paid by FLAG. The members of the Steering Committee took it upon themselves to pay KBTF's fees and expenses to represent the interests of all Noteholders, while negotiating the terms of the Plan with FLAG.

THE TERM SHEET

17. The Steering Committee went forward with negotiations with FLAG to develop a basis for a plan or reorganization, including the payment of fees and expenses and the Deferred Fee to KBTF. As agreed to in the term sheet (the "Term Sheet"), negotiated by the major parties of interest in the Debtors cases and finalized in July 2002, and consequently set forth in the Plan, the payment to KBTF in connection with its services on behalf of the Steering Committee were as follows (and follow the parameters of the Engagement Letter, which was attached to the Disclosure Statement as Exhibit I): (i) $2,450,000 for the Deferred Fee and (ii) "all other fees and expenses asserted by [KBTF] as of the Effective Date" from the Noteholders' recoveries (Plan §4.4.2.1.) (the "KBTF Fees"). The Plan also provided that the Debtor (as opposed to the Noteholders from their recovery) reimburse the Steering Committee in an amount not to exceed one hundred twenty-five thousand Dollars ($125,000.00) for the reasonable fees and expenses incurred prior to the Effective Date. (Plan §4.4.2.2.)

CONSENT TO PAYMENT

18. The KBTF Fees were fully disclosed to all parties in interest, specifically the Noteholders and creditors of all the Debtors, including FLAG. No parties with an economic interest in the FLAG estate objected to the KBTF Fees, and no Noteholder voted against the Plan. However the UST objected to the KBTF Fees in connection with the confirmation of the Plan. The Steering Committee and KBTF, in order to avoid a potential delay to the Plan's confirmation, agreed to the UST's position (the "Fee Resolution"). The Fee Resolution permitted reimbursement by Noteholders to the Steering Committee pursuant to executed consents (the "Consents") from individual Noteholders. Noteholders executing Consents agreed to have their pro rata portion of the KBTF Fees deducted from their recovery in the same amount as originally

provided for in the Plan. In connection with the Fee Resolution, KBTF approached the Committee and other Noteholders for their Consents. However, due to the Notes being widely held, and the difficulty in identifying 100% of the Noteholders, KBTF was able to receive Consents from approximately 79% of the Noteholders. Importantly, nearly every Noteholder consulted executed a consent. However, the Steering Committee could only locate holders of 79% of the principal face amount of the Notes.[3] Accordingly, at present, the estate has not paid any portion of the Steering Committee's fees and expenses. And, should this application be granted, the estate will have paid only $125,000.00 of approximately $1,050,000.00 in actual fees and expenses.

THE STEERING COMMITTEE'S PROFESSIONAL EXPENSES

19. To date, the Steering Committee's professional fees and expenses exceed $1,050,000.00. However, KBTF "capped" its charges at this amount. Of this amount, approximately $363,000.00 has been reimbursed by other Noteholders. Accordingly, the Steering Committee remains responsible and has paid approximately $687,000.00. Of this amount the Steering Committee seeks recovery from the estate of $125,000.00, or roughly $18%.

THE STEERING COMMITTEE'S SUBSTANTIAL CONTRIBUTION

A. Negotiations Between the Steering Committee and FLAG Result in a Consensual Restructuring

20. After significant efforts by KBTF on behalf of the Steering Committee, preliminary talks began in March 2002, with comprehensive negotiations beginning in April 2002 . Both FLAG and the Steering Committee had little time to waste in order to restructure FLAG, and to provide a meaningful return to the Noteholders. At the time the Steering

3 As a result of KBTF's agreement with the UST, KBTF lost over $450,000 of its Deferred Fee. KBTF has not sought and will not seek this from the Steering Committee or from the estate.

Committee and KBTF got involved, the Notes traded at between 14 cents and 18 cents per dollar of the Notes face value, reflecting a recovery value of between $84 and $108 million. The groundwork for the eventual Plan was structured prior to the formation of the official creditors committee. As a result, the negotiations that began in March 2002 between the Committee and FLAG culminated in June 2002 with the finalization of the Term Sheet, which was the basis of Debtor's Plan. Generally, the Term Sheet provided that, for the extinguishment of FLAG's debt pursuant to the Notes, all of the Noteholders would receive a pro rata share of approximately (i) 5% of the capital stock of the reorganized company, (ii) a $245 million cash payment, to be reduced by a reserve for the KBTF Fees, (iii) certain notes to be issued by Holdings in the principal face amount of $45 million (the "FLAG Notes"), (iv) reimbursement of certain the fees and expenses of the Steering Committee's counsel incurred prior to the effective date of the Plan, and (v) payment of the reasonable fees and expenses of the indenture trustee. Depending upon the valuation of the non-cash consideration, this resulted in between 40 cents to 50 cents for the Notes, reflecting recovery value of between $245 and $300 million. This represented a 300% increase in value over an exceptionally short time frame.

THE CHAPTER 11 CASE

21. Through KBTF's efforts during the Compensation Period, cash assets were protected from improper transfers by the Debtors, the Debtors restructured under the supervision of the Bankruptcy Court, Noteholders received an acceptable distribution, and the objections of certain significant vendor creditors of a subsidiary of FLAG were resolved. A detailed description and break-down of all of the services provided by KBTF during the Compensation Period is set forth in the contemporaneous time reports attached hereto as Exhibit C. The

following summary, while not exhaustive, describes significant matters addressed by KBTF during the Compensation Period and demonstrates the benefits conferred upon Noteholders, who were the overwhelming majority of FLAG's unsecured creditors, and all creditors, as a result of the efforts of the Steering Committee.

A. KBTF's Efforts to Recover Over $200 Million for the Estates

22. One of the most crucial undertakings of the Steering Committee, through KBTF, was the effort to recover approximately $210 million, about 50% of FLAG's assets at the time, that was transferred by FLAG for no consideration on the eve of bankruptcy to a non-United States domiciled subsidiary that was not a debtor, nor subsequently became a debtor (the "$210 Million Transfer"). On the Petition Date, before any creditors committee was appointed, or any other significant group of creditors was able to respond, KBTF worked immediately and exhaustively to protect these assets that literally disappeared with no notice to parties in interest. Upon discovering this transfer, KBTF drafted opposition papers on the morning of the Petition Date, and appeared before the Court that same afternoon. By these actions, the Court was able to put the Debtors on notice that this transaction, and any subsequent use of the transferred funds, would be monitored closely and be subject to severe scrutiny. Subsequently, KBTF, on behalf of the Steering Committee, entered into negotiations with FLAG, prepared a litigation strategy and appeared before the Court numerous times to monitor the use and recover the $210 Million Transfer. The result was that significant funds were protected and not inappropriately dissipated, benefiting the FLAG estate and its creditors, and saving the Debtors from potentially costly litigation.

B. Additional Work to Recover Money for the Estates

23. FLAG was a holding company with no assets of its own, and its primary asset was cash. As a result, KBTF's restructuring negotiations with the Debtors on behalf of the Steering Committee primarily involved the legality of its various cash expenditures in addition to the $210 Million Transfer. For instance:

? FLAG had "loaned" tens of millions to its subsidiaries (the “Subsidiaries”) to build and to operate a telecommunications network, without any contractual or legal obligation to do so. In particular, between January 1, 2002 and the Petition Date, FLAG paid $73 million to various bank lenders of the Subsidiaries in repayment of a debt for which FLAG was not liable. The Subsidiaries have failed to repay any of these loans, and moreover, FLAG had continued to lend to the Subsidiaries during the pendency of these cases..

? Within the ten days prior to the Petition Date but after the filing of FLAG's Form 10-K For The Year Ended December 31, 2001 (the “2001 10-K”), Holdings adopted a $10 million bonus plan for senior managers and other employees, whereupon FLAG immediately paid $7.15 million in cash to its senior executives.

? At the time of issuance of the Notes and through the filing of the 2001 10-K, FLAG had no contractual or legal obligation to Mr. Andre Bande, FLAG's chairman and chief executive officer (“Bande”), whose employment agreement was then an obligation of one of the Subsidiaries. However, within the ten days before the Petition Date but after the filing of the 2001 10-K, FLAG assumed the obligations under Bande’s employment agreement and increased Bande’s contractual severance. The Steering Committee believed that FLAG received no consideration for incurring these millions of dollars of obligations to Bande.

24. Each of these instances, including the $210 Million Transfer, raised complex legal issues concerning fraud, fraudulent conveyance, intentional and tortious interference with contract, breach of contract, breach of fiduciary duty, fraudulent preference, fraudulent trading, waste, self-dealing, gross negligence, willful misconduct, usurpation of corporate assets, and conflict of interest. Thus, the Steering Committee required substantial legal expertise. KBTF analyzed these issues, formulated litigation strategy, drafted, filed and prosecuted various pleadings, where appropriate, and ultimately negotiated a consensual resolution of these and other issues.

C. <u>Confirmation of the Plan</u>

25. Throughout the solicitation period and leading up to confirmation of the Plan, KBTF remained in frequent contact with Debtors' counsel, Noteholders and various stakeholders. In addition, the Steering Committee worked with counsel to the Official Creditors Committee (three members of which were also members of the Steering Committee, and attended each meeting and participated fully with the Official Creditors Committee) and the Debtor to resolve certain objections to the confirmation of the Plan by vendor creditors of a subsidiary (the "Vendor Objections"). Although the Steering Committee believed such objections to be without merit, they were a potential and significant barrier to confirmation. With the assistance of the Steering Committee, the Vendor Objections were resolved prior to the confirmation hearing.

26. As a direct result of KBTF's efforts, the Debtors and the Steering Committee finalized the Term Sheet and negotiated the final Plan. Specifically, the Debtors' obligations to the Noteholders were be satisfied in full in consideration for (i) 5% of the capital stock of the reorganized company, (ii) a $245 million cash payment, to be reduced by a reserve for the KBTF

Fees, (iii) certain notes to be issued by Holdings in the principal face amount of $45 million, (iv) reimbursement of certain the fees and expenses of the Steering Committee's counsel incurred prior to the effective date of the Plan, and (v) payment of the reasonable fees and expenses of the indenture trustee. This recovery, which is far in excess of what many other telecom cases have provided, is in significant part, the result of the speed and diligence in which the Steering Committee acted.

D. The Effective Date Closing

27. Importantly, in large part because of KBTF's documentation efforts, both prepetition and on behalf of the Steering Committee throughout the case, the Debtor made distributions within a week of the Effective Date to Noteholders -- almost exactly six months after the commencement of this case.

28. In connection with the confirmation of the Plan, significant work needed to be done in preparation for the Effective Date for the distribution of the cash recovery, the distribution of FLAG's new common stock, and the FLAG Notes. In that regard, KBTF was in frequent contact with the Debtor and the indenture trustees for the Notes in order to agree on the procedures and the documentation necessary for the distribution of the cash, stock, and the FLAG Notes to the Noteholders. KBTF prepared the documents necessary for the Noteholders to receive their cash, stock and debt instrument payouts, specifically, negotiating the indenture and related security documents in connection with the FLAG Notes. Indeed, the Steering Committee, through KBTF, was the only party that could truly protect the interests of FLAG creditors in connection with the Noteholder recoveries, specifically the FLAG Notes; the Official Creditors Committee was conflicted, representing primarily the new owners of reorganized

FLAG, and could not properly act for the benefit of FLAG creditors.

E. Administrative Tasks

29. The foregoing summarizes and highlights merely a portion of the professional services rendered during the Compensation Period by KBTF on behalf of the Steering Committee in connection with the chapter 11 cases. KBTF provided numerous other professional services in the discharge of its responsibilities. Such services included, among others:

? necessary frequent discussions with the Debtors, the UST, the Official Creditors Committee, and other parties in interest in these cases, throughout the Compensation Period;

? frequent contact with members of the Steering Committee and preparation of memoranda to the Steering Committee summarizing developments in the cases;

? reviewing all of the filings during the Compensation Period, and necessary discussion of these filings with the Steering Committee and determined whether to file pleadings in connection therewith;

? reviewing and negotiating necessary corporate and transactional documents; and

? responding to all inquiries from Noteholders, other creditors, and other parties in interest.

SUBSTANTIAL CONTRIBUTION STANDARDS

30. Section 503(b)(3) of the Bankruptcy Code permits a court to allow as administrative expenses the actual and necessary expenses incurred by a creditor who makes a substantial contribution in a chapter 11 case. Section 503(b)(4) of the Bankruptcy Code, in turn, authorizes the allowance of administrative expenses reimbursing the reasonable compensation for professional services rendered and actual, necessary expenses incurred by a professional for an entity, like the Steering Committee, whose expenses are allowable under section 503(b)(3).

See, e.g., In re McLean Industries, Inc., 88 B.R. 36, 38 (Bankr. S.D.N.Y. 1988); In re Richton Int'l Corp., 15 B.R. 854, 855 (Bankr. S.D.N.Y. 1981); In re Buckhead Am. Corp., 161 B.R. 11 (Bankr. D. Del. 1993); In re Baldwin-United Corp., 79 B.R. 321, 348 (Bankr. S.D. Ohio 1987); see also 3 Collier on Bankruptcy, 503.04[4] (15th ed. 1996). The policy aim of allowing compensation for a creditor's or, in this case, the Steering Committee's efforts in substantially contributing to a case is to promote meaningful and productive creditor participation in a case. See Richton Int'l, 15 B.R. at 855-56 ; Lebron v. Mechen Fin. Inc., 27 F.3d 937, 944 (3d Cir. 1994) (citing Richton Int'l); In re Consolidated Bancshares, Inc., 785 F.2d 1249, 1253 (5th Cir. 1986); In re American 3001 Telecommunications, Inc., 79 B.R. 271, 273 (Bankr. N.D. Tex. 1987).

31. The Bankruptcy Code does not define the term "substantial contribution," leaving the definition to be determined by courts on a case by case basis. However, the almost universally accepted test of recovery for a "substantial contribution" to the estate is a demonstrable benefit to the estate and its creditors. Richton Int'l, 15 B.R. at 856 ("the appropriate test of compensable services is whether they substantially contributed to the successful result"); Lebron, 27 F.3d at 944; Consolidated Bancshares, 785 F.2d at 1253.

32. The fact that the self-interest of a creditor or its professionals coincides with the interests of the estate does not preclude recovery under section 503(b). Whether motivated by self-interest or otherwise, a creditor makes a substantial contribution reimbursable under section 503(b) when its actions contribute to a result that benefits the estate:

> [T]he correspondence of [the counsel's] self interest in serving its clients. . .and the interests of the debtors in a successful reorganization do not bar compensation to [counsel] from the debtors. Otherwise, creditor participation in reorganization might be discouraged. The appropriate test of compensable services is

whether they substantially contributed to the successful result.

Richton, 15 B.R. at 856.

33. As a result of its substantial contribution to the cases, the Steering Committee submits that it is entitled to reimbursement of reasonable compensation for services and actual, necessary expenses accrued and incurred by its professionals. 11 U.S.C. § 503(b)(4); In re Texaco, Inc., 90 B.R. 622, 627, 630-32 (Bankr. S.D.N.Y. 1988) (court first determines whether creditor made a substantial contribution, then scrutinizes requests for that creditor's attorneys' fees under section 503(b)(4) and the factors governing fee applications generally); In re 9085 E. Mineral Office Bldg., Ltd., 119 B.R. 246, 253 (Bankr. D. Colo. 1990) (once threshold test is made of creditor's contribution under section 503(b)(3)(D), court must then decide "the value to be placed on the administrative claim" under section 503(b)(4)). Under Bankruptcy Code section 503(b)(4) as well as Bankruptcy Code section 330 (governing professionals fees generally), the reasonableness of professional charges is measured based on the time, nature, extent and value of the services and whether related expenses are actual and necessary. See 11 U.S.C. §§ 503(b)(4) and 330(a). The United States Bankruptcy Court for the Southern District of New York has determined that the relevant factors for determining whether a substantial contribution has been made are: (i) whether the services in question were provided to benefit all parties in the case; (ii) whether the services conferred a direct, significant and demonstrably positive benefit on the estate; and (iii) whether the services were duplicative of services performed by others. Trade Creditor Group v. L.J. Hooker Corp. (In re Hooker Investments), 188 B.R. 14 (S.D.N.Y. 1995); In re Best Products, Co., 173 B.R. 862 (S.D.N.Y. 1994); In re Alert Holdings, Inc., 157 B.R. 573 (S.D.N.Y. 1993).

34. As described above, the services rendered by KBTF on behalf of the Steering

Committee directly, tangibly, and substantially contributed to, if not caused, the successful reorganization of the Debtors and its rapid emergence from chapter 11. In that regard, KBTF's services did not duplicate the services rendered by counsel to the Debtor. Furthermore, the Steering Committee did not engage a financial advisor, thereby avoiding significant additional fees and expenses. The Debtors' successful reorganization involved a fully negotiated solution that resulted in one of the very few successful reorganizations in the troubled telecommunications sector. This was due in large part to the substantial contribution of the Steering Committee and its professional -- KBTF.

35. In light of the complexity of the case, the quality of KBTF's services, and the benefit creditors and the Debtors received as a result of KBTF's advocacy, the Steering Committee submits that it, through the services of KBTF, has made a substantial contribution to the estate within the meaning of section 503(b) of the Bankruptcy Code. Therefore, the Steering Committee respectfully requests that this Court award compensation and expenses in the amounts requested herein pursuant to section 503(b)(4) of the Bankruptcy Code.

DISBURSEMENTS

36. As set forth in Exhibit B hereto, KBTF has disbursed $93,168.86 as expenses incurred in providing professional services. Based upon the $125,000.00 limit request, if granted, KBTF will determine how to apply the funds, whether to fees or expenses.

37. In accordance with the Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses dated March 22, 1995, issued by the U.S. Department of Justice (together, the "Guidelines"), KBTF only seeks reimbursement at actual cost for disbursements incurred both in-house and from third party vendors. With respect to photocopying expenses,

KBTF has charged $.15 per page. With respect to facsimile expenses, the Firm excludes charges for incoming facsimile and includes charges for outgoing facsimiles at applicable toll charge rates. These charges are intended to cover the Firm's direct operating costs for photocopying and facsimile facilities, which costs are not incorporated into the Firm's hourly billing rates. Only clients who actually use photocopying, facsimile, and other office services of the types set forth in Exhibits B are separately charged for such service. The effect of including such expenses as part of the hourly billing rates would impose that cost upon clients who do not require extensive photocopying, facsimile, and document production facilities and services. The amount of the standard photocopying charge is intended to allow the Firm's to cover the related expenses of its photocopying service.

<u>CONCLUSION</u>

38. No agreement or understanding exists between the Firm and any other person for a sharing of compensation received or to be received for services rendered in or in connection with these cases, nor shall the Firm share or agree to share the compensation paid or allowed from the estates for such services with any other person. The foregoing constitutes the statement of the Firms pursuant to section 504 of the Bankruptcy Code and Bankruptcy Rule 2016(a).

39. No agreement or understanding prohibited by 18 U.S.C. § 155 has been or will be made by the Firm.

40. No prior application has been made to this or any other Court for the relief requested herein.

41. The Steering Committee respectfully requests that the Court waive the requirement that a separate memorandum of law be filed in support of this Application.

WHEREFORE, the Steering Committee respectfully requests (i) an allowance of compensation for professional services rendered by KBTF as counsel to the Committee and for the reimbursement of actual and necessary disbursements incurred in connection thereof, in the total amount of $125,000.00 for the Compensation Period, and (ii) such other relief as the Court deems just and proper.

Dated: November 8, 2002
New York, New York

Respectfully submitted,

KASOWITZ, BENSON, TORRES
& FRIEDMAN LLP

By: ____/s/ David S. Rosner
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COUNSEL FOR STEERING
COMMITTEE OF NOTEHOLDERS OF
FLAG TELECOM HOLDINGS LIMITED

<u>SCHEDULE OF EXHIBITS</u>

Exhibit A	-	Schedule Of Professionals And Paraprofessionals of KBTF
Exhibit B	-	Schedule Of Disbursements Of KBTF
Exhibit C	-	Time Detail And Summary Of KBTF
Exhibit D	-	Proposed Order