

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

<p>IN RE</p> <p>FOCAL COMMUNICATIONS CORPORATION, <i>et al.</i></p> <p style="padding-left: 40px;">Debtors.</p>	<p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p>	<p>CHAPTER 11</p> <p>Case No. 02-13709 (KJC)</p> <p>Jointly Administered</p>
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**FIRST AND FINAL APPLICATION OF CHANIN CAPITAL PARTNERS LLC,
FINANCIAL ADVISOR FOR THE OFFICIAL COMMITTEE OF UNSECURED
CREDITORS, FOR ALLOWANCE OF COMPENSATION AND FOR THE
REIMBURSEMENT OF EXPENSES FOR SERVICES RENDERED DURING THE
PERIOD FROM JANUARY 7, 2003 THROUGH APRIL 10, 2003**

Chanin Capital Partners LLC (“Chanin” or “Applicant”), financial advisor to the Official Committee of Unsecured Creditors (“The Committee”) of Focal Communications Corporation and its affiliated debtors and debtors-in-possession in the above-captioned case, (collectively, “Focal” or “Company” or the “Debtors”), for its first and final application (the “Application”) to this Court pursuant to 11 U.S.C. §§ 328 and 331, Rule 2016 of the Federal Rules of Bankruptcy Procedure and the United States Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. § 330 effective January 30, 1996 (the “U.S. Trustee Guidelines”), for allowance of compensation for services rendered and for reimbursement of expenses incurred in connection therewith, respectfully represents:

I. INTRODUCTION

1. By this Application, Chanin seeks (i) final allowance of compensation of \$400,000.00 for actual, reasonable and necessary professional services rendered during the period from January 7, 2003 through April 10, 2003 (the “Compensation Period”) and

reimbursement of \$38,780.69 for actual, reasonable and necessary expenses incurred, and (ii) payment from the Debtors to Chanin in the amount of \$438,780.69.

II. JURISDICTION

2. Venue of this proceeding 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 11 U.S.C. §§ 328 and Federal Rules of Bankruptcy Procedure 2002(a) and 2016.

III. BACKGROUND

3. Bankruptcy Filing. On December 19, 2002 (“Petition Date”), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”).

4. The Debtors remain in possession of their respective properties and are operating and managing their businesses as debtors-in-possession pursuant to Bankruptcy Code Sections 1107(a) and 1108.

5. Creditors’ Committee. On or about January 7, 2003 (the “Committee Formation Date”), the United States Trustee appointed the Committee pursuant to §1102(a)(1) of the Bankruptcy Court. At the Committee Formation Date, the Committee consisted of the following members: Morgan Stanley, Consec Capital Management, Inc., Romulus Holdings Inc., Brian F. Addy and the Bank of New York, as indenture trustee for the 12.125% Senior Unsecured Discount Notes due 2008 and the 11.875% Senior Unsecured Notes due 2010.

6. Retention of Chanin. On January 7, 2003, the Committee selected Chanin to serve as its financial advisor.

7. By order authorized by the Court dated April 11, 2003 (the “Retention Order” – Exhibit “A”), Chanin was granted approval of its retention as financial advisor to the Committee,

nunc pro tunc to January 7, 2003. In connection with its representation of the Committee, Chanin entered into an engagement letter with the Committee on January 7, 2003, which engagement letter provides for the Debtors to pay the fees and expenses of Chanin as set forth therein (“Engagement Letter” – Exhibit “B”).

8. This Application is submitted pursuant to the terms of the Order Pursuant to 11 U.S.C. §§ 105(a) and 331 Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals dated November 7, 2002 (the “Administrative Fee Order”).

9. Pursuant to the Retention Order, Chanin is to be compensated for its services in accordance with the terms and conditions contained in the Engagement Letter, except that Chanin’s compensation shall be limited to a lump sum payment of \$400,000, representing Chanin’s monthly compensation for services provided, and reimbursement of Chanin’s reasonable out-of-pocket expenses. Chanin’s reasonable out-of-pocket expenses incurred in connection with its engagement by the Committee, shall include, without limitation, reasonable travel expenses, computer and research charges, attorney fees (provided that such attorney fees shall not exceed \$25,000 without the Committee’s prior consent, provided that no prior consent shall be required in connection with legal fees incurred by Chanin in connection with objections to Chanin’s retention, or interim and final fee applications in a chapter 11 reorganization), messenger services and long-distance telephone calls incurred by Chanin in connection with the services to be provided to the Committee. Chanin requests compensation for the period from January 7, 2003 through April 10, 2003.

10. Pursuant to the terms of the Administrative Fee Order, Chanin seeks approval of \$400,000.00 in fees and \$38,780.69 in expenses on a final basis for the Compensation Period.

11. The Applicant has received no payment and no promises for payment from any source for services rendered in connection with these cases. There is no agreement or understanding between the Applicant and any other person for the sharing of compensation to be received for the services rendered in these cases.

12. The Engagement Letter outlines the specific services to be provided by Chanin.

Such services include:

- (a) Reviewing and analyzing the Debtors' operations and financial condition, business plans and strategy, operating forecasts, and management;
- (b) Analyzing any merger, acquisition, divestiture, joint-venture, or new project transactions proposed by the Debtors;
- (c) Reviewing and providing analysis and recommendations regarding any proposed disposition 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) Assisting the Committee in developing 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) Providing the Committee with other financial advisory services with respect to financial, business and economic issues, as requested by the Committee.

IV. ADVISORY ACTIVITY

13. The professionals of Chanin (the "Professionals") who have primarily rendered professional services on behalf of the Committee include: Randall Lambert, Brent Williams, Sanjay Jindal, Robert White, Gentry Klein and Mark Schelbert.

- A) Randall Lambert is a Managing Director of Chanin. Prior to joining Chanin, Mr. Lambert was a Managing Director of BDS Securities and Vice President of Brian M. Freeman Enterprises.
- B) Brent Williams is a Vice President of Chanin. Prior to joining Chanin, Mr. Williams was a Director with Zolfo Cooper.

- C) Sanjay Jindal is a Director of Chanin. Prior to joining Chanin, Mr. Jindal managed the Communications Services Group at Houlihan, Lokey, Howard & Zukin.
- D) Robert White is an Associate of Chanin. Prior to joining Chanin, Mr. White worked at Carl Marks Consulting Group LLC.
- E) Gentry Klein is an Analyst of Chanin. Mr. Klein graduated from the Wharton School at the University of Pennsylvania in May 2001.
- F) Mark Schelbert is an Analyst of Chanin. Prior to joining Chanin, Mr. Schelbert founded and served as the Chairman and Executive Vice President of eBility, Inc.

V. SUMMARY OF SERVICES RENDERED

14. Since January 7, 2003, Chanin has rendered professional services to the Committee as requested and as necessary and appropriate in furtherance of the interests of the Debtors' estates.

15. Chanin does not maintain, in the normal course of providing financial advisory services to its clients, detailed written records in the form prescribed by this Court and is exempt from this requirement pursuant to the Retention Order.

16. Chanin maintains records of all actual and necessary out-of-pocket expenses incurred in connection with the rendition of its professional services, all of which are also available for inspection. A schedule of the categories of expenses and amounts for which reimbursement is requested is annexed hereto as Exhibit "C".

17. Chanin respectfully submits that the professional services that it rendered on behalf of the Committee were necessary and have directly contributed to the effective administration of these cases.

18. The following summary of services rendered during the Compensation Period is not intended to be a detailed description of the work performed. Rather, it is merely an attempt

to highlight certain of those areas in which services were rendered to the Committee, as well as to identify some of the problems and issues that Chanin was required to address.

(i) Financial Due Diligence

19. Chanin undertook extensive financial due diligence in order to understand and assess the operational and financial position of the Debtors. This process included an in-depth review and analysis of significant amounts of historical and projected financial information provided by the Debtors and their advisors. Chanin presented its findings to the Committee. Projects included analyses of the Debtors' financial projections, cash flow, and liquidity position. The due diligence process was ongoing and was conducted via numerous teleconferences, data review services and meetings with the Debtors and Debtors' representatives.

20. Additionally, Chanin reviewed and analyzed the changing cash flow forecasts provided by the Debtors vis-à-vis the Debtors' original projections and historical performance. Chanin discussed with the Debtors the factors that led to variance, if any, and thereafter, Chanin presented its findings to the Committee.

(ii) Comparable Company and Industry Analysis

21. Chanin reviewed several SEC filings, brokerage reports, industry reports and news stories related to several companies, which Chanin deemed comparable to the Debtor. Based on the review of these documents, Chanin prepared a comparable company analysis and an industry analysis. These analyses were critical in understanding the recent developments, trends, and trading and valuation dynamics of the Debtors' industry sector.

(iii) Recovery Analysis

22. During the Compensation Period, Chanin reviewed, analyzed and negotiated the Committee's recovery package. In connection with this effort, Chanin engaged in conference

calls and meetings with the Debtor's advisors, and management team to develop an understanding of all key components pertaining to the terms of the securities offered (cash, equity, warrants), including equity and warrant structure, warrant strike prices, as well as values and recoveries to unsecured stakeholders. Chanin presented its findings to the Committee.

(iv) Committee Meetings

23. Chanin participated in several meetings and conference calls with the Committee during the Compensation Period. Prior to these calls with the Committee, Chanin prepared detailed analyses and supporting schedules to the Committee during the Compensation Period discussing the status of the ongoing financial matters with the Debtors.

24. Through these telephone conferences and correspondence, Chanin assisted the Committee in fulfilling its statutory duties to make informed decisions regarding the various issues which have arisen in these cases, to monitor closely the Debtors' management of these proceedings, and to reach independent conclusions on the merits of specific matters, as well as regarding the prospects of reorganization.

(v) Other Tasks

25. In addition to the assignments and tasks set forth above, at the request of the Committee, Chanin (i) provided the Committee with other appropriate general restructuring advice, (ii) reviewed and analyzed financial information as provided, and (iii) provided general financial analyses as needed. All of Chanin's activities were conducted with the goal of producing efficient and effective services to the Debtors' estates.

VI. NOTICE

26. Notice of this application has been given to (a) the United States Trustee, (b) the Debtors, (c) counsel for the Debtors, (d) counsel for the Committee, (e) counsel for the pre-

petition lenders, and (f) all creditors and parties-in-interest requesting notice of pleadings in these cases. Chanin submits that no further notice need be given in accordance with the Compensation Order.

WHEREFORE, Chanin respectfully requests an order granting:

(i) Final allowance of compensation in the amount of \$400,000.00 for actual, reasonable and necessary professional services rendered, and reimbursement of \$38,780.69 for actual, reasonable and necessary expenses incurred; and

(ii) Payment from the Debtors to Chanin in the amount of \$438,780.69, which represents the total outstanding amount due.

Dated: April 23, 2003

CHANIN CAPITAL PARTNERS, LLC

By: *Randall Lambert / w/permission*
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Financial Advisor to the
Official Committee of Unsecured Creditors