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UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

	X	
In re	:	
	:	Chapter 11 Case No.
Allegiance Telecom, Inc., et al.,	:	03-_____ ( )
	:	
Debtors.	:	Jointly Administered
	X	

**AFFIDAVIT OF MICHAEL A. KRAMER AND DISCLOSURE  
STATEMENT PURSUANT TO SECTIONS 328(a), 329 AND 504  
OF THE BANKRUPTCY CODE AND FEDERAL RULES OF  
BANKRUPTCY PROCEDURE 2014(a) AND 2016(b) IN SUPPORT  
OF APPLICATION OF THE DEBTORS FOR ENTRY OF AN ORDER  
AUTHORIZING THE EMPLOYMENT AND RETENTION OF GREENHILL  
& CO., LLC AS FINANCIAL ADVISOR AND INVESTMENT BANKER**

STATE OF NEW YORK     )  
                                      )     ss.:  
COUNTY OF NEW YORK    )

Michael A. Kramer, being duly sworn upon his oath, states and affirms as follows:

1. I am a Managing Director of Greenhill & Co., LLC (“Greenhill”). Greenhill is a financial advisory firm maintaining a central office located at 300 Park Avenue, New York, NY 10022. Unless otherwise stated in this Affidavit, I have personal knowledge of the facts hereinafter set forth.

2. Allegiance Telecom, Inc. (“Allegiance”) and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the “Debtors”) have requested that Greenhill serve as the Debtors’ financial advisor and investment banker in their chapter 11 cases.

3. This Affidavit is submitted pursuant to rule 2014(a) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) in support of the application of the Debtors for entry of an order authorizing the employment and retention of Greenhill as financial advisor and investment banker (the “Application”).

4. Greenhill is well qualified to act as the Debtors’ financial advisor and investment banker. Greenhill has been performing financial advisory services for the Debtors since October 20, 2002, pursuant to that certain retention agreement (as amended on May 8, 2003, the “Retention Agreement”), which is annexed to the Application as Exhibit “B.” Prior to the Commencement Date, Greenhill was engaged by the Debtors to perform a number of financial advisory services (the “Services”), including, but not limited to, the following:

- a. General Financial Advisory Services. Upon the Debtors’ request, Greenhill shall:
  - (i) review and analyze the business, operations, properties, financial condition and prospects of the Debtors;
  - (ii) evaluate the Debtors’ debt capacity in light of their projected cash flows;
  - (iii) assist in the determination of an appropriate capital structure for the Debtors;
  - (iv) determine a range of values for the Debtors on a going concern basis and on a liquidation basis;

- (v) advise and attend meetings of the Debtors' Boards of Directors and their Committees; and
  - (vi) if the Debtors determine to undertake a Recapitalization (as defined in the Retention Agreement), advise and assist the Debtors in structuring and effecting the financial aspects of such Recapitalization, subject to the terms and conditions of the Retention Agreement.
- b. Restructuring Services. If the Debtors pursue a Recapitalization:
- (i) provide financial advice and assistance to the Debtors in developing and seeking approval of a chapter 11 plan;
  - (ii) in connection therewith, provide financial advice and assistance to the Debtors in structuring any new securities, other consideration or other inducements to be offered and/or issued under a chapter 11 plan;
  - (iii) assist the Debtors and/or participate in negotiations with entities or groups affected by a chapter 11 plan; and
  - (iv) assist the Debtors in preparing documentation within Greenhill's area of expertise required in connection with a chapter 11 plan.

5. Greenhill's restructuring professionals have extensive experience in advising debtors and other constituents in chapter 11 cases and have served as consultants and financial advisors to numerous debtors and creditors including, among others, AMRESKO, Inc., Bethlehem Steel Corporation, Regal Cinemas, Inc., United Artists Theatre Circuit, Inc., Sterling Chemicals, Inc., AmeriServe Food Distribution, Inc., US Office Products, Inc., UPC NV, Marconi plc, Weblink Wireless, Inc, AT&T Canada and AT&T Latin America.

6. To the best of my knowledge, information and belief, neither I nor any other partner, principal, or professional of Greenhill has any connection with the Debtors, their creditors or any other parties in interest, or their respective attorneys and accountants, nor with the United States Trustee (the "U.S. Trustee") or any person

employed in the office of the U.S. Trustee, except that: (a) prior to commencement of these chapter 11 cases, Greenhill rendered financial advisory services to the Debtors; and (b) as set forth below, Greenhill may have rendered services to or used the services of, and may continue to render services to or use the services of, certain of the Debtors' creditors, professionals or other parties in interest, or interests adverse to such creditors, professionals or parties in interest, in matters wholly unrelated to these chapter 11 cases. Similarly, Greenhill's partners and principals may have business associations with certain of the Debtors' creditors or other parties in interest herein, or interests adverse to such creditors or parties in interest herein, which associations have no connection with these chapter 11 cases.

7. In particular, Greenhill is currently providing financial advisory services to Metromedia Fiber Network, Inc., which is a party to a capital lease agreement with Allegiance, in matters unrelated to the Debtors or these chapter 11 cases. The Debtors are not in default under their lease agreement with Metromedia Fiber Network, Inc.

8. Also, Greenhill is currently providing financial advisory services to AT&T Latin America, which is an affiliate of AT&T, one of the Debtors' customers, vendors and major competitors, in matters unrelated to the Debtors or these chapter 11 cases.

9. In addition, Greenhill has provided in the past and may provide in the future financial advisory services to the following entities in matters unrelated to the Debtors or these chapter 11 cases:

- a. RCN Corporation, an affiliate of RCN Telecom Services, Inc., which is a party to a capital lease agreement with Allegiance and a party to litigation with the Debtors. The Debtors are not in default under their lease agreement with RCN Telecom Services, Inc.; and

- b. Electronic Data Systems Corporation, which is one of the Debtors' landlords and a vendor of the Debtors. As a vendor, Electronic Data Systems Corporation provides a retail lockbox service to the Debtors. The Debtors are not in default under their lease agreement with Electronic Data Systems Corporation.

10. For the one-year period from May 1, 2002 through April 30, 2003 (the "Billing Period"), representations of Metromedia Fiber Network, Inc. and AT&T Latin America, each, constituted less than 1% of Greenhill's gross revenues. Representation of RCN Corporation constituted less than 2% of Greenhill's gross revenues for the Billing Period and representation of Electronic Data Systems Corporation constituted less than 5% of Greenhill's gross revenues for the Billing Period. Greenhill does not anticipate that its representations of the aforementioned entities will be in any way adverse to Greenhill's representation of the Debtors, nor that its representation of the Debtors will be in any way adverse to Greenhill's representation of the aforementioned entities. In any event, Greenhill will not advise the Debtors with respect to any matter in which the Debtors are directly adverse to the aforementioned entities.

11. Additionally, JPMorgan Chase & Co., an affiliate of JPMorgan Chase,<sup>1</sup> a significant vendor of the Debtors, and Deutsche Bank A.G., an affiliate of Deutsche Bank, a party under a capital lease agreement, invested in Greenhill's private equity fund, Greenhill Capital Partners, LLC.

12. To the best of my knowledge, information and belief: (a) Greenhill's fees for services Greenhill provides to any such creditors or parties in interest, which services are completely unrelated to any matters concerning the Debtors, are not a material portion

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<sup>1</sup> JPMorgan Chase provides the Debtors with a corporate credit card service for the Debtors' business expenses.

of Greenhill's annual revenue; and (b) no claims against the Debtors by any such creditors or parties in interest for which Greenhill currently provides services are material to the financial condition of such creditor. In Greenhill's opinion, the foregoing matters have no bearing on the services for which Greenhill is to be retained in these chapter 11 cases. The services provided by Greenhill to the aforementioned creditors are completely unrelated to any matters concerning the Debtors, the Debtors' estates and the services proposed to be provided by Greenhill in the subject cases.

13. To the extent any information disclosed herein requires amendment or modification upon Greenhill's completion of further review or as additional information becomes available to it, a supplemental affidavit will be submitted to the Court reflecting such amended or modified information.

14. Accordingly, Greenhill is a "disinterested person," as that term is defined in section 101(14) of the Bankruptcy Code, as modified by section 1107(b) of the Bankruptcy Code. It is Greenhill's policy and intent to update and expand its ongoing relationship search for additional parties in interest in an expedient manner. If any new relevant facts or relationships are discovered or arise, Greenhill will promptly file a supplemental affidavit pursuant to Bankruptcy Rule 2014(a).

15. Prior to the filing of these chapter 11 cases, the Debtors paid to Greenhill approximately \$1,225,000 in the aggregate for the prepetition services rendered and approximately \$63,247 for the expenses related thereto.

16. Greenhill has not shared or agreed to share any of its compensation from the Debtors with any other person, other than a principal, partner or associate of Greenhill as permitted by section 504 of the Bankruptcy Code.

17. Greenhill intends to file applications for compensation for professional services rendered in connection with these chapter 11 cases and in compliance with applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules of the United States Bankruptcy Court for the Southern District of New York and subject to approval of this Court under the standards contained in section 328(a) of the Bankruptcy Code. The terms of Greenhill's compensation are fully described in the Retention Agreement. The Retention Agreement allows Greenhill to receive the following estimated fees in exchange for Greenhill's essential services in these chapter 11 cases:

- a. Monthly Advisory Fee. A monthly financial advisory fee of \$175,000 (the "Monthly Advisory Fee"), which became due and paid by the Debtors upon the execution of the Retention Agreement and thereafter on each monthly anniversary thereof during the term of Greenhill's engagement. Fifty percent (50%) of the amount of the Monthly Advisory Fee paid to Greenhill after the payment of the March 20, 2003 Monthly Advisory Fee and prior to the payment of the October 20, 2003 Monthly Advisory Fee will be credited against any Recapitalization Transaction Fee (as defined below). One hundred percent (100%) of the amount of the Monthly Advisory Fee paid to Greenhill after the payment of the twelfth Monthly Advisory Fee from the date of execution of the Retention Agreement will be credited against any Recapitalization Transaction Fee.
- b. Recapitalization Transaction Fee. If during the term of this engagement or within the twelve full months following the termination of this engagement (including the term of this engagement, the "Fee Period"), a Recapitalization is consummated, Greenhill shall be entitled to receive a transaction fee (the "Recapitalization Transaction Fee"), contingent upon the consummation of such a Recapitalization and payable at the closing thereof, equal to \$6.5 million.
- c. Out-of-Pocket Expenses. The Debtors will reimburse Greenhill on a monthly basis for its travel and other reasonable out-of-pocket expenses<sup>2</sup>

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<sup>2</sup> Greenhill will maintain detailed records in support of its expenses.

incurred in connection with, or arising out of Greenhill's activities under or contemplated by the Retention Agreement.

- d. Sales, Use or Similar Taxes. The Debtors will reimburse Greenhill for any sales, use or similar taxes (including additions to such taxes, if any), but in no event income taxes, arising in connection with any matter referred to or contemplated under this engagement.

18. The rates set forth in the Application and in the Retention Agreement are set at a level designed to fairly compensate Greenhill for the work of its professionals and assistants and to cover fixed and routine overhead expenses. It is Greenhill's policy, in all areas of practice, to charge its clients for all additional reasonable and necessary expenses incurred in connection with the client's engagement. The expenses charged to clients include, among other things, mail and express mail charges, special or hand delivery charges, photocopying charges, and travel expenses. Greenhill will request reimbursement from the Debtors for these expenses in a manner and at rates consistent with standard practices within this district.

19. Affiant further states that the proposed engagement of Greenhill is not prohibited by Bankruptcy Rule 5002 and that this Affidavit is in accordance with section 327 of the Bankruptcy Code and Bankruptcy Rule 2014.



Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

/s/ Michael A. Kramer  
Name: Michael A. Kramer  
Title: Managing Director

Subscribed and sworn to before me  
this 14<sup>th</sup> day of May, 2003.

/s/ Janet C. Elliott  
*Notary Public*  
*My Commission Expires: 11/13/2005*  
NOTARY PUBLIC  
State of New York, County of New York  
Registration No. 01EL6066310