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UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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

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**NOTICE OF HEARING ON APPLICATION OF THE  
DEBTORS FOR ENTRY OF AN ORDER AUTHORIZING  
THE EMPLOYMENT AND RETENTION OF GREENHILL &  
CO., LLC AS FINANCIAL ADVISOR AND INVESTMENT BANKER**

TO ALL KNOWN CREDITORS OF THE DEBTORS AND THE UNITED  
STATES TRUSTEE FOR THE SOUTHERN DISTRICT OF NEW YORK

PLEASE TAKE NOTICE that Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the “Debtors”), seek entry of an order approving their application, filed on May 14, 2003 (the “Application”), to employ and retain Greenhill & Co., LLC (“Greenhill”), pursuant to sections 327(a) and 328(a) of the Bankruptcy Code, as their financial advisor and investment banker in connection with these chapter 11 cases, and pursuant to the terms

and conditions set forth in that certain retention agreement, dated October 20, 2002, as amended on May 8, 2003 (the "Retention Agreement").

PLEASE TAKE FURTHER NOTICE that the Honorable Richard D. Drain of the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") has entered an Interim Order Authorizing the Employment and Retention of Greenhill & Co., LLC as Financial Advisor and Investment Banker to the Debtors (the "Interim Order") on an interim basis pending a final hearing on the Application.

PLEASE TAKE FURTHER NOTICE that the final hearing on the Application is scheduled for July 14, 2003 at 10:00 a.m., prevailing Eastern Time, at the following address: United States Bankruptcy Court, Room 610, United States Customs House, One Bowling Green, New York, New York 10004.

PLEASE TAKE FURTHER NOTICE that objections, if any, to the Application must be filed and served no later than July 12, 2003 at 4:00 p.m., prevailing Eastern Time, on (i) the Office of the United States Trustee for the Southern District of New York, 33 Whitehall, 21st Floor, New York, New York 10004, Attention: Carolyn S. Schwarz, Esq. and (ii) Kirkland & Ellis, Citigroup Center, 153 East 53rd Street, New York, New York 10022-4611, Attention: Samuel S. Kohn, Esq., attorneys for the Debtors.

PLEASE TAKE FURTHER NOTICE that any objections to the Application must be in writing, shall conform to the Federal Rules of Bankruptcy Procedure and the Local Bankruptcy Rules for the Southern District of New York, and shall be filed with the Bankruptcy Court electronically in accordance with the General Order M-242 (General

Order M-242 and the User's Manual for the Electronic Case Filing System can be found at [www.nysb.uscourts.gov](http://www.nysb.uscourts.gov), the official website for the Bankruptcy Court), by registered users of the Bankruptcy Court's case filing system and, by all other parties in interest, on a 3.5 inch disk, preferably in Portable Document Format (PDF), Wordperfect or any other Windows-based word processing format (with a hard copy delivered directly to Judge Drain's Chambers).

PLEASE TAKE FURTHER NOTICE that pursuant to the Application, the Debtors seek to retain Greenhill to perform, among others, the following services:

- i. review and analyze the business, operations, properties, financial condition and prospects of the Debtors;
- ii. evaluate the Debtors' debt capacity in light of their projected cash flows;
- iii. assist in the determination of an appropriate capital structure for the Debtors;
- iv. determine a range of values for the Debtors on a going concern basis and on a liquidation basis;
- v. advise and attend meetings of the Debtors' Boards of Directors and their Committees.
- vi. provide financial advice and assistance to the Debtors in developing and seeking approval of a chapter 11 plan (as the same may be modified from time to time, the "Plan");
- vii. provide financial advice and assistance to the Debtors in structuring any new securities, other consideration or other inducements to be offered and/or issued under the Plan;
- viii. assist the Debtors and/or participate in negotiations with entities or groups affected by the Plan; and
- ix. assist the Debtors in preparing documentation within Greenhill's area of expertise required in connection with the Plan.

PLEASE TAKE FURTHER NOTICE that, if its retention is approved, Greenhill will, unless such terms prove to have been improvident in light of developments not capable of being anticipated at the time of the hearing, be entitled to receive compensation as set forth in the Retention Agreement. A portion of Greenhill's compensation under the Retention Agreement became payable, and was paid, to Greenhill prior to the commencement of these chapter 11 cases. The Debtors anticipate that Greenhill will continue to be entitled to receive the following compensation, in consideration of work performed post-petition:

- a. Monthly Advisory Fee. A monthly financial advisory fee of \$175,000 (the "Monthly Advisory Fee"), which became due and paid by the Debtors upon the execution of the Retention Agreement and thereafter on each monthly anniversary thereof during the term of Greenhill's engagement. Fifty percent (50%) of the amount of the Monthly Advisory Fee paid to Greenhill after the payment of the March 20, 2003 Monthly Advisory Fee and prior to the payment of October 20, 2003 Monthly Advisory Fee from the date of execution of the Retention Agreement will be credited against any Recapitalization Transaction Fee (as defined below). One hundred percent (100%) of the amount of the Monthly Advisory Fee paid to Greenhill after the payment of the twelfth Monthly Advisory Fee from the date of execution of the Retention Agreement will be credited against any Recapitalization Transaction Fee.
- b. Recapitalization Transaction Fee. If during the term of this engagement or within the twelve full months following the termination of this engagement (including the term of this engagement, the "Fee Period"), a Recapitalization is consummated, Greenhill shall be entitled to receive a transaction fee (the "Recapitalization Transaction Fee"), contingent upon the consummation of such a Recapitalization and payable at the closing thereof, equal to \$6.5 million.
- c. Out-of-Pocket Expenses. The Debtors will reimburse Greenhill on a monthly basis for its travel and other reasonable out-of-pocket expenses incurred in connection with, or arising out of Greenhill's activities under or contemplated by the Retention Agreement.

- d. Sales, Use or Similar Taxes. The Debtors will reimburse Greenhill for any sales, use or similar taxes (including additions to such taxes, if any), but in no event income taxes, arising in connection with any matter referred to or contemplated under this engagement.

PLEASE TAKE FURTHER NOTICE that if the Application is granted, the Debtors will indemnify and hold Greenhill harmless against liabilities arising out of or in connection with its retention by the Debtors except for any such liability for any losses, claims, damages, liabilities or expenses which are finally judicially determined by a court of competent jurisdiction to have resulted from the bad faith, self-dealing, breach of fiduciary duty, gross negligence or willful misconduct of Greenhill.

PLEASE TAKE FURTHER NOTICE that the foregoing summary of certain elements of Greenhill's retention is not complete and that the full terms of the retention are contained in the Application, the Retention Agreement and the Interim Order, which are available for inspection at the clerk's office for the Bankruptcy Court and on the Bankruptcy Court's Internet site at [www.nysb.uscourts.gov](http://www.nysb.uscourts.gov), through an account obtained from Pacer Service Center at 1-800-676-6856. To the extent that the summary of the retention terms set forth in this Notice conflict with the terms of the Retention Agreement, the terms of the Retention Agreement control; provided, however,

that to the extent there may be any inconsistency between the terms of the Application, the Retention Agreement or the Interim Order, the terms of the Interim Order shall control.

Dated: New York, New York  
June 3, 2003

Respectfully submitted,

/s/ Jonathan S. Henes

Matthew A. Cantor (MC-7727)

Jonathan S. Henes (JH-1979)

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