

KIRKLAND & ELLIS
Citigroup Center
153 East 53rd Street
New York, New York 10022-4675
Telephone: (212) 446-4800
Facsimile: (212) 446-4900
Matthew A. Cantor (MC-7727)
Jonathan S. Henes (JH-1979)

Attorneys for Debtors and Debtors in Possession

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**MOTION FOR AN ORDER PURSUANT TO SECTION 365(a)
OF THE BANKRUPTCY CODE AUTHORIZING THE DEBTORS TO REJECT
CERTAIN UNEXPIRED LEASES OF NONRESIDENTIAL REAL PROPERTY**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

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

Introduction

1. On the date hereof (the “Commencement Date”), the Debtors each commenced with this Court a voluntary case under chapter 11 of title 11, of the United States Bankruptcy 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 Motion, the Debtors requested an order for 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 Motion 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.

An Overview of Allegiance's Business

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. Allegiance serves more than 100,000 business customers in 36 markets. Allegiance employs approximately 3,560 people, of which approximately 97 employees are covered by collective bargaining agreements.

5. As of the Commencement Date, the Debtors have approximately \$245 million of cash. As of December 31, 2002, the Debtors' consolidated books and records reflected

assets totaling approximately \$1.441 billion and liabilities totaling approximately \$1.397 billion. For the three months ending December 31, 2002, the Debtors, on a consolidated basis, reported revenues of approximately \$204.91 million, EBIDTA (i.e., earnings before interest, depreciation, taxes, amortization, non-cash deferred compensation expense and non-cash goodwill impairment charges) of approximately negative \$34 million and net losses of approximately \$120 million.

**Allegiance is Critical to Promoting Sustainable
Competition in the Local Telecommunication Marketplace**

The Telecommunications Act of 1996

6. In February of 1996, Congress enacted the Telecommunications Act of 1996 (the “Telecom Act”), with the stated purpose of:

promot[ing] competition and reduc[ing] regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies.

H.R. REP No. 104-204(I), 104th Cong. 1st Sess. 1995 (July 24, 1995), reprinted in 1996

U.S.C.C.A.N. 10, **10. In that regard, the Telecom Act required Incumbent Local Exchange Carriers, including the Regional Bell Operating Companies (“ILECs”) – i.e., existing telecommunications monopolies – to allow newly created Competitive Local Exchange Carriers (“CLECs”) to (a) interconnect with the ILECs, (b) access portions of the ILEC network and (c) collocate their equipment in ILEC facilities all at forward-looking cost based rates. In addition, CLECs were permitted to purchase ILEC services at wholesale prices and resell them to customers at retail prices.

7. The enactment of the Telecom Act spurred entrepreneurs to start hundreds of new businesses to compete in the local telecommunications marketplace. During the late 1990s, investors recognized the growth opportunity inherent in the opening of a competitive local telecommunications marketplace and invested billions of dollars in equity and debt capital

into a multitude of telecommunications companies primed to provide competing services to American consumers.

8. Funded with significant amounts of investment capital, two types of CLECs emerged. The first type of CLECs were “resellers”. Specifically, “reseller” CLECs purchased telecommunications services from ILECs at a discount and resold the services to customers at a higher price. Thus, these CLECs simply offered consumers the same services supplied by ILECs - generally at lower prices. To be successful with this low margin business model, “reseller” CLECs invested their capital in sales and marketing efforts designed to acquire a substantial customer-base and attendant market-share in a relatively short period of time and ahead of their many competitors. However, because resellers were providing the identical services as the ILECs (with no differentiation) and were attempting to build a large market share in a highly competitive market, this business model was flawed and many in the telecommunications industry believe that the “resale” business will fail.

9. The second type of CLECs were “facilities-based” CLECs. These CLECs invested significant sums of money to build their own proprietary infrastructure and network in order to effectively compete with the ILECs. Specifically, facilities-based CLECs combined elements of an ILEC’s network with their own to provide consumers with true differentiated services. As Michael Powell stated in his partial dissent to the FCC’s 2003 Triennial Review:

Facilities -based competition means a competitor can offer real differentiated service to consumers Facilities-based competitors own more of their own network and control more of their costs, thereby offering consumers real potential for lower prices. Facilities-based competitors offer greater rewards for the economy – buying more equipment from other suppliers . . . and creating more jobs. . . . And, facilities providers create vital redundant networks that can serve own nation if other facilities are damaged by those hostile to our way of life.

F.C.C., 2003 Triennial Review - Open Meeting, Separate Statement of Chairman Michael R. Powell, dissenting in part (February 20, 2003) (transcript available at www.fcc.gov/wcb/cpd/triennial_review/). Allegiance is such a facilities-based CLEC with a nationwide network and a facility-based business strategy.

The Allegiance Nationwide Network – Servicing 36 Metropolitan Areas

10. In 1997, a management team of industry veterans launched Allegiance and focused on building a reliable nationwide network based on proven technologies, a nationwide direct sales force primarily focused on the small to medium sized business enterprise and information processing systems to support its operations. Allegiance was one of the first major local exchange carriers to open markets utilizing the “smart build” strategy. This strategy allowed a more rapid ramp-up in operations than the traditional competitive local exchange model in which extensive networks were built, including fiber networks, prior to the generation of significant revenues. In contrast, Allegiance’s initial network build-out simply required (a) deploying digital switching platforms with local and long distance capability and (b) leasing transport facilities from the incumbent local exchange carriers and other competitive local exchange carriers to connect its switches with its transmission equipment colocated in the incumbent local exchange carrier’s central offices. Once traffic volume justified further “success-based” investment, Allegiance leased dark fiber or built specific network segments. This strategy offered two major economic benefits. First, it enabled Allegiance to enter new markets with alacrity and reduce up-front capital requirements for entering individual markets prior to revenue generation. Second, in contrast to the traditional competitive local exchange carriers that generally built their networks in highly concentrated downtown areas due to the high cost of constructing fiber networks, Allegiance’s business model enabled it to provide services to

customers in downtown areas as well as the more geographically dispersed, less competitive areas of its targeted markets.

11. Allegiance's initial business plan proposed entering into 24 of the largest metropolitan areas in the United States. Subsequently, management expanded its business plan to (a) increase the total number of target markets to 36, (b) increase its service area, i.e., its colocation "footprint" in its original 24 markets, and (c) acquire long-term rights to use dark fiber rings to replace network elements leased by the Debtors from the incumbent local exchange carriers.

12. In addition to internal growth, Allegiance's business plan included growth through strategic acquisitions. For example, in December 2001, Allegiance acquired certain assets of Intermedia Business Internet (the "Intermedia Acquisition"). The Intermedia Acquisition enabled Allegiance to (a) become a Tier 1 Internet access provider, (b) provide large quantities of data transmitted at high-speeds over the Internet to and from a customer's premises, (c) efficiently exchange traffic with other Internet backbone providers giving Allegiance greater control over its Internet access, and (d) leverage its local service presence to provide additional services to its target market. In June 2003, Allegiance acquired certain assets of Shared Technologies (the "Shared Technologies Acquisition"). The Shared Technologies Acquisition (a) added customer premises equipment sales, installation and maintenance to Allegiance's portfolio of integrated products and services, (b) strategically enhanced Allegiance's target market of small to medium size business enterprises, and (c) allowed Allegiance to provide a complete communications solution to business customers.

13. As of the date hereof, Allegiance provides its telecommunications services in major metropolitan areas across the United States, including the following 36 markets: Atlanta, Austin, Baltimore, Boston, Chicago, Cleveland, Dallas, Denver, Detroit, Fort Lauderdale, Fort

Worth, Houston, Long Island, Los Angeles, Miami, Minneapolis/St. Paul, New York City, Northern New Jersey, Oakland, Ontario/Riverside, CA, Orange County, Philadelphia, Phoenix, Pittsburgh, Portland, Sacramento, St. Louis, San Antonio, San Diego, San Francisco, San Jose, Seattle, Tampa, Washington, D.C., West Palm Beach/Boca Raton and White Plains. Allegiance is colocated in 849 central offices and has a Tier 1 Internet backbone.

The FCC Recognizes the Importance of Allegiance

14. Federal policy recognizes the importance of facilities-based CLECs and Allegiance is the model. In that regard, the Federal Communications Commission (the “FCC”) recently published its latest rules for local competition in the *FCC Triennial Review*. In reviewing these rules, a Kaufman Bros. Equity Research Report, dated March 4, 2003, stated that “*Allegiance is the blueprint for local competition proposed by the FCC.*” In addition, Kevin J. Martin, Commissioner of the FCC has noted:

Allegiance has focused on building a business that adheres to the letter of the Telecom Act while leveraging the entrepreneurial spirit of the law, as well. Today, Allegiance stands as a model of what Congress intended in 1996, and what we hope to achieve in the years ahead – new entrants that have the opportunity to continue to invest in infrastructure, bring innovation and offer new service offerings to consumers in local markets that are open to fair and robust competition.

Kevin J. Martin, Commissioner, F.C.C., Address to the Telecommunications Law Conference and the Texas Chapter of the Federal Communications Bar Association (March 7, 2002) (transcript available at www.fcc.gov/Speeches/Martin/2002/spkjm203.html).

15. Thus, it is clear that Allegiance, by focusing on an intelligent – well thought out business model – building its own network and offering its consumers innovative services, is an integral player in the telecommunications marketplace and a model for the nation’s policy of promoting sustainable facilities-based competition in the local telecommunications arena. With an appropriate capital structure and a reduction in unnecessary

costs, Allegiance believes it will be one of the most successful telecommunications companies in the United States.

Capital Structure of the Debtors

Capital Stock

16. Allegiance Telecom, Inc. has two classes of authorized stock: (a) 750,000,000 shares of common stock, with par value of \$0.01 per share and (b) 1,000,000 shares of preferred stock, with par value of \$0.01 per share. As of December 31, 2002, Allegiance Telecom, Inc. had (i) 124,830,110 shares of common stock issued and outstanding, with 295 registered holders and at least 20,000 beneficial owners, and (ii) no shares of preferred stock outstanding. Allegiance Telecom, Inc.'s common stock is publicly traded on the Nasdaq National Market under the symbol "ALGX."

17. Allegiance Telecom, Inc. owns 100% of the capital stock of Allegiance Telecom Company Worldwide ("ATCW"), and ATCW directly or indirectly owns 100% of the capital stock of each of the other Debtors.

Prepetition Notes

18. In 1998, Allegiance Telecom, Inc. issued two series of notes: (i) 11 3/4% Senior Discount Notes with a face value of \$445 million, due on February 15, 2008 (the "Senior Discount Notes") and (ii) 12 7/8% Senior Notes with a face value of \$205 million, due on May 15, 2008 (the "Senior Notes"). The Senior Discount Notes were issued under that certain Indenture, dated as of February 3, 1998, between Allegiance Telecom, Inc. and The Bank of New York, as Indenture Trustee. The Senior Notes were issued under that certain Indenture, dated as of July 7, 1998, between Allegiance Telecom, Inc. and The Bank of New York, as Indenture Trustee. Neither the Senior Discount Notes nor the Senior Notes are secured by any assets of the Debtors or guaranteed by any of the Debtors.

Prepetition Credit Agreement

19. Prior to the Commencement Date, ATCW entered into that certain Credit and Guaranty Agreement, dated as of February 15, 2000, as amended as of November 27, 2002 (the “Prepetition Credit Agreement”), among ATCW, as borrower; all of the other Debtors, as guarantors; Goldman Sachs Credit Partners L.P. (“Goldman Sachs”), as syndication agent and sole lead arranger; General Electric Capital Corporation (“GECC”) (as successor to Toronto Dominion (Texas), Inc.), as administrative agent, BankBoston, N.A. (“BankBoston”) and Morgan Stanley Senior Funding, Inc. (“Morgan Stanley”), as co-documentation agents; Goldman Sachs, GECC, BankBoston, Morgan Stanley, certain managing agents, and lenders party thereto from time to time (collectively, the “Prepetition Lenders”). As of the Commencement Date, the amount outstanding under the Prepetition Credit Agreement was approximately \$465.3 million. The Debtors have pledged substantially all of their assets as collateral under the Prepetition Credit Agreement, including (a) the capital stock of ATCW and (b) substantially all of the assets of ATCW and its direct and indirect subsidiaries, including the capital stock owned by ATCW in each of its Debtor subsidiaries. As of the Commencement Date, there were 27 Prepetition Lenders under the Prepetition Credit Agreement.

Events Leading to Chapter 11 Filing

20. The distressed economic environment in the United States that followed the economic boom of the late 1990s has had a global and adverse impact on the telecommunications industry. In the late 1990s, in an effort to finance operations and build their networks, telecommunications companies borrowed significant amounts of money from lenders and the public through the issuance of debt. The resulting significant indebtedness incurred by telecommunications companies, combined with poor economic conditions required many

companies, including the Debtors, to focus on reducing their debt either through out of court restructurings or the chapter 11 process.

21. Many of Debtors' existing and potential customers have experienced their own financial difficulties, thereby decreasing customer demand for existing and new services. The financial difficulties of the Debtors' customers has led to non-payment, partial payment, or slow payment of bills for services provided by the Debtors. The financial instability of other companies in the telecommunications industry has adversely affected the willingness of potential customers to move their telecommunications services to the Debtors. In addition, certain of the Debtors' suppliers have requested deposits, letters of credit, or other types of security. Moreover, telecommunications carriers that owe reciprocal and/or intercarrier compensation to the Debtors have either refused to pay or failed to pay in a timely manner for the services provided by the Debtors.

22. As a consequence of the foregoing, the Debtors' business operations were adversely impacted and, due to revenue trends and continuing negative EBITDA, the Debtors determined that their current level of indebtedness needed to be significantly reduced. Thus, in order to maximize the long-term wealth generating capacity of their business operations, the Debtors, among other things, (a) established a special restructuring committee of the Board of Directors of Allegiance Telecom, Inc., (b) retained restructuring advisors, and (c) commenced extensive negotiations with their senior lenders and bondholders, as detailed below.

Negotiations with the Prepetition Lenders and the Ad Hoc Committee of Bondholders

23. The Debtors, in the exercise of their sound business judgment - and in recognition of the distressed economic environment and the need for the Debtors' businesses to focus on profitability instead of high revenue growth - determined that a meaningful de-leveraging of their capital structure was crucial for the preservation and maximization of the

value of their businesses. In that regard, the Debtors, in conjunction with their financial advisors and the Board of Directors of Allegiance Telecom, Inc., commenced the process of determining the appropriate capital structure for their business operations. After determining the appropriate capital structure, the Debtors commenced negotiations with the Prepetition Lenders and the Ad Hoc Committee (as defined below) to effectuate a restructuring transaction.

24. In October of 2002, Allegiance began negotiations with its Prepetition Lenders regarding a potential restructuring of its long-term debt. On November 27, 2003, Allegiance and its Prepetition Lenders entered into that certain First Amendment to the Prepetition Credit Agreement (the “Amendment”). Pursuant to the Amendment, the Debtors obtained a moratorium on their financial covenants through April 30, 2003. In exchange for the Amendment, Allegiance agreed, among other things, (a) that an event of default would occur on April 30, 2003 unless it reduced its long term debt to a level not to exceed \$645 million, and (b) to repay \$15 million to the Prepetition Lenders on account of debt owed under the Prepetition Credit Agreement. During the latter part of 2002 and to meet covenants under the Amendment, the Debtors significantly lowered their capital expenditures, reduced headcount, substantially decreased growth, eliminated less profitable products and services, and continued to optimize their existing network assets.

25. After entering into the Amendment, the Debtors commenced negotiations with the Prepetition Lenders to consummate a permanent restructuring. In connection with the negotiations regarding the permanent restructuring, the Debtors commenced negotiations with an *ad hoc* committee of noteholders, which is comprised of certain holders of the Senior Notes and the Senior Discount Notes (the “Ad Hoc Committee”).

26. The Debtors, the Prepetition Lenders and the Ad Hoc Committee were not able to reach an agreement concerning the permanent restructuring prior to the April 30 deadline. On April 29, 2003, in order to avoid the occurrence of certain events of default under the Prepetition Credit Agreement, the Debtors and the Prepetition Lenders entered into a forbearance agreement (the “Forbearance Agreement”), which expires on May 15, 2003. The Forbearance Agreement provided for, among other things, a pay down of \$5 million of principal owed under the Prepetition Credit Agreement.

27. After entering into the Forbearance Agreement, the Debtors continued their negotiations with the Prepetition Lenders and the Ad Hoc Committee. However, the parties were unable to reach an agreement prior to the expiration of the term of the Forbearance Agreement. Consequently, the Debtors, in the exercise of their prudent business judgment, determined that it was in the best interests of all of their stakeholders and for the maximization of the value of their businesses to commence these chapter 11 cases and consummate a restructuring of their indebtedness under the auspices of this Court.

Relief Requested

28. By this Motion, the Debtors respectfully request the entry of an order, pursuant to section 365(a) of the Bankruptcy Code, authorizing and approving the rejection of certain unexpired leases and subleases of nonresidential real property identified in Exhibit “A” annexed hereto (each unexpired lease and sublease of nonresidential real property, a “Rejected Lease” and, collectively, the “Rejected Leases”).

29. The Debtors are parties to numerous unexpired leases of nonresidential real property. The Debtors are in the process of evaluating these unexpired leases of nonresidential real property to determine which are valuable to the estate and which are burdensome.

30. As of the Commencement Date, the Debtors have identified twenty-seven Rejected Leases which no longer are integral to the Debtors' ongoing business operations and are burdensome to their estates. Because the evaluation process is ongoing, the Debtors anticipate identifying additional burdensome unexpired leases of nonresidential real property as well as other unexpired leases and executory contracts and seek the authority to reject such leases and contracts at later dates.

31. The Debtors no longer occupy the properties associated with twelve of the Rejected Leases (the "Unoccupied Leases").¹ The Debtors, however, remain in possession of locations covered by fifteen of the Rejected Leases (each a "Occupied Lease" and, collectively, the "Occupied Leases"). Therefore, the Debtors seek authority to reject the Unoccupied Leases as of the Commencement Date. The Debtors also seek authority to reject the Occupied Leases effective, with respect to each Occupied Lease, as of the date that the Debtors surrender possession of the respective location, but in any case no later than the 30th day after the Commencement Date.

Basis for Relief

32. Section 365(a) of the Bankruptcy Code provides that a debtor in possession, "subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor." 11 U.S.C. § 365(a). The standard to be applied by a court to determine whether to authorize the rejection of an executory contract or an unexpired lease is the "business judgment" test, which is premised upon the debtor's business judgment that rejection of the executory contract or unexpired lease would be beneficial to its estate. Orion Pictures

¹ The Debtors have subleased certain of the locations covered by the Unoccupied Leases. Consequently, the Debtors' subtenants currently occupy a portion of some locations covered by the Unoccupied Leases.

Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.), 4 F.3d 1095, 1098-99 (2d Cir. 1993).

33. Upon finding that the Debtors have exercised their sound business judgment in determining that rejection of the Rejected Leases is in the best interests of the Debtors, their creditors, and all parties in interest, the Court should approve the rejection under section 365(a) of the Bankruptcy Code. See, e.g., In re Bradlees Stores, Inc., 194 B.R. 555, 558 n.1 (Bankr. S.D.N.Y. 1996); In re G Survivor Corp., 171 B.R. 755, 757 (Bankr. S.D.N.Y. 1994); In re Child World, Inc., 142 B.R. 87, 89 (Bankr. S.D.N.Y. 1992); In re Ionosphere Clubs, Inc., 100 B.R. 670, 673 (Bankr. S.D.N.Y. 1989).

34. In an effort to maximize the value of their estates, the Debtors have commenced the process of reviewing their overall operations and, in that regard, have determined, in their sound business judgment, that the Rejected Leases are burdensome and provide no economic value to their estates.

35. The Debtors no longer occupy and have removed all of their personal property from the locations covered by the Unoccupied Leases. The Debtors have subleased certain of the Unoccupied Leases and, in such cases, these premises, or a portion thereof, are occupied by the Debtors' subtenants. Because the Debtors no longer use or possess the properties covered by the Unoccupied Leases, the Unoccupied Leases are of no value to the Debtors' estates. In addition, the rent received by the Debtors in accordance with the subleases is less than the rent owed by the Debtors to the lessors under the Unoccupied Leases. Therefore, the Debtors seek to reject the Unoccupied Leases effective as of the Commencement Date.

36. In addition, the Debtors intend to close their offices at certain properties under the Occupied Leases and transfer the employees that are currently working in these offices

to other locations. Because the Debtors will no longer need the properties covered by the Occupied Leases, the Debtors seek to reject the Occupied Leases effective, with respect to each Occupied Lease, as of the date the Debtors surrender the respective location to the appropriate lessor, but in any case no later than thirty (30) days after the Commencement Date.

37. The Debtors have determined that the Rejected Leases hold little, if any, value given the terms of such Rejected Leases and the depressed commercial real estate markets in which the leased properties are located. Due in part to the continuing burden that the Debtors face as a result of the administrative expenses arising under the Rejected Leases, the Debtors believe that attempting to market and assign the Rejected Leases would be significantly more costly than any potential value that might be realized by any future assignment or sublease.

38. As the result of the relief requested in this Motion, the Debtors will save approximately \$362,291.06 per month - and over \$4 million on an annual basis - in rent expenses that arise under the Rejected Leases. Accordingly, the Debtors request authority to reject all of the Rejected Leases.

Waiver of Memorandum of Law

39. 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 Motion pursuant to rule 9013-1(b) of the Local Bankruptcy Rules for the Southern District of New York.

Notice

40. Notice of this Motion has been provided to: (a) the Office of the United States Trustee for the Southern District of New York; (b) attorneys for the Prepetition Lenders;

and (c) attorneys for the Ad Hoc Committee. In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is required.

No Prior Request

41. No prior Motion 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 (i) authorizing the Debtors to reject each of the Unoccupied Leases effective as of the Commencement Date; (ii) authorizing the Debtors to reject the Occupied Leases effective, with respect to each Occupied Lease, as of the date that the Debtors surrender the respective location to the appropriate lessor, but in any event no later than the 30th day after the Commencement Date, and (iii) granting such other relief as is just and proper.

Dated: New York, New York
May 14, 2003

Respectfully submitted,

/s/ Matthew A. Cantor
Matthew A. Cantor (MC-7727)
Jonathan S. Henes (JH-1979)
KIRKLAND & ELLIS
Citigroup Center
153 East 53rd Street
New York, New York 10022-4675
Telephone: (212) 446-4800
Facsimile: (212) 446-4900

Attorneys for Debtors and Debtors in Possession

Exhibit A

List of Rejected Leases

<u>Name of Debtor Tenant</u>	<u>Property Address</u>	<u>Landlord's Name and Address</u>	<u>Subtenant's Name and Address Notice Provision (If Applicable)</u>	<u>Estimated Monthly Payments under Lease</u>	<u>Estimated Monthly Receivables under Sublease</u>	<u>Lease Expiration Date</u>
Virtualis Systems, Inc.	2255 Ontario Street Suite 500 Burbank, CA 91504	2255 Partners, L.P. c/o M. David Paul Development LLC 233 Wilshire Blvd. Suite 990 Santa Monica, CA 90401	N/A	\$61,928.02		11/30/09
Allegiance Telecom Company Worldwide	5777 West Century Boulevard Suite 310 Los Angeles, CA 90045	L.A.T. Investment Corporation 5777 West Century Blvd Suite 950 Los Angeles, CA 90045	N/A	\$12,722.49		05/31/06
Virtualis Systems, Inc.	5777 West Century Boulevard Suites 385/395 Los Angeles, CA 90045	L.A.T. Investment Corporation 5777 West Century Blvd Suite 500 Los Angeles, CA 90045	N/A	\$7,943.27		06/30/04
Allegiance Telecom, Inc.	2101 Webster Street Suite 1580 Oakland, CA 94612	Webster Street Partners, Ltd. c/o Pankow Development Corp. 2476 North Lake Avenue Altadena, CA 91001 Webster Street Partners, Ltd. c/o Building Manager 2101 Webster Street 13th Floor Oakland, CA 94612	N/A	\$4,694.95		03/31/06
Allegiance Telecom Company Worldwide	3350 Shelby Street Suite 150 Ontario, California 91764	Chippewa Enterprises, Inc. 13245 Riverside Drive, 6th Floor Sherman Oaks, California 91423 Chippewa Enterprises, Inc. 3801 University Avenue, Suite 250 Riverside, California 92501	N/A	\$15,312.87		07/14/07
Allegiance Telecom, Inc.	1740 Technology Drive Suite 450 San Jose, CA 95110	Hitachi Electronic Devices Attention: Lawrence W. Davis 575 Mauldin Road Greenville, SC 29607 Equity Office Properties EOP – 1740 Technology Drive, L.L.C. 151 Metro Drive San Jose, CA 95110	N/A	\$12,813.10		07/31/04

Name of Debtor Tenant	Property Address	Landlord's Name and Address	Subtenant's Name and Address Notice Provision (If Applicable)	Estimated Monthly Payments under Lease	Estimated Monthly Receivables under Sublease	Lease Expiration Date
Allegiance Telecom, Inc.	1221 East Dyer Road Suite 215 Santa Ana, CA 92705	Orange County Business Center LLC c/o SARES-REGIS Group 1221 East Dyer Road Suite 210 Santa Ana, CA 92705	N/A	\$4,428.20		12/31/09
Shared Technologies Allegiance, Inc.	373 Inverness Drive South Suite 206 Englewood, CO 80112	HUB Properties Trust c/o REIT Management and Research LLC 400 Centre Street Newton, Massachusetts 02458	N/A	\$13,261.91		11/05/03
Allegiance Internet, Inc.	1150 Connecticut Avenue, N.W. Suite 2050 Washington, D.C. 20036	Northwestern Development Co mpany c/o Blake Real Estate, Inc. 1150 Connecticut Avenue, N.W. Suite 801 Washington, D.C. 20036	Educational Services, Inc. 1150 Connecticut Avenue, N.W., Suite 1100 Washington D.C. 20036 Attention: J. Paul Ricket	\$8,810.94	(\$7,733.33)	08/31/03
Allegiance Telecom of Florida, Inc.	1400 Centrepark Boulevard Suite 605 West Palm Beach, Florida 33401	1400 Centrepark Limited 1301 Avenue of the Americas 38th Floor New York, New York 10019 Parthenon Realty, LLC 1601 Forum Place, Suite 406 West Palm Beach, Florida 33401	N/A	\$10,042.62		11/30/06
Shared Technologies Allegiance, Inc.	2030 Powers Ferry Road Suite 400 Atlanta, GA 30339	Connecticut General Life Insurance c/o Times Square Capital Management, Inc. 280 Trumbull Street Hartford, CT 06103 Additional addresses for notices: Connecticut General Life Insurance c/o CarrAmerica Realty Corporation Attn. Real Estate Advisory Services, H-11-H 1600 Parkwood Circle Suite 150 Atlanta, GA 30339 CIGNA Corporation 280 Trumbull Street Hartford, CT 06103 Attention: Real Estate Law, H-11-F7	N/A	\$5,846.62		11/30/06
Shared Technologies Allegiance, Inc.	165 Hansen Court Suite 111 Wood Dale, IL 60191	Great Lakes REIT, L.P. 823 Commerce Drive Suite 300 Oak Brook, IL 60523	N/A	\$8,433.37		12/31/04

<u>Name of Debtor Tenant</u>	<u>Property Address</u>	<u>Landlord's Name and Address</u>	<u>Subtenant's Name and Address Notice Provision (If Applicable)</u>	<u>Estimated Monthly Payments under Lease</u>	<u>Estimated Monthly Receivables under Sublease</u>	<u>Lease Expiration Date</u>
Shared Technologies Allegiance, Inc.	9229 Delegates Row Suite 270 Indianapolis, IN 46240	Indianapolis Office Investors II, L.P. One Belmont Avenue Suite 401 Bala Cynwyd, PA 19004	N/A	\$2,248.17		10/31/07
Coast to Coast Telecommunications, Inc.	17197 North Laurel Park Drive Suite 306 Livonia, MI 48152	Laurel Office Park Partnership III 17197 North Laurel Park Dr. Suite 171 Livonia, MI 48152	N/A	\$5,072.00		10/31/04
Virtualis Systems, Inc.	90 Broad Street Third Floor New York, NY 10004	Green 90 Broad, LLC c/o Colliers ABR, Inc. 40 East 52nd Street New York, NY 10022	Qiosk.com Corporation 90 Broad Street, Suite 305 New York, New York 10004-2205 Attention: Daniel M. Schwartz	\$5,912.07	(\$5,852.46)	12/31/03
Allegiance Telecom Company Worldwide	3 Ganett Drive Suite 100 White Plains, New York 10604	Eastridge Properties I Corporation 925 Westchester Avenue White Plains, New York 10604	N/A	\$17,749.44		11/30/07
Shared Technologies Allegiance, Inc.	10220 S.W. Greenburg Road Suites 130 & 135 Portland, OR 97201	Equity Office Properties Trust 10260 S.W. Greenberg Road Suite 100 Portland, OR 97223	N/A	\$3,412.64		06/30/03
Allegiance Internet, Inc.	1515 Market Street 6th Floor Philadelphia, PA 19102	1515 Market Street Associates c/o West World Management, Inc. 4 Manhattanville Road Purchase, NY 10577	N/A	\$4,989.88		03/31/04
Shared Technologies Allegiance, Inc.	603 Stanwix Street 5th Floor Pittsburgh, PA 15222	TrizecHahn Gateway LLC Two Gateway Center Fourth Floor Pittsburgh, PA 15222 Attention: General Manager Additional addresses for notices: TrizecHahn Gateway, LLC 500 West Madison Suite 3650 Chicago, IL 60661 Attention: Senior Vice President TrizecHahn Gateway, LLC c/o Trizec Holdings Inc. 3011 West Grand Boulevard Suite 450 Detroit, MI 48202	N/A	\$6,223.84		10/31/03

Name of Debtor Tenant	Property Address	Landlord's Name and Address	Subtenant's Name and Address Notice Provision (If Applicable)	Estimated Monthly Payments under Lease	Estimated Monthly Receivables under Sublease	Lease Expiration Date
Shared Technologies Allegiance, Inc.	603 Stanwix Street Lower Level Pittsburgh, PA 15222	TrizecHahn Gateway LLC Two Gateway Center Fourth Floor Pittsburgh, PA 15222 Attention: General Manager Additional addresses for notices: TrizecHahn Gateway, LLC 500 West Madison Suite 3650 Chicago, IL 60661 Attention: Senior Vice President TrizecHahn Gateway, LLC c/o Trizec Holdings Inc. 3011 West Grand Boulevard Suite 450 Detroit, MI 48202	N/A	\$1,122.43		10/31/03
Shared Technologies Allegiance, Inc.	420 Ft. Duquesne Boulevard Lower Level Pittsburgh, PA 15222	TrizecHahn Gateway LLC Two Gateway Center Fourth Floor Pittsburgh, PA 15222 Attention: General Manager Additional addresses for notices: TrizecHahn Gateway, LLC 500 West Madison Suite 3650 Chicago, IL 60661 Attention: Senior Vice President TrizecHahn Gateway, LLC c/o Trizec Holdings Inc. 3011 West Grand Boulevard Suite 450 Detroit, MI 48202	N/A	\$155.15		10/31/03
Jump.Net, Inc.	7212 & 7218 McNeil Drive Suites 203-206, 301-306 and 308-310 Austin, TX 78729	Trinity National Corporation c/o Goodwin Management, Inc. 11149 Research Boulevard Suite 100 Austin, TX 78759	N/A	\$13,828.00		07/31/04
	7212 McNeil Drive, Suite 204 Austin, TX 78729		Hi-Privacy Networks, LLC 7212 McNeil Drive, Suite 204 Austin, Texas 78729 Attention: Lou Scalpati		(\$1,350.00)	07/31/04

Name of Debtor Tenant	Property Address	Landlord's Name and Address	Subtenant's Name and Address Notice Provision (If Applicable)	Estimated Monthly Payments under Lease	Estimated Monthly Receivables under Sublease	Lease Expiration Date
	7212 McNeil Drive, Suite 205 Austin, TX 78729		Seniors Advisory – Group, LLC 7212 McNeil Drive, Suite 205 Austin, Texas 78729 Attention: John Berlet		(\$975.00)	07/31/04
	7218 McNeil Drive Suites 301-306 & 308-310 Austin, TX 78729		Core NAP, L.P. 7218 McNeil Drive, Suite 300 Austin, TX 78759 Attention: Kenneth A. Smith		(\$11,096.00)	07/31/04
Shared Technologies Allegiance, Inc.	8051 Jetstar Drive Suite 100 Irving, TX 75063	Jetstar Partners, Ltd. c/o Collinternational, Inc. 3321 Towerwood Drive Suite 113 Dallas, TX 75232	Andrews Media Services, Inc. 8051 Jetstar Drive, Suite 100 Irving, Texas 75039 Attention: Andrew Walters Additional address for notices: Law Office of Cheryl Engelmann 600 North Pearl Street, Suite 2230 Dallas, Texas 75201	\$12,599.02	(\$4,868.50)	11/30/04
Allegiance Telecom, Inc.	1349 Empire Central Floors 10-13 Dallas, TX 75247	EDS/SHL Corporation 5400 Legacy Drive Plano, TX 75024 Attention: Legal Affairs H3-3A-05 VRS/TA-Cole/Woodview L.P. c/o The HOLT Companies 16250 Dallas Parkway Suite 205 Dallas, TX 75248	United Lending Partners, Ltd. 1349 Empire Central, 13th Floor Dallas, Texas 75247 Attention: Kathy Rogers	\$91,062.77	(\$33,433.83)	06/30/03
Shared Technologies Allegiance, Inc.	12020 113th Avenue, N.W. Suites 270, 290 & 295 Kirkland, WA 98034	Riggs Bank, N.A., as Trustee for the Employer Property Trust 808 17th Street, N.W. Washington, D.C. 20006 Attention Patrick O. Mayberry Additional addresses for notices: Kennedy Associates Real Estate Counsel, Inc. 2400 Financial Center Seattle, WA 98161 Attention: Brian Lennon Trammell Crow Company 12015 115th Avenue, N.E., Suite 145 Kirkland, WA 98034 Attention: Manager	N/A	\$11,771.72		07/31/04
Allegiance Telecom Company Worldwide	170 Tracer Lane Waltham, MA 02129	Boston Properties Limited Partnership 111 Huntington Avenue Boston, MA 02199	N/A	\$82,177.56		09/30/03

<u>Name of Debtor Tenant</u>	<u>Property Address</u>	<u>Landlord's Name and Address</u>	<u>Subtenant's Name and Address Notice Provision (If Applicable)</u>	<u>Estimated Monthly Payments under Lease</u>	<u>Estimated Monthly Receivables under Sublease</u>	<u>Lease Expiration Date</u>
Coast to Coast Telecommunications, Inc.	3155 West Big Beaver Road, Suite 203 Troy, MI 48084	Troy Place Associates c/o Nemer Property Group 26877 Northwestern Highway, Suite 101 Southfield, MI 48037	Medical Resources, L.L.C. 3155 West Big Beaver Road, Suite 205 Troy, Michigan 48084 Attention: James G. Lucas	\$4,537.13	(\$1,500.00)	12/31/03
			TOTAL:	\$429,100.18	(\$66,809.12)	
			NET PAYABLE:	<u>\$362,291.06</u>		