

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

Chapter 11

**ALLEGIANCE TELECOM, INC., et al.
Debtors.**

Case No. 03-13057 (RDD)

**FIRST INTERIM APPLICATION OF KPMG LLP AS ACCOUNTANTS, AUDITORS,
TAX ADVISORS AND BANKRUPTCY COMPLIANCE ADVISORS TO THE DEBTORS
FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES
FOR THE PERIOD FROM JUNE 30, 2003 THROUGH SEPTEMBER 30, 2003**

Name of Applicant: KPMG LLP

Authorized to Provide Professional Services to: Debtor

Date of Retention: nunc pro tunc June 30, 2003

Amount of Compensation sought as actual,
reasonable and necessary: \$209,583

Amount of Expense Reimbursement sought as
actual, reasonable and necessary: \$136

This is a monthly statement of fees and expenses.

If this is not the first monthly statement filed, disclose the following for each prior statement:

Date Submitted	Period Covered	Requested		Paid	
		Fees	Expenses	Fees	Expenses

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re)	
)	Chapter 11
ALLEGIANCE TELECOM, INC., <u>et al.</u>,)	
)	Case No. 03 – 13057 (RDD)
Debtors.)	
)	Jointly Administered

FIRST INTERIM APPLICATION OF KPMG LLP
AS ACCOUNTANTS, AUDITORS, TAX ADVISORS AND
BANKRUPTCY COMPLIANCE ADVISORS TO THE DEBTORS FOR ALLOWANCE
OF COMPENSATION AND REIMBURSEMENT OF EXPENSES
FOR THE PERIOD FROM JUNE 30, 2003 THROUGH SEPTEMBER 30, 2003.

1. KPMG LLP (“KPMG”) respectfully files this First Interim Application for Compensation and Reimbursement of Expenses (the “Fee Application”) of KPMG LLP as Accountants, Auditors, Tax Advisors and Bankruptcy Compliance Advisors to Allegiance Telecom, Inc., as debtors and debtors in possession (collectively, the “Debtors”), for the period from June 30, 2003 through September 30, 2003 (the “First Interim Period”). This Fee Application is filed pursuant to §§330 and 331 of Title 11 of the United States Code (the “Bankruptcy Code”) and Rule 2016(a) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”). In support of the Application, KPMG states:

INTRODUCTION

2. This Fee Application is made for interim allowance of compensation for services rendered as accountants, auditors, tax advisors and bankruptcy compliance advisors to the Debtors during the First Interim Period in the total amount of \$209,583 for 563.7 hours of services rendered by professionals. A fee application summary sheet as required by the Executive Office of the U.S. Trustee's Guidelines (the "Guidelines") dated March 22, 1995, as amended January 30, 1996, is attached hereto as Exhibit A.

3. 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 continue to manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. The Debtors' chapter 11 cases have been consolidated for procedural purposes only and are being jointly administered pursuant to Federal Rule of Bankruptcy Procedure 1015(b). KPMG has been employed by the Debtors as accountants, auditors, tax advisors and bankruptcy compliance advisors pursuant to an order of this Court dated November 7, 2003.

4. 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 collocation 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 collocation, managed modem ports and Internet protocol traffic aggregation; and

- Customer premise equipment sales and maintenance services.

5. 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.

6. 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.

7. KPMG is a firm of accountants, auditors, tax advisors and bankruptcy compliance advisors with diverse experience and extensive knowledge in the fields of accounting, taxation and bankruptcy. The Debtors require assistance in collecting, analyzing and presenting accounting, financial and other information in relation to the restructuring and Chapter 11 proceedings. KPMG has considerable experience with rendering such services to debtors and other parties in numerous Chapter 11 cases. As such, KPMG is qualified to perform the accounting, auditing, tax advisory and bankruptcy compliance advisory work required in this matter. As such, KPMG is qualified to continue to serve and provide accounting, auditing, tax advisory and bankruptcy compliance advisory services to the Debtors.

FEES AND EXPENSES INCURRED DURING THE PERIOD

FROM JUNE 30, 2003 THROUGH SEPTEMBER 30, 2003

8. Pursuant to the administrative order issued in this matter establishing the procedures for interim compensation and reimbursement of expenses of professionals (the "Administrative Order") all professionals retained in these cases are authorized to seek, on a monthly basis, interim compensation for professional services rendered and reimbursement of expenses incurred. In the absence of any objection

to the monthly statement of fees and expenses incurred, the Debtors can pay 80% of the professional fees requested and 100% of the expenses incurred. Attached as Exhibit A is a list of the KPMG professionals who worked on the case during the First Interim Period, along with the number of hours, the rate and the resultant fees incurred by each professional. Attached as Exhibit B is a summary of hours and fees incurred for each category of work performed by KPMG. Attached as Exhibit C is a summary of actual out-of-pocket expenses incurred during the First Interim Period for each category of expenses. Attached as Exhibits D1 through D4 are detailed time records for the KPMG professionals who worked on this case, segregated by category. Attached as Exhibit E is a detailed record of actual out-of-pocket expenses incurred during the First Interim Period, segregated by category of expense.

9. The fees and expenses sought by KPMG, except to the extent prohibited by the Guidelines, are billed at rates in accordance with or less than practices customarily employed by KPMG and generally accepted by KPMG's clients and consistent with the hourly rates as set forth in the order to employ KPMG LLP. It is our customary practice to bill for our services at our hourly rates extended by the hours of service provided. KPMG has previously submitted two monthly statements. The First monthly statement covered the period from June 30, 2003 through August 31, 2003 and requested fees of \$142,045 and expenses of \$136. The Second monthly statement covered the period from September 1, 2003 through September 30, 2003 and requested fees of \$67,538 and expenses of \$0. KPMG has been paid authorized fees and expenses totaling \$113,772 with respect to those statements. KPMG holds no retainer for services to be rendered during these Cases.

SUMMARY OF SERVICES PROVIDED

10. All professional services for which an allowance is requested were performed by KPMG for and on behalf of the Debtors or their counsel and not on behalf of any other entity or party-in-interest. Set forth below are summary descriptions of certain of the professional services rendered by KPMG during the First Interim Period. The full scope of and breadth of KPMG's services are reflected in the detailed time records attached to the monthly statements previously submitted.

- Performance of quarterly reviews of financial statements;
- Performance of year-end audit procedures;
- Consultation, research and analysis concerning bankruptcy, accounting and reorganization tax issues;
and
- Preparation of monthly fee statements and interim fee applications.

11. In compliance with the Administrative Order and other guidelines governing the payment of professionals in these Cases, KPMG prepared detailed monthly statements of services and fee summaries, and provided these monthly statements to Debtors' management, the US Trustee, Debtors' Counsel, Counsel for the pre-petition and post-petition lenders and counsel for the Official Committee of Unsecured Creditors. Total fees incurred and included in this First Interim Application relating to the preparation of monthly invoices and fee applications for KPMG's professional fees were \$2,300.

OTHER REPORTING REQUIREMENTS

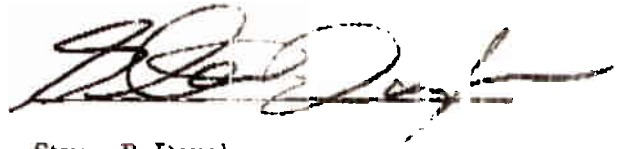
12. There is no agreement or understanding between KPMG and any other person, other than the partners of the firm, for the sharing of compensation received or to be received for services rendered in connection with these proceedings.

13. Wherefore KPMG respectfully requests a First interim award of fees and expenses as shown below:

<u>For the Period June 30, 2003 to September 30, 2003</u>	<u>Amount</u>
Professional Fees	\$209,583
Out-of-Pocket Expenses	\$136
Total Fees and Expenses	\$209,719

Dated: November 26, 2003

Respectfully submitted

A handwritten signature in black ink, appearing to read "S. Douglas", written over a horizontal line.

**Steven R. Douglas
KPMG LLP**