

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

**FINAL 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 JUNE 30, 2003**

Upon the application (the “Application”), dated August 6, 2003, of Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the “Debtors”), seeking entry of an order, pursuant to sections 327(a) and 328(a) of title 11 of the United States Code (the “Bankruptcy Code”), authorizing the Debtors to employ and retain KPMG LLP (“KPMG”) as their accountants, auditors, tax advisors, and bankruptcy compliance advisors, all as more fully set forth in the Application; and upon consideration of the affidavit of Jerry Borowick, a partner of KPMG, sworn to on August 5, 2003; and upon consideration of the revised affidavit of Jerry Borowick sworn to on October 30, 2003 (the “Revised Borowick Affidavit”), which was filed with the Court on October 31, 2003; and a hearing to consider the Application on an interim basis having been held on August 19, 2003 (the “Interim Hearing”); and an order approving the Application on an interim basis having been entered by the Court on October 19, 2003; and a hearing to consider the Application on a final basis having been held on November 7, 2003 (the “Final Hearing,” and together with Interim Hearing, the “Hearings”); and the Court having jurisdiction to consider and determine the Application as a core proceeding pursuant to 28 U.S.C. §§ 157 and 1334; and the Court being

satisfied based on the representations made in the Application and the Revised Borowick Affidavit that KPMG does not hold or represent any interest adverse to the Debtors or their estates and is disinterested, as that term is defined in section 101(14) the Bankruptcy Code, as modified by section 1107(b) of the Bankruptcy Code; and for the reasons stated upon the record of the Hearings, it appearing that the employment of KPMG is necessary and in the best interests of the Debtors, their creditors, and all parties in interest; and it appearing that due and proper notice of the Application has been given; and after due deliberation and cause appearing therefore; it is hereby

ORDERED that the Application is granted ; and it is further

ORDERED that, pursuant to section 327(a) and 328(a) of the Bankruptcy Code, the Debtors are authorized to employ and retain KPMG as their accountants, auditors, tax advisors and bankruptcy compliance advisors on the terms set forth in the Application, the Retention Agreement,¹ as amended, and the Revised Borowick Affidavit, effective as of June 30, 2003; and it is further

ORDERED that KPMG shall apply for compensation and reimbursement in accordance with the procedures set forth in sections 330 and 331 of the Bankruptcy Code, applicable Federal Rules of Bankruptcy Procedure, Local Bankruptcy Rules for the Southern District of New York, guidelines established by the office of the United States Trustee, and the Order of this Court establishing procedures for monthly compensation and reimbursement of expenses for professionals, dated June 13, 2003, and such other procedures as may be fixed by this Court; and it is further

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

ORDERED that the law firm of Togut Segal & Segal LLP (“TS&S”) is hereby authorized to investigate all payments made by the Debtors prior to the commencement of these chapter 11 cases made to KPMG, to determine whether any such payments may be avoidable as preferences pursuant to section 547 of the Bankruptcy Code; and it is further

ORDERED that in connection with TS&S’s investigation of the Debtors’ prepetition payments to KPMG, TS&S shall provide all relevant information with respect thereto and otherwise consult with the Committee in connection therewith; and it is further

ORDERED that KPMG shall waive its right to litigate the determination made by TS&S regarding the avoidability of the prepetition payment made by the Debtors to KPMG; and it is further

ORDERED that any determination made by TS&S regarding the avoidability or non-avoidability of payments made by the Debtors to KPMG prior to the commencement of these chapter 11 cases shall be subject to the approval of this Court upon a motion brought by the Debtors in accordance with rule 9019 of the Federal Rules of Bankruptcy Procedure; and it is further

ORDERED that this Court shall retain jurisdiction to hear and determine all matters arising from the implementation of this Order.

Dated: New York, New York
November 7, 2003

/s/Robert D. Drain
UNITED STATES BANKRUPTCY JUDGE