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— and —

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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In re : Chapter 11
: :
ALLEGIANCE TELECOM, INC., et al., : Case No. 03-13057 (RDD)
: :
Debtors. : (Jointly Administered)
: :
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REPLY OF LEVEL 3 COMMUNICATIONS, LLC TO LIMITED OBJECTION OF KMC TELECOM XI LLC TO MOTION¹ OF THE DEBTORS FOR AN ORDER PURSUANT TO (A) RULE 9019 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE, APPROVING THE CONFIDENTIAL SETTLEMENT AGREEMENT AND MUTUAL RELEASE, DATED FEBRUARY 27, 2004, AMONG LEVEL 3 COMMUNICATIONS, LLC AND THE DEBTORS; (B) SECTION 363 OF THE BANKRUPTCY CODE AUTHORIZING THE TRANSFER, AS A PART OF SUCH SETTLEMENT, CERTAIN ASSETS FREE AND CLEAR OF LIENS, CLAIMS AND ENCUMBRANCES; AND (C) SECTION 365 OF THE BANKRUPTCY CODE, APPROVING AND AUTHORIZING, AS A PART OF SUCH SETTLEMENT, THE ASSUMPTION AND ASSIGNMENT OF AN EXECUTORY CONTRACT

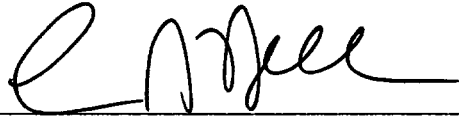
¹ The above-captioned Motion is hereafter referred to as the "Compromise Motion." All initially capitalized terms used in this reply, if not otherwise defined, shall have the meanings ascribed to them in the Compromise Motion.

1. Level 3 reports that KMC's Limited Objection has been resolved after constructive dialogue between Level 3 and KMC - dialogue Level 3 expects and hopes will continue. KMC, as Level 3 understands, intends to withdraw its Limited Objection on conditions to be described to the Court tomorrow.

2. Nevertheless, the Limited Objection requires some Reply even in this context. The pleading contains certain regrettably incendiary and entirely inaccurate allegations pertaining, without limitation, to the Settlement Agreement, the INSPA, and Level 3's financial condition. Level 3 disputes these, as well as other characterizations made by KMC in the Limited Objection. A more comprehensive Reply by Level 3 was prepared, but will not be filed in view of KMC's agreement to withdraw the Limited Objection.

Dated: March 24, 2004

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