

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	§	
	§	Chapter 11 Case. No.
ALLEGIANCE TELECOM, INC., <u>et al.</u> ,	§	03-13057 (RDD)
	§	
Debtors.	§	Jointly Administered
	§	

**FIRST INTERIM FEE APPLICATION OF IMPALA PARTNERS LLC
FOR COMPENSATION FOR SERVICES RENDERED AND REIMBURSEMENT
OF EXPENSES AS CHIEF RESTRUCTURING OFFICER TO THE
DEBTOR FOR THE PERIOD JUNE 16, 2003 THROUGH SEPTEMBER 30, 2003**

Name of Applicant:	<u>Impala Partners LLC</u>
Authorized to Provide Professional Services to:	<u>Allegiance Telecom, Inc. et al, "Debtor"</u>
Role:	<u>Chief Restructuring Officer to the Debtor</u>
Date of Retention:	<u>July 29, 2003</u> Effective June 16, 2003
Period for which compensation and reimbursement is sought:	<u>June 16, 2003 to September 30, 2003</u>
Amount of Compensation requested:	<u>\$950,000.00</u>
Amount of Expense Reimbursement requested:	<u>\$115,554.65</u>

Hearing Date: December 16, 2003, 10:00 a.m.
Objection Deadline: December 10, 2003

HERRICK FEINSTEIN, LLP
Andrew C. Gold (AG-4875)
2 Park Avenue
New York, New York 10016
(212) 592-1400
Attorneys for Impala Partners LLC

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In re:	§	
	§	Chapter 11 Case. No.
ALLEGIANCE TELECOM, INC., <u>et al.</u> ,	§	03-13057 (RDD)
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**FIRST INTERIM FEE APPLICATION OF IMPALA PARTNERS LLC FOR
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THE PERIOD JUNE 16, 2003 THROUGH SEPTEMBER 30, 2003**

Impala Partners LLC, (hereinafter referred to as “Impala” or the “Applicant”) moves pursuant to Sections 328(a), 330 and 331 of Title 11 of the United States Bankruptcy Code (the “Bankruptcy Code”), Rule 2016 of the Federal Rules of Bankruptcy Procedure, and the Court’s Administrative Order Establishing Procedures for Allowance and Payment of Interim Compensation and Reimbursement of Expenses of Professionals dated June 13, 2003 (the “Administrative Order”), for the allowance of interim compensation for professional services rendered as Chief Restructuring Officer to Allegiance Telecom, Inc. et al. (hereinafter referred to as the “Debtors” or the “Company”) for the period of June 16, 2003 through September 30, 2003 (the “Compensation Period”), and for reimbursement for actual and necessary expenses incurred in connection with such services. In support of this application, the Applicant represents as follows:

JURISDICTION

1. This Court has jurisdiction over this Application pursuant to 28 U.S.C. § 1334. This is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). Venue is properly before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicates for the relief sought herein are Sections 328(a), 330 and 331 of the Bankruptcy Code and Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”). Pursuant to General Order M-151, Amended Guidelines for Fees and Disbursements for Professionals in Southern District of New York Bankruptcy Cases (the “Local Guidelines”), a certification regarding compliance with the Local Guidelines is attached hereto as **Exhibit A**.

BACKGROUND

2. On May 14, 2003 (the “Petition Date”), the Debtors each filed with this Court a voluntary case under the Bankruptcy Code. The Debtors are authorized to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

3. The Debtors’ Chapter 11 cases have been consolidated for procedural purposes only and are being jointly administered pursuant to Bankruptcy Rule 1015(b).

4. No trustee or examiner has been appointed in these Chapter 11 cases. On May 28, 2003, pursuant to section 1102 of the Bankruptcy Code, the United States Trustee for the Southern District of New York the (“U.S. Trustee”) appointed a statutory committee of unsecured creditors (the “Committee”) in these Chapter 11 cases.

IMPALA’S RETENTION AS CHIEF RESTRUCTURING OFFICER

5. Impala initially agreed to act as Chief Restructuring Officer to the Company pursuant to the terms of a letter agreement dated June 20, 2003 (the “Initial

Engagement Letter”), a copy of which is attached hereto as **Exhibit B**. The Initial Engagement Letter specified the services that Impala would provide and the compensation that Impala would receive for those services.

6. The agreed compensation as set forth in the Initial Engagement Letter included a monthly fee of \$250,000 payable in advance (the “Monthly Fee”), the reimbursement of reasonable out of pocket expenses incurred by Impala, and a success fee, the terms of which were, as of the execution of the Initial Engagement Letter, to be negotiated.

7. The Initial Engagement Letter was superseded by a new engagement letter dated July 11, 2003 (the “Subsequent Engagement Letter”). A copy of the Subsequent Engagement Letter is attached hereto as **Exhibit C**. The Monthly Fee under the Subsequent Engagement Letter remained at \$250,000.

8. The Subsequent Engagement Letter was submitted to the Court with the Motion of the Debtors Pursuant to Sections 105 and 363 of the Bankruptcy Code for Approval of Services Agreement with Impala Partners, LLC [Docket No. 222] (the “Impala Retention Application”), and approved by the Court on an interim basis pursuant to the Interim Order Pursuant to Sections 105 and 363 of the Bankruptcy Code for Approval of Services Agreement with Impala Partners, LLC [Docket No. 275] (the “Interim Retention Order”), and then on final basis pursuant to this Court’s Order Pursuant to Sections 105 and 363 of the Bankruptcy Code for Approval of Services Agreement with Impala Partners, LLC, *nunc pro tunc* to June 16, 2003 [Docket No. 501] (the “Final Retention Order”). The Interim Retention Order and Final Retention Order are attached hereto as **Exhibits D** and **E**, respectively.

9. The Subsequent Engagement Letter was further modified by letter dated

August 28, 2003, wherein the Monthly Fee was adjusted and the agreed upon success fee disclosed (the “August 28 Modification”). The terms of the August 28 Modification were filed together with a Notice of Hearing on Motion of the Debtors Pursuant to Sections 105 and 363 of the Bankruptcy Code for Approval of Services Agreement with Impala Partners, LLC [Docket No. 410] (the “Notice of Final Hearing”). A copy of the Notice of Final Hearing is attached hereto as **Exhibit F**.

10. The Final Retention Order provides that

all compensation and reimbursement due to, and other rights of, Impala in accordance with the [Subsequent Engagement Letter] Agreement and the Notice [of Final Hearing], including, without limitation indemnification obligations, shall be treated as administrative expenses under section 503 of the Bankruptcy Code, and shall be paid in accordance with the terms and provisions of the Agreement and the Notice; provided, however, that all compensation and reimbursement of expenses to be paid to Impala shall be subject to prior approval of this Court in accordance with the requirements of sections 330 and 331 of the Bankruptcy Code and the order of this Court establishing procedures for monthly compensation and reimbursement of expenses for professionals, dated June 13, 2003;

COMPENSATION REQUESTED

11. Pursuant to this Application, Impala requests the interim allowance of the Monthly Fee for each month during the Compensation Period (totaling \$950,000¹), and the reimbursement of expenses incurred in connection with the rendition of services in the amount of \$115,554.65. A breakdown of the fees and expenses requested is set forth on the Summary of Fees and Expenses - June 16 to September 16, 2003 attached hereto as **Exhibit G**.

12. Pursuant to the Administrative Order, Impala submits monthly fee statements to the Debtors seeking interim compensation and reimbursement of expenses.

¹As set forth in the August 28 Modification, the Monthly Fee has been reduced for the period commencing September 16, 2003, from \$250,000 to \$200,000. The Monthly Fee for the other three months during the Compensation Period was \$250,000.

During the First Interim Compensation Period, Impala served the following fee statements:

A. On July 29, 2003, Impala served its first fee statement, pursuant to the Compensation Order dated June 13, 2003, for the period from June 16, 2003 through and including July 15, 2003 (the ‘First Fee Statement’). The First Fee Statement sought an allowance of \$250,000.00 as compensation for services rendered for the period from June 16, 2003 through and including July 15, 2003.

B. On July 29, 2003, Impala served its second fee statement, pursuant to the Compensation Order dated June 13, 2003, for the period from July 16, 2003 through and including August 15, 2003 (the ‘Second Fee Statement’). The Second Fee Statement sought an allowance of \$250,000.00 as compensation for services rendered and the reimbursement of \$37,342.06 in expenses for the period from June 16, 2003 through and including July 28, 2003.

C. On August 19, 2003, Impala served its third fee statement, pursuant to the Compensation Order dated June 13, 2003, for the period from August 16, 2003 through and including September 15, 2003 (the ‘Third Fee Statement’). The Third Fee Statement sought an allowance of \$250,000.00 as compensation for services rendered and the reimbursement of \$60,463.42 in expenses for the period from July 29, 2003 through and including September 4, 2003.

D. On September 12, 2003, Impala served its fourth fee statement, pursuant to the Compensation Order dated June 13, 2003, for the period from September 16, 2003 through and including October 15, 2003 (the ‘Fourth Fee Statement’). The Fourth Fee Statement sought an allowance of \$200,000.00 as compensation for services

rendered and the reimbursement of \$17,749.17 in expenses for the period from September 5, 2003 through and including September 12, 2003.

13. During the Compensation Period, Impala received a total of \$760,000 in fees and \$115,554.65 for out of pocket expenses incurred in connection therewith. In accordance with the Administrative Order, such payments represent 80% of Impala's fees and 100% of its out of pocket expenses incurred during the Compensation Period.

14. As of the filing of this Application, Impala has not received payment in the amount of \$50,000 for the period June 16, 2003 through and including July 15, 2003, \$50,000 for the period July 16, 2003 through and including August 15, 2003, \$50,000 for the period August 16, 2003 through and including September 15, 2003, and \$40,000 for the period September 16, 2003 through and including October 15, 2003, reflecting the 20% holdback of fees in accordance with the Administrative Order.

15. Impala seeks approval of the sum of \$950,000 for services rendered to the Debtors during the Compensation Period, and \$115,554.65 for out of pocket expenses incurred in connection with rendition of such services, for a total award of \$1,065,554.65. Pursuant to the Administrative Order, Impala has already received payment of \$760,000, representing 80% of Impala's fees during the Compensation Period, and reimbursement of \$115,554.65, which represents 100% of Impala's expenses incurred in connection with the rendition of services during the Compensation Period. Therefore, Impala seeks payment of \$190,000 pursuant to this Application, which amount represents the portion of the Monthly Fee for each respective month during the Compensation period comprising not already paid pursuant to Administrative Order.

16. Impala rendered to the Debtors and their estates all services for which compensation is sought in connection with these Chapter 11 cases.

17. There is no agreement or understanding between Impala and any other person, other than the members of Impala, for the sharing of compensation to be received for services rendered in these cases.

SUMMARY OF PROFESSIONAL SERVICES RENDERED

18. As set forth in the Retention Application as well as the respective Engagement Letters, Impala was retained to serve as the Debtors' Chief Restructuring Officer and to provide advice and information to the Debtors in connection with its restructuring efforts in these Chapter 11 cases. Impala's primary responsibility is to advise on the operational restructuring of the Debtors, including but not limited to (a) the reduction of costs and increase in efficiencies; (b) the improvement in sales productivity and profitability; (c) management of the "operational bankruptcy task forces"; and (iv) developing the Debtors' long-term business strategy. During the Compensation Period, Impala diligently performed its role for which it was retained.

19. The diligent, hard work of two of Impala's four partners and one of its three non-partner professionals (almost half of Impala's company), on a virtually full-time basis during the Compensation Period has been a major contributing factor in (i) substantially increasing the value of the Debtors (including achieving durable cost reductions of \$70 to \$80 million per annum) and (ii) creating a credible, detailed operating plan that all constituents have signed onto so that Debtors are in a position to confirm a plan or sell substantially all their assets.

20. The most significant professional services rendered Impala during the Compensation Period can be broken into five (5) major subcategories. Those subcategories include:

- (a) identify and implement on costs savings;

- (b) management of the internal operational task forces;
- (c) development of the Company's long-term financial plan;
- (d) meetings/conference calls with various stakeholders; and
- (e) case administration and various other matters.

21. The following is a summary of the services rendered by Impala during the Compensation Period² within each of these subcategories:

Identify and Implement on Costs Savings

22. Impala worked with the Chief Operating Officer and various department heads in identifying various costs cuts including but not limited to: headcount reductions of approximately 500 people (versus May 2003 staff levels), reduction in real estate expenses, network expense reductions including the decommissioning and grooming of low performing collocations, reducing special access and long distance costs. Impala actively participated in reducing the monthly charges for its Dark Fiber leases.

23. Impala performed a line-by-line review of the SG&A budgets to identify cost categories where reductions need to be made.

24. Impala actively participated in ensuring that all identified costs savings were implemented upon and that the savings materialized.

Management of the Internal Operational Task Forces

25. Impala participated in all internal operational task forces including but not limited to: Network Expense, Executory Contracts, Real Estate, Revenue, SG&A and external communications. Impala attended all convened meeting to ensure that each of the task forces focused on the potential impact of each decision, the timing of those

²As disclosed in the respective Engagement Letters, Impala does not maintain time records for its restructuring engagements. Since Impala is not being compensated on an hourly basis, the Administrative Order and the Final Retention Order excuse Impala from any obligation under the Local Guidelines to include such information in support of this Application.

decisions and the savings and costs of each decision.

Development of the Company's Long-Term Financial Plan

26. Operating/Business Plan Review: Impala performed a review of the Company's existing Operating/Business Plan by evaluating their detailed financial model and underlying assumptions. Impala engaged all levels of management and respective business units to review the underlying assumptions. Impala worked with the Company's planning staff members in developing an Operating Plan for the FY 2003 through FY 2007 period. During the entire plan development process, Impala ensured the participation of all business leaders in the adaptation of the plan assumptions and projected results. The Plan also included a detailed analysis of the Capital Expenditure budget and resulting cash flow requirements.

Meetings/Conference Calls with Various Stakeholders

27. Impala prepared for and participated in various formal and informal meetings and teleconferences with the secured lenders, the Committee, financial advisors to the secured lender and the Committee, financial advisors to the Debtors, the Company's special restructuring committee and management to discuss a variety of often times complex case issues. Issues discussed included reviewing the Operating Plan and its assumptions, working capital, financial and operating results, Key Employee Retention Plan, and other matters of concern to the Debtor/Lenders.

28. At these meetings and phone conferences, Impala presented the Committee and other constituencies with presentations reflecting the results of the Debtor analysis.

Case Administration and Various Other Matters

29. Administrative tasks include, but are not limited to, attendance at and

preparation for case status meetings to assist the Committee and other interested parties in managing critical tasks and key milestones. As an example, Impala reviewed and analyzed the Debtors' proposed Key Employee Retention Plan in order to evaluate its reasonableness.

REASONABLE AND NECESSARY SERVICES RENDERED BY IMPALA

30. Impala's services in these Chapter 11 cases has required a high degree of professional competence and expertise so that numerous issues requiring evaluation and determination by the Debtors and their professionals could be addressed with skill and dispatch and have, therefore, required the expenditure of substantial time and effort. Indeed, Impala has provided substantial, ongoing services during the course of these Chapter 11 cases and those services have been integral to substantially increasing the value of the Debtors and putting the Debtors in a position to confirm a plan or sell substantially all their assets.

31. Impala has a preeminent practice specializing in working with companies and creditors in out-of-court workouts and Chapter 11 cases. Impala has served as interim managers and financial advisors in financially complex bankruptcies and workouts involving billions of dollars in debt. In that regard, Impala has gained expertise in operating a business through distressed situations and analyzing businesses to determine strategies for both increasing revenue and reducing costs. Representative telecommunication clients include Winstar Communications Inc., Velocita, ICG Communications, Metromedia Fiber Network Services, Inc., and KMC Telecom, Inc. As a consequence, Impala brings to these Chapter 11 cases a particularly high level of expertise, which inured to the benefit of the Debtors, their estates, and all parties in interest.

32. Accordingly, the professional services rendered by Impala on behalf of the Debtors during the Compensation Period (as summarized above) were reasonable, necessary and appropriate to the administration of the Debtors' Chapter 11 cases and related matters. The professional services rendered by Impala were in the best interest of the Debtors and their estates, the Committee, and other constituencies and parties in interest. Compensation for the foregoing services as requested is commensurate with the complexity, importance, magnitude, deadlines and nature of problems, issues or tasks involved.

ACTUAL AND NECESSARY EXPENSES INCURRED BY IMPALA

33. In accordance with the respective Engagement Letters, Impala also seeks allowance of the reimbursement of its disbursements and other expenses Impala has incurred on behalf of the Debtors during the Compensation Period in the aggregate sum of \$115,554.65. Those charges are identified on Exhibit G attached hereto. Impala has made every effort to minimize its disbursements in these cases. For instance, Impala has not sought reimbursement for charges related to internal copying or faxing, and has not charged for telephone calls from its offices. However, due to the location of the Debtors' businesses, creditors and other parties in interest, substantial travel related expenses were incurred. It is these expenses that comprise a vast majority of the expenses for which Impala seeks reimbursement.

34. Each of these actual expenses incurred in connection with Impala's services were reasonable, necessary and justified under the circumstances to serve the needs of the Debtors in these cases.

STANDARD OF REVIEW

35. Section 328(a) of the Bankruptcy Code contemplates the approval of fees

that are negotiated at arm's length and that are reasonable, at the time they are negotiated, in light of prevailing market terms. Impala submits that these same criteria should govern the consideration of Impala's requested fee herein. Furthermore, Impala submits that the same criteria are appropriate as a general matter under Sections 330 and 331 of the Bankruptcy Code in considering the reasonableness of a financial advisor's request for payment of its fee.

36. Market-based fees are payable pursuant to Sections 330 and 331 of the Bankruptcy Code. The Second Circuit has established that, in awarding compensation to professionals pursuant to Sections 330 and 331 of the Bankruptcy Code, courts should adopt a "market driven" approach in which the cost of comparable services is the most important factor in determining reasonableness of fees. *See In re Ames Department Stores, Inc.*, 76 F.3d 66, 71 (2d Cir. 1996) (explaining that by enacting section 330, Congress took "the position that 'compensation in bankruptcy matters be commensurate with the fees awarded for comparables services in non-bankruptcy cases.'"); *In re Bennett Funding Group, Inc.*, 213 B.R. 234, 250 (Bankr. N.D.N.Y. 1997) (courts should rely on the "'market' of comparable legal services to assist in determining the level of compensation to be awarded"). This is consistent with the general aim of Sections 328, 330 and 331, which is to provide professionals in bankruptcy cases with compensation that is comparable to the fees that prevail outside of bankruptcy cases. *See In re UNR Indus., Inc.*, 986 F.2d 207, 209 (7th Cir. 1993); *Collier on Bankruptcy* ¶ 330 (15th rev. ed. 1999).

37. Thus, in cases like this, certain "considerations drop away, such as the 'time spent' or the 'rates charged.'" *In re Intelogic Trace, Inc.*, 188 B.R. at 559. The most important factors are whether the services were beneficial to the estates and whether

the compensation approximates the practice outside of bankruptcy cases. *Id.*

38. In this case, Impala respectfully submits that the services for which it seeks compensation were, at the time rendered, believed to be necessary for an beneficial to the Debtors and their estates, and were rendered in order to protect and preserve the Debtors' estates during the pendency of these Chapter 11 cases. The fees are consistent with the practice outside of bankruptcy cases. Impala respectfully submits that the services rendered to the Debtors were performed economically, effectively and efficiently, and the results obtained to date have benefited not only the Debtors, but also the Debtors' estates and the creditor body as a whole. Impala further submits that the compensation requested herein is reasonable in light of the nature, extent and value of such services to the Debtors, their estates and all parties in interest.

39. In sum, the services rendered by Impala were necessary and beneficial to the Debtors and their estates, and were consistently performed in a timely manner commensurate with the complexity, importance, novelty and nature of the issues involved. Accordingly, approval of the compensation sought herein is warranted.

MEMORANDUM OF LAW

40. Impala respectfully submits that the relevant legal authorities are set forth herein and that this Application presents no novel issues of law. Thus, Impala respectfully submits that this Application satisfies the requirement set forth in the Southern District of New York Local Bankruptcy Rule 9013-1 that a separate memorandum of law be filed in support of the Application.

NOTICE

41. No trustee has been appointed in these Chapter 11 cases. Notice of this Application has been provided to: (a) the Debtors; (b) the U.S. Trustee; (b) counsel to the

Committee; and (c) counsel to the Debtors' prepetition secured lenders. In light of the nature of the relief requested herein, Impala submits that no other or further notice is required.

CONCLUSION

WHEREFORE, Impala Partners LLC respectfully requests entry of an order allowing and awarding interim compensation for professional services rendered during the Compensation Period in the amount of \$950,000 and reimbursement of expenses incurred by Impala during the Compensation Period in the amount of \$115,554.65, and for such other relief as is just and proper.

Dated: November 10, 2003

HERRICK, FEINSTEIN LLP

By: /s/ Andrew C. Gold
Andrew C. Gold (AG-4875)
2 Park Avenue
New York, NY 10016
Telephone: (212) 592-1400
Facsimile: (212) 592-1500

Attorneys for Impala Partners LLC

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CERTIFICATION OF PAUL A. STREET

I, Paul A. Street, certify as follows:

1. I am a Partner of Impala Partners, LLC, (“Impala”), Chief Restructuring Officer to Allegiance Telecom, Inc., et al. (the “Debtors”), and I am charged with the responsibility in the Debtors’ cases for Impala’s compliance with the Administrative Orders of this Court setting forth Guidelines for Fees and Disbursements for Professionals in the Southern District of New York Bankruptcy Cases (the “Guidelines”). I submit this certification in support of the application of Impala, dated November 10, 2003 (the “Impala Fee Application”), for allowance of compensation and reimbursement of expenses for professional services provided by Impala to the Debtors, and in compliance with the Guidelines. Impala was retained to act as the Chief Restructuring

Officer to the Debtors by order of this Court dated July 29, 2003, *nunc pro tunc* to June 16, 2003.

2. I have read the Impala Fee Application and certify as follows:

(a) To the best of my knowledge, information, and belief, formed after reasonable inquiry, the Impala Fee Application complies with the Guidelines, except as noted either herein or in the Application.

(b) The Debtors have been provided with a copy of the Impala Fee Application. Moreover, the Debtors have approved and paid each of the monthly fee statements submitted within the Compensation Period in accordance with the Administrative Order.

(c) A copy of the Impala Fee Application is being sent simultaneously to Debtors, counsel to the Debtors, the Office of the United States Trustee, counsel for the Official Committee of Unsecured Creditors (the "Committee"), and counsel for the Debtors' prepetition secured lenders.

(d) Monthly statements of fees and expenses were submitted to parties in interest with respect to the fees or expenses requested in the Impala Fee Application.

(e) The Committee and the Debtors were provided with a copy of the Impala Fee Application on November 10, 2003, thirty-six (36) days before the hearing on the Impala Fee Application.

(f) In seeking reimbursement for a service for which Impala justifiably purchased or contracted for/from a third party, Impala requests reimbursement only for the amount billed to Impala by the third-party vendor and paid by Impala to such vendor.

(g) No agreement or understanding exists between Impala and any other person for a division of compensation herein other than the division of compensation between partners of the firm, and no agreement prohibited by Section 504 of the Bankruptcy Code and Rule 2016 of the Bankruptcy Rules has been made.

I hereby certify that the foregoing is true under penalty of perjury pursuant to 28 U.S.C. § 1746.

Dated: Norwalk, CT
November 10, 2003

Impala Partners, LLC

BY: /s/ Paul A. Street
Paul A. Street
18 Marshall Street, Suite 112
Norwalk, CT 06854

Chief Restructuring Officer for Debtors-in-Possession



**IMPALA
PARTNERS, LLC**

Impala Partners, LLC
18 Marshall Street
Suite 112
Norwalk, Connecticut 06854

June 20, 2003

Dan Yost
President and COO
Allegiance Telecom, Inc.
9201 N. Central Expressway
Dallas, Texas 75231

Dear Dan:

This letter agreement (this "Agreement") confirms the engagement of Impala Partners, LLC ("Impala") to serve as the chief restructuring officer of Allegiance Telecom, Inc., a Delaware corporation and its subsidiaries and affiliates (collectively, the "Company"), in connection with the financial restructuring of the Company (the "Restructuring").

The Company is presently operating as debtor in possession in a case pending under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101, et seq. (the "Bankruptcy Code") before the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") under Case No. 03-13057 (RDD). It is understood and agreed by Impala and the Company that the obligations of each party hereto is subject to the approval of the Bankruptcy Court. Within ten (10) business days after the execution and delivery of this Agreement, the Company shall file with the Bankruptcy Court motion papers requesting an order authorizing and approving this Agreement and its terms and conditions. The order authorizing this Agreement must be acceptable to Impala in its sole discretion and shall approve the terms of this Agreement, including, without limitation, that: (i) Impala shall not be required to maintain time records or file fee applications with the Bankruptcy Court for payment, (ii) Impala shall be paid in accordance with the terms of this Agreement without further application to the Bankruptcy Court, and (iii) all obligations of the Company hereunder to Impala (including any indemnification obligations of the Company contained in Section 14 hereof) shall be afforded administrative expense priority status.

Services. Impala shall serve as the Company's chief restructuring officer and provide advice and information to the Company in connection with the Restructuring. Impala's specific responsibilities are set forth below in paragraph 5. Impala shall report to the Company's special restructuring committee of independent directors of the board

of directors (the "Special Committee") and shall include in such reporting those members of management as directed by the Special Committee.

1. Term. The term of this Agreement shall commence on the date of approval of this Agreement by the Bankruptcy Court (the "Effective Date") and shall continue in full force and effect until the date that is one (1) year thereafter, subject to earlier termination pursuant to Sections 2 or 10 hereof or extension of such period by written agreement executed by Impala and the Company (the "Term").

2. Compensation for Services.

(a) During the Term, as compensation for Impala's services under this Agreement, the Company shall pay to Impala a fee of \$ 250,000 for each 30 days work (a "monthly fee payment"), payable in advance. The first monthly fee payment shall be due by the Company and payable to Impala on the Effective Date and each monthly fee payment shall be due and payable 30 days thereafter.

(b) On the Effective Date, in addition to the first monthly fee payment, the Company shall pay to Impala a retainer in the sum of \$250,000 (the "Retainer"), which Retainer shall be held by Impala until the end of the Term. At the end of the Term, Impala shall withhold and be permitted to deduct from the Retainer an amount equal to the aggregate of all sums due to Impala pursuant to the terms of this Agreement. The balance of the Retainer, if any, shall be paid over and released, without interest, to the Company within ten (10) business days following the end of the Term.

(c) As additional compensation for Impala's services under this Agreement the Company agrees to pay to Impala a mutually acceptable success fee (the "Success Fee"). The terms of the Success Fee shall be negotiated and agreed between the Company and Impala during the first forty-five days following the Effective Date. If the parties are unable to agree upon such Success Fee within forty-five days of the Effective Date, either party shall have the right to terminate this agreement, in which case the Company shall have no obligation with regard to the Success Fee. After the Company and Impala agree on the Success Fee, but prior to filing an application with the Bankruptcy Court to approve the Success Fee, the Company and Impala shall consult with the Company's lenders and the creditors committee regarding the Success Fee and the justification for the Success Fee. To the extent the Company's lenders and/or the creditors committee have any issues or concerns with respect to the Success Fee, the Company and Impala shall, for a period of ten days, attempt to resolve with the Company's lenders and/or the creditors committee, in good faith, such issues and/or concerns. If the Company and Impala are not able to resolve such issues and/or concerns with the Company's lenders and/or the creditors committee with in such ten day period, the Company may file an application with the Bankruptcy Court to approve the Success Fee on no less than twenty-days notice.

3. **Expense Reimbursement.** In addition to the monthly fee payments and Success Fee, the Company agrees to reimburse Impala for all reasonable out-of-pocket expenses incurred by Impala in carrying out the terms of this Agreement, including communication charges, travel expenses, copying expenses, delivery and distribution charges, and reasonable fees and expenses of legal counsel that Impala determines is required to advise Impala in connection with carrying out its duties under this Agreement; **provided, however,** that a request for any such fees and expenses must be filed in the Company's chapter 11 cases pending in the United States Bankruptcy Court for the Southern District of New York in accordance with the "order establishing procedures for the compensation of professionals" entered therein. All reimbursements shall be made promptly after such payments accrue and are submitted to the Company with appropriate documentation for payment hereunder.

4. **Access to Information.** Subject to paragraph 8 herein, the Company agrees to furnish, or cause to be furnished, to Impala such current, historical and projected financial information and other information regarding the business of the Company as Impala may request from time to time. The Company agrees to make available to Impala such representatives of the Company, including, among others, directors, officers, employees, outside counsel and independent certified accountants, as Impala may request from time to time. The Company represents and warrants to Impala that all such information provided to Impala will be as complete and correct as possible under the circumstances and will not contain any known untrue statements of material fact or omit to state a known material fact necessary in order to make the statements therein not misleading in light of the circumstances under which the statements are made. The Company agrees to keep Impala advised of all developments materially affecting the Company or its financial or legal position. The Company represents and warrants to Impala that any projections or other information provided to Impala will have been prepared in good faith and will be based upon assumptions which, in light of the circumstances under which they are made, are reasonable. The Company acknowledges and agrees that, in rendering its services hereunder, Impala will be using and relying on the information provided to it by the Company and its representatives without independent verification by Impala. Impala does not assume responsibility for the accuracy or completeness of any of such information.

5. **Role as Advisor.** It is hereby agreed by the Company and Impala, that in performing its services under this Agreement, Impala is not assuming any responsibility for the Company's decision to pursue (or not to pursue) any business strategy or to effect (or not to effect) any Transaction. It is further agreed that neither Impala nor any other Indemnified Party (as hereinafter defined) shall be liable to the Company or any affiliate of the Company in connection with any matter arising out of or relating to the engagement of Impala under this Agreement, or any actions taken or omitted to be taken, services performed or matters contemplated by or in connection with this Agreement, except to the extent that such liability is finally judicially determined to have resulted primarily from the willful misconduct or gross negligence of such Indemnified

Party. Impala's primary responsibility is to advise on the operational restructuring of the Company, including but not limited to (a) the reduction of costs and increase in efficiencies; (b) the improvement in sales productivity and profitability; (c) management of the "operational bankruptcy task forces" established within the Company; and (iv) developing the Company's long-term business strategy.

6. Advice. Any opinions or advice (whether written or oral) rendered by Impala pursuant to this Agreement are intended solely for the benefit and use of the Company, and, except as may be required by law or court order and after prior notice thereof to Impala, may not be publicly disclosed in any manner or made available to third parties (other than the Company's management, directors, accountants and attorneys) without the prior written consent of Impala (which consent shall not be unreasonably withheld).

7. Communications with Creditors. Impala agrees that the work product it produces shall be shared with the Company's lenders, the creditors committee and their respective counsel and advisors (collectively, the "Interested Parties"), subject to appropriate confidentiality measures as it relates to members of the creditors committee that are competitors of the Company. In addition, as an officer of the Company, serving at the pleasure of the Special Committee, Impala shall communicate with the Interested Parties. Impala agrees to (a) maintain a log of all communications, both verbal and written, with the Interested Parties, (b) respond promptly to inquiries made by the Interested Parties and (c) promptly report to the Special Committee regarding all communications with the Interested Parties.

8. Confidentiality. All information provided by the Company to Impala will be considered as confidential information and shall be maintained as such by Impala, except to the extent that Impala shall be required to disclose such information pursuant to the laws, rules or regulations of any governmental authority, by compulsion of civil or criminal process or by any court of competent jurisdiction acting pursuant to its powers. It is understood and agreed that confidential information shall not include any information provided by the Company to Impala that (a) is known to Impala prior to disclosure thereof by the Company, (b) hereafter becomes, other than through no fault of Impala, generally available to the public, (c) is disclosed to Impala by a third party other than in breach of an obligation of confidentiality owed by such third party to the Company, or (d) is independently developed by Impala.

9. Termination. The Company or Impala may, at any time, terminate the Term and this Agreement, without liability or continuing obligation, by providing thirty (30) days prior written notice thereof to the other party; provided, however, that except as otherwise provided in Section 2 as to the Success Fee, no termination of the Term and this Agreement pursuant to this Section 9 or expiration of the Term pursuant to Section 2 shall affect Impala's right to receive, and the Company's obligation to provide: (a) indemnification pursuant to Section 13 of this Agreement; or (b) the payments required by Sections 2 and 3 of this Agreement. To the extent the Agreement is terminated,

Impala shall reimburse the Company for any payments received that are not yet earned.

10. Governing Law, Jurisdiction. THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO SUCH STATE'S RULES CONCERNING CONFLICTS OF LAWS. EACH OF THE COMPANY AND IMPALA WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) RELATED TO OR ARISING OUT OF THE ENGAGEMENT OF IMPALA PURSUANT TO, OR THE PERFORMANCE BY IMPALA OF THE SERVICES CONTEMPLATED BY, THIS AGREEMENT. THE BANKRUPTCY COURT SHALL HAVE EXCLUSIVE JURISDICTION TO ADJUDICATE ALL MATTERS PERTAINING TO THIS AGREEMENT.

11. Attorneys' Fees and Court Costs. If the Company brings an action directly or indirectly against Impala based on this Agreement or the matters contemplated hereby, and Impala prevails in such action, Impala shall be entitled to recover, in addition to any other appropriate amounts, its reasonable costs and expenses in connection with such action, including but not limited to, reasonable attorneys' fees and court costs.

12. Successors. The provisions hereof shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and Impala. Neither party hereto may assign or otherwise transfer any of its rights or obligations under this Agreement with the prior written consent of the other party hereto.

13. Indemnification. The Company agrees to indemnify and hold harmless Impala and each of its members, managers, officers, agents, employees and controlling persons (within the meaning of the Securities Act of 1933, as amended) (each, an "Indemnified Person") in accordance with the indemnification provisions attached hereto as Exhibit A.

14. Survival. The provisions of Sections 3(b), 3(c), 4, 6, 7, 9, 10, 11, 12, 13 and 14 and this Section 15 shall survive the termination and expiration of the Term and this Agreement.

If the foregoing correctly sets forth the understanding between us, please so indicate on the enclosed signed copy of this Agreement in the space provided therefor and return it to us, whereupon this Agreement shall constitute a binding agreement between us. For the convenience of the parties, any number of counterparts of this Agreement may be executed by the parties hereto. Each such counterpart shall be, and shall be deemed to be, an original instrument, but all such counterparts taken together shall constitute one and the same Agreement.

Very truly yours,

IMPALA PARTNERS, LLC

By: PSA
Name: PAUL A STREET
Title: MEMBER

AGREED TO AND ACCEPTED
as of the date first above written:

Allegiance Telecom, Inc.

By: DMY
Name: Dan Yost
Title: PRESIDENT & COO
6/20/03

Exhibit B

1. The Company agrees to indemnify and hold harmless Impala and each of its members, managers, officers, agents, employees and controlling persons (within the meaning of the Securities Act of 1933, as amended) (each, an "Indemnified Person") against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) brought by any third party (i.e., a person not a party to this Agreement or an Indemnified Party hereunder) arising out of or related to this Agreement, any actions taken or omitted to be taken by an Indemnified Party (including acts or omissions constituting ordinary negligence) in connection with this Agreement and will reimburse each Indemnified Person for all reasonable legal and other expenses as incurred in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that the Company will not be liable in any such case for losses, claims, damages, liabilities or expenses which are finally judicially determined to have resulted primarily from the gross negligence or willful misconduct of any Indemnified Party. In case any proceeding shall be instituted involving any Indemnified Party, such person shall promptly notify the Company, and the Company, upon the request of the Indemnified Party, shall retain counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party and any others the Company may designate in such proceeding and shall pay all reasonable fees and expenses of such counsel related to such proceeding. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel at its own expense, except that the Company shall pay as incurred the fees and expenses of counsel retained by the Indemnified Party only in the event that (i) the Company and the Indemnified Party shall have mutually agreed to the retention of such counsel, or (ii) the named parties to any such proceeding (including any impleaded parties) include both the Company and the Indemnified Party and representation of both parties by the same counsel would be inappropriate, in the reasonable opinion of the Company, due to actual or potential differing interests between them.

2. The Company will not, without the prior written consent of Impala, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of each party for which indemnification is sought hereunder from all liability arising out of such claim, action, suit or proceeding.

3. In the event that the indemnity provided for in paragraph 1 hereof is unavailable or insufficient to hold any Indemnified Party harmless, then the Company shall contribute to amounts paid or payable by an Indemnified Party in respect of such Indemnified Party's losses, claims, damages and liabilities as to which the indemnity provided for in paragraph 1 hereof is unavailable or insufficient (i) in such proportion as appropriately reflects the relative benefits received by the Company, on the one hand, and Impala, on the other hand, in connection with the matters as to which such losses, claims, damages or liabilities relate, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as appropriately reflects not only

the relative benefits referred to in clause (i) but also the relative fault of the Company, on the one hand, and Impala, on the other hand, as well as any other equitable considerations. The amounts paid or payable by a party in respect of losses, claims, damages and liabilities referred to above shall be deemed to include any reasonable legal or other fees and expenses incurred in defending any litigation, proceeding or other action or claim.



IMPALA
PARTNERS, LLC

Tel: (203) 956-6565

Fax: (203) 956-6546

**18 Marshall Street
Suite 112
Norwalk, Connecticut 06854**

Date: October 2, 2003

To: STEPHEN RATHKOPF

Fax Number: (212) 592-1500

FROM Kristina Rende
Direct dial: (203) 956-6545

Number of Pages (Including Cover Sheet): 9
Message:

The information contained in this facsimile message is privileged and confidential information intended for the use of the individual or entity named. If the reader of this message is not the intended recipient, you are hereby notified that any dissemination, distributing or copying of this fax is strictly prohibited. If you have received this fax on error, please immediately notify us by telephone and return the original message to us at the following address via the United States Postal Service. Impala Partners, LLC., 18 Marshall Street, Norwalk, CT 06854



**IMPALA
PARTNERS, LLC**

Impala Partners, LLC
18 Marshall Street
Suite 112
Norwalk, Connecticut 06854

July 11, 2003

Dan Yost
President and COO
Allegiance Telecom, Inc.
9201 N. Central Expressway
Dallas, Texas 75231

Dear Dan:

This letter agreement (this "Agreement") confirms the engagement of Impala Partners, LLC ("Impala") to serve as the chief restructuring officer of Allegiance Telecom, Inc., a Delaware corporation and its subsidiaries and affiliates (collectively, the "Company"), in connection with the financial restructuring of the Company (the "Restructuring").

The Company is presently operating as debtor in possession in a case pending under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101, et seq. (the "Bankruptcy Code") before the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") under Case No. 03-13057 (RDD). It is understood and agreed by Impala and the Company that the obligations of each party hereto is subject to the approval of the Bankruptcy Court. Within ten (10) business days after the execution and delivery of this Agreement, the Company shall file with the Bankruptcy Court motion papers requesting an order authorizing and approving this Agreement and its terms and conditions. The order authorizing this Agreement must be acceptable to Impala in its sole discretion and shall approve the terms of this Agreement, including, without limitation, that: (i) Impala shall not be required to maintain time records or file fee applications with the Bankruptcy Court for payment, (ii) Impala shall be paid in accordance with the terms of this Agreement without further application to the Bankruptcy Court, and (iii) all obligations of the Company hereunder to Impala (including any indemnification obligations of the Company contained in Section 14 hereof) shall be afforded administrative expense priority status.

Services. Impala shall serve as the Company's chief restructuring officer and provide advice and information to the Company in connection with the Restructuring. Impala's specific responsibilities are set forth below in paragraph 5. Impala shall report to the Company's special restructuring committee of independent directors of the board

of directors (the "Special Committee") and shall include in such reporting those members of management as directed by the Special Committee.

1. Term. The term of this Agreement shall commence on the date of approval of this Agreement by the Bankruptcy Court (the "Effective Date") and shall continue in full force and effect until the date that is one (1) year thereafter, subject to earlier termination pursuant to Sections 2 or 9 hereof or extension of such period by written agreement executed by Impala and the Company (the "Term").

2. Compensation for Services.

(a) As compensation for Impala's services under this Agreement, the Company shall pay to Impala a fee of \$ 250,000 for each 30 days work (a "monthly fee payment"), payable in advance. The first payment shall be due by the Company and payable to Impala on the Effective Date and each monthly fee payment shall be due and payable 30 days thereafter.

(b) As additional compensation for Impala's services under this Agreement the Company agrees to pay, subject to Bankruptcy Court approval, to Impala a mutually acceptable success fee (the "Success Fee"). The terms of the Success Fee shall be negotiated and agreed between the Company and Impala during the first forty-five days following the Effective Date. If the parties are unable to agree upon such Success Fee within forty-five days of the Effective Date, either party shall have the right to terminate this agreement, in which case the Company shall have no obligation with regard to the Success Fee. After the Company and Impala agree on the Success Fee, but prior to filing an application with the Bankruptcy Court to approve the Success Fee, the Company and Impala shall consult with the Company's lenders, the creditors committee and the United States Trustee for the Southern District of New York (the "U.S. Trustee") regarding the Success Fee and the justification for the Success Fee. To the extent the Company's lenders, the creditors committee and/or the U.S. Trustee have any issues or concerns with respect to the Success Fee, the Company and Impala shall, for a period of ten days, attempt to resolve with the Company's lenders, the creditors committee and/or the U.S. Trustee, in good faith, such issues and/or concerns. If the Company and Impala are not able to resolve such issues and/or concerns with the Company's lenders, creditors committee and/or the U.S. Trustee within such ten day period, Impala may file an application with the Bankruptcy Court to approve the Success Fee on no less than twenty days notice. Notwithstanding the foregoing, the Success Fee shall be payable in accordance with the requirements of section 330 of the Bankruptcy Code.

3. Expense Reimbursement. In addition to the monthly fee payments and Success Fee, the Company agrees to reimburse Impala for all reasonable out-of-pocket expenses incurred by Impala in carrying out the terms of this Agreement, including communication charges, travel expenses, copying expenses, delivery and distribution charges, and reasonable fees and expenses of legal counsel that Impala determines is required to advise Impala in connection with carrying out its duties under this

Agreement; provided, however, that a request for any such fees and expenses must be filed in the Company's chapter 11 cases pending in the United States Bankruptcy Court for the Southern District of New York in accordance with the "order establishing procedures for the compensation of professionals" entered therein. All reimbursements shall be made promptly after such payments accrue and are submitted to the Company with appropriate documentation for payment hereunder.

4. Access to Information. Subject to paragraph 8 herein, the Company agrees to furnish, or cause to be furnished, to Impala such current, historical and projected financial information and other information regarding the business of the Company as Impala may request from time to time. The Company agrees to make available to Impala such representatives of the Company, including, among others, directors, officers, employees, outside counsel and independent certified accountants, as Impala may request from time to time. The Company represents and warrants to Impala that all such information provided to Impala will be as complete and correct as possible under the circumstances and will not contain any known untrue statements of material fact or omit to state a known material fact necessary in order to make the statements therein not misleading in light of the circumstances under which the statements are made. The Company agrees to keep Impala advised of all developments materially affecting the Company or its financial or legal position. The Company represents and warrants to Impala that any projections or other information provided to Impala will have been prepared in good faith and will be based upon assumptions which, in light of the circumstances under which they are made, are reasonable. The Company acknowledges and agrees that, in rendering its services hereunder, Impala will be using and relying on the information provided to it by the Company and its representatives without independent verification by Impala. Impala does not assume responsibility for the accuracy or completeness of any of such information.

5. Role as Advisor. It is hereby agreed by the Company and Impala, that in performing its services under this Agreement, Impala is not assuming any responsibility for the Company's decision to pursue (or not to pursue) any business strategy or to effect (or not to effect) any Transaction. It is further agreed that neither Impala nor any other Indemnified Party (as hereinafter defined) shall be liable to the Company or any affiliate of the Company in connection with any matter arising out of or relating to the engagement of Impala under this Agreement, or any actions taken or omitted to be taken, services performed or matters contemplated by or in connection with this Agreement, except to the extent that such liability is finally judicially determined to have resulted primarily from the willful misconduct or gross negligence of such Indemnified Party. Impala's primary responsibility is to advise on the operational restructuring of the Company, including but not limited to (a) the reduction of costs and increase in efficiencies; (b) the improvement in sales productivity and profitability; (c) management of the "operational bankruptcy task forces" established within the Company; and (iv) developing the Company's long-term business strategy.

6. Advice. Any opinions or advice (whether written or oral) rendered by Impala pursuant to this Agreement are intended solely for the benefit and use of the Company, and, except as may be required by law or court order and after prior notice thereof to Impala, may not be publicly disclosed in any manner or made available to third parties (other than the Company's management, directors, accountants and attorneys) without the prior written consent of Impala (which consent shall not be unreasonably withheld).

7. Communications with Creditors. Impala agrees that the work product it produces shall be shared with the Company's lenders, the creditors committee and their respective counsel and advisors (collectively, the "Interested Parties"), subject to appropriate confidentiality measures as it relates to members of the creditors committee that are competitors of the Company. In addition, as an officer of the Company, serving at the pleasure of the Special Committee, Impala shall communicate with the Interested Parties. Impala agrees to (a) maintain a log of all communications, both verbal and written, with the Interested Parties, (b) respond promptly to inquiries made by the Interested Parties and (c) promptly report to the Special Committee regarding all communications with the Interested Parties.

8. Confidentiality. All information provided by the Company to Impala will be considered as confidential information and shall be maintained as such by Impala, except to the extent that Impala shall be required to disclose such information pursuant to the laws, rules or regulations of any governmental authority, by compulsion of civil or criminal process or by any court of competent jurisdiction acting pursuant to its powers. It is understood and agreed that confidential information shall not include any information provided by the Company to Impala that: (a) is known to Impala prior to disclosure thereof by the Company, (b) hereafter becomes, other than through no fault of Impala, generally available to the public, (c) is disclosed to Impala by a third party other than in breach of an obligation of confidentiality owed by such third party to the Company, or (d) is independently developed by Impala.

9. Termination. The Company or Impala may, at any time, terminate the Term and this Agreement, without liability or continuing obligation, by providing thirty (30) days prior written notice thereof to the other party; provided, however, that except as otherwise provided in Section 2 as to the Success Fee, no termination of the Term and this Agreement pursuant to this Section 9 or expiration of the Term pursuant to Section 2 shall affect Impala's right to receive, and the Company's obligation to provide: (a) indemnification pursuant to Section 13 of this Agreement; or (b) the payments required by Sections 2(b) and 3 of this Agreement. To the extent the Agreement is terminated, Impala shall reimburse the Company for any payments received that are not yet earned.

10. Governing Law; Jurisdiction. THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO SUCH STATE'S RULES CONCERNING CONFLICTS OF LAWS. EACH OF THE COMPANY

AND IMPALA WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) RELATED TO OR ARISING OUT OF THE ENGAGEMENT OF IMPALA PURSUANT TO, OR THE PERFORMANCE BY IMPALA OF THE SERVICES CONTEMPLATED BY, THIS AGREEMENT. THE BANKRUPTCY COURT SHALL HAVE EXCLUSIVE JURISDICTION TO ADJUDICATE ALL MATTERS PERTAINING TO THIS AGREEMENT.

11. Attorneys' Fees and Court Costs. If the Company brings an action directly or indirectly against Impala based on this Agreement or the matters contemplated hereby, and Impala prevails in such action, Impala shall be entitled to recover, in addition to any other appropriate amounts, its reasonable costs and expenses in connection with such action, including but not limited to, reasonable attorneys' fees and court costs.

12. Successors. The provisions hereof shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and Impala. Neither party hereto may assign or otherwise transfer any of its rights or obligations under this Agreement with the prior written consent of the other party hereto.

13. Indemnification. The Company agrees to indemnify and hold harmless Impala and each of its members, managers, officers, agents, employees and controlling persons (within the meaning of the Securities Act of 1933, as amended) (each, an "Indemnified Person") in accordance with the indemnification provisions attached hereto as Exhibit A.

14. Survival. The provisions of Sections 2(b), 3, 5, 6, 7, 8, 10, 11, 12 and 13 and this Section 14 shall survive the termination and expiration of the Term and this Agreement.

If the foregoing correctly sets forth the understanding between us, please so indicate on the enclosed signed copy of this Agreement in the space provided therefor and return it to us, whereupon this Agreement shall constitute a binding agreement between us. For the convenience of the parties, any number of counterparts of this Agreement may be executed by the parties hereto. Each such counterpart shall be, and shall be deemed to be, an original instrument, but all such counterparts taken together shall constitute one and the same Agreement.

Very truly yours,

IMPALA PARTNERS, LLC

By: Paul Street
Title: Member

Allegiance Telecom, Inc.

July 11, 2003

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AGREED TO AND ACCEPTED
as of the date first above written:

Allegiance Telecom, Inc.

By: Mark Tresnowski

Title: Executive Vice President and General Counsel

Exhibit A

1. To the extent consistent with the Company's obligations to indemnify its officers and directors, the Company agrees to indemnify and hold harmless Impala and each of its members, managers, officers, agents, employees and controlling persons (within the meaning of the Securities Act of 1933, as amended) (each, an "Indemnified Person") against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) brought by any third party (i.e., a person not a party to this Agreement or an Indemnified Party hereunder) arising out of or related to this Agreement, any actions taken or omitted to be taken by an Indemnified Party (including acts or omissions constituting ordinary negligence) in connection with this Agreement and will reimburse each Indemnified Person for all reasonable legal and other expenses as incurred in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that the Company will not be liable in any such case for losses, claims, damages, liabilities or expenses which are finally judicially determined to have resulted primarily from the gross negligence or willful misconduct of any Indemnified Party. In case any proceeding shall be instituted involving any Indemnified Party, such person shall promptly notify the Company, and the Company, upon the request of the Indemnified Party, shall retain counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party and any others the Company may designate in such proceeding and shall pay all reasonable fees and expenses of such counsel related to such proceeding. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel at its own expense, except that the Company shall pay as incurred the fees and expenses of counsel retained by the Indemnified Party only in the event that (i) the Company and the Indemnified Party shall have mutually agreed to the retention of such counsel, or (ii) the named parties to any such proceeding (including any impleaded parties) include both the Company and the Indemnified Party and representation of both parties by the same counsel would be inappropriate, in the reasonable opinion of the Company, due to actual or potential differing interests between them.

2. The Company will not, without the prior written consent of Impala, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of each party for which indemnification is sought hereunder from all liability arising out of such claim, action, suit or proceeding.

3. In the event that the indemnity provided for in paragraph 1 hereof is unavailable or insufficient to hold any Indemnified Party harmless, then the Company shall contribute to amounts paid or payable by an Indemnified Party in respect of such Indemnified Party's losses, claims, damages and liabilities as to which the indemnity provided for in paragraph 1 hereof is unavailable or insufficient, except for acts of gross negligence or willful misconduct, (i) in such proportion as appropriately reflects the relative benefits received by the Company, on the one hand, and Impala, on the other hand, in connection with the matters as to which such losses, claims, damages or

Allegiance Telecom, Inc.

July 11, 2003

Page 8

liabilities relate, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as appropriately reflects not only the relative benefits referred to in clause (i) but also the relative fault of the Company, on the one hand, and Impala, on the other hand, as well as any other equitable considerations. The amounts paid or payable by a party in respect of losses, claims, damages and liabilities referred to above shall be deemed to include any reasonable legal or other fees and expenses incurred in defending any litigation, proceeding or other action or claim.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	
	:	Chapter 11 Case No.
Allegiance Telecom, Inc., <u>et al.</u> ,	:	03-13057 (RDD)
	:	
Debtors.	:	Jointly Administered

**INTERIM ORDER PURSUANT TO SECTIONS 105
AND 363 OF THE BANKRUPTCY CODE APPROVING THE
SERVICES AGREEMENT WITH IMPALA PARTNERS, LLC**

Upon the motion (the “Motion”), dated July 11, 2003 of Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively the “Debtors”) for an order pursuant to sections 105 and 363 of title 11 of the United States Code (the “Bankruptcy Code”) approving the services agreement with Impala Partners, LLC (the “Agreement”), dated July 11, 2003, all as more fully set forth in the Motion; and it appearing that this Court has jurisdiction to consider and determine the Motion as core proceeding pursuant to 28 U.S.C. §§ 157 and 1334; and it appearing that the relief requested in the Motion is in the best interests of the Debtors’ estates, their creditors, and other parties in interest; and it appearing that due and proper notice of this Motion has been given; and after due deliberation and sufficient cause appearing therefor; it is hereby

ORDERED that the Motion is granted on an interim basis; and it is further

ORDERED that the Debtors are authorized to employ Impala Partners, LLC (“Impala”) to provide management services to the Debtors on the terms and conditions set forth in the Agreement on an interim basis, pending a final hearing upon adequate notice; and it is further

ORDERED that, upon the Debtors and Impala agreeing on the terms of the Success Fee,¹ the Debtors shall (a) file and serve a notice on the Master Service List that (i) discloses the material terms of the Success Fee and (ii) provides the date and time of the final hearing on the Motion and procedures and deadlines for objecting to the relief requested by the Motion including the Success Fee and (b) file online the full terms of the Success Fee; and it is further

ORDERED that all compensation and reimbursement due to, and other rights of, Impala in accordance with the Agreement, including, without limitation indemnification obligations, shall be treated as an allowed administrative expense under section 503 of the Bankruptcy Code and shall be paid in accordance with the terms and provisions of the Agreement; and it is further

ORDERED that all compensation and reimbursement of expenses to be paid to Impala Partners, LLC shall be subject to prior approval of this Court in accordance with the requirements of sections 330 and 331 of the Bankruptcy Code and the order of this Court establishing procedures for monthly compensation and reimbursement of expenses for professionals, dated June 13, 2003; and it is further

ORDERED that to the extent accrued since entering into the Agreement and during this interim retention, Impala shall receive only (a) Impala's monthly compensation as specified in the Agreement (i.e., the Monthly Fee Payment) and (b) reimbursement of Impala's expenses; and it is further

¹ Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Motion.

ORDERED that to the extent that there may be any inconsistency between the terms of the Motion, the Agreement or this Order, the terms of this Order shall govern; and it is further

ORDERED that the Court shall retain jurisdiction over any and all disputes arising under or otherwise relating to the construction, performance and enforcement of the terms and conditions of the Agreement.

Dated: New York, New York
July 29, 2003

/s/Robert D. Drain
UNITED STATES BANKRUPTCY JUDGE

NO OBJECTION:

By: /s/Pamela J. Lustrin
Pamela J. Lustrin (PJL-5890)
United States Trustee Office
7/28/03

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re	X	
	:	
	:	Chapter 11 Case No.
ALLEGIANCE TELECOM, INC., et al.,	:	03-13057 (RDD)
	:	
Debtors.	:	Jointly Administered
	X	

**ORDER PURSUANT TO SECTIONS 105 AND 363 OF THE
BANKRUPTCY CODE APPROVING THE SERVICES AGREEMENT
WITH IMPALA PARTNERS, LLC, NUNC PRO TUNC TO JUNE 16, 2003**

Upon the motion (the “Motion”), dated July 11, 2003, of Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the “Debtors”), for an order, pursuant to sections 105 and 363 of the Bankruptcy Code,¹ approving the services agreement (the “Agreement”) with Impala Partners, LLC (“Impala”), as more fully set forth in the Motion; and an order approving the Motion on an interim basis having been entered by the Court on July 29, 2003; and a notice (the “Notice”) of final hearing and the terms of the Success Fee (as defined in the Notice) having been filed on September 11, 2003; and an objection to the Motion and Success Fee having been filed by the Creditors’ Committee on October 3, 2003 (the “Objection”); and a response to the Objection having been filed by the Debtors on October 7, 2003; and a hearing to consider the Motion on a final basis and the Success Fee having been held on October 8, 2003 (the “Hearing”); and it appearing that this Court has jurisdiction to consider and determine the Motion as core proceeding pursuant to 28 U.S.C. §§ 157 and 1334; and it appearing that the relief requested in the Motion is in the best interests of the Debtors’ estates, their creditors, and other parties in interest; and it appearing that

¹ Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion.

due and proper notice of the Motion and the Notice has been given; and after due deliberation and sufficient cause appearing therefore and for the reasons set forth on the record at the Hearing, it is

ORDERED that the Objection is overruled; and it is further

ORDERED that the Motion is granted on a final basis; and it is further

ORDERED that the Debtors are authorized to employ Impala, *nunc pro tunc* to June 16, 2003, to provide management services to the Debtors on the terms and conditions set forth in the Agreement and the Notice and in accordance with the Court's findings at the Hearing; and it is further

ORDERED that the Success Fee is approved; and it is further

ORDERED that all compensation and reimbursement due to, and other rights of, Impala in accordance with the Agreement and the Notice, including, without limitation indemnification obligations, shall be treated as administrative expenses under section 503 of the Bankruptcy Code, and shall be paid in accordance with the terms and provisions of the Agreement and the Notice; provided, however, that all compensation and reimbursement of expenses to be paid to Impala shall be subject to prior approval of this Court in accordance with the requirements of sections 330 and 331 of the Bankruptcy Code and the order of this Court establishing procedures for monthly compensation and reimbursement of expenses for professionals, dated June 13, 2003; and it is further

ORDERED that to the extent that there may be any inconsistency between the terms of the Motion, the Agreement, the Notice or this Order, the terms of this Order shall govern; and it is further

ORDERED that the Court shall retain jurisdiction over any and all disputes arising under or otherwise relating to the construction, performance and enforcement of the terms and conditions of the Agreement.

Dated: New York, New York
October 14, 2003

/s/ ROBERT D. DRAIN
UNITED STATES BANKRUPTCY JUDGE

KIRKLAND & ELLIS LLP
Citigroup Center
153 East 53rd Street
New York, New York 10022-4675
Telephone: (212) 446-4800
Facsimile: (212) 446-4900
Matthew A. Cantor (MC-7727)
Jonathan S. Henes (JH-1979)

Attorneys for Debtors and Debtors in Possession

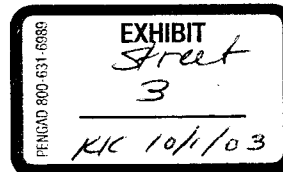
UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	
	:	Chapter 11 Case No.
ALLEGIANCE TELECOM, INC., et al.,	:	03-13057 (RDD)
	:	
Debtors.	:	Jointly Administered

NOTICE OF HEARING ON MOTION OF THE DEBTORS PURSUANT TO SECTIONS 105 AND 363 OF THE BANKRUPTCY CODE FOR APPROVAL OF SERVICES AGREEMENT WITH IMPALA PARTNERS, LLC

TO ALL THE ENTITIES SET FORTH ON THE DEBTORS' MASTER SERVICE LIST ESTABLISHED PURSUANT TO THAT CERTAIN ORDER ESTABLISHING NOTICE PROCEDURES, DATED MAY 15, 2003:

PLEASE TAKE NOTICE that on July 11, 2003, Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors"), filed a motion (the "Motion") seeking entry an order, pursuant to sections 105 and 363 of the Bankruptcy Code, approving the Debtors' employment of Impala Partners LLC ("Impala"), as the Debtors' Chief Restructuring Officer in connection with these chapter 11 cases, and pursuant to the terms and conditions set forth in that certain



services agreement (the "Agreement"), dated as of July 11, 2003, between the Debtors and Impala.

PLEASE TAKE FURTHER NOTICE that on July 29, 2003, the Honorable Richard D. Drain of the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") entered an order (the "Interim Order") approving the Debtors' employment of Impala and the Agreement on an interim basis pending a final hearing on the Motion.

PLEASE TAKE FURTHER NOTICE that the Debtors and Impala, after negotiations, have agreed on the terms of a success fee (the "Success Fee") payable to Impala in accordance with terms and conditions of the Agreement and the Interim Order.

PLEASE TAKE FURTHER NOTICE that, based on the negotiation and agreement between the Debtors and Impala, the Agreement has been amended, as described below.

PLEASE TAKE FURTHER NOTICE that, pursuant to the Interim Order, the following are the material terms of the Success Fee and monthly fees:

- a. Effective August 15, 2003, paragraph 2, of the Agreement was amended such that the Debtors will pay Impala monthly fees in accordance with following schedule:
 - i. August 15, 2003 to September 15, 2003 - \$250,000;
 - ii. September 15, 2003 to October 15, 2003 - \$200,000;
 - iii. October 15, 2003 to November 15, 2003 - \$175,000; and
 - iv. November 15, 2003 through the emergence from bankruptcy or sale of the Company (as defined in the Agreement) - \$175,000;

- b. Beginning on February 1, 2004 and through the sale of all or substantially all of the Debtors' assets or the confirmation of a plan of reorganization in these chapter 11 cases, \$100,000 of the monthly fees, if earned, will be credited against the Success Fee;
- c. The Success Fee shall be equal to \$2,500,000 and will be payable upon the effective date following the confirmation of a plan of reorganization in these chapter 11 cases or the sale of all or substantially all of the Debtors' assets.

PLEASE TAKE FURTHER NOTICE that the final hearing on the Motion is scheduled for October 8, 2003, at 10:00 a.m., prevailing Eastern Time, at the following address: United States Bankruptcy Court, Room 610, United States Customs House, One Bowling Green, New York, New York 10004.

PLEASE TAKE FURTHER NOTICE that objections, if any, to the Motion and/or the Success Fee must be filed and served no later than October 1, 2003 at 4:00 p.m., prevailing Eastern Time, on (i) the Office of the United States Trustee for the Southern District of New York, 33 Whitehall, 21st Floor, New York, New York 10004, Attention: Carolyn S. Schwarz, Esq. and (ii) Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022-4611, Attention: Samuel S. Kohn, Esq., attorneys for the Debtors.

PLEASE TAKE FURTHER NOTICE that any objections to the Motion must be in writing, shall conform to the Federal Rules of Bankruptcy Procedure and the Local Bankruptcy Rules for the Southern District of New York, and shall be filed with the Bankruptcy Court electronically in accordance with the General Order M-242 (General Order M-242 and the User's Manual for the Electronic Case Filing System can be found at www.nysb.uscourts.gov, the official website for the Bankruptcy Court), by registered

users of the Bankruptcy Court's case filing system and, by all other parties in interest, on a 3.5 inch disk, preferably in Portable Document Format (PDF), Wordperfect or any other Windows-based word processing format (with a hard copy delivered directly to Judge Drain's Chambers).

Dated: New York, New York
September 11, 2003

Respectfully submitted,

/s/ Jonathan S. Henes

Matthew A. Cantor (MC-7727)

Jonathan S. Henes (JH-1979)

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Attorneys for Debtors and Debtors in
Possession

August 28, 2003

Dan Yost
President and COO
Allegiance Telecom, Inc.
9201 N. Central Expressway
Dallas, Texas 75231

Dear Dan:

This letter shall modify and amend the engagement letter dated June 20, 2003, which sets out the terms of the retention of Impala Partners, LLC ("Impala") to provide advisory services to Allegiance Telecom, Inc. (the "Company").

Effective August 15, 2003, we amend paragraph 2 of the agreement dated June 20, 2003, such that in consideration for our services you agree to pay according to the following schedule for monthly fees:

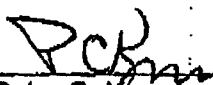
August 15, 2003 to September 15, 2003	\$250,000
September 15, 2003 to October 15, 2003	\$200,000
October 15, 2003 to November 15, 2003	\$175,000
November 15, 2003 through the emergence from bankruptcy or sale of the Company as required by the Company.	\$175,000

Beginning on February 1, 2004, through sale or confirmation of a plan \$100,000 of the monthly fees, if earned, will be credited against the success fee.

The agreement dated June 20, 2003, shall be further amended to reflect a success fee as agreed to in section 2 of the engagement letter. The success fee shall be \$2,500,000.00 payable upon the effective date following confirmation of a plan of reorganization or sale of the Company.

If the foregoing correctly sets forth the understanding between us, please so indicate on the enclosed signed copy of this agreement in the space provided therefor and return it to us, whereupon this agreement shall constitute a binding agreement between us.

Very truly yours,
IMPALA PARTNERS

By: 
Peter C. Keenoy

AGREED TO AND ACCEPTED
as of the date first above written:

By: 

Impala Partners LLC
Summary of Fees and Expenses June 16 to September 30, 2003
Exhibit "G"

Professional Fees Summary

Invoice Date	Period of Services	Professional Fees	Expenses	Fees and Expenses (before Holdback)	Required Amount of Holdbacks	Payment Received	Amount O/s
July 29, 2003	June 16 through July 15, 2003 (Note 1)	\$ 250,000.00	\$ -	\$ 250,000.00	\$ 50,000.00	\$ -	\$ 250,000.00
July 29, 2003	July 16 through August 15, 2003 (Note 1)	250,000.00	37,342.06	287,342.06	50,000.00	537,342.06	-
August 19, 2003	August 16 through September 15, 2003	250,000.00	60,463.42	310,463.42	50,000.00	160,463.42	150,000.00
September 12, 2003	September 16th through October 15, 2003	200,000.00	17,749.17	217,749.17	40,000.00	177,749.17	190,000.00
Sub-total		\$ 950,000.00	\$ 115,554.65	\$ 1,065,554.65	\$ 190,000.00	\$ 875,554.65	
Less: Payments Received (Note 1)							
July 30, 2003				(537,342.06)			
September 23, 2003 (Note 1)				(160,463.42)			
October 1, 2003				(177,749.17)			
Sub-total of Payments Received				(875,554.65)			
Balance Outstanding - Required Holdback				<u>\$ 190,000.00</u>			

Note 1: Holdbacks for the 1st 2 invoices were not initially made, corrected on September 23, 2003 payment

Expense Summary (Note 2)

Invoice Date	Period of Expenses Reporting	Lodging	Meals in Dallas	Meals - Other	Transportation (Airfares)	Ground Transportation (Car Rentals, Transport to Airports)	Misc (Postage and Telephone)	Total Expenses
July 29, 2003		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
July 29, 2003	June 16 through July 28, 2003	3,830.41	1,981.63	413.12	29,237.58	1,813.30	66.02	37,342.06
August 19, 2003	July 29 through September 4, 2003	11,122.36	2,490.38	149.40	42,701.30	3,787.37	212.61	60,463.42
September 12, 2003	September 5 through September 12, 2003	2,844.50	134.77	160.00	13,909.90	700.00	-	17,749.17
Sub-total		\$ 17,797.27	\$ 4,606.78	\$ 722.52	\$ 85,848.78	\$ 6,300.67	\$ 278.63	\$ 115,554.65

Note 2: Represents expenses submitted to date by staff

Expense Summary - Trips / days etc

Staff Member	# of Nights	Meals in Dallas (Expense / # of nights)	# of Trips
Paul Street	22		14 13 Trips to Dallas, 1 to Atlanta
Peter Keenoy	40		12 All Dallas
Murry Stegelmann	4		1 Dallas
Aamir Chinoy	41		13 12 Trips to Dallas, 1 to Atlanta
	<u>107</u>	<u>107</u>	<u>40</u>
Average per night / trip including car rental, Taxi etc	\$ 166.33	\$ 43.05	\$ 2,146.22