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UNITED STATES BANKRUPTCY COURT
 SOUTHERN DISTRICT OF NEW YORK

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 :
 In re: : Chapter 11
 : Case No. 03-13057 (RDD)
 ALLEGIANCE TELECOM, INC., *et al.*, :
 : (Jointly Administered)
 Debtors. :
 :
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**DEBTORS' REPLY TO LIMITED OBJECTION OF KMC TELECOM
 XI LLC TO CONFIRMATION OF THE SECOND AMENDED JOINT
 PLAN OF REORGANIZATION PURSUANT TO CHAPTER 11 OF THE
 BANKRUPTCY CODE IN CONNECTION WITH THE REJECTION
 OF THE INFRASTRUCTURE INTERCONNECTION AGREEMENT
 BETWEEN KMC AND ALLEGIANCE TELECOM COMPANY WORLDWIDE**

Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors"), by their co-bankruptcy counsel, Togut, Segal & Segal LLP, respectfully submit this reply to the limited objection (the "Limited Objection") filed by KMC Telecom XI LLC ("KMC") to confirmation of the Debtors' Second Amended Joint Plan of Reorganization (the "Plan") in connection with the rejection by the Debtors of the Infrastructure Interconnection Agreement (the "Collocation Agreement") between KMC and Allegiance Telecom Company Worldwide. In support of this reply, the Debtors state:

1. The Limited Objection filed by KMC should be seen for what it is: a barely disguised refusal to accept the Court's decision issued on May 28, 2004 ruling that the Debtors are entitled to reject the Collocation Agreement. The Limited Objection

should also be seen for what it is not: a proper objection to confirmation under section 1129 of the Bankruptcy Code.

2. Commencing with the proposed sale of the Debtors' assets to XO Communications, Inc. ("XO") and continuing until now, KMC has objected at every turn to the Debtors' efforts to confirm a plan and emerge from chapter 11. This latest salvo – an objection that is not an objection – continues the pattern of obstructionist behavior and smacks of harassment.¹ KMC is unhappy with the economic reality it faces of having to negotiate new collocation agreements with XO or the owners of other sites when it would prefer to remain in the Debtors' space on current terms – an option it will no longer have once the Debtors reject the Collocation Agreement. So, KMC fabricates a confirmation objection.

3. The thrust of the Limited Objection is that the Debtors are – allegedly – in breach of the Settlement Agreement with Level 3 because they have not assisted KMC "to secure collocation rights in the Space at reasonable, standard rates" and have not "provide[d] any affirmative assistance with XO to KMC" See Limited Objection, ¶¶ 4 and 6.²

4. To support the Limited Objection, KMC submitted the affidavit of Constance Loosemore (the "Loosemore Affidavit"). Ms. Loosemore is the Vice President, Treasurer and Assistant Secretary of KMC. In her affidavit, Ms. Loosemore states: "To the best of my knowledge, information and belief, Allegiance has told KMC that there is little they can do to get XO to budge on its pricing, and has done nothing else to

¹ Based on the frivolousness of the Limited Objection and the continual harassment by KMC, to which the Debtors have been forced to spend considerable time, money and effort to respond, the Debtors reserve their rights to seek sanctions or other appropriate relief from KMC.

² The Debtors understand that KMC has completed its negotiations with XO for new collocation space. Notwithstanding this agreement, KMC has not withdrawn its Limited Objection. As a result, the inappropriateness and offensiveness of the Limited Objection is magnified.

assist KMC in securing collocation rights in the Space at reasonable, standard rates.”

Loosemore Affidavit, ¶ 5 (emphasis added).

5. Ms. Loosemore lied. The Debtors have attempted to assist KMC in securing collocation space from XO. Mr. Tresnowski of the Debtors expended considerable time and effort with several XO employees about providing KMC with collocation space. Because of Mr. Tresnowski’s efforts, XO has offered to provide KMC with collocation space at rates that are standard and reflective of the current market conditions. KMC had, until recently, refused to accept XO’s market terms. At the deposition of Ms. Loosemore taken by the Debtors on June 3, 2004, the following colloquy took place:

Q. Okay. Let’s go back to the discussion we were having about the collocation services that you’re looking for.

A. Uh-huh.

Q. You said you were having discussions with XO. Right?

A. Correct.

Q. Is XO offering you market rates for new space?

A. I don’t believe so, no.

Q. Are they higher than market rate?

A. Yes, they are.

Q. Have you discussed XO’s rates with Allegiance?

A. We have discussed with an employee that I believe is still technically an Allegiance employee, he has not become an XO employee yet.

Q. Who is that?

A. John Nishimoto.

Q. Okay.

A. Like I said, I believe he is still an Allegiance employee. We have discussed with him what XO is charging us, yes, and to some extent I believe that counsel has discussed it with Mark Tresnowski, Allegiance's counsel.

Q. Have you shared your information with anyone at Allegiance, for instance, Mr. Nishimoto for example?

A. I wasn't privy to the conversation, I don't know what exactly was discussed.

Q. Who at KMC was a party to these discussions?

A. Larry Miller.

Q. Anyone else?

A. No. The two of them had a discussion together.

Q. Other than pricing information do you know if KMC gave any details to Mr. Nishimoto about the terms that XO was offering?

A. I do not know.

Q. Do you know if -- interruption. Do you know if KMC requested Allegiance's assistance in negotiating new collocation space?

A. I know that Larry and John spoke and John and Larry accepted it, John Nishimoto and Larry Miller.

Q. When was that?

A. I don't know the specific day of the conversation.

MS. JOHNS: I also believe that counsel has requested some assistance from counsel, Mark Tresnowski.

Q. Your counsel?

A. My counsel.

Q. Has requested assistance from Mr. Tresnowski?

A. Yes.

Q. Okay.

Q. Has Allegiance agreed to help, provide that assistance?

A. I wasn't a party to the phone conversation between Larry Miller and John Nishimoto, but Larry did say to me that John said he would try to do what he could if he could do anything at all.

Q. So then [the] statement in your affidavit that you submitted about Allegiance's failure to intercede with XO is wrong, isn't it?

A. Mr. Nishimoto is going to be an XO employee, so I have to admit I do view him as an XO employee, but that could be incorrect, yes.

See Rough Transcript of Loosemore Deposition at pp. 83-86, attached as Exhibit "1."

This colloquy makes clear that the Debtors willingly assisted KMC in negotiating with XO. Ms. Loosemore's statements in her affidavit, which form the sole basis for the Limited Objection, are false.

6. It takes very little to see through the Limited Objection, couched as it is as an objection to confirmation. Confirmation is governed by section 1129 of the Bankruptcy Code. The so-called "objection" to confirmation slings many allegations,

but not one addresses a confirmation issue under section 1129. It is obvious that the Limited Objection is a pure tool of harassment, and KMC should be required to face the consequences of unreasonably and vexatiously prosecuting unnecessary litigation against the Debtors, which increases the costs to the Debtors' estates at the expense of all of the Debtors' creditors. The Limited Objection must be overruled.

WHEREFORE, the Debtors request an order overruling the Limited Objection, together with such other relief as is appropriate.

Dated: New York, New York
June 6, 2004

ALLEGIANCE TELECOM, INC., *et al.*
By their Bankruptcy Co-Counsel,
TOGUT, SEGAL & SEGAL LLP,
By:

/s/ Albert Togut
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CERTIFICATE OF SERVICE

On June 6, 2004 I served a copy of the *Debtors' Reply to Limited Objection of KMC Telecom XI LLC to Confirmation of the Second Amended Joint Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code in Connection With the Rejection of the Infrastructure Interconnection Agreement Between KMC and Allegiance Telecom Company Worldwide* to be served by e-mail upon:

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