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Financial Advisors to the Debtors

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

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

**SECOND INTERIM APPLICATION OF GREENHILL & CO., LLC
AS FINANCIAL ADVISOR TO THE DEBTORS FOR INTERIM ALLOWANCE
OF COMPENSATION FOR PROFESSIONAL SERVICES RENDERED AND
FOR REIMBURSEMENT OF ACTUAL AND NECESSARY EXPENSES
INCURRED FROM OCTOBER 1, 2003 THROUGH FEBRUARY 29, 2004**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

This second application (the “Application”) of Greenhill & Co., LLC (“Greenhill”) as financial advisor to Allegiance Telecom, Inc. and its direct and indirect subsidiaries, debtors and debtors in possession in these Chapter 11 cases (collectively, the “Debtors”) for allowance of interim compensation for professional services and reimbursement of expenses incurred in connection with such services from the commencement of Greenhill’s representation on October 1, 2003 through February 29, 2004 (the “Application Period”) pursuant to sections 330(a) and 331 of title 11 of the

United States Code (the “Bankruptcy Code”) and Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), respectfully represents:

SUMMARY OF APPLICATION

1. By this application, Greenhill seeks allowance of interim compensation for professional services rendered to the Debtors during the Application Period in the aggregate amount of \$875,000.00 and for reimbursement of expenses incurred and recorded in connection with the rendition of such services in the aggregate amount of \$43,938.30. During the Application Period, Greenhill professionals expended a total of 1,752.5 hours for which compensation is requested.

2. Greenhill does not maintain, in the normal course of providing financial advisory services to its clients, detailed written time records. However, in this case, Greenhill maintained written records of the time expended by Greenhill professionals in the rendition of their professional services to the Debtors. A summary schedule setting forth the number of hours expended by each of the professionals who rendered services to the Debtors, is hereby attached in Exhibit B. A detailed compilation showing the name of the professional, the date on which the services were performed, and the amount of time spent in performing the services during the Application Period is also included in Exhibit B. A summary schedule of the expenses for which Greenhill is seeking reimbursement and the total amount for each such expense category is attached hereto in Exhibit C.

3. In preparing this Application, Greenhill has complied with the Amended Guidelines for Fees and Disbursements for Professionals in the Southern District of New York Bankruptcy Cases adopted by the Court on April 19, 1995 (the

“Local Guidelines”), the United States Trustee Guidelines for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. § 330 adopted on January 30, 1996 (the “UST Guidelines”), and the Court’s Order to Establish Procedures For Interim Compensation and Reimbursement of Chapter 11 Professionals and Committee Members dated June 13, 2003 (the “Administrative Order” and, collectively with the Local Guidelines, and the UST Guidelines, the “Guidelines”). Greenhill believes that all applicable time and disbursement charges for the Compensation Period have been included herein. However, to the extent expenses were incurred in connection with services rendered during the Application Period, but were not presented and processed prior to the preparation of this Application, Greenhill reserves the right to request reimbursement of such expenses in a future application.

JURISDICTION AND VENUE

4. The Court has jurisdiction to consider the Application pursuant to 28 U.S.C. §§ 157 and 1334, and the Standing Order of Referral of Cases to Bankruptcy Court Judges of the District Court for the Southern District of New York, dated July 10, 1984 (Ward, Acting C.J.). Consideration of the Application is a core proceeding pursuant to 28 U.S.C. § 157. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

BACKGROUND

5. On May 14, 2003 (the “Filing Date”), the Debtors herein filed a petition for reorganization under Chapter 11 of the Bankruptcy Code. In addition, on the Filing Date, the Debtors filed their application to retain Greenhill as Financial Advisors and Investment Bankers (the “Retention Application”).

6. On May 15, 2003, the Court entered an order granting the Retention Application (the “Retention Order”) barring any objections filed by July 12, 2003. Two (2) objections (collectively, the “Objections”) to the Retention Application were filed (a) by the statutory creditors’ committee on July 11, 2003 and (b) by General Electric Capital Corporation, as Agent for itself and certain other lenders, on July 12, 2003. A response to the Objections was filed by the Debtors on July 26, 2003, and a hearing was held on August 11, 2003 to approve the Retention Application on a final basis. On September 18, 2003, the Court entered a final order authorizing the employment and retention of Greenhill as financial advisor and investment banker (the “Final Retention Order”). The Court being satisfied that (i) Greenhill does not hold or represent an interest adverse to the Debtors or their estates, (ii) Greenhill is a “disinterested person” as that term is defined under section 101(14) of the Bankruptcy Code, as modified by section 1107(b) of the Bankruptcy Code, and (iii) the employment of Greenhill is necessary and is in the best interest of the Debtors, their creditors and estates, ordered the objections overruled and ordered the employment and retention of Greenhill as financial advisor and investment banker to the Debtors on the terms set forth in the Retention Agreement as modified by the Final Retention Order. As set forth more fully in the Retention Application, Greenhill has extensive experience in representing statutory debtors in Chapter 11 cases, as part of its prominent financial restructurings and bankruptcy expertise.

PRIOR INTERIM ALLOWANCES

7. Greenhill has received no payment or promise of payment for services rendered in this case other than pursuant to the Retention Agreement.

8. Due to the lag in receiving invoices from third-party service firms, Greenhill is unable, at this time, to account for all expenses incurred during the Application Period. Ensuing applications for compensation will include certain out-of-pocket expenses incurred in the Application Period.

9. Out-of-pocket expenses incurred by Greenhill are charged to a client if expenses are incurred for the client or are otherwise necessary in connection with services rendered for such particular client. Greenhill limits its incurred expenses to the actual amounts billed by third parties and does not factor general overhead expenses into disbursements charged to clients in connection with Chapter 11 cases.

PROFESSIONAL SERVICES
RENDERED DURING THE APPLICATION PERIOD

10. Greenhill has been selected by the Debtors because of its extensive knowledge and reputation in this field, because of its familiarity with the issues involved in this case and because the Debtors believe that Greenhill possesses the requisite resources and is well qualified to represent the Debtors in these cases.

11. The services that Greenhill has been required to perform and has performed have been substantial and necessary in this Chapter 11 case. Greenhill has attempted to perform such services with the minimum amount of duplication of effort with the Debtors' other advisors.

12. Throughout the duration of Greenhill's retention by the Debtor, Greenhill has staffed the engagement consistent with the Debtor's objectives and in a manner that provided for thorough and efficient representation of the interests of the Debtors.

13. During the time period covered by this Application, Greenhill has worked extensively with the Debtors, the Official Committee of Unsecured Creditors (the “Creditors’ Committee”), the professionals retained by the Creditors’ Committee and the Debtors, and other parties in interest in these Chapter 11 cases. This work has covered a broad variety of financial and operational issues and other matters relevant to this Case and the efforts to analyze and implement a reorganization of the Debtors. The following summary of services rendered during the Application Period is not intended to be a detailed description of the work performed, as those day-to-day services and the time expended in performing such services are fully set forth in Exhibit B. Rather, it is merely an attempt to highlight certain of those areas in which services were rendered to the Debtors, as well as to identify some of the problems and issues that Greenhill was required to address.

14. In summary, Greenhill has provided financial advisory services to the Debtors in the following, among other, categories:

a. Financial Due Diligence

Prior to the commencement of the Debtors’ case, Greenhill undertook an extensive financial due diligence process to understand and assess the operational and financial position of the Debtors. This process included an in-depth review and analysis of significant amounts of historical and projected financial information, Debtors’ communication with their bank group, SEC filings, Company operating reports, business plans, and bankruptcy court filings. Projects since the commencement of the Debtors’ case have included

an ongoing review of the Debtors' performance vs. plan and analysis of the Debtors' revised projections and new business plan.

b. Financial Data Analysis

Greenhill reviewed and analyzed the impact of changing market conditions, industry conditions and macroeconomic conditions on the Debtors' original business plan and revised forecasts. Additionally, Greenhill analyzed the Debtors' interim operating reports and discussed with the Debtors the factors that led to variance from the business plan. As necessary, Greenhill also analyzed the impact of various strategic alternatives on the Debtors' financial state and analyzed transactions involving the Debtors' competitors for their impact on the Debtors' affairs.

c. Marketing and Sale Process

Greenhill managed a marketing process to solicit the interest of potential buyers for the Debtors that culminated in an auction to sell substantially all of the assets of the Debtors.

d. Plan of Reorganization and Disclosure Statement

In aiding the Debtors' legal advisors in the preparation of the Plan of Reorganization and Disclosure Statement, Greenhill conducted valuations for certain assets of the Debtors as well as performed various analyses.

e. Meetings of Creditors and Meetings of the Debtors' Board of Directors

Greenhill has prepared materials for and attended numerous meetings of the Creditors' Committee and the Debtors' Board of Directors to discuss the Debtors' case and its progress.

FEE APPLICATION PREPARATION

15. During the Application Period, Greenhill compiled time and expense descriptions of the services it provided and performed other tasks in order to comply with the Administrative Order. Greenhill made every effort to minimize the amount of time and fees incurred for these activities. The amount of the fees and expenses sought in this Application are consistent with market practices both in and out of a bankruptcy context. Greenhill has never billed its clients based on the number of hours expended by its professionals. Accordingly, Greenhill does not have hourly rates for its professionals and Greenhill professionals generally do not maintain detailed time records of the work performed for its clients. In the Debtors' case, however, Greenhill has maintained contemporaneous time records in compliance with the Guidelines.

DISBURSEMENTS

16. Greenhill has disbursed \$43,938.30 as expenses incurred and recorded in providing professional services during the Application Period. These charges are intended to cover Greenhill's direct costs, which costs are not incorporated into the Greenhill monthly fees. Greenhill is seeking reimbursement for expenses incurred exclusively on behalf of the Debtors and in connection with the Debtors' cases.

17. Due to the nature of the Debtors' businesses, the location of their various offices and facilities, as well as the location of members of the Debtors and their professionals, frequent long distance telephone calls have been required. On several occasions, overnight delivery of documents and other materials was required as a result of urgent needs necessitating the use of such express services.

18. The time constraints imposed by the circumstances of these cases have required Greenhill's professionals to devote time during the evening and on weekends to the performance of financial services on behalf of the Debtors. These extraordinary services were only performed when essential in order to meet deadlines, react timely to the changing financial condition of the Debtors, and satisfy the demands of the Debtors in providing high-quality financial services. Greenhill does not charge for any overtime expense, but, in accordance with the provisions of the Guidelines, Greenhill seeks reimbursement for expenses related to working meals and transportation consistent with the provisions of the Guidelines.

19. Greenhill respectfully submits that the actual expenses incurred in providing professional services for which reimbursement is sought in this Application were necessary, reasonable, and justified under the circumstances to serve the needs of the Debtors in fulfilling their statutory obligations.

20. Attached hereto in Exhibit C is a summary of reasonable out-of-pocket expenses incurred by Greenhill during the Application Period in the aggregate of \$43,938.30.

THE REQUESTED COMPENSATION SHOULD BE ALLOWED

21. Section 331 of the Bankruptcy Code provides for interim compensation of professionals and incorporates the substantive standards of Section 330 to govern a court's award of such compensation. 11 U.S.C. § 331. Section 330 provides that a court may award a professional employed by the Debtors under section 1003 of the Bankruptcy Code "reasonable compensation for actual services rendered...and reimbursement for actual, necessary expenses." 11 U.S.C. § 330(a)(1).

22. Section 330 also sets forth the criteria for the award of such compensation and reimbursement. In determining the amount of reasonable compensation to be awarded, the court should consider the nature, extent, and the value of such services, taking into account all the relevant factors, including:

- (a) The time spent on such services;
- (b) The fees charged for such services;
- (c) Whether the services were necessary to the administration of or beneficial at the time at which the service was rendered toward the completion of a case under this title;
- (d) Whether the services were performed within a reasonable amount of time commensurate with the complexity, importance and nature of the problem, issue, or task addressed; and
- (e) Whether the compensation is reasonable based on the customary compensation charged by comparably skilled practitioners in cases other than cases under this title.

11 U.S.C. § 330(a)(3).

23. As set forth in greater detail above, Greenhill respectfully submits that it has satisfied the requirements of section 330 of the Bankruptcy Code. The services for which it seeks compensation in this Application were necessary for and beneficial to the Debtors. Greenhill's request for compensation reflects a reasonable and appropriate amount of time expended in performing such services commensurate with the complexity, importance and nature of the problem, issue or task involved. Greenhill's professionals performed these services without unnecessary duplication of effort. The compensation sought by Greenhill is reasonable based on the customary compensation charged by comparably skilled practitioners in cases other than cases under the Bankruptcy Code. For all of the foregoing reasons, Greenhill respectfully requests the

Court's approval for compensation in the amount of \$875,000.00 for services rendered by Greenhill and \$43,938.30 for incurred expenses during the Application Period. The amount for services rendered reflects \$175,000.00 for the period of October 1, 2003 through October 31, 2003, \$175,000.00 for the period of November 1, 2003 through November 30, 2003, \$175,000.00 for the period of December 1, 2003 through December 31, 2003, \$175,000.00 for the period of January 1, 2004 through January 31, 2004, and \$175,000.00 for the period of February 1, 2004 through February 29, 2004. The amount for incurred expenses reflects \$43,938.30 for the period of October 1, 2003 through February 29, 2004.

STATEMENTS OF GREENHILL

24. No agreement or understanding prohibited by Section 504 of the Bankruptcy Code exists between Greenhill and any other person for a sharing of compensation received or to be received for services rendered in or in connection with these Chapter 11 cases, nor shall Greenhill share or agree to share the compensation paid or allowed from the Debtors' estate for such services with any other person in contravention of section 504 of the Bankruptcy Code. Greenhill has made no agreement or understanding prohibited by 18 U.S.C. § 155.

25. Pursuant to Bankruptcy Rule 2016, Greenhill states that no payments have heretofore been made or promised to Greenhill for services rendered or to be rendered in any capacity in connection with these Chapter 11 cases.

26. Copies of this Application have been provided to: (a) the United States Trustee for the Southern District of New York; (b) attorneys for the statutory committee

of unsecured creditors appointed on May 28, 2003; and (c) attorneys for the Debtors' prepetition secured lenders.

WAIVER OF MEMORANDUM OF LAW

27. Pursuant to Local Bankruptcy Rule for the Southern District of New York 9013-1(b), because there are no novel issues of law presented by this Application, Greenhill respectfully requests that the Court waive the requirement that Greenhill file a memorandum of law in support of this application.

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| Professional Fees Requested | \$875,000.00 |
| Reimbursement of Expenses | \$43,938.30 |

Dated: New York, NY
April 7, 2004

GREENHILL & CO., LLC

By: /s/ Michael A. Kramer
Michael A. Kramer
Managing Director
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New York, NY 10022

Financial Advisor to the Debtors