

EXHIBIT B

Docket Document #: 525

As of January 7, 2003

To: The Official Committee of Unsecured Creditors (the "Official Creditors' Committee") of Focal Communications, Corp. (the "Company") and its affiliated debtors and debtors-in-possession (collectively, the "Debtors"), in care of:

Official Creditors' Committee Chairperson

Debtors
Focal Communications Corp.
200 North LaSalle Street
Suite 1100
Chicago, Illinois 60601
Attn:

Gentlemen:

The purpose of this letter is to confirm the agreement (the "Agreement") between Chanin Capital Partners, LLC ("Chanin"), the Official Creditors' Committee, and the Debtors concerning the Official Creditors' Committee's engagement of Chanin to provide financial advisory and related services to the Official Creditors' Committee in connection with the Debtors' pending chapter 11 cases (the "Cases").

1. Engagement: Chanin is being retained to provide financial advisory services to the Official Creditors' Committee in connection with a restructuring of the Debtors' indebtedness through their chapter 11 cases (a "Restructuring Transaction"). Upon retention, Chanin will work at the direction of the Official Creditors' Committee and in conjunction with other advisors retained by the Official Creditors' Committee to perform the following services as may be requested by the Official Creditors' Committee:
 - (a) Review and analyze the Debtors' operations and financial condition, business plans and strategy, operating forecasts, and management;
 - (b) Analyze any merger, acquisition, divestiture, joint-venture, or new project transactions proposed by the Debtors;
 - (c) Review and provide analysis and recommendations regarding any proposed dispositions of assets of the Debtors, debtor-in-possession financing, proposed operational changes, and the Debtors' proposed non-ordinary course expenditures, including employee retention plans and other related programs;

- (d) Assist the Official Creditors' Committee in developing, evaluating, structuring and negotiating the terms and conditions of a restructuring or plan of reorganization, including the value of the securities, if any, that may be distributed to unsecured creditors under any such restructuring or plan; and
- (e) Provide the Official Creditors' Committee with other financial advisory services with respect to the Debtors, including valuation, general restructuring advice, and expert testimony with respect to financial, business and economic issues, as requested by the Official Creditors' Committee.

The advisory services and compensation arrangements set forth herein do not encompass other investment banking or financial advisory services not set forth in this paragraph 1.

2. Term of Agreement: This Agreement shall commence upon its execution as of January 7, 2003, by the parties and shall continue until the Official Creditors' Committee or Chanin gives 30 days prior written notice of termination to the other party. Upon any termination, the provisions of Paragraph 3 (to the extent applicable) shall survive the termination of this Agreement to the extent such provisions relate to the payment of fees due on or before the effective date of termination (in the event of any termination which is other than on the first of the month, the pro rata portion of the monthly fees referred to in Paragraph 3(a) for the month of termination shall be deemed to be due on the effective date of termination) and expenses incurred on or before the effective date of termination and the provisions of Paragraphs 5, 6, 7, 8, and 9 shall survive the termination of this Agreement and shall remain in effect. Additionally, upon termination of this agreement, Chanin shall be entitled to payment of the Transaction Fee (as defined herein) if (i) a Restructuring Transaction is substantially consummated within 12 months of such termination; or (ii) a plan is approved in the chapter 11 case and is consummated within 12 months of the effective date of such termination.

3. Fees and Expenses:

- (a) Monthly Fee: The Debtors shall pay Chanin a monthly advisory fee of \$125,000 per month, payable each month in advance by wire transfer (the "Monthly Fee"). The Monthly Fee shall be due on the first day of each month.
- (b) Transaction Fee: If the Debtors' unsecured claims are the subject of a plan of reorganization confirmed under chapter 11 of the United States Bankruptcy Code (the "Plan"), Chanin shall be entitled to an additional fee (the "Transaction Fee") equal to 1% of the property provided under the Plan to the holders of unsecured claims.

The Transaction Fee will be payable in cash or in kind, at the election of the Official Creditors' Committee, upon the effective date of a Plan.¹

¹ For the purpose of calculating the value of any securities received under the Plan, such securities will be valued on the effective date of the Plan as follows: (i) if such securities are traded on a stock exchange, the securities will be valued at the average last sale or closing price for the ten trading days immediately prior to the effective date of the Plan; (ii) if such securities are traded primarily in over-the-counter transactions, the securities will be valued

Expense Reimbursement: Chanin shall be entitled to monthly reimbursement of reasonable out-of-pocket expenses incurred in connection with the services to be provided under this Agreement. Monthly Advisory Fees plus reimbursement of reasonable and documented out-of-pocket expenses as billed are due upon the 1st day of each month to Chanin at the address listed above. Out-of-pocket expenses shall include, but not be limited to, all reasonable travel expenses, computer and research charges, reasonable attorney fees (provided that such attorney fees shall not exceed \$25,000 without the Official Creditors' Committee's prior consent), messenger services, and long-distance telephone calls incurred by Chanin in connection with the services to be provided to the Official Creditors' Committee.

4. **Company Information:** The Debtors and the Official Creditors' Committee recognize and confirm that in rendering services hereunder, Chanin will be using and relying on, and assuming the accuracy of, without any independent verification, data, material and other information (collectively, the "Information") furnished to Chanin by or on behalf of the Official Creditors' Committee, the Debtors, or other third parties (including their agents, counsel, employees and representatives). The Debtors and the Official Creditors' Committee understand that Chanin will not be responsible for independently verifying the accuracy of the Information provided to Chanin and shall not be liable for inaccuracies in any such Information. Unless required by subpoena or other valid legal process, and prior written notice is provided to the Official Creditors' Committee and the Debtors so that either or both may challenge such disclosure, Chanin will not disclose to any third party (other than Chanin's counsel and counsel to the Official Creditors' Committee) any portion of the information so provided by the Debtors which constitutes confidential, proprietary or trade secret information except in furtherance of this engagement hereunder. Chanin will not use such confidential information for any purpose other than pursuant to Chanin's engagement hereunder.
5. **Indemnification:** The Debtors shall provide indemnification and other obligations set forth in Schedule I hereto, which is an integral part hereof and is hereby incorporated by reference. Further, in the event that an Indemnified Person (as defined in Schedule I) is requested or required to appear as a witness in any action brought by, or on behalf of, or against the Official Creditors' Committee or which otherwise relates to this Agreement or the services rendered by Chanin hereunder, the Debtors shall reimburse Chanin and the Indemnified Person for all reasonable expenses incurred by them in connection with such Indemnified Person appearing and preparing to appear as such a witness, including without limitation, the reasonable fees and disbursements of legal counsel.

at the mean of the closing bid and asked quotations similarly averaged over a ten day trading period immediately prior to the effective date of the Plan; and (iii) if such securities have not been traded prior to the effective date of the Plan, Chanin will prepare a valuation of the securities and, together with the Official Creditors' Committee, will mutually agree on a fair valuation thereof for the purposes of calculating any Transaction Fees payable in cash. Notwithstanding the foregoing, in the event of deferred or other contingent distributions of property, the Transaction Fee shall be payable in the same proportions and at the same times as the Estates and/or the unsecured creditors receive such property.

6. **Bankruptcy Court Approval:** This Agreement is subject to the entry of an order of the court having jurisdiction over the Debtors' bankruptcy case approving the retention of Chanin pursuant to the terms hereof. The Official Creditors' Committee shall use commercially reasonable efforts to obtain prompt authorization of the retention of Chanin, *nunc pro tunc* to January 7, 2003, on the terms and provisions in this Agreement pursuant to section 328(a) of the Bankruptcy Code. The order approving the Agreement and authorizing the retention shall be acceptable to Chanin in its sole reasonable discretion.
7. **Entire Agreement:** This Agreement represents the entire Agreement between the parties and may not be modified except in writing signed by the parties. This Agreement may be executed in counterparts, each of which shall constitute an original. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision.
8. **Affiliation:** The Debtors and the Official Creditors' Committee recognize that Chanin has been retained only by the Official Creditors' Committee and that the Official Creditors' Committee's engagement of Chanin is not deemed to be on behalf of and is not intended to and does not confer rights upon the Debtors or any of its security holders, officers, agents employees or representatives, or any individual members of the Official Creditors' Committee. No one other than the Official Creditors' Committee is authorized to rely upon the engagement of Chanin hereunder or any statements, advice, opinions or conduct of Chanin.
9. **Arbitration:** This Agreement will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and to be performed entirely in such state. Except to the extent that the parties shall be permitted to adjudicate any dispute in the bankruptcy court having jurisdiction over the Debtors' chapter 11 case and the bankruptcy court desires to exercise such jurisdiction, each of the parties hereto agrees to submit any claim or dispute arising out of or related to this Agreement to private and confidential arbitration by a single arbitrator selected in accordance with the rules of the American Arbitration Association. The arbitration proceedings shall be governed by the Commercial Rules of Arbitration of the American Arbitration Association and shall take place in the Borough of Manhattan, New York City, New York. The arbitrator shall have the power to order discovery and the authority to award any remedy or relief that a court of the State of New York could order or grant, including without limitation specific performance. The decision of the arbitrator shall be final and binding on each of the parties and judgment thereon may be entered in any court having jurisdiction. Each party agrees to the personal and subject matter jurisdiction of the bankruptcy court, and in the event the bankruptcy court declines to exercise such jurisdiction, then each party agrees to such arbitration for the resolution of any such claim, including any issue relating to this arbitration provision. In the event of any arbitration arising out of or in connection with this Agreement, the prevailing party in such action shall be entitled to an award of actual attorneys' fees and costs incurred in connection with the arbitration. Nothing in this paragraph shall pertain to or affect the authority of a bankruptcy court having jurisdiction over the Debtors to consider and rule upon Chanin's applications for interim or final compensation pursuant to this Agreement.

10. Other Matters: If this letter correctly sets forth our Agreement on the matters covered herein, please so indicate by signing and returning the enclosed copy of this letter and signing and retaining the duplicate we are enclosing for your records. Upon execution by the parties, this letter will constitute a legally binding Agreement between the Debtors, the Official Creditors' Committee, and Chanin.

We trust the foregoing terms and provisions are agreeable to you, and request that you sign and return the enclosed copy of this Agreement to us at your earliest convenience.

CHANIN CAPITAL PARTNERS, LLC

By: _____
Brent Williams
Its: Senior Vice President

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF FOCAL COMMUNICATIONS
CORP. AND ITS AFFILIATED DEBTORS AND DEBTORS IN POSSESSION

By: _____, Official Creditors' Committee Chairperson

Its: _____

**FOCAL COMMUNICATIONS CORP. AND ITS AFFILIATED DEBTORS AND DEBTORS
IN POSSESSION**

By:

Its:

Schedule I

This Schedule I is a part of and is incorporated into that certain letter agreement (the "Agreement"), dated as of January 7, 2003 by and between The Official Committee of Unsecured Creditors (the "Official Creditors' Committee") of Focal Communications Corp. (the "Company") and its affiliated debtors and debtors-in-possession (collectively, the "Debtors") and Chanin Capital Partners, LLC ("Chanin"). Capitalized terms not defined herein shall have the same meaning assigned in the Agreement.

The Debtors shall indemnify and hold harmless Chanin and its affiliates and their respective directors, officers, employees, attorneys and other agents appointed by any of the foregoing and each other person, if any, controlling Chanin or any of its affiliates (Chanin and each such person and entity being referred to as an "Indemnified Person"), from and against any finally determined losses, claims, damages, judgments, assessments, costs and other liabilities (collectively, "Liabilities"), and will reimburse each Indemnified Person for all fees and expenses (including the reasonable fees and expenses of counsel) (collectively, "Expenses") as they are incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation, whether or not in connection with pending or threatened litigation and whether or not any Indemnified Person is a party (collectively, "Actions"), arising out of or in connection with advice or services rendered or to be rendered by an Indemnified Person pursuant to the Agreement, the transaction contemplated thereby or any Indemnified Persons' actions or inactions in connection with any such advice, services or transaction (the "Services"); provided that the Debtors will not be responsible for any Liabilities or Expenses of any Indemnified Person that are determined by a judgment of a court of competent jurisdiction, which judgment is no longer subject to appeal or further review, to have resulted from such Indemnified Person's gross negligence or willful misconduct in connection with any of the advice, actions, inactions or services referred to above. The Debtors shall also reimburse such Indemnified Person for all Expenses as they are incurred in connection with enforcing such Indemnified Persons' rights under the Agreement (including without limitation its rights under this Schedule I). Such Indemnified Person shall reasonably cooperate with the defense of any Actions.

Upon receipt by an Indemnified Person of actual notice of an Action against such Indemnified Person with respect to which indemnity may be sought under the Agreement, such Indemnified Person shall promptly notify the Debtors in writing; provided that failure to so notify the Debtors shall not relieve the Debtors from any liability which the Debtors or any other person may have on account of this indemnity or otherwise, except to the extent the Debtors shall have been materially prejudiced by such failure. The Debtors shall, upon receipt of notice, assume the defense of any such Action including the employment of counsel reasonably satisfactory to Chanin. Any Indemnified Person shall have the right to employ separate counsel in any Action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person, unless: (i) the Debtors have failed promptly to assume the defense and employ counsel or (ii) the named parties to any such Action (including any impleaded parties) include such Indemnified Person and the Debtors, and such Indemnified Person shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or in addition to those available to the Debtors; provided that the Debtors shall not in such event be responsible hereunder for the fees and expenses of more than one separate counsel in

connection with any Action in the same jurisdiction, in addition to any local counsel. The Debtors shall not be liable for any settlement of any Action effected without its written consent (which shall not be unreasonably withheld). In addition, the Debtors will not, without prior written consent of Chanin (which shall not be unreasonably withheld), settle, compromise or consent to the entry of any judgment in or otherwise seek to terminate any pending or threatened Action in respect of which indemnification or contribution may be sought hereunder (whether or not any Indemnified Person is a party thereto) unless such settlement, compromise, consent or termination includes an unconditional release of such Indemnified Person from all liabilities arising out of such Action.

In the event that the foregoing indemnity is not available to an Indemnified Person in accordance with the Agreement pursuant to the requirements of applicable law, the Debtors shall contribute to the Liabilities and Expenses paid or payable by such Indemnified Person in such proportion as is appropriate to reflect (i) the relative benefits to the Debtors, on the one hand, and to Chanin, on the other hand, of the matters contemplated by the Agreement, or (ii) if the allocation provided by the immediately preceding clause is not permitted by the applicable law, not only such relative benefits but also the relative fault of the Debtors, on the one hand, and Chanin, on the other hand, in connection with the matters as to which such Liabilities or Expenses relate, as well as any other relevant equitable considerations. For purposes of this paragraph, the relative benefits to the Debtors, on the one hand, and to Chanin, on the other hand, of the matters contemplated by this Agreement shall be deemed to be in the same proportion as (a) the total value paid or received or contemplated to be paid or received by the Debtors in the transaction, whether or not any transaction is consummated, bears to (b) the fees paid or payable to Chanin under the Agreement.

No Indemnified Person shall have any liability (whether direct or indirect, in contract or tort or otherwise) to the Official Creditors' Committee for or in connection with advice or services rendered or to be rendered by any Indemnified Person pursuant to the Agreement, the transactions contemplated thereby or any Indemnified Person's actions or inactions in connection with any such advice, services or transactions except for Liabilities (and related Expenses) of the Official Creditors' Committee that are determined by a judgment of a court of competent jurisdiction, which judgment is no longer subject to appeal or further review, to have resulted solely from such Indemnified Person's gross negligence or willful misconduct in connection with any such advice, actions, inactions or services.

These indemnification, contribution and other provisions of this Schedule I shall (i) remain operative and in full force and effect regardless of any termination of the Agreement or completion of the engagement by Chanin; (ii) inure to the benefit of any successors, assigns, heirs or personal representative of any Indemnified Person; and (iii) be in addition to any other rights that any Indemnified Person may have.

If, before the earlier of (i) the entry of an order confirming a Chapter 11 plan for the Debtors (that order having become a final order no longer subject to appeal), and (ii) the entry of an order closing the Debtors' Chapter 11 cases, Chanin believes that it is entitled to the payment of any amounts by the Debtors on account of the Debtors' indemnification, contribution and/or

reimbursement obligations under the Engagement Letter and Schedule I, including without limitation the advancement of defense costs, Chanin will file an application therefor in the Bankruptcy Court and the Debtors shall not pay any such amounts to Chanin before the entry of a final order by the Bankruptcy Court approving the payment. This paragraph is intended only to specify the period of time under which the Bankruptcy Court shall have jurisdiction over any request for fees and expenses by Chanin for indemnification, contribution or reimbursement and is not a provision limiting the duration of the Debtors' obligation to indemnify Chanin.