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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**APPLICATION OF THE DEBTORS FOR ENTRY OF
AN ORDER AUTHORIZING THE RETENTION AND
EMPLOYMENT OF KPMG LLP AS ACCOUNTANTS,
AUDITORS, TAX ADVISORS AND BANKRUPTCY COMPLIANCE
ADVISORS FOR THE DEBTORS NUNC PRO TUNC TO JULY 22, 2003**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

Allegiance Telecom, Inc. (“Allegiance”) and its direct and indirect subsidiaries,
as debtors and debtors in possession (collectively, the “Debtors”), respectfully represent:

Introduction

1. On May 14, 2003 (the “Commencement Date”), the Debtors each commenced with this Court a voluntary case under chapter 11 of title 11, United States Code (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. Simultaneously with the filing of their petitions and this Application, the Debtors

requested an order for the joint administration of their chapter 11 cases pursuant to rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

Jurisdiction

2. This Court has subject matter jurisdiction to consider and determine this Application pursuant to 28 U.S.C. § 1334. This is a core proceeding within the meaning of 28 U.S.C. § 157(b). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

Background

3. Allegiance is a facilities-based national local exchange carrier that provides integrated telecommunications products and services to small and medium-sized business customers, large businesses (*i.e.*, national customers with multiple locations), governmental entities, wholesale customers and other institutional users. Allegiance offers its customers a variety of services, including:

- local and long distance voice services, including basic telephone services and advanced calling features;
- broadband and other Internet and data services, including high-speed Internet access, wide area network interconnection, domain name registration, web hosting, email and colocation services;
- integrated local long distance/Internet access offerings, which provide customers with integrated voice and Internet access over a single broadband line;
- wholesale services to other regional and national service providers, including equipment colocation, managed modem ports and Internet protocol traffic aggregation; and
- customer premise equipment sales and maintenance services.

4. As of the Commencement Date, Allegiance served more than 100,000 business customers in major markets throughout the United States. As of the Commencement

Date, Allegiance employed approximately 3,560 people, of which approximately 97 employees were covered by collective bargaining agreements.

5. As of the Commencement Date, the Debtors had approximately \$245 million of cash. As of March 31, 2003, the Debtors' consolidated books and records reflected assets totaling approximately \$1.349 billion and liabilities totaling approximately \$1.424 billion. For the three months ending March 31, 2003, the Debtors, on a consolidated basis, reported revenues of approximately \$204.58 million and net losses of approximately \$120.084 million.

Relief Requested

6. By this Application, the Debtors seek to employ and retain KPMG LLP ("KPMG"), pursuant to sections 327(a) and 328(a) of the Bankruptcy Code, as their accountants, auditors, tax advisors and bankruptcy compliance advisors in connection with these chapter 11 cases, nunc pro tunc to July 22, 2003. The facts and circumstances supporting this Application are set forth in the Affidavit of Jerry Borowick, a partner of KPMG, dated August 5, 2003 (the "Borowick Affidavit"), filed concurrently herewith. A copy of the Borowick Affidavit is annexed hereto as Exhibit "A." The terms and conditions of KPMG's retention by the Debtors are set forth in that certain retention agreement, dated July 22, 2003 (the "Retention Agreement"). A copy of the Retention Agreement is annexed hereto as Exhibit "B."

7. As set forth below, the services of KPMG are necessary to enable the Debtors to maximize the value of their estates and to reorganize successfully.

A. KPMG's Qualifications

8. KPMG is a firm of independent public accountants as defined under the Code of Professional Conduct of the American Institute of Certified Public Accountants. KPMG is the United States member firm of KPMG International, a Swiss association.

9. The Debtors have selected KPMG as their accountants, auditors, tax advisors and bankruptcy compliance advisors because of the firm's diverse experience and extensive knowledge in the fields of accounting, taxation and bankruptcy. The Debtors are familiar with the professional standing and reputation of KPMG. The Debtors understand that KPMG has a wealth of experience in providing accounting, tax and financial advisory services in restructurings and reorganizations and enjoys an excellent reputation for services it has rendered in large and complex chapter 11 cases on behalf of debtors and creditors throughout the United States.

10. The Debtors have employed KPMG as accountants and auditors since 2002. By virtue of this prior engagement, KPMG is familiar with the books, records, financial information and other data maintained by the Debtors and is qualified to continue to provide accounting, auditing and tax advisory services to the Debtors. As such, retaining KPMG is an efficient and cost effective manner in which the Debtors may obtain the required services.

11. In addition, the Debtors need assistance in collecting, analyzing and presenting accounting, financial and other information in relation to these chapter 11 cases. KPMG has considerable experience rendering such services to debtors and other parties in interest in numerous chapter 11 cases. As such, KPMG is qualified to perform the work required in these chapter 11 cases.

12. The services of KPMG are deemed necessary to enable the Debtors to maximize the value of their estates and to reorganize successfully. Further, KPMG is well qualified and able to represent the Debtors in a cost-effective, efficient and timely manner.

B. The Retention Agreement

13. KPMG will provide such accounting, auditing, tax advisory services and bankruptcy compliance services as KPMG and the Debtors deem appropriate and feasible in order to advise the Debtors during these chapter 11 cases, including the following:¹

a. Accounting and Auditing Services

- (i) Audit and review examinations of the financial statements of the Debtor as may be required from time to time;
- (ii) Analysis of accounting issues and advice to the Debtor's management regarding the proper accounting treatment of events;
- (iii) Assistance in the preparation and filing of the Debtor's financial statements and disclosure documents required by the Securities and Exchange Commission;
- (iv) Assistance in the preparation and filing of the Debtor's registration statements required by the Securities and Exchange Commission in relation to debt and equity offerings; and
- (v) Performance of other accounting services for the Debtor as may be necessary or desirable.

b. Tax Advisory Services

- (i) Review of and assistance in the preparation and filing of any tax returns;
- (ii) Advice and assistance to the Debtors regarding tax planning issues, including, but not limited to, assistance in estimating net operating loss carryforwards, international taxes, and state and local taxes;
- (iii) Assistance regarding transaction taxes, state and local sales and use taxes;
- (iv) Assistance regarding tax matters related to the Debtors' pension plans;

¹ To the extent there are any inconsistencies between the summary description of the Retention Agreement contained herein and the terms and conditions of the Retention Agreement, the terms of the Retention Agreement shall control.

- (v) Assistance regarding real and personal property tax matters, including, but not limited to, review of real and personal property tax records, negotiation of values with appraisal authorities, preparation and presentation of appeals to local taxing jurisdictions and assistance in litigation of property tax appeals;
- (vi) Advice and assistance on the tax consequences of proposed plans of reorganization, including, but not limited to, assistance in the preparation of Internal Revenue Service (“IRS”) ruling requests regarding the future tax consequences of alternative reorganization structures;
- (vii) Assistance regarding any existing or future IRS, state and/or local tax examinations; and
- (viii) Other consulting, advice, research, planning or analysis regarding tax issues as may be requested from time to time.

c. Bankruptcy Compliance Services

- (i) Analysis and consultation regarding financial information or filings as required by the Bankruptcy Court and the Office of the United States Trustee for the Southern District of New York (the “U.S. Trustee”);
- (ii) Analysis and consultation regarding financial information for distribution to creditors and other parties-in-interest;
- (iii) Assistance with analysis, tracking and reporting regarding cash collateral and any debtor-in-possession financing arrangements and budgets;
- (iv) Assistance with implementation of bankruptcy accounting procedures as required by the Bankruptcy Code and generally accepted accounting principles, including, but not limited to, Statement of Position 90-7;
- (v) Assistance with identifying potential cost containment opportunities;
- (vi) Assistance with identifying asset redeployment opportunities;
- (vii) Analysis of assumption and rejection issues regarding executory contracts and leases;
- (viii) Reviewing and commenting on business plans, financial projections and business assumptions of the Debtors;

- (ix) Assistance in evaluating reorganization strategy and alternatives available to the Debtors;
- (x) Assistance in the preparation of hypothetical liquidation analysis under chapter 7 of the Bankruptcy Code;
- (xi) Assistance in preparing documents necessary for confirmation;
- (xii) Attendance, if necessary at meetings with bank lenders, creditors and the statutory committee of unsecured creditors;
- (xiii) Assistance with claims resolution procedures, including, but not limited to, analyses of creditors' claims by type and entity; and
- (xiv) Other such functions as requested by the Debtors or their counsel to assist the Debtors in its business and reorganization.

B. Fee Structure

14. Pursuant to the terms of the Retention Agreement, the Debtors have agreed to pay the following hourly fees to KPMG in exchange for KPMG's essential services in these chapter 11 cases:

Auditing and Accounting Services:

Partners	\$450-\$650
Directors/Senior Managers/Managers	\$325-\$500
Senior/Staff Accountants	\$175-\$360
Paraprofessionals	\$120

Tax Services:

Partners/Principals Managing Directors	\$500 - \$750
Directors/Senior Managers/Managers	\$375 - \$675
Senior/Staff Consultants	\$175 - \$390
Paraprofessionals	\$120

Bankruptcy Compliance Services

Partners	\$540 - \$600
Directors/Senior Managers/Managers	\$360 - \$510
Senior/Staff Consultants	\$180 - \$330
Paraprofessionals	\$120

15. In the normal course of business, KPMG revises its hourly rates on October 1st of each year. KPMG requests that the rates listed above will be revised to the hourly rates that will be in effect at such time.

16. KPMG will also seek reimbursement for necessary expenses incurred, which shall include travel, photocopying, delivery service, postage, vendor charges and other out-of-pocket expenses incurred in providing professional services. In addition, KPMG requests an advance payment retainer of \$350,000 from the Debtors, which will be held by KPMG and applied against postpetition fees and expenses, to the extent allowed by the Court.

17. During the 90-day period prior to the Commencement Date, the Debtors paid KPMG \$495,500 for services rendered relating to accounting, auditing and tax advisory services. KPMG is not a prepetition creditor of the Debtors' estate.

18. As stated in the Retention Agreement, KPMG has acknowledged that the Court must approve its fees in order to be compensated. In that regard, KPMG intends to file applications with the Court for allowance of compensation and reimbursement of expenses in accordance with 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.

C. KPMG's Disinterestedness

19. To the best of the Debtors' knowledge, and except as disclosed in the Borowick Affidavit, neither KPMG nor any of KPMG's principals and professionals have any connection with the Debtors, their creditors or any other parties in interest, or their respective attorneys and accountants, nor with the U.S. Trustee or any person employed in the office of the U.S. Trustee.

20. To the best of KPMG's knowledge and except as disclosed in the Borowick Affidavit, the principals and professionals of KPMG (a) do not hold or represent an interest adverse to the Debtors' estates and (b) are "disinterested persons" as that term is defined in section 101(14) of the Bankruptcy Code, as modified by section 1107(b) of the Bankruptcy Code.

21. KPMG does not hold a prepetition claim against the Debtors for services rendered.

22. As set forth in the Borowick Affidavit, KPMG has not shared or agreed to share any of its compensation from the Debtors with any other person, other than a principal, partner or associate of KPMG, as permitted by section 504(b) of the Bankruptcy Code.

23. The Debtors seek approval of this Application on an interim basis in order to provide parties an opportunity to object to the relief requested herein. If the Court approves this Application, and no objections are timely filed, the Debtors request that this Application be deemed granted on a final basis without further notice or hearing.

Waiver of Memorandum of Law

24. Because there are no novel issues of law presented herein, the Debtors respectfully request that the Court waive the requirement that the Debtors file a memorandum of law in support of this Application pursuant to Local Bankruptcy Rules 9013-(b).

Notice

25. Notice of this Motion has been provided to (i) the U.S. Trustee, (ii) attorneys for the Prepetition Lenders, (iii) attorneys for the Creditors' Committee, and (iv) all parties on the Master Service List maintained in these chapter 11 cases. In light of the nature of the relief requested, the Debtors submit that no further notice is required.

No Prior Request

26. No prior Application for the relief requested herein has been made to this or any other Court.

WHEREFORE, the Debtors respectfully request that the Court enter an Order, substantially in the form annexed hereto, (i) authorizing the employment and retention of KPMG as accountants, auditors, tax advisors and bankruptcy compliance advisors, nunc pro tunc to July 22, 2003, and (ii) granting the Debtors such further relief as is just and proper.

Dated: New York, New York
August 6, 2003

Respectfully submitted,

/s/ Jonathan S. Henes
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