HEARING DATE AND TIME: January 9, 2004 at 10:00 a.m.
OBJECTION DEADLINE: January 8, 2004 at 12:00 p.m.

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

DEBTORS' MOTION FOR ORDERS PURSUANT TO SECTIONS 105(a), 363, 365 AND 1146(c) OF THE BANKRUPTCY CODE: (A) (I) FIXING THE TIME, DATE AND PLACE FOR THE BIDDING PROCEDURES HEARING AND (II) APPROVING THE NO-SHOP PROVISIONS SET FORTH IN THE ASSET PURCHASE AGREEMENT WITH QWEST COMMUNICATIONS INTERNATIONAL INC.; (B) (I) ESTABLISHING BIDDING PROCEDURES AND BID PROTECTIONS IN CONNECTION WITH THE SALE OF SUBSTANTIALLY ALL OF THE ASSETS OF THE DEBTORS, (II) APPROVING THE FORM AND MANNER OF NOTICES, (III) APPROVING THE ASSET PURCHASE AGREEMENT SUBJECT TO HIGHER AND BETTER OFFERS AND (IV) SETTING A SALE APPROVAL HEARING DATE; AND (C) (I) APPROVING THE SALE TO QWEST COMMUNICATIONS INTERNATIONAL INC. FREE AND CLEAR OF ALL LIENS, CLAIMS AND ENCUMBRANCES, (II) AUTHORIZING THE ASSUMPTIONAND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES AND (III) GRANTING RELATED RELIEF

TO: THE HONORABLE ROBERT D. DRAIN,
UNITED STATES BANKRUPTCY JUDGE:

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

Introduction

1. On May 14, 2003 (the "Commencement Date"), each of the Debtors commenced with this Court a voluntary case under chapter 11 of title 11 of the 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(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 rule 1015(b) of the Federal Rules of Bankruptcy Procedure.

2. No trustee or examiner has been appointed in these chapter 11 cases. On May 28, 2003, pursuant to section 1102 of the Bankruptcy Code, the United States Trustee for the Southern District of New York (the "U.S. Trustee") appointed a statutory committee of unsecured creditors (the "Creditors' Committee") in these chapter 11 cases.

Jurisdiction

3. This Court has subject matter jurisdiction to consider and determine this Motion pursuant to 28 U.S.C. § 1334. This is a core proceeding pursuant to 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

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 their 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.

5. As of September 30, 2003, the Debtors served more than 100,000 business customers in major markets throughout the United States. As of September 30, 2003, the Debtors employed approximately 2,912 people, of which approximately 98 employees were covered by collective bargaining agreements.

6. As of September 30, 2003, the Debtors had approximately $284.1 million of unrestricted cash on hand. As of September 30, 2003, the Debtors' consolidated books and records reflected assets totaling approximately $1.226 billion and liabilities totaling approximately $1.455 billion. For the nine months ending September 30, 2003, the Debtors, on a consolidated basis, reported revenues of approximately $589.4 million and net losses of approximately $275.6 million.

Relief Requested

7. By this Motion, the Debtors seek the entry of three orders:

- An order pursuant to sections 105(a) and 363 of the Bankruptcy Code, substantially in the form attached hereto as Exhibit A (the "Lock-Up Order"), (a) fixing the time, date and place of hearing (the "Bid Procedures Hearing") on Debtors' motion for approval of bidding procedures and bid protections in connection with the sale of substantially all of the assets of the Debtors and (b) authorizing and approving Debtors' agreement to no-shop provisions set forth in Section 6.17(a) of the Purchase Agreement (as defined below) between the Debtors and Qwest Communications International Inc. ("Qwest" or "Buyer");

- An order pursuant to sections 105(a) and 363 of the Bankruptcy Code substantially in the form attached hereto as Exhibit B (the "Bidding Procedures Order"): (a) establishing bidding procedures and bid protections (the "Bidding Procedures") in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (b) approving the form and manner of notices; (c) approving the Purchase Agreement; and (d) setting a hearing date to consider approval of the Sale Transaction (the "Sale Approval Hearing"); and

- An order pursuant to sections 105(a), 362, 363, 365 and 1146(c) of the Bankruptcy Code, substantially in the form attached hereto as Exhibit C (the "Sale Approval Order"): (a) approving the sale, free and clear of all liens, claims and encumbrances to the Successful Bidder (as defined below) and (b) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (c) granting related relief (the "Sale" or "Sale Transaction").

Negotiations Regarding a Stand-Alone Restructuring

8. Shortly after the Commencement Date, the Debtors commenced negotiations with their senior prepetition lenders (the "Prepetition Lenders") regarding a stand-alone restructuring of the Debtors' businesses. On May 22, 2003, the Debtors met with the Prepetition Lenders to discuss the terms of such stand-alone restructuring. Based on the meeting and the views and information exchanged in connection therewith, on June 11, 2003, the Debtors provided the Prepetition Lenders with a term sheet for a stand-alone restructuring, which was intended to act as the foundation for a chapter 11 plan of reorganization.

9. In connection with the discussions regarding a stand-alone restructuring plan, the Prepetition Lenders requested that the Debtors retain a chief restructuring officer to (a) assist the Debtors in the restructuring of their businesses operations and (b) prepare, together with the management team, a comprehensive business plan. After extensive discussions with the Prepetition Lenders and significant internal consideration, the Debtors determined to retain an operational restructuring firm. On June 16, 2003, the Debtors engaged Impala Partners, LLC ("Impala") as their chief restructuring officer. Impala, together with the Debtors' management team, began preparing the Debtors' strategic long term business plan. The Prepetition Lenders

were reluctant to engage in meaningful plan negotiations until after the Debtors business plan was substantially complete.

10. On July 30, 2003, the Debtors' management team and Impala met with the Prepetition Lenders and provided them with an update on the Debtors' progress with respect to the preparation of the business plan and the significant and beneficial operational changes and cost cutting measures that the Debtors had implemented. On July 31, 2003, the Debtors' management and Impala made a similar presentation to the Creditors' Committee.

11. On (a) September 19, 2003 and (b) September 22, 2003, the Debtors' management and Impala separately met with the Prepetition Lenders and the Creditors' Committee to provide both constituencies with the proposed business plan for a reorganized Allegiance. Thereafter, the Debtors and the Prepetition Lenders commenced meaningful negotiations over the terms of a stand-alone restructuring plan.

12. After extensive negotiations, the Debtors and the Prepetition Lenders agreed to the terms of a stand-alone restructuring plan. After obtaining the support of the Prepetition Lenders, the Debtors presented the plan to the Creditors' Committee to garner its support therefor. After extensive discussions, the Debtors, in consultation with Prepetition Lenders and the Creditors' Committee, determined that a sale transaction might provide greater value to the Debtors' creditors.

13. In an effort to find a plan alternative that might win the joint support of the Prepetition Lenders and the unsecured creditors, the Debtors investigated their options for selling their businesses.

Negotiations Regarding a Potential Sale of the Debtors' Businesses

14. During the course of their negotiations with the Prepetition Lenders regarding the stand-alone restructuring, the Debtors received varying degrees of interest from

third parties regarding a potential purchase of substantially all of their businesses. Two parties delivered letters of intent to the Debtors. Representatives of the Debtors met with these parties to gauge the level of their interest. Based on these meetings, the Debtors directed their management team and professionals to establish a process that would enable the two parties to conduct business and legal due diligence in connection with a potential sale transaction. At the same time, the Debtors met with other parties who expressed even an inkling of interest in acquiring the Debtors businesses and permitted them to conduct due diligence in a limited and less formal manner.

15. After consulting with the Prepetition Lenders and the Creditors' Committee and determining that the Debtors could realize greater value through a sale transaction, the Debtors determined it was in the best interests of their estates to authorize their management team and professionals to commence negotiations regarding a potential sale transaction (while finalizing the negotiations (which as described above were finalized) with the Prepetition Lenders regarding the stand-alone restructuring). On October 17, 2003, the Debtors' financial advisors, Greenhill & Co., LLC ("Greenhill"), sent a letter (the "Stalking Horse Letter") to each of the three most interested potential bidders (the two parties mentioned above and an additional party that demonstrated both a high level of interest and the financial wherewithal to close a sale transaction) inviting them to submit non-binding offers for the Debtors' businesses. In exchange for the receipt of such non-binding offers, the Debtors agreed to provide such interested parties with certain access to the Debtors' management, financial advisors and facilities to supplement their due diligence and evaluation of the Debtors' businesses.

16. On October 21, 2003, in response to the Stalking Horse Letter, two of the three parties (the "Potential Stalking Horse Bidders") submitted non-binding offers to purchase

substantially all of the Debtors' businesses. Based on a comparison of these non-binding bids to the negotiated stand-alone restructuring plan, the Debtors determined that it was in the best interests of their estates to attempt to negotiate a "stalking horse" asset purchase agreement with the Potential Stalking Horse Bidders. Accordingly, the Debtors and their professionals commenced negotiations with each of the Potential Stalking Horse Bidders.

17. The negotiations with each of the Potential Stalking Horse Bidders were extensive and conducted in good faith and at arm's-length. In addition, the Debtors communicated their progress and provided multiple drafts of the respective asset purchase agreements to the Prepetition Lenders and the Creditors' Committee to obtain their comments and views. At the conclusion of these negotiations with the Potential Stalking Horse Bidders,[1] the Debtors considered, among other things, the value of the offers, the financing of the offers and the conditionality of both agreements. In addition, the Debtors solicited the views of their advisors, their management team, the Prepetition Lenders and the Creditors' Committee (and their respective advisors). After extensive deliberation regarding the merits and risks of both asset purchase agreements, the Debtors determined that it was in the best interests of the estates to select Qwest as the stalking horse bidder. Specifically, the Debtors selected Qwest because, among other things, it did not require third party financing had completed extensive due diligence, devoted significant resources to the completion of a sale transaction, and demonstrated a compelling business strategy to incorporate the Debtors' business into a well established and

[1] The Debtors received two additional non-binding offers from third parties. The Debtors shared these offers with the Prepetition Lenders and the Creditors' Committee. The Debtors expended significant time and effort negotiating with these third parties; however, due to their late entry into the process and the structure of their bids (which were not optimal as compared with the structure of the bids received from the Potential Stalking Horse Bidders) the Debtors focused their efforts on the Potential Stalking Horse Bidders, but, nevertheless, continued to communicate and share information with the these third parties.

reputable nationwide communications enterprise, thereby offering a promising opportunity for the Debtors' customers, employees and stakeholders. Accordingly, the Debtors and Qwest have finalized a definitive asset purchase agreement to purchase the Sale Assets, dated as of December 18, 2003 (the "Purchase Agreement"). Qwest has agreed to execute the Purchase Agreement upon the entry of the Lock-Up Order by the Court. A copy of the Purchase Agreement is annexed hereto as Exhibit D.[2] The Purchase Agreement also contemplates the assumption and assignment of certain executory contracts and unexpired leases to Qwest. The Sale Transaction is subject to higher or better offers received in accordance with the Bidding Procedures and, currently, the Debtors intend, subject to their right to exercise the Early Closing Election (as defined below) in accordance with the Purchase Agreement, to implement the Sale Transaction pursuant to a plan of reorganization.

18. Notably, although the Sale Transaction is conditioned upon the confirmation of a chapter 11 plan in these cases, the Debtors have the sole and absolute right to waive this condition. In connection with such a waiver, the Debtors and Buyer, subject to certain notice provisions, may proceed to closing and any provisions in the Purchase Agreement related to the plan process would be inapplicable.

The Proposed Sale

19. The Purchase Agreement provides for the Sale Transaction, subject to higher or better offers, free and clear of liens, claims, interests and encumbrances. The following

[2] Certain annexes and schedules to the Purchase Agreement, as well as ancillary agreements related to the Purchase Agreement, are not annexed hereto because such documents contain confidential financial and/or competitive information. Parties interested in obtaining copies of such documents should contact the attorneys for the Debtors.

is a summary of certain salient provisions of the Purchase Agreement and is qualified entirely by reference to the Purchase Agreement itself:[3]

PROVISION	DESCRIPTION
Purchase of Sale Assets:	At Closing, the Debtors agree to sell to Buyer, free and clear of all Liens and Liabilities (other than Permitted Liens) and Buyer agrees to purchase from the Debtors the Sale Assets, which include, among other things, the following: (a) the Real Property Leases; (b) the Equipment; (c) the Personal Property Leases; (d) the Assumed Contracts; (e) the Claims; (f) any books, records files or papers of the Debtors; and (g) the Intellectual Property.
Excluded Assets:	The Purchase Agreement provides for Excluded Assets including, among others, Cash and Cash Equivalents, the Shared Hosting Business, the Owned Real Property and substantially all of the Debtors' managed modem business.
Liabilities Assumed by Qwest:	On the Closing Date, Buyer shall assume, among others, the following Liabilities of the Debtors: (a) certain Liabilities arising out of or relating to the ownership of the Acquired Assets and the operation of the Business by Buyer or any of its assignees; (b) certain Liabilities under the Assumed Contracts; (c) certain Liabilities under trade accounts payable arising in the Ordinary Course of Business; (d) Liabilities for fifty percent (50%) of any and all Transfer Taxes due as a result of the transactions contemplated by the Purchase Agreement, if any; (e) certain Liabilities for severance costs; and (f) certain Liabilities associated with customers of the Business.
Closing Date:	The Closing shall be held at the offices of Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022, at 10:00 a.m., local time, unless the parties hereto otherwise agree. The Closing shall take place no later than the fifth (5th) Business Day following the date on which certain conditions of the Buyers and/or the Debtors have been satisfied or waived; provided, however, that if the Closing would be scheduled to occur less than two (2) Business Days after the receipt of the performance reports for the prior month referred to in section 6.5(d) of the Purchase Agreement, Buyer shall not be required to close until two (2) Business Days after its receipt of such performance reports.

[3] The following summary of the Purchase Agreement is provided for the convenience of the Court and parties in interest. To the extent that there are any discrepancies between this summary and the Purchase Agreement, the terms and language of the Purchase Agreement shall govern. Unless defined herein, capitalized terms defined in the Purchase Agreement shall have the meanings ascribed to them therein.

PROVISION	DESCRIPTION
Purchase Price:	In consideration for the Sale Assets, and subject to the terms and conditions of the Purchase Agreement, Buyer shall (a) pay to ATI (on behalf of the Debtors) in immediately available funds, by wire transfer to an account or accounts designated by ATI, an amount in cash equal to $300,000,000 and (b) deliver to ATI the Convertible Note in the principal amount of $90,000,000; subject to the applicable adjustments to the Purchase Price set forth in the Purchase Agreement.
Conditions to Obligations of Buyer and Debtors:	• No Injunction. No preliminary or permanent injunction or other order issued by, and no Litigation or Order by or before any Governmental Entity in the United States or by any United States Governmental Entity nor any Law or Order promulgated or enacted by any United States Governmental Entity shall be in effect or pending which materially delays, restrains, enjoins or otherwise prohibits or seeks to restrain, enjoin or otherwise prohibit the transactions contemplated hereby, provided that with respect to pending Litigation, such condition shall only apply to Litigation commenced by a Governmental Entity. • The Sale Order. The Bankruptcy Court shall have entered the Sale Order, which approves the Purchase Agreement and all of the terms and conditions of the Purchase Agreement, and authorizes the Debtors to consummate the transactions contemplated by the Purchase Agreement. • HSR Act. Any applicable waiting period under the HSR Act shall have expired or shall have been earlier terminated. • Approval of Plan. Unless the Debtors deliver the Early Closing Election, all conditions to the "Effective Date" set forth in the Bankruptcy Plan (including the entry of the Confirmation Order by the Bankruptcy Court) shall have been satisfied or duly waived, with the express written consent of Buyer, such consent not to be unreasonably withheld, in accordance with the applicable provisions of the Bankruptcy Plan and the transactions contemplated by the Bankruptcy Plan to occur on or prior to the Closing shall have been or shall be consummated simultaneously with the Closing in accordance with the Bankruptcy Plan. • Non-Transferred Assets. The Non-Transferred Assets shall have been retained by the Debtors. • Management Agreements. To the extent there are Non-Transferred Assets as of the Closing, the Debtors and Buyer shall have entered into the Management Agreements, and such agreements shall be in

PROVISION	DESCRIPTION
	full force and effect. • Escrow Agreement. ATI, ATCW and Buyer shall have entered into the Closing Escrow Agreement, and such agreement shall be in full force and effect.
Representations and Warranties:	Customary for transactions of this type, including without limitation, authority, consents, approvals, compliance with laws, litigation, description of the assets and their location, insurance, intellectual property, and permits. The representations and warranties of the parties and the covenants to be performed on or prior to the Closing will not survive the Closing and no party to the Purchase Agreement shall be entitled to any indemnification with respect thereto.
Termination:	The Purchase Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing: By Buyer and the Debtors: • by mutual written consent. By Buyer or ATI: • if the Closing shall not have occurred on or before the eight month anniversary of the date of execution of the Purchase Agreement; provided, however, that if the Closing shall not have occurred on or before the eight month anniversary of the date of execution of the Purchase Agreement due to a breach of the Purchase Agreement by Buyer or any Debtor, Buyer or ATI (if a Debtor is the breaching party), as the case may be, may not terminate the Purchase Agreement pursuant to Section 8.1(b) of the Purchase Agreement. By Buyer: • if any Debtor (a) agrees in writing, (b) publicly announces its intention (including by selecting a competing bidder at the Bankruptcy Court's auction relating to the transactions contemplated therein), or (b) is authorized by its board of directors to proceed with a Competing Transaction, irrespective of whether such Competing Transaction is approved by the Bankruptcy Court and/or consummated; • if Prior to the Closing, any Debtor abandons or files a motion with the Bankruptcy Court to abandon all or any material

PROVISION	DESCRIPTION
	portion of the Sale Assets; • if prior to Closing, any Debtor files any plan of reorganization other than the Bankruptcy Plan, files any material amendment to the Bankruptcy Plan, withdraws the Bankruptcy Plan, or consents to the reduction of the Exclusivity Period or fails timely to file motions to obtain orders of the Bankruptcy Court extending the Exclusivity Period or the Bankruptcy Court denies the confirmation of the Bankruptcy Plan; • if the Bankruptcy Court terminates the Exclusivity Period or declines to extend the Exclusivity Period; • if the voluntary dismissal or conversion of any of the Cases to a case under chapter 7 of the Bankruptcy Code; • upon the appointment in the Cases of a trustee or examiner with managerial powers under section 1104 of the Bankruptcy Code; • if any Order is entered by the Bankruptcy Court which would result in the failure of any of the conditions to the obligations of Buyer set forth in Section 7.1 or 7.2 of the Purchase Agreement other than Section 7.1(d) if the Debtors shall have delivered the Early Closing Election; or • if there is a breach of any representation or warranty contained in Article IV of the Purchase Agreement (without regard to any qualifications concerning materiality or Material Adverse Effect contained in Article IV), which breach, in the aggregate with all other such breaches, if any, would give rise to a failure of the condition set forth in Section 7.2(a) of the Purchase Agreement (with the date of such termination being substituted for the references to Closing Date therein) and which breach could not reasonably be expected to be cured using reasonable efforts by the date set forth in Section 8.1(b) of the Purchase Agreement; • if there is a Sale Delay or Adverse Bankruptcy Event. By Debtors • if at any time on or after the Bidding Procedures Order Approval Date and prior to the Sale Order Approval Date immediately if Sellers have complied with Section 6.17 of the Purchase Agreement and agree to a Competing Transaction in accordance with the Bidding Procedures Order and simultaneously make the

PROVISION	DESCRIPTION
	payments required by Section 8.2 of the Purchase Agreement. By Buyer or the Debtors: • By Debtors, on the one hand, or Buyer, on the other, if Buyer or Debtors, as the case may be, materially breach any of its covenants under this Agreement, unless such breach shall be cured within ten (10) Business Days after such other party shall have received notice of such breach.
Liquidated Damages:	If, following the Sale Order Approval Date, (i) the Purchase Agreement is terminated by Buyer pursuant to Sections 8.1(b), (c), or (d) of the Purchase Agreement or by Debtors pursuant to Section 8.1(f) of the Purchase Agreement, or (ii) Buyer elects to terminate the Purchase Agreement pursuant to Section 8.1(e) of the Purchase Agreement or not to close, in each case because the condition set forth in Section 7.2(a) of the Purchase Agreement has not been satisfied, as a result of Debtors' gross negligence or intentional, wanton or reckless action or inaction, the Buyer shall be entitled to immediate payment (simultaneous payment in the case of a termination by Sellers pursuant to Section 8.1(f) of the Purchase Agreement), as liquidated damages and not as a penalty, of the amount of the (i) Expense Reimbursement (which Expense Reimbursement shall not exceed $10 million) and (ii) $30 million (the "Liquidated Damages"). In the event of an Adverse Bankruptcy Event (as such term is defined in the Purchase Agreement) that Buyer does not agree to waive or extend, the Debtors shall either (a) immediately terminate the Purchase Agreement and simultaneously pay to Buyer the Liquidated Damages or (b) immediately waive the condition set forth in Section 7.1(d) of the Purchase Agreement, send an election of early closing on the date of such Adverse Bankruptcy Event and promptly close the transactions contemplated by the Purchase Agreement. The Liquidated Damages, if required to be paid pursuant to the terms of the Purchase Agreement, shall receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code, provided, however, that such amounts payable shall not prime the liens held by the Debtors' Prepetition Lenders and shall be subordinated to the carve out for professional fees and fees under 28 U.S.C. § 1930 as provided in the Bankruptcy Court's order authorizing Debtors to use cash collateral that was entered in these cases. Buyer's right to the Liquidated Damages and the superpriority administrative claim status of such claims shall survive rejection or breach of the Purchase Agreement, and shall be unaffected thereby.

PROVISION	DESCRIPTION
Non-solicitation:	Following the date of entry of the Lock-Up Order and until the Bidding Procedures Order Approval Date, and following the Sale Order Approval Date and until such time as the Purchase Agreement has been terminated (other than a termination by Sellers in violation of this Agreement), Sellers shall not, nor shall they authorize or permit any Representative of Sellers to, (a) directly or indirectly solicit, initiate or encourage the submission of any offer or proposal concerning any (x) sale, lease or other disposition directly or indirectly by merger, consolidation, business combination, share exchange, joint venture or otherwise, of any or all of the Acquired Assets, (y) issuance or sale of any equity interests in any Seller, or (z) transaction pursuant to which any Person will acquire beneficial ownership or the right to acquire beneficial ownership of equity interests in any Seller (any of the foregoing, a "Competing Transaction"), (b) directly or indirectly participate in any discussions or negotiations regarding, or furnish to any Person any information with respect to, or take any other action to facilitate the making of, any proposal or expression of interest that constitutes or is reasonably likely to lead to a Competing Transaction, or (c) enter into any agreement with respect to any Competing Transaction; provided, however, that, prior to the Bidding Procedures Order Approval Date, Sellers may, in response to unsolicited bona fide inquiries from Persons indicating an interest in pursuing a Competing Transaction, and after giving Buyer written notice of such inquiries, enter into confidentiality agreements as provided in Section 6.17(b) of the Purchase Agreement and furnish publicly available information (including any information on Sellers' virtual data room) pursuant thereto. Following the Bidding Procedures Order Approval Date and until the Sale Order Approval Date, Sellers are permitted to cause their Representatives to initiate contact with, solicit or encourage submission of any inquiries, proposals or offers by, any Person (in addition to Buyer and its Affiliates, agents and Representatives) in connection with any Competing Transaction; provided, however, that any such contact, solicitation, or encouragement shall be undertaken in accordance with the terms of the Bidding Procedures Order. Sellers shall not furnish information concerning their business, properties or assets to any third party, except in the Ordinary Course of Business to potential and current vendors, customers and agents and except pursuant to a confidentiality agreement with terms and conditions no less restrictive than those contained in the Confidentiality Agreement as modified by Section 9.9 of the Purchase Agreement. Sellers shall not release any third party from, or waive any provision of, any such confidentiality agreement to which any Seller is a party other than to the extent a similar release or waiver was granted to Buyer.

PROVISION	DESCRIPTION
	Sellers shall use reasonable efforts to promptly provide, or identify and make available to Buyer any non-public information concerning Sellers, the Acquired Assets or the Business provided to any other Person which was not previously provided to Buyer.
Assumption and Assignment	Buyer and Sellers agree that there shall be excluded from the Acquired Assets any Assumed Contract that is not assignable or transferable pursuant to the Bankruptcy Code without the consent of any Person other than Sellers or any Affiliate of Sellers, to the extent that such consent shall not have been given on or prior to the Closing; provided, however, that Sellers shall use commercially reasonable efforts (including prosecution of appropriate motions pursuant to Section 365 of the Bankruptcy Code) to endeavor to obtain all necessary consents to the assignment thereof, and, upon obtaining the requisite consents thereto, such Acquired Asset shall be assigned to Buyer. Buyer and Sellers agree that all reasonable out-of-pocket costs and expenses (other than Cure Amounts) incurred relating to Sellers' assignment to Buyer of the Assumed Contracts set forth on Schedule 2.6 of the Disclosure Schedules shall be shared equally between Buyer and Sellers. Notwithstanding the foregoing, the Debtors are required to assume and assign the contracts set forth on Schedule 7.1 to the Purchase Agreement. In addition, the Buyer is not required to close if the Debtors' failure to assume and assign a contract or lease, that individually or in the aggregate, gives rise to a Material Adverse Effect. Prior to the date of the Bankruptcy Court's auction relating to the transactions contemplated hereby, Buyer shall designate the (a) Real Property Leases and (b) other Executory Contracts that are designated with an asterisk on Schedule 4.20 and all Real Estate Leases on Schedule 4.21 to be assumed by Sellers and not rejected pursuant to section 365 of the Bankruptcy Code and (2) at least (20) days prior to the date of the Bankruptcy Court's confirmation of the Bankruptcy Plan, Buyer shall designate other Executory Contracts that are to be assumed by Sellers and not rejected pursuant to section 365 of the Bankruptcy Code. Buyer and the Debtors shall keep confidential the Executory Contracts that are designated with an asterisk on Schedule 4.20 and 4.21 of the Purchase Agreement and as set forth in section 3.5(d) of the Purchase Agreement. In the event of any Early Closing Election, the provisions of Section 8.3 of the Purchase Agreement shall apply; provided, however, that Sellers shall serve, at least twenty (20) days prior to the Closing, the notice of

PROVISION	DESCRIPTION
	Sellers' intent to assume and assign the Assumed Contracts on all non-debtor parties to the Assumed Contracts, rather than at least twenty (20) days prior to the hearing to confirm the Bankruptcy Plan. With respect to the Assumed Contracts, Buyer shall cooperate with Sellers to provide adequate assurance of future performance as required by section 365 of the Bankruptcy Code.
Cure Price Adjustment	The Cure Amounts with respect to the Seller's interconnection agreements with ILECs shall be resolved in accordance with Section 3.5(a) of the Purchase Agreement. Buyer and Sellers shall work cooperatively and in good faith with respect to paying, objecting to and settling the ILEC Cure Amounts, it being understood that all pre-Petition accounts receivable of Sellers owed by ILECs shall be set off against the ILEC Cure Amounts and thereby used as currency to pay the ILEC Cure Amounts. Buyer and Sellers agree that given Section 3.5(a) of the Purchase Agreement, Buyer should have standing in the Cases with regard to ILEC Cure Amounts and the parties shall take such position in the Cases. The treatment of the ILEC Cure Amounts and all matters related thereto under the Bankruptcy Plan shall be reasonably acceptable to Buyer. Sellers shall pay all ILEC Cure Amounts (whether in cash or by application of the ILEC Set Off Amounts); provided that: (i) if the ILEC Cure Amounts are less than $40 million, the Cash Purchase Price shall be reduced by an amount equal to one-third (1/3) of the amount by which $40 million exceeds the ILEC Cure Amounts; (ii) if the ILEC Cure Amounts are greater than $40 million, the Cash Purchase Price shall be increased by an amount equal to the lesser of (A) two-thirds of the amount by which the ILEC Cure Amounts exceed $40 million and (B) $16.667 million. The Cure Amounts, if any, as determined by the Bankruptcy Court, necessary to cure all defaults, if any, under the Assumed Contracts, other than the ILEC Cure Amounts shall be resolved in accordance with Section 3.5(d). Buyer and Sellers shall work cooperatively and in good faith with respect to paying, objecting to and settling the Non-ILEC Cure Amounts, it being understood that (i) all pre-Petition accounts receivable of Sellers owed by non-ILECs shall be set off against the Non-ILEC Cure Amounts and thereby used as currency to pay the Non-ILEC Cure Amounts and (ii) in no event shall any Cure Amounts in respect of the INSPA Contract or the KMC Contract constitute Non-ILEC Cure Amounts (and Buyer shall have no responsibility therefor).

Proposed Bidding Procedures, Auction and Auction Procedures

20. Consistent with the Purchase Agreement, the Debtors are proposing the Bidding Procedures, which are designed to maximize the value of the Sale Assets for the Debtors' estates, creditors, and other interested parties. Specifically, as discussed in more detail below, Qwest is serving as a "stalking horse" bidder for a higher or better offer. In that regard, Qwest has expended considerable time, effort and resources conducting due diligence and negotiating the Purchase Agreement. Accordingly, the Debtors seek – and Qwest requires – the immediate entry of the Bidding Procedures Order. The Bidding Procedures are summarized as follows:[4]

PROVISION	DESCRIPTION
The Stalking Horse Bid	Under the terms of the Purchase Agreement, the Buyer has agreed to purchase the Sale Assets for approximately $390 million, plus Assumed Liabilities (the "Stalking Horse Bid"), subject to the terms of the Purchase Agreement. Under the terms of the Purchase Agreement, beginning on the date the Bidding Procedures Order is entered by the Court and continuing until the conclusion of the Auction, the Debtors are entitled to, among other things, solicit and negotiate Competing Transactions.
Due Diligence	Unless otherwise determined by the Debtors, each potential bidder (a "Potential Bidder") must deliver (unless previously delivered) to the Debtors, c/o Jonathan S. Henes, Esq., Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611 and Michael A. Kramer, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022, the following documents (the "Preliminary Bid Documents") in order to participate in the bidding process: a. an executed confidentiality agreement in form and substance

[4] The summary description of the Bidding Procedures provided herein is provided for the convenience of the Court and parties in interest. To the extent that there are any discrepancies between this summary and the Bidding Procedures Order, the terms and language of the Bidding Procedures Order shall govern. Unless otherwise defined herein, capitalized terms defined in the Bidding Procedures shall have the meaning ascribed to them therein.

PROVISION	DESCRIPTION
	satisfactory to the Debtors; and b. preliminary proof by the Potential Bidder of its financial capacity to close a proposed transaction, the adequacy of which the Debtors and their advisors will determine in their sole discretion. Within two (2) business days after a Potential Bidder delivers the Preliminary Bid Documents, the Debtors shall determine, and shall notify the Potential Bidder, whether the Potential Bidder has submitted acceptable Preliminary Bid Documents so that such Potential Bidder may conduct due diligence with respect to the Sale Assets sought to be acquired. Only those Potential Bidders that have submitted acceptable Preliminary Bid Documents may submit bids for the Sale Assets.
Bid Deadline	Bids for the Sale Assets must (a) be in writing; (b) at a minimum, exceed the Stalking Horse Bid by $40 million; (c) satisfy the Bid Requirements set forth herein and (d) be received by (i) the attorneys for the Debtors, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the financial advisors for the Debtors, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022 (Attn: Michael A. Kramer), (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iv) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), and (v) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), so as to be actually received no later than 5:00 p.m. (prevailing Eastern Time) on February 9, 2004 (the "Bid Deadline"). Such bids shall be deemed "Qualified Bids" and those parties submitting such Qualified Bids shall be "Qualified Bidders." One (1) Business Day after the Debtors receive such Qualified Bids, the Debtors shall provide copies of such bids to Buyer, provided, that Buyer shall keep the Qualified Bids confidential and shall not contact or communicate with any Qualified Bidder with respect to any such bids or discuss the Qualified Bids with any party, except as required by law. Parties that do not submit a Qualified Bid by the Bid Deadline will not be permitted to participate at the Auction.

PROVISION	DESCRIPTION
Bid Requirements	Qualified Bids must meet the following requirements (the "Bid Requirements"): a. Each Qualified Bid must be on the same or better terms and conditions as those terms set forth in the Purchase Agreement and the documents set forth as exhibits thereto. The Debtors shall not entertain bids for the individual assets comprising their businesses. b. Each Qualified Bid must constitute a good faith, bona fide offer to acquire the Sale Assets. c. Each Qualified Bid shall not be conditioned on obtaining any of the following: financing, regulatory approval, shareholder approval, environmental contingencies, and/or the outcome of due diligence by the bidder. d. Each Qualified Bid must remain irrevocable until the Closing. e. As a condition to making a Qualified Bid, any competing bidder must provide the Debtors on or before the Bid Deadline, with sufficient and adequate information to demonstrate, to the satisfaction of the Debtors, that such competing bidder (i) has the financial wherewithal and ability to consummate the acquisition of the their business, and (ii) can provide all nondebtor contracting parties to the Assumed Contracts with adequate assurance of future performance as contemplated by section 365 of the Bankruptcy Code. f. In order for a bid to constitute a Qualified Bid, any bidder shall submit a deposit equal to the $35 million (the "Good Faith Deposit"). The bidder shall, in immediately available funds, by wire transfer to an account or accounts designated by the Debtors, pay such amount on the date such bid is submitted.
Auction and Overbids	If no Qualified Bid is received by the Bid Deadline, the Auction will not occur and the Debtors shall promptly pursue entry of an order by the Court authorizing the Sale to the Buyer. If the Debtors receive a Qualified Bid by the Bid Deadline, in addition to the Stalking Horse Bid, the Debtors shall conduct an auction (the "Auction") with respect to the Sale Assets. The Auction shall commence at 9:00 a.m. (prevailing Eastern Time) on February 12, 2004, at the offices of Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022-4611, or such later time

PROVISION	DESCRIPTION
	or other place as the Debtors shall notify all Qualified Bidders who have submitted Qualified Bids. The Auction may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Auction. No further notice of any such continuance will be required to be provided to any party. Subsequent bids at the Auction shall be made in increments of at least $5 million. At the Auction, the Buyer shall have the right to bid all or part of the Break-Up Fee (as defined herein) and the Expense Reimbursement (as defined herein).
Winning Bid	Upon conclusion of the Auction, the Debtors, in the exercise of their business judgment and after consulting with their advisors, shall identify the highest and best offer for the Sale Assets (the "Winning Bid") (the bidder having submitted a Winning Bid is the "Successful Bidder").
Sale Approval Hearing	The Sale Approval Hearing is presently scheduled to take place on February 17, 2004 at 10:00 a.m. (prevailing Eastern Time), before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408. The Sale Approval Hearing may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Sale Approval Hearing; provided, that any such continuance shall not be later than the deadline set forth in Schedule J of the Purchase Agreement. No further notice of any such continuance will be required to be provided to any party. At the Sale Approval Hearing, the Debtors shall present to the Bankruptcy Court for approval the Winning Bid for the Sale Assets.
Return of Good Faith Deposit	The Good Faith Deposit of the Successful Bidder shall be credited to the price paid for the Sale Assets. The Good Faith Deposit of any unsuccessful bidders will be returned within fifteen (15) days after consummation of the Sale Transaction or upon permanent withdrawal by the Debtors of the proposed sale of such assets. The deposit of the Buyer, if not chosen as the Winning Bid, shall be returned in accordance with the Purchase Agreement.
Reservation of Right	The Debtors reserve the right to reject any (other than the Buyer's offer pursuant to the Purchase Agreement) Qualified Bid (as defined below) if the Debtors determine that such Qualified Bid is

PROVISION	DESCRIPTION
	(i) inadequate or insufficient; (ii) not in conformity with the requirement of the Bankruptcy Code, any related rules or the terms set forth herein; or (iii) contrary to the best interests of the Debtors and their estates.
Break-Up Fee and Expense Reimbursement	In the event, among others set forth in the Purchase Agreement and as set forth below, that the Bankruptcy Court enters an order approving the Sale Transaction to a Successful Bidder other than Buyer, the Debtors shall pay to Buyer (i) a break-up fee in the amount of $12.8 million (the "Break-Up Fee) and (ii) a reimbursement of Buyer's expenses in connection with the transaction contemplated in the Purchase Agreement, not to exceed $5 million (the "Expense Reimbursement").

Bid Protections

21. The Break-Up Fee and the Expense Reimbursement constitute the "Bid Protections." The Bid Protections were a material inducement for, and a condition of, the Buyer's agreement to enter into the Purchase Agreement. The Debtors believe that the Bid Protections are fair and reasonable in view of, among other things, (a) the intensive analysis and negotiation undertaken by the Buyer in connection with the transactions contemplated by the Purchase Agreement and (b) the fact that the efforts of the Buyer have increased the chances that the Debtors will receive the highest or otherwise best offer for the Sale Assets by establishing a minimum bid for other bidders, subjecting the Sale Assets to an open auction and serving as a catalyst for other potential or actual bidders. Thus, the Bid Protections benefit the Debtors, their estates, their creditors and all other parties in interest.

22. The Buyer has proclaimed that it is unwilling to commit to hold open its offer to purchase the Sale Assets under the terms of the Purchase Agreement unless the Bid Protections are approved and payment of the Break-Up Fee and the Expense Reimbursement in accordance with the Purchase Agreement are authorized. Accordingly, the Debtors request that

the Court approve the Bid Protections and authorize payment of the Break-Up Fee and the Expense Reimbursement pursuant to the terms and conditions of the Purchase Agreement.

Liquidated Damages

23. The Liquidated Damages were a material inducement for, and express condition of, the Buyer's willingness to enter into the Purchase Agreement. The Buyer was unwilling to proceed with the purchase of the Sale Assets, which is conditioned upon, among other things, a plan of reorganization being confirmed by the Court (which such condition may be waived by the Debtors, in their sole and absolute discretion, at any time prior to the Closing (as described in the Purchase Agreement)) unless it was assured of the payment of the Liquidated Damages. The Buyer's expressed concern was that after the Sale Order was entered, but prior to the plan of reorganization being confirmed – and, thus, prior to the Closing – the Debtors would entertain, solicit or otherwise continue to market the Sale Assets and enter into an agreement to sell the Sale Assets to a third party. Accordingly, under the circumstances, the Debtors believe that the authorization of the payment of Liquidated Damages to Buyer is justified in the event, among others as set forth in the Purchase Agreement, that (a) the Purchase Agreement is terminated pursuant to Section 8.1(b), (c) or (d) of the Purchase Agreement following the entry of the Sale Order Approval Date, or (b) Buyer elects to terminate the Purchase Agreement pursuant to Section 8.1(e) of the Purchase Agreement or not to close, in each case because the condition set forth in Section 7.2(a) of the Purchase Agreement has not been satisfied as a result of a Seller's Intentional Breach following the Sale Order Approval Date. The Liquidated Damages are not a penalty, but rather, a reasonable estimate of the damages to be suffered by Buyer in the event the transactions contemplated by the Purchase Agreement are not consummated under the circumstances set forth therein.

Assumption and Assignment of Executory Contracts and Leases

24. In connection with the Sale Transaction, the Debtors seek authority under section 365 of the Bankruptcy Code to (I) assume and assign the Assumed Contracts, as that term is defined in Section 3.5(d) of the Purchase Agreement, effective as of (x) the later of (i) the Closing or (ii) State PUC Consent or FCC Consent or (y) a Closing pursuant to an Early Closing Election, and (II) execute and deliver to the Buyer or the Successful Bidder such documents or other instruments as may be necessary to assign and transfer the Assumed Contracts thereto.

25. The Debtors believe it is necessary to establish a process by which the Debtors and the counterparties (the "Contract Parties") to the Assumed Contracts can establish the cure obligations (the "Cure Amounts"), if any, necessary to be paid in accordance with section 365 of the Bankruptcy Code for the assumption of the Assumed Contracts and for the Contract Parties to assert any objection they may have to such assumption and assignment of the Assumed Contracts.

26. To facilitate a resolution of disputes, if any, relating to the Cure Amounts, specifically, or to the assignment of the Assumed Contracts, in general, the Debtors propose the following procedures (the "Assumption and Assignment Procedures").

Procedure	Description
Notice of Assumption and Assignment Objection Deadline	At least 20 days prior to the hearing to confirm the Bankruptcy Plan (or, in the event of an Early Closing Notice, within four Business Days of such Early Closing Notice), the Debtors, or the Debtors' noticing agent, shall serve a copy of the Bidding Procedures Order together with the Notice of the Debtors' Intent to Assume and Assign Executory Contracts and Unexpired Leases (the "Contract Assignment Notice"), substantially in the form of Exhibit 2 attached to the Bidding Procedures Order, by first class mail to the Contract Parties notifying them of the Debtors' intent to assume and assign each agreement listed on Schedule (a) of the Disclosure Schedules (as it may be modified by that time) and of the Cure Amount determined by the Debtors for each such Assumed Contract to be necessary for such assumption and assignment on the Closing Date.
Assumption and	Any Contract Party seeking to (a) assert a Cure Amount based on

Procedure	Description
Assignment Objections	defaults, conditions or pecuniary losses under its Assumed Contract (collectively, the "Cure Obligation") different from that set forth on any of the Contract Assignment Notices or (b) object to the potential assumption and assignment of its Assumed Contract on any other grounds, shall be required to file and serve an objection (an "Assumption and Assignment Objection"), in writing, setting forth with specificity (i) any and all Cure Obligations that the Contract Party asserts must be cured or satisfied with respect to such Assumed Contract and/or (ii) if the objection to the potential assignment of such Assumed Contract is based on adequate assurance issues, the information required regarding the Buyer to satisfy the Contract Party's adequate assurance concerns.
Assumption and Assignment Objection Deadline	To be considered a timely Assumption and Assignment Objection, the Assumption and Assignment Objection must be filed with the Court and a copy delivered to (i) the attorneys for the Debtors, Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611, Attn: Michael J. Frishberg, Esq., (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), (iv) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.) and (vi) any other party or partner set forth in the Contract Assignment Notice so as to be received no later than **15** days after service of the Contract Assignment Notice (the "Assumption and Assignment Objection Deadline").
Failure to File Assumption and Assignment Objection	Unless an Assumption and Assignment Objection is timely filed and served by a Contract Party by the Assumption and Assignment Objection Deadline, the assumption and assignment of the applicable Assumed Contract at the Sale Approval Hearing may occur without regard to any objection such party may have or any provisions to the contrary in the applicable Assumed Contract.
Waiver of Assumption and Assignment Objection	Contract Parties that fail to file and serve Assumption and Assignment Objections as provided above shall be deemed to have waived and released any and all Cure Obligations and shall be forever barred and estopped from asserting or claiming against the Debtors, the Buyer or any other Successful Bidder of the relevant contract or lease that any additional amounts are due or defaults exist, or prohibitions or conditions to assignment exist or must be satisfied, under such Assumed Contract for the period prior to the closing date.

27. The Debtors believe that those procedures and deadlines are fair and reasonable, and will provide sufficient notice to the Contract Parties. These procedures are designed to provide certainty to the Debtors and the Contract Parties regarding their obligations and rights in respect of Cure Amounts. Accordingly, the Debtors request that the Court approve the Assumption and Assignment Procedures.

Notice Of Sale, Auction And Bidding Procedures

28. Substantially concurrently with filing this Motion, the Debtors will serve a copy of this Motion, the Purchase Agreement, the proposed Bidding Procedures Order, the proposed Sale Approval Order and all exhibits to such orders upon the following persons by first-class mail, postage prepaid: (i) the Office of the United States Trustee; (ii) the attorneys for Prepetition Lenders; (iii) the attorneys for the Creditors' Committee; (iv) all nondebtor contracting parties identified on Schedule 4.20 of the Disclosure Schedules, (v) all parties that provide telecom services to the Debtors pursuant to tariffs; (vi) the attorneys for the Buyer; (vii) all counterparties to the Assumed Contracts, (viii) all parties who have made written expressions of interest in acquiring the Sale Assets or the Business within two (2) months prior to the date of the Motion; (ix) all known persons holding a lien on any of the Sale Assets; (x) the Securities and Exchange Commission; (xi) all taxing authorities that have jurisdiction over the Sale Assets; (xii) all Governmental Agencies having jurisdiction over the Sale Assets with respect to Environmental Laws, (xiii) the attorneys general of all states in which the Sale Assets are located; (xiv) the Federal Communications Commission and applicable estate public utility commissions; and (xv) all other parties that had filed a notice of appearance and demand for service of papers in these bankruptcy cases under Bankruptcy Rule 2002 as of the date hereof (collectively, the "Bidding Procedures Parties").

29. Assuming the Court enters the proposed Bidding Procedures Orders, the Debtors, no later than five (5) business days after entry of the Bidding Procedures Order, shall cause the Notice of Auction and Sale approval hearing attached as Exhibit 1 to the Bidding Procedures Order to be (i) published in the national editions of The Wall Street Journal and The New York Times pursuant to Bankruptcy Rule 2002(l) and (ii) served upon all creditors and parties in interest in these chapter 11 cases, including (x) all creditors who have filed proofs of claim in these chapter 11 cases, and (y) all parties that have filed notices of appearance in these chapter 11 cases under Bankruptcy Rule 2002 as of the date hereof. The Debtors submit that such notice, together with the other notice described herein, is good, adequate, sufficient and proper notice to such interested parties.

30. Finally, in addition to the publication and service of the Notice of Auction and Sale Approval Hearing provided for in the preceding paragraph, no later than five (5) business days after entry of the Procedures Order, the Debtors shall cause a copy of the Notice of Auction and Sale Approval Hearing and the Procedures Order (in the form approved by the Court) to be served upon the following persons by first-class mail, postage prepaid: (i) the Bidding Procedures Parties; (ii) all counterparties to the Assumed Contracts; and (iii) all other parties that have filed a notice of appearance and demand for service of papers in these bankruptcy cases under Bankruptcy Rule 2002 as of the date hereof (collectively, the "Auction Notice Parties").

31. The Debtors believe that the foregoing notice to the Bidding Procedures Parties and the Auction Notice Parties is sufficient to provide effective notice of the Bidding Procedures, the Auction and the proposed Sale to potentially interested parties in a manner designed to maximize the change of obtaining the broadest possible participation in the Sale process while minimizing costs to the estates. Accordingly, the Debtors request that the Court

find that notice in this manner is sufficient and that no further notice of the Auction, the Bidding Procedures or the proposed Sale is required.

Memorandum of Points and Authorities

A. The Proposed Sale Is Within the Debtors' Sound Business Judgment and Should Therefore Be Approved

32. The Debtors submit that ample authority exists for the approval of the Sale Transaction to the Buyer pursuant to the Purchase Agreement, or to such other purchaser submitting a higher or better offer for the Sale Assets. Section 363(b)(1) of the Bankruptcy Code, which authorizes a debtor to sell assets of the estate other than in the ordinary course of business free and clear or liens, claims, interests, and encumbrances, provides, in relevant part, as follows:

> (b)(1) The trustee, after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate.
>
> * * * *
>
> (f) The trustee may sell property under subsection (b) or (c) of this section free and clear of any interest in such property of an entity other than the estate, only if
>
> (1) applicable nonbankruptcy law permits sale of such property free and clear of such interest;
>
> (2) such entity consents;
>
> (3) such interest is a lien and the price at which such property is to be sold is greater than the aggregate value of all liens on such property;
>
> * * * *
>
> (5) such entity could be compelled, in a legal or equitable proceeding to accept a money satisfaction of such interest.

33. This provision states the general principle that debtors in possession may sell property of the estate outside of the ordinary course of business; however, it does not set forth a standard for determining when it is appropriate for a court to authorize the sale or disposition of a debtor's assets. Courts in the Second Circuit and elsewhere have required that the decision to sell assets outside the ordinary course of business be based upon the sound business judgment of the debtor. See Committee of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.) 722 F.2d 1063, 1071 (2d Cir. 1983) (holding that a judge determining a section 363(b) application must find from the evidence presented before him a good business reason to grant such application); In re Chateaugay Corp., 973 F.2d 141, 143 (2d Cir. 1992) (same); Stephens Indus. v. McClung, 789 F.2d 386, 390 (6th Cir. 1986) (holding that a "bankruptcy court can authorize a sale of all of a chapter 11 debtor's assets under section 363(b)(1) when a sound business purpose dictates such action"); Official Committee of Unsecured Creditors v. Ravtech Corp. (In re Ravtech Corp.), 190 B.R. 149, 151 (Bankr. D. Conn. 1995); In re Ionosphere Clubs, Inc., 100 B.R. 670, 674 (Bankr. S.D.N.Y. 1989) (noting that standard for determining a section 363(b) motion is "good business reason"); In re Phoenix Steel Corp., 82 B.R. 334, 335-36 (Bankr. D. Del. 1987) (stating that judicial approval of a section 363 sale requires that a good business reason exists for completing the sale).

34. As Judge Lifland stated in In re Johns-Manville Corp., "[w]here the debtor articulates a reasonable basis for its business decisions (as distinct from a decision made arbitrarily or capriciously), courts will generally not entertain objections to the debtor's conduct." 60 RR. 612, 616 (Bankr. S.D.N.Y. 1986). When a valid business justification exists, the law vests the debtor's decision to use property out of the ordinary course of business with a strong presumption that "in making a business decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action taken was in the best

interests of the company." Official Comm. of Subordinated Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.), 147 B.R. 650, 656 (S.D.N.Y. 1992) (citations and internal quotations omitted), appeal dismissed, 3 F.3d 49 (2d Cir. 1993).

35. The Debtors submit that adequate business reasons exist to justify the Sale to the Buyer (or another Successful Bidder, as the case may be). Based upon the results of their exhaustive analysis of the Debtors' ongoing and future business prospects, the Debtors, after consulting with their management team, advisors and major creditor constituencies, have concluded that the best means for maximizing the value of the Debtors' estates is to sell the Sale Assets. See Lionel, 722 F.2d at 1071 (the most important factor in approving a section 363 sale whether the asset is increasing or decreasing in value).

36. In determining to sell the Sale Assets, the Debtors relied on the following facts and circumstances. First, the Buyer has offered substantial value for the Sale Assets, which the Debtors believe is both fair and reasonable. To dispel any doubt, the Debtors are subjecting the Sale to competing bids at the Auction, thereby assuring that the Debtors will receive the highest and best value for the Sale Assets. Consequently, the fairness and reasonableness of the consideration to be received by the Debtors will ultimately be demonstrated by a "market check" through an auction process, which is the best means for establishing whether a fair and reasonable price is being paid.

37. Second, the Debtors compared the value and certainty of the Sale Transaction with that of a stand alone restructuring plan. Although, the Debtors and the Prepetition Lenders previously had reached an agreement with respect to the terms of a stand alone restructuring plan, the Debtors have determined that the Sale Transaction would maximize the value of their estates. Third, the Debtors engaged in extensive discussions with their major creditor constituencies and, as a consequence, obtained the support of these constituencies to

move forward with the Sale. Based on these considerations, the Debtors determined that the most reasonable means for maximizing value of the Debtors' estates is engaging in the process of selling the Sale Assets.

38. The Debtors decision, of course, is subject to review and objections by interested parties and court approval. In that regard, all creditors and parties in interest will receive adequate notice of the Bidding Procedures, the Auction and the sale. Such notice is reasonably calculated to provide timely and adequate notice to the Debtors' major creditor constituencies, those parties potentially interested in bidding on the Assets and others whose interests are potentially implicated by the proposed sale. The Debtors submit that such notice is sufficient, under Bankruptcy Rules 2002 and 6004, for entry of the Sale Approval Order.

39. Under the circumstances, sound business reasons exist that justify the sale of the Assets outside of the ordinary course of business. Accordingly, the Debtors submit that the proposed Sale to the Buyer pursuant to section 363 of the Bankruptcy code pursuant to the terms of the Purchase Agreement, including, but not limited to, Section 8.2 of the Purchase Agreement providing for Liquidated Damages, should be approved.

B. The Buyer is a Good Faith Buyer and is Entitled to the Protections of Section 363(m) of the Bankruptcy Code

40. Section 363(m) of the Bankruptcy code provides:

> The reversal or modification on appeal of an authorization under subsection (b) or (c) of this section of a sale or lease of property does not affect the validity of a sale or lease under such authorization to an entity that purchased or leased such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale or lease were stayed pending appeal.

11 U.S.C. § 363(m). While the Bankruptcy Code does not define "good faith", the Second Circuit in In re Colony Hill Associates, 11 F.3d 269 (2d Cir. 1997) held that:

> The 'good faith' component of the test under §363(m) speaks to the equity of the [bidder's] conduct in the course of the sale proceedings. Typically, the misconduct that would destroy a purchaser's good faith status at the judicial sale involves fraud, collusion between the purchaser and other bidders or the trustee, or an attempt to take grossly unfair advantage of other bidders.

11 F.3d at 276.

41. As set forth above, the Buyer was selected by the Debtors after analyzing bids made by other potential purchasers, engaging in extensive negotiations and determining that the terms of the Buyer's bid were the most favorable submitted. The Purchase Agreement is a product of extensive arms-length negotiations and was not in any way tainted by fraud, collusion or bad faith. Accordingly, the Debtors request that the Court make a finding that the Buyer is entitled to the protections of section 363(m) of the Bankruptcy Code.

C. The Sale Satisfies the Requirements of Section 363(f) of the Bankruptcy Code for a Sale Free and Clear of Liens, Claims, Encumbrances and Interests

42. Under section 363(f) of the Bankruptcy Code, a debtor in possession may sell property free and clear of any lien, claim, or interest in such property if, among other things:

a. applicable nonbankruptcy law permits sale of such property free and clear of such interest;

b. such entity consents;

c. such interest is a lien and the price at which such property is sold is greater than all liens on such property;

d. such interest is in bona fide dispute; or

e. such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

11 U.S.C. § 363(f).

43. Notably, section 363(f) of the Bankruptcy Code is drafted in the disjunctive. Thus, satisfaction of any one of its five requirements will be sufficient to permit the

Sale Transaction free and clear of liens, claims, encumbrances, pledges, mortgages, security interests, charges, options, and other interests (collectively, the "Interests"). Specifically, the Debtors satisfy at least two of these requirements under section 363(f) of the Bankruptcy Code. First, the Prepetition Lenders that hold a lien on substantially all of the Sale Assets have consented to the Sale pursuant to the terms of the Purchase Agreement.

44. Second, all holders of interests in the Sale Assets could be compelled to accept a money satisfaction of their interests in legal or equitable proceedings in accordance with section 363(f)(5) of the Bankruptcy Code. Such legal or equitable proceedings include proceedings to confirm a plan of reorganization, under which the holder of a lien may be compelled to accept payment in satisfaction of its lien pursuant to section 1129(b)(2)(A) of the Bankruptcy Code. Accordingly, the Debtors submit that any existing interests in the Assets will attach to the net proceeds of the sale thereof.

45. Based upon the foregoing, the Sale free and clear of liens, claims, encumbrances and interests should be approved under section 363(f) of the Bankruptcy Code.

D. The Debtors' Request for Relief from Transfer Taxes Under Section 1146(c) of the Bankruptcy Code Should be Granted

46. Pursuant to section 1146(c) of the Bankruptcy Code, the "transfer . . . or the making or delivery of an instrument of transfer under a plan confirmed under section 1129 of this title, may not be taxed under any law imposing a stamp or similar tax." This provisions has been broadly construed to include sales and transfers that occur outside a chapter 11 plan and before or after plan confirmation, provided that such sales and transfers enable the confirmation and consummation of a chapter 11 plan for the debtor. See e.g., City of New York v. Jacoby-Bender, Inc. (In re Jacoby-Bender, Inc.), 758 F.2d 840, 842 (2d Cir. 1985); City of New York v. Smoss Enterprises Corp. (In re Smoss Enterprises Corp.), 54 B.R. 950, 951 (E.D.N.Y. 1985)

(holding that section 1146(c) applied when "the transfer of property was essential to the confirmation of a plan"); In re United Press Int'l, Inc., Case No. 91-B-13955 (FSC) 1992 Bankr. LEXIS 842 at *4 (Bankr. S.D.N.Y. May 18, 1992) (finding that section 1146(c) exemption applied to section 363 sale where the value of the debtor's assets were likely to deteriorate over the time necessary to confirm a plan). In so holding, courts have focused upon whether the sale and transfer is "necessary to the consummation of a plan." Id. at 842. But see, In re Hechinger Inv. Co. of Delaware, Inc., 335 F.3d 243 , C.A.3 (Del.),2003.

47. In the instant case, the Sale Transaction is clearly necessary to the consummation of a plan, and therefore should be deemed to be "under a plan." As set forth above, the Sale Transaction is conditioned upon the confirmation of a plan of reorganization. If the sale is pursuant to a plan of reorganization, as currently structured, there is no doubt that the Debtors and the Buyer will be exempt from paying any transfer taxes. Moreover, to the extent the Debtors waive the "plan confirmation" condition, the Debtors and the Buyer should remain exempt from paying transfer taxes. In that regard, the Sale Transaction will provide the funds necessary for the Debtors to proceed toward confirmation and consummation of a plan on a rational basis. Accordingly, the Debtors submit that the Sale Transaction falls within the scope of the exemption provided for under section 1146(c) of the Bankruptcy Code. See In re Permar Provisions, Inc., 79 B.R. 530, 534 (Bankr. E.D.N.Y. 1987) (sale of property one year prior to plan confirmation was exempt under section 1146(c) of the Bankruptcy Code where sale proceeds were distributed to secured and unsecured creditors) See also In re Loral Space & Com. Ltd., et al., Case No. 03-41710 (RDD) (S.D.N.Y. October 30, 2003) (order exempting sale of assets from transfer taxes).

E. The Court Should Waive or Reduce the Ten Day Stay Periods Required By Rules 6004(g) and 6006(d) of the Federal Rules of Bankruptcy Procedure

48. Pursuant to Bankruptcy Rule 6004(g), unless the court orders otherwise, all orders authorizing the sale of property pursuant to section 363 of the Bankruptcy Code are automatically stayed for 10 days after entry of the order. Fed. R. Bankr. P. 6004(g). The purpose of Bankruptcy Rule 6004(g) is to provide sufficient time for an objecting party to appeal before the order can be implemented. See Advisory Committee Notes to Fed. R. Bankr. P. 6004(g).

49. Although Bankruptcy Rule 6004(g) and the Advisory Committee Notes are silent as to when a court should "order otherwise" and eliminate or reduce the 10 day stay period, Collier suggests that the 10 day stay period should be eliminated to allow a sale or other transaction to close immediately "where there has been no objection to the procedure." 10 Collier on Bankruptcy 15th Ed. Rev., 6064.09 (L. King, 15th rev. ed. 1988). Furthermore, Collier provides that if an objection is filed and overruled, and the objecting party informs the court of its intent to appeal, the stay may be reduced to the amount of time actually necessary to file such appeal. Id.

50. Similarly, Bankruptcy Rule 6006(d) stays all orders authorizing a debtor to assign an executory contract or unexpired lease pursuant to section 365(f) of the Bankruptcy Code for 10 days, unless the court orders otherwise.

51. To preserve the value of the Sale Assets and limit the costs of administering and preserving the Sale Assets, it is critical that the Debtors close the Sale Transaction as soon as possible after all closing conditions have been met or waived. Accordingly, the Debtors hereby request that the Court waive the 10-day stay periods under Bankruptcy Rules 6004(g) and 6006(d), or in the alternative, if an objection to the sale or to the

assignment of a contract or lease is filed, reduce the stay period to the minimum amount of time needed by the objecting party to file its appeal to allow the sale to close as provided under the Purchase Agreement.

F. The Assumption and Assignment of Assigned Agreements Should Be Authorized

52. Section 365(f) of the Bankruptcy Code provides that a debtor in possession may assign an executory contract or unexpired lease of the debtor only if (a) the debtor in possession assumes such contract or lease in accordance with the provisions of section 365, and (b) adequate assurance of future performance by the assignee of such contract or lease is provided. 11 U.S.C. § 365(f)(2). Under section 365(a) of the Bankruptcy Code, a debtor, "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).

53. Section 365(b)(1) of the Bankruptcy Code, in turn, codifies the requirements for assuming an unexpired lease or executory lease or executory contract of a debtor. This subsection provides:

> (b)(1) If there has been a default in an executory contract or unexpired lease of the debtor, the trustee may not assume such contract or lease unless, at the time of assumption of such contract or lease, the trustee —
>
> (A) cures or provides adequate assurance that the trustee will promptly cure, such default;
>
> (B) compensates, or provides adequate assurance that the trustee will promptly compensate, a party other than the debtor to such contract or lease, for any actual pecuniary loss to such party resulting from such default; and
>
> (C) provide adequate assurance of future performance under such contract or lease.

11 U.S.C. § 365(b)(1).

54. The meaning of "adequate assurance of future payment" depends on the facts and circumstances of each case, but should be given "practical, pragmatic construction." EBG Midtown South Corp. v. McLaren/Hart Envtl. Engineering Corp. (In re Sanshoe Worldwide Corp.), 139 B.R. 585, 592 (S.D.N.Y. 1992) (citations omitted), aff'd, 993 F.2d 300 (2d Cir. 1993).

55. When an executory contract or lease is to be assumed and assigned, adequate assurance may be provided by, among other things, demonstrating the financial health of the assignee and its experience and ability in managing the type of enterprise or property assigned. See e.g., In re Bygaph, Inc., 56 B.R. 596, 605-06 (Bankr. S.D.N.Y. 1986) (stating that adequate assurance of future performance is present when a prospective assignee of lease from debtor has financial resources and has expressed a willingness to devote sufficient funding to the business in order to give it a strong likelihood of success).

56. To the extent that any defaults exist under any Assigned Agreements, the Debtors will cure such defaults pursuant to the procedures outlined herein and in accordance with the Purchase Agreement. Moreover, the Debtors will demonstrate facts at the Sale approval hearing that show the Buyer's (or the Successful Bidder's, as the case may be) financial credibility, experience in the industry, and willingness and ability to perform under the Assigned Agreements. Therefore, the Sale approval hearing will provide the Court and other interested parties with an opportunity to evaluate and, if necessary, challenge the ability of the Buyer (or the Successful Bidder, as the case may be) to provide adequate assurance of future performance under the Assigned Agreements. Accordingly, the Debtors submit that the assumption and assignment of the Assigned Agreements as set forth herein should be approved.

G. Conducting an Auction Pursuant to the Bidding Procedures is in the Best Interests of the Debtors' Estates and Creditors

57. The Debtors believe that the Auction and proposed Bidding Procedures will promote active bidding from interested parties and, ultimately will realize the best or otherwise highest offer available for the Sale Assets. The proposed Bidding Procedures will allow the Debtors to conduct the Auction in a controlled, fair and open fashion that will encourage participation by financially capable bidders that demonstrate the ability to close a transaction. The Debtors believe that the Bidding Procedures will encourage, rather than hinder, bidding for the Sale Assets, are consistent with other procedures previously approved by this Court, and are appropriate under the relevant standards governing auction proceedings and bidding incentives in bankruptcy proceedings. See, e.g., In re Kmart, Case No. 02-B02474 (SPS) (Bankr. N.D. Ill. May 10, 2002); In re Global Crossing, Case No. 02-40188 (S.D.N.Y. March 25, 2002) (REG); In re Randall's Island Family Golf Center, Inc., 261 B.R. 96 (S.D.N.Y. 2001); In re Integrated Resources, Inc., 147 B.R. 650 (S.D.N.Y. 1992).

H. Bid Protections Are Warranted

58. To compensate the Buyer for serving as a "stalking horse," thereby subjecting its bid to better or higher offers, the Debtors and the Buyer seek authority for the Debtors to pay the Buyer the Break-Up Fee if the Buyer is not the Successful Bidder and the Expense Reimbursement in certain other circumstances and provide for the Bid Protections described herein. The Debtors and the Buyer believe that the Break-Up Fee and the Expense Reimbursement, and Bid Protections are (a) fair and reasonable, given the benefits to the estates of having a definitive Purchase Agreement and the risk to the Buyer that a third-party offer may ultimately be accepted and (b) are necessary to preserve the value of the Debtors' estates.

59. Bidding incentives such as the Break-Up Fee and Expense Reimbursement encourage a potential purchaser to invest the requisite time, money and effort to conduct due diligence and sale negotiations with a debtor (or in this case a prospective debtor) despite the inherent risks and uncertainties of the chapter 11 process. See e.g., In re 995 Fifth Ave. Assocs., L.P., 96 B.R. 24, 28 (Bankr. S.D.N.Y. 1989) (finding that bidding incentives may be "legitimately necessary to convince a white knight to enter the bidding by providing some form of compensation for the risks it is undertaking") (citations omitted); In re Marrose Corp., Case Nos. 89 B 12171-12179 (B), 1992 WL 33848 at *5 (Bankr. S.D.N.Y. 1992) (stating that "[a]greements to provide breakup fees or reimbursement of fees and expenses are meant to compensate the potential acquirer who serves as a catalyst or 'stalking horse' which attracts more favorable offers").

60. The Debtors submit that Bid Protections are a normal, and, oftentimes, necessary component of sales outside the ordinary course of business under section 363 of the Bankruptcy Code. See e.g., In re Kmart, Case No. 02-B02474 (SPS) (Bankr. N.D. Ill. May 10, 2002) (authorizing a termination fee and bid protections for potential bidders); In re Comdisco, Inc., Case No. 01-24795 (RB) (Bankr. N.D. Ill. Aug. 9, 2002) (approving a termination fee as, *inter alia*, an actual and necessary cost and expense of preserving the debtor's estate, of substantial benefit to the debtor's estate, and a necessary inducement for, and a condition to, the proposed purchaser's entry into the purchase agreement); In re Integrated Resources, Inc., 147 B.R. at 660 (noting that break-up fees may be legitimately necessary to convince a "white knight" to offer an initial bid by providing some form of compensation for the expenses such bidder incurs, and the risks such bidder faces by having its offer held open, subject to higher and better offers); In re Crowthers McCall Pattern, Inc., 114 B.R. 877, 880 (Bankr. S.D.N.Y. 1990)

(approving an overbid requirement in an amount equal to the approved break-up fee); In re Kupp Acquisition Corp., Case No. 96-1223 (PJW) (Bankr. D. Del. March 3, 1997).

61. Here, the proposed Break-Up Fee and Expense Reimbursement are of substantial benefit to the Debtors, their creditors and estates. See e.g., In re Integrated Resources Inc., 147 B.R. at 660; In re Kmart Corp., Case No. 02-B02474 (SPS) (Bankr. N.D. Ill. May 10, 2002); In re Comdisco, Inc., Case No. 01-24795 (RB) (Bankr. N.D. Ill. Aug. 9, 2002) (finding proposed termination fee to be of substantial benefit to the debtor's estate). The Break-Up Fee is 2.8% of the purchase price (which is comprised of approximately $300 million in cash, a $90 million note and approximately $75 million of Assumed Liabilities) as provided for in the Purchase Agreement. The Expense Reimbursement, as noted above, shall not exceed $5 million. The Debtors submit that the Break-Up Fee and Expense Reimbursement are reasonable and appropriate in light of the size and nature of the Sale Transaction and the efforts that have been and will be expended by the Buyer. See Consumer News and Business Channel Partnership v. Dow Jones/Group W Television Company (In re Financial News Network, Inc.), 931 F.2d 217, 219 (2nd Cir. 1991) (breakup fee of 2.8% and bid protection of 9.5% approved); Doehring v. Crown Corporation (In re Crown Corp.), 679 F.2d 774 (9th Cir. 1982) (bid protection of 4.9% approved). Finally, the Bid Protections are necessary to ensure that the Buyer will continue to pursue its proposed acquisition of the Sale Assets. See 11 U.S.C. § 503(b) (defining actual and necessary costs and expenses of preserving a debtor's estate). Accordingly, the Debtors believe that the Bid Protections should be approved.

62. The Debtors request entry of the Lock-Up Order, (a) setting the time, date and place for the Bidding Procedures Hearing and (b) authorizing and approving the lock-up provisions contained in Section 6.17(a) of the Purchase Agreement. The Court's entry of the Lock-Up Order is a necessary condition for Qwest's execution of the Purchase Agreement. The

Debtors have given notice of the proposed Lock-Up Order to counsel for the Committee and counsel for the Prepetition Lenders and neither of these parties have expressed any objection to the entry of the Lock-Up Order. Accordingly, the Debtors believe that the Lock-Up Order should be entered.

Waiver of Memorandum of Law

63. This Motion does not raise any novel issues of law and the relevant legal authorities are noted herein. Thus, the Debtors respectfully request that the Court waive the requirement contained in Rule 9013-1 (b) of the Local Bankruptcy Rules for the Southern District of New York that a separate memorandum of law be submitted.

Notice

64. Notice of this Motion has been given in accordance with the notice procedures set forth herein. The Debtors respectfully submit that such notice is sufficient and request that this Court find that no further notice of the relief requested herein is required.

No Prior Request

65. No prior request for the relief sought in this Motion has been made to this or any other court.

WHEREFORE, the Debtors respectfully request entry an order granting the relief requested herein and such other and further relief as the Court may deem just and appropriate.

Dated: New York, New York
December 18, 2003

Respectfully submitted,

/S/ Matthew A. Cantor_____
Matthew A. Cantor (MC-7727)
Jonathan S. Henes (JH-1979)
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Facsimile: (212) 446-4900

Attorneys for Debtors and Debtors in Possession

HEARING DATE AND TIME: January 9, 2004 at 10:00 a.m.
OBJECTION DEADLINE: January 8, 2004 at 12:00 p.m.

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Attorneys for Debtors and Debtors in Possession

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

NOTICE OF HEARING ON DEBTORS' MOTION FOR ORDERS PURSUANT TO SECTIONS 105(a), 363, 365 AND 1146(c) OF THE BANKRUPTCY CODE: (A) (I) FIXING THE TIME, DATE AND PLACE FOR THE BIDDING PROCEDURES HEARING AND (II) APPROVING THE NO-SHOP PROVISIONS SET FORTH IN THE ASSET PURCHASE AGREEMENT WITH QWEST COMMUNICATIONS INTERNATIONAL INC.; (B) (I) ESTABLISHING BIDDING PROCEDURES AND BID PROTECTIONS IN CONNECTION WITH THE SALE OF SUBSTANTIALLY ALL OF THE ASSETS OF THE DEBTORS, (II) APPROVING THE FORM AND MANNER OF NOTICES, (III) APPROVING THE ASSET PURCHASE AGREEMENT SUBJECT TO HIGHER AND BETTER OFFERS AND (IV) SETTING A SALE APPROVAL HEARING DATE; AND (C) (I) APPROVING THE SALE TO QWEST COMMUNICATIONS INTERNATIONAL INC. FREE AND CLEAR OF ALL LIENS, CLAIMS AND ENCUMBRANCES, (II) AUTHORIZING THE ASSUMPTIONAND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES AND (III) GRANTING RELATED RELIEF

PLEASE TAKE NOTICE that upon the annexed motion (the "Motion"), dated December 18, 2003, of Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors"), requesting orders (i) establishing

bidding procedures and certain protections payable to the Buyer including a break-up fee and expense reimbursement in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) approving the Purchase Agreement,[1] subject to higher and better offers; (iv) setting a hearing date to consider approval of the sale of the Sale Assets; (v) approving the sale to the Buyer, subject to higher and better offers, free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes; (vi) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (vii) granting certain related relief, as more fully set forth in the Motion, a hearing in respect of certain relief requested in the Motion (as described in clauses (i) – (iv) above (the "Preliminary Relief")) will be held before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408, on January 9, 2004, at 10:00 a.m., (prevailing Eastern Time), or as soon thereafter as the Debtors are heard.

PLEASE TAKE FURTHER NOTICE that objections, if any, to the Preliminary Relief requested in the Motion shall be in writing, shall conform to the Federal Rules of Bankruptcy Procedure and the Local Bankruptcy Rules of the Southern District of New York, shall set forth the name of the objectant, the nature and amount of claims or interests held or asserted by the objectant against the Debtors' estates or property, the basis for the objection, and the specific grounds therefore, and shall be filed with the Bankruptcy Court electronically in accordance with General Order M-242 (which can be found at www.nysb.uscourts.gov) by registered users of the Bankruptcy Court's case filing system and, by all other parties in interest,

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[1] Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion or Purchase Agreement, as applicable.

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 Chambers) and served in accordance with General Order M-242, and shall further be served upon (a) Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022 (Attn. Jonathan S. Henes, Esq.); (b) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 10004 (Attn. Pamela J. Lustrin, Esq.); (c) Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn. Jesse Austin, III, Esq.); (d) Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn. Ira S. Dizengoff, Esq.); and (e) Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.), so as to be actually received no later than January 8, 2004, at 12:00 p.m. (prevailing Eastern Time).

Dated: New York, New York
December 18, 2003

Respectfully submitted,

/S/ Matthew A. Cantor

Matthew A. Cantor (MC-7727)
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Attorneys for Debtors and Debtors in Possession

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

ORDER (A) FIXING TIME, DATE AND PLACE OF HEARING ON DEBTORS' MOTION FOR APPROVAL OF BIDDING PROCEDURES AND BID PROTECTIONS IN CONNECTION WITH THE SALE OF SUBSTANTIALLY ALL OF THE ASSETS OF THE DEBTORS AND (B) AUTHORIZING AND APPROVING DEBTORS' AGREEMENT TO NO-SHOP PROVISIONS SET FORTH IN SECTION 6.17(a) OF THE ASSET PURCHASE AGREEMENT BETWEEN THE DEBTORS AND QWEST COMMUNICATIONS INTERNATIONAL INC.

Upon the motion, dated December 18, 2003 (the "Motion"), of Allegiance Telecom, Inc. ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors"), for orders (i) establishing bidding procedures and certain protections payable to the Buyer including a break-up fee and expense reimbursement in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) approving the Purchase Agreement,[1] subject to higher and better offers; (iv) setting a hearing date to consider approval of the sale of the Sale Assets; (v) approving the sale to the Buyer, subject to higher and better offers, free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes; (vi) authorizing the assumption and assignment of certain executory contracts and

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unexpired leases; and (vii) granting certain related relief; and a hearing to consider certain relief requested in the Motion having been held on December 18, 2003; and it appearing that an order scheduling the Procedures Hearing (as defined below) is in the best interest of the Debtors and parties in interest; and approving Section 6.17(a) of the Purchase Agreement is in the best interest of the Debtors and parties in interest; and it appearing that the Court has jurisdiction over this matter; and after due deliberation and sufficient cause appearing therefore; it is hereby

ORDERED that the hearing (the "Procedures Hearing") in respect of the relief requested in the Motion (as described in clauses (i) – (iv) above (the "Preliminary Relief")) will be held before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408, on January 9, 2004, at 10:00 a.m., (prevailing Eastern Time), or as soon thereafter as the Debtors are heard; and it is further

ORDERED that objections, if any, to the Preliminary Relief requested in the Motion shall be in writing, shall conform to the Federal Rules of Bankruptcy Procedure and the Local Bankruptcy Rules of the Southern District of New York, shall set forth the name of the objectant, the nature and amount of claims or interests held or asserted by the objectant against the Debtors' estates or property, the basis for the objection, and the specific grounds therefore, and shall be filed with the Bankruptcy Court electronically in accordance with General Order M-242 (which can be found at www.nysb.uscourts.gov) 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 Chambers) and served in accordance with General Order M-242, and shall further be served upon (a) Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022 (Attn. Jonathan S. Henes, Esq.); (b) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 10004 (Attn. Pamela J. Lustrin, Esq.); (c) Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn. Jesse Austin, III, Esq.); (d) Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn. Ira S. Dizengoff, Esq.); and (e) Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.), so as to be actually received no later than January 5, 2004, at 12:00 p.m. (prevailing Eastern Time).

ORDERED that Section 6.17(a) of the Purchase Agreement which, among other things, prevents the Debtors from soliciting, negotiating or entering into a Competing Transaction from the date of execution of the Purchase Agreement through the date this Court approves or denies the Bidding Procedures Order, hereby is approved and authorized pending the adjudication of the Preliminary Relief at the Procedures Hearing; and it is further

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

Dated: New York, New York
_____, 2003

_____
UNITED STATES BANKRUPTCY JUDGE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

ORDER (A) ESTABLISHING BIDDING PROCEDURES AND BID PROTECTIONS IN CONNECTION WITH THE SALE OF SUBSTANTIALLY ALL OF THE ASSETS OF THE DEBTORS (B) APPROVING THE FORM AND MANNER OF NOTICES, (C) APPROVING THE ASSET PURCHASE AGREEMENT WITH QWEST COMMUNICATIONS INTERNATIONAL, INC., SUBJECT TO HIGHER AND BETTER OFFERS AND (D) SETTING A SALE HEARING DATE

Upon the motion, dated December 18, 2003 (the "Motion"), of Allegiance Telecom, Inc. ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors"), for orders (i) establishing bidding procedures and certain protections (the "Bidding Procedures") payable to the Buyer including a break-up fee and expense reimbursement in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) approving the Purchase Agreement,[1] subject to higher and better offers; (iv) setting a hearing date to consider approval of the sale of the Sale Assets (the "Sale Hearing"); (v) approving the sale to the Buyer, subject to higher and better offers, free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes; (vi) authorizing the assumption and

[1] Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion or Purchase Agreement, as applicable.

assignment of certain executory contracts and unexpired leases; and (vii) granting certain related relief; and an interim hearing having been held (the "Procedures Hearing") in respect of the relief requested in the Motion (as described in clauses (i) – (iv) above (the "Preliminary Relief")); and it appearing that notice of the hearing has been provided to (i) the Office of the United States Trustee; (ii) the attorneys for Prepetition Lenders; (iii) the attorneys for the Creditors' Committee; (iv) all nondebtor contracting and lease parties identified on Schedules 4.20 and 4.21 of the Disclosure Schedules, (v) all parties that provide telecom services to the Debtors pursuant to tariffs; (vi) the attorneys for the Buyer; (vii) all counterparties to the Assumed Contracts, (viii) all parties who have made written expressions of interest in acquiring the Sale Assets or the Business within two (2) months prior to the date of the Motion; (ix) all known persons holding a lien on any of the Sale Assets; (x) the Securities and Exchange Commission; (xi) all taxing authorities that have jurisdiction over the Sale Assets; (xii) all Governmental Agencies having jurisdiction over the Sale Assets with respect to Environmental Laws, (xiii) the attorneys general of all states in which the Sale Assets are located; (xiv) the Federal Communications Commission and applicable estate public utility commissions; and (xv) all other parties that had filed a notice of appearance and demand for service of papers in these bankruptcy cases under Bankruptcy Rule 2002 as of the date of the Motion; and it appearing that such notice constitutes good and sufficient notice of the Motion and Preliminary Relief and that no other or further notice need be provided; and upon the hearing held on December 18, 2003 approving the Lock-Up Order; and upon the Motion and the record of the Procedures Hearing and all other proceedings had before the Court; and it appearing that an order granting the Preliminary Relief is in the best interest of the

Debtors and parties in interest; and it appearing that the Court has jurisdiction over this matter; and after due deliberation and sufficient cause appearing therefor.

IT IS HEREBY FOUND AND DETERMINED THAT:

A. The Bidding Procedures as set forth and defined below, are fair, reasonable, and appropriate and are designed to maximize the recovery on the Sale Assets, including the Assumed Contracts.

B. The Debtors have demonstrated a compelling and sound business justification for authorizing the payment of the Break-Up Fee and the Expense Reimbursement to the Buyer under the circumstances, timing, and procedures set forth in the Motion and the Purchase Agreement.

C. The Break-Up Fee and the Expense Reimbursement are fair and reasonable, provide a benefit to the Debtors' estates and creditors, and were negotiated by the parties to the Purchase Agreement in good faith and at arm's-length.

D. The Debtors' payment to the Buyer (under the conditions of and as set forth in the Purchase Agreement), of the Breakup Fee and the Expense Reimbursement is (i) an actual and necessary cost and expense of preserving the Debtors' estates, (ii) of substantial benefit to the Debtors' estates, (iii) reasonable and appropriate, in light of, among other things, (a) the size and nature of the proposed sale under the Agreement, (b) the substantial efforts that have been and will be expended by the Buyer, and (c) the benefits the Buyer has provided to the Debtors' estates and creditors and all parties in interest herein, notwithstanding that the proposed sale is subject to higher or better offers, and (iv) necessary to ensure that the Buyer will continue to pursue its proposed acquisition of the Sale Assets. In particular, the Purchase Agreement was the

culmination of a process undertaken by the Debtors and their professionals to negotiate a transaction with a bidder who was prepared to pay the highest or otherwise best purchase price to date for the Sale Assets in order to maximize the value of the Debtors' estates.

E. The payment of the Break-Up Fee and the Expense Reimbursement should be approved because, among other things, (i) no other party to date has entered into a definitive agreement for the acquisition of the Sale Assets on terms acceptable to the Debtors, (ii) the execution of the Purchase Agreement is a necessary prerequisite to determining whether any party other than the Buyer is willing to enter into a definitive agreement for the acquisition of the Sale Assets on terms acceptable to the Debtors and their creditor constituencies, (iii) the protections afforded to the Buyer by the Break-Up Fee and the Expense Reimbursement were material inducements for, and express conditions of, the Buyer's willingness to enter into the Purchase Agreement, and (iv) the Buyer is unwilling to commit to hold open its offer to acquire the Sale Assets under the terms of the Purchase Agreement unless it is assured of the payment of the Break-Up Fee and the Expense Reimbursement.

F. The assurance of the payment of the Break-Up Fee and the Expense Reimbursement has (i) promoted more competitive bidding by inducing the Buyer's bid, which otherwise would not have been made, without which competitive bidding would be limited, and which may be the highest and best available offer for the Sale Assets, (ii) induced the Buyer to research the value of the Sale Assets and propose the transactions contemplated by the Purchase Agreement, including, among other things, submission of a bid that will serve as a minimum or floor bid on which all other bidders

can rely, and (iii) provided a benefit to the Debtors' estates by increasing the likelihood that the price at which the Sale Assets are sold will reflect their true worth.

G. The payment of the Break-Up Fee and the Expense Reimbursement is an expense necessary to maximize the value of the Debtors' estates and the entry of this Order is in the best interests of the Debtors, their estates, creditors, and all other parties in interest.

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. With respect to the Preliminary Relief, the Motion is granted.

2. The Auction shall be conducted on the following terms and conditions (the "Bidding Procedures"):

PROVISION	**DESCRIPTION**
The Stalking Horse Bid	Under the terms of the Purchase Agreement, the Buyer has agreed to purchase the Sale Assets for approximately $390 million, plus Assumed Liabilities (the "Stalking Horse Bid"), subject to the terms of the Purchase Agreement. Under the terms of the Purchase Agreement, beginning on the date the Bidding Procedures Order is entered by the Court and continuing until the conclusion of the Auction, the Debtors are entitled to, among other things, solicit and negotiate Competing Transactions.
Due Diligence	Unless otherwise determined by the Debtors, each potential bidder (a "Potential Bidder") must deliver (unless previously delivered) to the Debtors, c/o Jonathan S. Henes, Esq., Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611 and Michael A. Kramer, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022, the following documents (the "Preliminary Bid Documents") in order to participate in the bidding process: a. an executed confidentiality agreement in form and substance satisfactory to the Debtors; and b. preliminary proof by the Potential Bidder of its financial capacity to close a proposed transaction, the adequacy of

PROVISION	DESCRIPTION
	which the Debtors and their advisors will determine in their sole discretion. Within two (2) business days after a Potential Bidder delivers the Preliminary Bid Documents, the Debtors shall determine, and shall notify the Potential Bidder, whether the Potential Bidder has submitted acceptable Preliminary Bid Documents so that such Potential Bidder may conduct due diligence with respect to the Sale Assets sought to be acquired. Only those Potential Bidders that have submitted acceptable Preliminary Bid Documents may submit bids for the Sale Assets.
Bid Deadline	Bids for the Sale Assets must (a) be in writing; (b) at a minimum, exceed the Stalking Horse Bid by $40 million; (c) satisfy the Bid Requirements set forth herein and (d) be received by (i) the attorneys for the Debtors, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the financial advisors for the Debtors, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022 (Attn: Michael A. Kramer), (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iv) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), and (v) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), so as to be actually received no later than 5:00 p.m. (prevailing Eastern Time) on February 9, 2004 (the "Bid Deadline"). Such bids shall be deemed "Qualified Bids" and those parties submitting such Qualified Bids shall be "Qualified Bidders." One (1) Business Day after the Debtors receive such Qualified Bids, the Debtors shall provide copies of such bids to Buyer, provided, that Buyer shall keep the Qualified Bids confidential and shall not contact or communicate with any Qualified Bidder with respect to any such bids or discuss the Qualified Bids with any party, except as required by law. Parties that do not submit a Qualified Bid by the Bid Deadline will not be permitted to participate at the Auction.

PROVISION	DESCRIPTION
Bid Requirements	Qualified Bids must meet the following requirements (the "Bid Requirements"): a. Each Qualified Bid must be on the same or better terms and conditions as those terms set forth in the Purchase Agreement and the documents set forth as exhibits thereto. The Debtors shall not entertain bids for the individual assets comprising their businesses. b. Each Qualified Bid must constitute a good faith, bona fide offer to acquire the Sale Assets. c. Each Qualified Bid shall not be conditioned on obtaining any of the following: financing, regulatory approval, shareholder approval, environmental contingencies, and/or the outcome of due diligence by the bidder. d. Each Qualified Bid must remain irrevocable until the Closing. e. As a condition to making a Qualified Bid, any competing bidder must provide the Debtors on or before the Bid Deadline, with sufficient and adequate information to demonstrate, to the satisfaction of the Debtors, that such competing bidder (i) has the financial wherewithal and ability to consummate the acquisition of the their business, and (ii) can provide all nondebtor contracting parties to the Assumed Contracts with adequate assurance of future performance as contemplated by section 365 of the Bankruptcy Code. f. In order for a bid to constitute a Qualified Bid, any bidder shall submit a deposit equal to the $35 million (the "Good Faith Deposit"). The bidder shall, in immediately available funds, by wire transfer to an account or accounts designated by the Debtors, pay such amount on the date such bid is submitted.
Auction and Overbids	If no Qualified Bid is received by the Bid Deadline, the Auction will not occur and the Debtors shall promptly pursue entry of an order by the Court authorizing the Sale to the Buyer. If the Debtors receive a Qualified Bid by the Bid Deadline, in addition to the Stalking Horse Bid, the Debtors shall conduct an auction (the "Auction") with respect to the Sale Assets. The Auction shall commence at 9:00 a.m. (prevailing Eastern Time) on February 12, 2004, at the offices of Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022-4611, or such later time

PROVISION	DESCRIPTION
	or other place as the Debtors shall notify all Qualified Bidders who have submitted Qualified Bids. The Auction may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Auction. No further notice of any such continuance will be required to be provided to any party. Subsequent bids at the Auction shall be made in increments of at least $5 million. At the Auction, the Buyer shall have the right to bid all or part of the Break-Up Fee (as defined herein) and the Expense Reimbursement (as defined herein).
Winning Bid	Upon conclusion of the Auction, the Debtors, in the exercise of their business judgment and after consulting with their advisors, shall identify the highest and best offer for the Sale Assets (the "Winning Bid") (the bidder having submitted a Winning Bid is the "Successful Bidder").
Sale Approval Hearing	The Sale Approval Hearing is presently scheduled to take place on February 17, 2004 at 10:00 a.m. (prevailing Eastern Time), before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408. The Sale Approval Hearing may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Sale Approval Hearing; provided, that any such continuance shall not be later than the deadline set forth in Schedule J of the Purchase Agreement. No further notice of any such continuance will be required to be provided to any party. At the Sale Approval Hearing, the Debtors shall present to the Bankruptcy Court for approval the Winning Bid for the Sale Assets.
Return of Good Faith Deposit	The Good Faith Deposit of the Successful Bidder shall be credited to the price paid for the Sale Assets. The Good Faith Deposit of any unsuccessful bidders will be returned within fifteen (15) days after consummation of the Sale Transaction or upon permanent withdrawal by the Debtors of the proposed sale of such assets. The deposit of the Buyer, if not chosen as the Winning Bid, shall be returned in accordance with the Purchase Agreement.
Reservation of Right	The Debtors reserve the right to reject any (other than the Buyer's offer pursuant to the Purchase Agreement) Qualified Bid (as defined below) if the Debtors determine that such Qualified Bid is

PROVISION	DESCRIPTION
	(i) inadequate or insufficient; (ii) not in conformity with the requirement of the Bankruptcy Code, any related rules or the terms set forth herein; or (iii) contrary to the best interests of the Debtors and their estates.
Break-Up Fee and Expense Reimbursement	In the event, among others set forth in the Purchase Agreement and as set forth below, that the Bankruptcy Court enters an order approving the Sale Transaction to a Successful Bidder other than Buyer, the Debtors shall pay to Buyer (i) a break-up fee in the amount of $12.8 million (the "Break-Up Fee) and (ii) a reimbursement of Buyer's expenses in connection with the transaction contemplated in the Purchase Agreement, not to exceed $5 million (the "Expense Reimbursement").

3. Pursuant to section 363(b) of the Bankruptcy Code, the Debtors are directed to pay (i) the Expense Reimbursement plus (ii) the Break-Up Fee immediately by wire transfer of immediately available funds to an account designated in writing by the Buyer in the event that: (i) the Purchase Agreement is terminated (A) by Buyer pursuant to Section 8.1(b) of the Purchase Agreement when ATI does not have the right to terminate the Agreement pursuant to Section 8.1(b) of the Purchase Agreement, (B) by Buyer pursuant to Section 8.1(c) or (d) of the Purchase Agreement, or (C) by Sellers pursuant to Section 8.1(f) of the Purchase Agreement; or (ii) Buyer terminates the Purchase Agreement pursuant to Section 8.1(e) as a result of Debtors' gross negligence or willful, wanton or reckless action or inaction taken or not taken with an intent to cause the termination of the Agreement or otherwise negatively impact the transactions contemplated thereby (collectively, a "Sellers' Intentional Breach") or Buyer elects not to close because the condition set forth in Section 7.2(a) of the Purchase Agreement has not been satisfied as a result of a Sellers' Intentional Breach.

4. In the event the Buyer terminates the Purchase Agreement pursuant to Section 8.1(e) of the Purchase Agreement or elects not to close, in each case

because the condition set forth in Section 7.2(a) of the Purchase Agreement has not been satisfied as a result of some reason other than a Sellers' Intentional Breach, the Buyer shall be entitled to immediate payment of the Expense Reimbursement (which Expense Reimbursement shall not exceed $5 million).

5. In the event of a Sale Delay that the Buyer does not agree to waive or extend, the Debtors shall pay to the Buyer, within two (2) Business Days following the Buyer's termination of the Purchase Agreement pursuant to Section 8.1(g) thereof, the Break Up Fee and the Expense Reimbursement. In the event of any waiver of any default in Exhibit J to the Purchase Agreement, the Break Up Fee and the Expense Reimbursement, otherwise payable, shall by payable at such extended date if such extended deadline has not been met and the Buyer terminates the Purchase Agreement as a result thereof.

6. The Debtors are authorized and empowered to pay the Break-Up Fee and the Expense Reimbursement to the Buyer, as required under and pursuant to the Purchase Agreement, without further order of the Court.

7. Pursuant to section 364(c)(1) of the Bankruptcy Code, the Break-Up Fee and the Expense Reimbursement shall receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code; provided, however, that the Break Up Fee and Expense Reimbursement shall not prime the Liens held by Sellers' senior secured lenders and any such amounts payable shall be subordinated to this carve out for professionals fees and fees under 28 U.S.C. § 1930 as

provided in the Bankruptcy Court's order authorizing Debtors to use cash collateral that was entered in these cases.

8. The rights of the Buyer to the Break-Up Fee and the Expense Reimbursement and the superpriority administrative status of such claims shall all survive rejection or breach of the Purchase Agreement, and shall be unaffected thereby.

9. Following the Sale Order Approval Date, and so long as the Purchase Agreement has not been terminated in accordance with its terms, the Debtors are directed not to enter or solicit a Competing Transaction as set forth in Section 6.17 of the Purchase Agreement.

10. Pursuant to Bankruptcy Rule 2002(a)(2), (a) the Sale Hearing shall be held on February 17, 2004, before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408 at 10:00 a.m. (EST), and (b) objections to approval of the relief requested in the Motion (other than the Preliminary Relief provided herein), if any, shall be in writing, shall state the name of the objecting party, shall state with particularity the reasons and basis for the objection, and shall be filed with the Court and served upon (i) the attorneys for the Debtors, Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the agent for the Debtors' prepetition lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin,

III, Esq.), (iv) the attorneys for the Creditors' Committee, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), and (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.), so as to be actually received by such persons no later than February 9, 2004 at 4:00 p.m. (EST).

11. Pursuant to Bankruptcy Rule 2002(1), the Debtors are authorized to publish, at least seven (7) days prior to the Auction, Notice of the Auction and Sale Approval Hearing, once, in the form annexed hereto as Exhibit 1, in each of the national editions of The New York Times and The Wall Street Journal.

12. Pursuant to Bankruptcy Rule 2002, within two (2) Business Days following entry of the Bidding Procedures Orders, notice of the proposed Auction and the Sale Approval Hearing in the form annexed hereto as Exhibit 1, shall be sent by first class mail to (i) the United States Trustee, (ii) the attorneys for the agent for the Debtors' prepetition lenders, (iii) the attorneys for the Creditors' Committee, (iv) all nondebtor contracting and lease parties listed on Schedules 4.20 and 4.21 of the Disclosure Schedules, (v) all parties that provide telecommunications services to the Debtors pursuant to a tariff, (vi) all parties who have made written expressions of interest in acquiring the Sale Assets or the Business within two (2) months prior to the date of this Bidding Procedures Order (vii) all appropriate federal, state and local taxing authorities, (viii) all known persons holding a lien on any of the Sale Assets, and (ix) all parties having filed a notice of appearance in the Debtors' chapter 11 cases pursuant to Bankruptcy Rule 2002, shall constitute good and sufficient notice of the Sale Transaction, Auction and Sale Hearing.

13. Pursuant to Bankruptcy Rule 2002, notice of the proposed assumption and assignment of the Assumed Contracts (the "Cure Procedures"), in the form annexed hereto as Exhibit "2" which shall reflect the Cure Amounts that the Debtors believe must be paid to cure all defaults under the Assumed Contracts, shall constitute good and sufficient notice of the Debtors' intent to assume and assign the Assumed Contracts, and shall (i) be served, at Buyer's direction, at least 20 days prior to the hearing to confirm the Bankruptcy Plan, to all counterparties to the Assumed Contracts or (ii) in the event of an Early Closing Notice, be served on all counterparties to the Assumed Contracts within four (4) Business Days of such Early Closing Notice. Buyer and the Debtors shall keep confidential the Executory Contracts as set forth in Section 3.5(d) of the Purchase Agreement. With respect to the Assumed Contracts, Buyer shall cooperate with Sellers to provide adequate assurance of future performance as required by section 365 of the Bankruptcy Code.

14. With respect to the proposed assumption and assignment of the Assumed Contracts, Cure Amounts that must be paid to cure defaults under the Assumed Contract shall be determined in accordance with the following procedures (the "Cure Procedures"):

Procedure	**Description**
Notice of Assumption and Assignment Objection Deadline	At least 20 days prior to the hearing to confirm the Bankruptcy Plan (or, in the event of an Early Closing Notice, within four Business Days of such Early Closing Notice), the Debtors, or the Debtors' noticing agent, shall serve a copy of the Bidding Procedures Order together with the Notice of the Debtors' Intent to Assume and Assign Executory Contracts and Unexpired Leases (the "Contract Assignment Notice"), substantially in the form of Exhibit 2 attached to the Bidding Procedures Order, by first class mail to the Contract Parties notifying them of the Debtors' intent to assume and assign each agreement listed on Schedule (a) of the Disclosure Schedules (as it may be modified by that time) and of

Procedure	Description
	the Cure Amount determined by the Debtors for each such Assumed Contract to be necessary for such assumption and assignment on the Closing Date.
Assumption and Assignment Objections	Any Contract Party seeking to (a) assert a Cure Amount based on defaults, conditions or pecuniary losses under its Assumed Contract (collectively, the "Cure Obligation") different from that set forth on any of the Contract Assignment Notices or (b) object to the potential assumption and assignment of its Assumed Contract on any other grounds, shall be required to file and serve an objection (an "Assumption and Assignment Objection"), in writing, setting forth with specificity (i) any and all Cure Obligations that the Contract Party asserts must be cured or satisfied with respect to such Assumed Contract and/or (ii) if the objection to the potential assignment of such Assumed Contract is based on adequate assurance issues, the information required regarding the Buyer to satisfy the Contract Party's adequate assurance concerns.
Assumption and Assignment Objection Deadline	To be considered a timely Assumption and Assignment Objection, the Assumption and Assignment Objection must be filed with the Court and a copy delivered to (i) the attorneys for the Debtors, Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611, Attn: Michael J. Frishberg, Esq., (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), (iv) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.) and (vi) any other party or partner set forth in the Contract Assignment Notice so as to be received no later than **15** days after service of the Contract Assignment Notice (the "Assumption and Assignment Objection Deadline").
Failure to File Assumption and Assignment Objection	Unless an Assumption and Assignment Objection is timely filed and served by a Contract Party by the Assumption and Assignment Objection Deadline, the assumption and assignment of the applicable Assumed Contract at the Sale Approval Hearing may occur without regard to any objection such party may have or any provisions to the contrary in the applicable Assumed Contract.

Procedure	Description
Waiver of Assumption and Assignment Objection	Contract Parties that fail to file and serve Assumption and Assignment Objections as provided above shall be deemed to have waived and released any and all Cure Obligations and shall be forever barred and estopped from asserting or claiming against the Debtors, the Buyer or any other Successful Bidder of the relevant contract or lease that any additional amounts are due or defaults exist, or prohibitions or conditions to assignment exist or must be satisfied, under such Assumed Contract for the period prior to the closing date.

15. The Debtors are hereby authorized to take any and all actions necessary or appropriate to implement the Bidding Procedures and Cure Procedures.

Dated: New York, New York
_____ __, 2004

_____
UNITED STATES BANKRUPTCY JUDGE

EXHIBIT 1

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

NOTICE OF AUCTION AND HEARING TO CONSIDER APPROVAL OF THE SALE OF SUBSTANTIALLY ALL OF THE ASSETS OF THE DEBTORS

NOTICE IS HEREBY GIVEN, as follows:

1. On December __, 2003, Allegiance Telecom, Inc. ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors-in-possession (collectively, the "Debtors") filed a motion (the "Motion") with the United States Bankruptcy Court for the Southern District of New York for or orders (i) establishing bidding procedures and certain protections (the "Bidding Procedures") payable to the Buyer including a break-up fee and expense reimbursement in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) approving the Purchase Agreement,[1] subject to higher and better offers; (iv) setting a hearing date to consider approval of the sale of the Sale Assets (the "Sale Hearing"); (v) approving the sale to the Buyer, subject to higher and better offers, free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes; (vi) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (vii) granting certain related relief. The successful

[1] Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion or Purchase Agreement, as applicable.

bidder at the Auction will agree to purchase the Sale Assets, free and clear of all liabilities, obligations, claims, liens, and encumbrances on the same terms and conditions as those set forth in the Purchase Agreement entered into between the Debtors and the Buyer.

2. By order dated **[inset date, 2004]** (the "Bidding Procedures Order"), the Court authorized the Debtors, among other things, to conduct an Auction of the Sale Assets at Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022, on **[insert date, 2004]** at --:00 --.m. (prevailing Eastern Time).

3. The Debtors will conduct the Auction pursuant to the following terms and conditions (the "Bidding Procedures"):

PROVISION	**DESCRIPTION**
The Stalking Horse Bid	Under the terms of the Purchase Agreement, the Buyer has agreed to purchase the Sale Assets for approximately $390 million, plus Assumed Liabilities (the "Stalking Horse Bid"), subject to the terms of the Purchase Agreement. Under the terms of the Purchase Agreement, beginning on the date the Bidding Procedures Order is entered by the Court and continuing until the conclusion of the Auction, the Debtors are entitled to, among other things, solicit and negotiate Competing Transactions.
Due Diligence	Unless otherwise determined by the Debtors, each potential bidder (a "Potential Bidder") must deliver (unless previously delivered) to the Debtors, c/o Jonathan S. Henes, Esq., Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611 and Michael A. Kramer, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022, the following documents (the "Preliminary Bid Documents") in order to participate in the bidding process: a. an executed confidentiality agreement in form and substance satisfactory to the Debtors; and b. preliminary proof by the Potential Bidder of its financial capacity to close a proposed transaction, the adequacy of which the Debtors and their advisors will determine in their

PROVISION	DESCRIPTION
	sole discretion. Within two (2) business days after a Potential Bidder delivers the Preliminary Bid Documents, the Debtors shall determine, and shall notify the Potential Bidder, whether the Potential Bidder has submitted acceptable Preliminary Bid Documents so that such Potential Bidder may conduct due diligence with respect to the Sale Assets sought to be acquired. Only those Potential Bidders that have submitted acceptable Preliminary Bid Documents may submit bids for the Sale Assets.
Bid Deadline	Bids for the Sale Assets must (a) be in writing; (b) at a minimum, exceed the Stalking Horse Bid by $40 million; (c) satisfy the Bid Requirements set forth herein and (d) be received by (i) the attorneys for the Debtors, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the financial advisors for the Debtors, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022 (Attn: Michael A. Kramer), (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iv) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), and (v) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), so as to be actually received no later than 5:00 p.m. (prevailing Eastern Time) on **[insert date]** (the "Bid Deadline"). Such bids shall be deemed "Qualified Bids" and those parties submitting such Qualified Bids shall be "Qualified Bidders." One (1) Business Day after the Debtors receive such Qualified Bids, the Debtors shall provide copies of such bids to Buyer, provided, that Buyer shall keep the Qualified Bids confidential and shall not contact or communicate with any Qualified Bidder with respect to any such bids or discuss the Qualified Bids with any party, except as required by law. Parties that do not submit a Qualified Bid by the Bid Deadline will not be permitted to participate at the Auction.

PROVISION	DESCRIPTION
Bid Requirements	Qualified Bids must meet the following requirements (the "Bid Requirements"): a. Each Qualified Bid must be on the same or better terms and conditions as those terms set forth in the Purchase Agreement and the documents set forth as exhibits thereto. The Debtors shall not entertain bids for the individual assets comprising their businesses. b. Each Qualified Bid must constitute a good faith, bona fide offer to acquire the Sale Assets. c. Each Qualified Bid shall not be conditioned on obtaining any of the following: financing, regulatory approval, shareholder approval, environmental contingencies, and/or the outcome of due diligence by the bidder. d. Each Qualified Bid must remain irrevocable until the Closing. e. As a condition to making a Qualified Bid, any competing bidder must provide the Debtors on or before the Bid Deadline, with sufficient and adequate information to demonstrate, to the satisfaction of the Debtors, that such competing bidder (i) has the financial wherewithal and ability to consummate the acquisition of the their business, and (ii) can provide all nondebtor contracting parties to the Assumed Contracts with adequate assurance of future performance as contemplated by section 365 of the Bankruptcy Code. f. In order for a bid to constitute a Qualified Bid, any bidder shall submit a deposit equal to the $35 million (the "Good Faith Deposit"). The bidder shall, in immediately available funds, by wire transfer to an account or accounts designated by the Debtors, pay such amount on the date such bid is submitted.
Auction and Overbids	If no Qualified Bid is received by the Bid Deadline, the Auction will not occur and the Debtors shall promptly pursue entry of an order by the Court authorizing the Sale to the Buyer. If the Debtors receive a Qualified Bid by the Bid Deadline, in addition to the Stalking Horse Bid, the Debtors shall conduct an auction (the "Auction") with respect to the Sale Assets. The Auction shall commence at 10:00 a.m. (prevailing Eastern Time) on **[INSERT]**, at the offices of Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022-4611, or such later time or other

PROVISION	DESCRIPTION
	place as the Debtors shall notify all Qualified Bidders who have submitted Qualified Bids. The Auction may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Auction. No further notice of any such continuance will be required to be provided to any party. Subsequent bids at the Auction shall be made in increments of at least $5 million. At the Auction, the Buyer shall have the right to bid all or part of the Break-Up Fee (as defined herein) and the Expense Reimbursement (as defined herein).
Winning Bid	Upon conclusion of the Auction, the Debtors, in the exercise of their business judgment and after consulting with their advisors, shall identify the highest and best offer for the Sale Assets (the "Winning Bid") (the bidder having submitted a Winning Bid is the "Successful Bidder").
Sale Approval Hearing	The Sale Approval Hearing is presently scheduled to take place on **[insert date]** at **[____]** (prevailing Eastern Time), before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408. The Sale Approval Hearing may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Sale Approval Hearing; provided, that any such continuance shall not be later than the deadline set forth in Schedule J of the Purchase Agreement. No further notice of any such continuance will be required to be provided to any party. At the Sale Approval Hearing, the Debtors shall present to the Bankruptcy Court for approval the Winning Bid for the Sale Assets.
Return of Good Faith Deposit	The Good Faith Deposit of the Successful Bidder shall be credited to the price paid for the Sale Assets. The Good Faith Deposit of any unsuccessful bidders will be returned within fifteen (15) days after consummation of the Sale Transaction or upon permanent withdrawal by the Debtors of the proposed sale of such assets. The deposit of the Buyer, if not chosen as the Winning Bid, shall be returned in accordance with the Purchase Agreement.
Reservation of Right	The Debtors reserve the right to reject any (other than the Buyer's offer pursuant to the Purchase Agreement) Qualified Bid (as defined below) if the Debtors determine that such Qualified Bid is

PROVISION	DESCRIPTION
	(i) inadequate or insufficient; (ii) not in conformity with the requirement of the Bankruptcy Code, any related rules or the terms set forth herein; or (iii) contrary to the best interests of the Debtors and their estates.
Break-Up Fee and Expense Reimbursement	In the event, among others set forth in the Purchase Agreement and as set forth below, that the Bankruptcy Court enters an order approving the Sale Transaction to a Successful Bidder other than Buyer, the Debtors shall pay to Buyer (i) a break-up fee in the amount of $12.8 million (the "Break-Up Fee) and (ii) a reimbursement of Buyer's expenses in connection with the transaction contemplated in the Purchase Agreement, not to exceed $5 million (the "Expense Reimbursement").

4. The Bidding Procedures Order further provides that the Sale Hearing will be held following the Auction on **[insert date]**, at _:00 a.m. (EST), before the Honorable Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004-1408.

5. At the Sale Hearing, the Debtors shall request that the Court enter an order approving the Purchase Agreement and approving the sale of the Sale Transaction to the Successful Bidder.

6. At the Sale Hearing, the Court may enter such orders as it deems appropriate under applicable law and as required by the circumstances and equities of these cases. Objections, if any, to the relief requested in the Motion, other than the relief granted in the Bidding Procedures Order, shall be in writing, shall conform to the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court for the Southern District of New York, shall set forth the name of the objectant, the nature and amount of any claims or interests held or asserted against the Debtors' estates or properties, the basis for the objection and the specific grounds therefor, and shall be

served upon (i) the attorneys for the Debtors, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the agent for the Debtors' prepetition lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), (iv) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), and (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.), so as to be actually received no later than **[insert date]** at 4:00 p.m. (EST).

7. A copy of the Purchase Agreement is annexed as Exhibit A to the Motion. All requests for information concerning the sale of the Sale Assets should be directed by written request to Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Jonathan S. Henes, Esq.).

Dated: New York, New York
[insert date]

KIRKLAND & ELLIS LLP

By:_____
Matthew A. Cantor, Esq. (MC-7727)
Jonathan S. Henes, Esq. (JH-1979)
Kirkland & Ellis LLP
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 2

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

NOTICE OF DEBTORS' INTENT TO ASSUME AND ASSIGN CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES

NOTICE IS HEREBY GIVEN, as follows:

1. On December __, 2003, Allegiance Telecom, Inc. ("Allegiance") its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors") filed a motion (the "Motion") with the United States Bankruptcy Court for the Southern District of New York for or orders (i) establishing bidding procedures and certain protections (the "Bidding Procedures") payable to the Buyer including a break-up fee and expense reimbursement in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) approving the Purchase Agreement,[1] subject to higher and better offers; (iv) setting a hearing date to consider approval of the sale of the Sale Assets (the "Sale Hearing"); (v) approving the sale to the Buyer, subject to higher and better offers, free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes; (vi) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (vii) granting certain related relief.

[1] Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion or Purchase Agreement, as applicable.

2. Pursuant to the Motion and sections 363 and 365 of the Bankruptcy Code, the Debtors intend to assume and assign to the Buyer, on the later of (i) the Closing or (ii) State PUC Consent or FCC Consent, the Assumed Contracts listed on Exhibit A annexed hereto.

3. The Debtors have identified on Exhibit A annexed hereto the cure amounts that the Debtors believe must be paid to cure all defaults under the Assumed Contracts to which you are a party (in each instance, the "Cure Amount"). The Debtors believe that there are no non-monetary defaults (other than the filing of these chapter 11 cases) that will not be cured by payment of the Cure Amount. Pursuant to the Purchase Agreement, the Buyer has no liability to the Debtors or any party to an Assumed Contract for any Cure Amounts that arise from any Excluded Liabilities (including any unrecorded liabilities of the Debtors).

4. The Buyer's obligation to pay the amounts arising under the Assumed Contracts after the Closing constitutes adequate assurance of future performance of the Assumed Contracts in accordance with section 365(f)(2)(b) of the Bankruptcy Code.

5. If you seek to (a) assert a Cure Amount based on defaults, conditions or pecuniary losses under its Assumed Contract (collectively, the "Cure Obligation") different from that set forth on any of the Contract Assignment Notices or (b) object to the potential assumption and assignment of its Assumed Contract on any other grounds, you are required to file and serve an objection (an "Assumption and Assignment Objection"), in writing, setting forth with specificity (i) any and all Cure Obligations that you assert must be cured or satisfied with respect to such Assumed

Contract and/or (ii) if the objection to the potential assignment of such Assumed Contract is based on adequate assurance issues, the information required regarding the Buyer to satisfy your adequate assurance concerns.

6. To be considered a timely Assumption and Assignment Objection, the Assumption and Assignment Objection must be filed with the Court and a copy delivered to the attorneys for the Debtors, Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611, Attn: Michael J. Frishberg, Esq., (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), (iv) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.) so as to be received no later than **15** days after service of the Contract Assignment Notice (the "Assumption and Assignment Objection Deadline").

7. Unless your Assumption and Assignment Objection is timely filed and served by the Assumption and Assignment Objection Deadline, the assumption and assignment of the applicable Assumed Contract at the Sale Approval Hearing may occur without regard to any objection you may have or any provisions to the contrary in the applicable Assumed Contract.

8. If you fail to file and serve Assumption and Assignment Objections as provided above you shall be deemed to have waived and released any and all Cure Obligations and shall be forever barred and estopped from asserting or claiming against the Debtors, the Buyer or any other Successful Bidder of the relevant contract or lease that any additional amounts are due or defaults exist, or prohibitions or conditions to assignment exist or must be satisfied, under such Assumed Contract for the period prior to the closing date.

9. Hearings with respect to the Assumption and Assignment Objections may be held at such other date as the Court may designate upon motion by the Debtors and the Buyer, provided, that, if the subject Assumed Contracts are assumed and assigned, the cure amount asserted by the objecting party (or such lower amount as may be agreed to by the parties or fixed by the Court) shall be deposited by the Debtors or the Buyer, in accordance with the Debtors and Buyer's respective liabilities for Cure Amounts pursuant to the Purchase Agreement, and held in a segregated account by the Debtors or Buyer, applicable, pending further order of the Court or mutual agreement of the parties. The fact that any Assumption and Assignment Objections are not resolved shall not prevent or delay the occurrence of the date of assumption and assignment of any Assumed Contracts, and the objector's only recourse after the relevant assumption date shall be to the segregated amounts.

10. If you agree that there are no cure amounts due under the Assumed Contract, and otherwise do not object to the Debtors' assumption and assignment of your Assumed Contract, you need not take any further action.

11. The Buyer reserves the right to exclude or add any Assumed Contract from or to the proposed sale and to withdraw the request to assume and assign any Assumed Contract pursuant to the terms of the Purchase Agreement.

12. The Debtors' decision to assume and assign to the Buyer the Assumed Contracts is subject to Court approval, the Closing and State PUC Approval or FCC Approval. Accordingly, the Debtors shall be deemed to have assumed and assigned each of the Assumed Contracts as of the later of (i) the Closing or (ii) State PUC Consent or FCC Consent. Absent such Closing, State PUC Consent or FCC Consent, any of the affected Assumed Contracts shall not be deemed assumed nor assigned, and shall in all respects be subject to further administration under the Bankruptcy Code. The inclusion of any document on the list of Assumed Contracts shall not constitute or be deemed to be a determination or admission by the Debtors or the Buyer that such document is, in fact, an executory contract or unexpired lease within the meaning of the Bankruptcy Code (all rights with respect thereto being expressly reserved).

Dated: New York, New York
[insert date], 2004

KIRKLAND & ELLIS LLP

By:_____

Matthew A. Cantor, Esq. (MC-7727)
Jonathan S. Henes, Esq. (JH-1979)
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Attorneys for Debtors and Debtors in Possession

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

ORDER (I) APPROVING THE SALE FREE AND CLEAR OF ALL LIENS, CLAIMS AND ENCUMBRANCES TO THE SUCCESSFUL BIDDER, (II) AUTHORIZING THE ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES AND (III) GRANTING RELATED RELIEF

Upon the motion, dated December 18, 2003 (the "Motion") of Allegiance Telecom, Inc., ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors") for an order (i) approving the sale of the Sale Assets,[1] free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes, to the successful bidder (the "Successful Bidder"); (ii) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (iii) granting certain related relief, and the Court having entered an order (the "Bidding Procedures Order") on [insert date]__ 2004, approving the Bidding Procedures (as defined therein); and the Court having held a hearing on [insert date], 2004, to approve the relief requested in the Motion (the "Sale Hearing"); and it appearing that notice of the Sale Hearing has been provided to (i) the Office of the United States Trustee; (ii) the attorneys for Prepetition Lenders; (iii) the attorneys for the Creditors' Committee; (iv) all nondebtor contracting and lease parties identified on Schedule 4.20 and 4.21 of the Disclosure Schedules, (v) all parties that provide telecom services to the Debtors pursuant

[1] Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Motion or the Purchase Agreement, as applicable.

to tariffs; (vi) the attorneys for the Buyer; (vii) all parties who have made written expressions of interest in acquiring the Sale Assets or the Business within two (2) months prior to the date of the Motion; (viii) all known persons holding a lien on any of the Sale Assets; (ix) the Securities and Exchange Commission; (x) all taxing authorities that have jurisdiction over the Sale Assets; (xi) all Governmental Agencies having jurisdiction over the Sale Assets with respect to Environmental Laws, (xii) the attorneys general of all states in which the Sale Assets are located; (xiii) the Federal Communications Commission and applicable state public utility commissions; and (xiv) all other parties that had filed a notice of appearance and demand for service of papers in these bankruptcy cases under Bankruptcy Rule 2002 as of the date of the Motion; and it appearing that such notice constitutes good and sufficient notice of the Motion and Sale Hearing and that no other or further notice need be provided; and upon the Motion and the record of the Sale Hearing and all other proceedings had before the Court; and it appearing that an order approving the transaction(s) contemplated in the Purchase Agreement is in the best interests of the Debtors and all parties in interest; and it appearing that the Court has jurisdiction over this matter; and after due deliberation and sufficient cause appearing therefor,

IT IS HEREBY FOUND AND DETERMINED THAT:

A. This Court has jurisdiction over the Motion under 28 U.S.C. §§ 157 and 1334, and this matter is a core proceeding under 28 U.S.C. § 157(b)(2)(A). Venue of these cases and the motion in this District is proper under 28 U.S.C. §§ 1408 and 1409.

B. The statutory predicates for the relief sought in the Motion are sections 105(a), 363(b), (f), (m), and (n) of the Bankruptcy Code and Bankruptcy Rules 2002, 6004, 6006, and 9014.

C. Proper, timely, adequate, and sufficient notice of the Motion and the sale set forth herein (the "Sale") has been provided in accordance with sections 105(a) and 363 of the Bankruptcy Code and Bankruptcy Rules 2002, 2002(i), 6004, and 9014, in compliance with the Order Establishing Notice Procedures, dated May 15, 2003, and in compliance with the Bidding Procedures Order, such notice was good and sufficient, and appropriate under the particular circumstances, and no other or further notice of the Motion or the Sale Hearing is or shall be required.

D. As demonstrated by the pleadings and affidavit of publication filed herein, the Debtors have marketed the Sale Assets and conducted the sale process in compliance with the Bidding Procedures Order and have completed a full and complete auction process.

E. No consents or approvals, other than those expressly set forth in and required by the Purchase Agreement or expressly set forth herein, are required for the Debtors or Buyer to consummate the transaction(s) contemplated in the Purchase Agreement.

F. Approval of the Purchase Agreement and consummation of the transaction(s) contemplated therein at this time are in the best interests of the Debtors, their creditors, and their estates.

G. The Debtors have demonstrated both (i) good, sufficient, and sound business purpose and justification and (ii) compelling circumstances for approval of the sale transaction(s) contemplated in the Purchase Agreement pursuant to section 363(b) of the Bankruptcy Code and in connection with a plan of reorganization.

H. A reasonable opportunity to object or be heard with respect to the Motion and the relief requested therein has been afforded to all interested persons and entities.

I. The Purchase Agreement was negotiated, proposed, and entered into by the Debtors and Buyer, in good faith, without collusion, and from arm's-length bargaining positions. Neither the Debtors nor Buyer have engaged in any conduct that would cause or permit the Purchase Agreement to be avoided under section 363(n) of the Bankruptcy Code. Buyer is not an "insider" of any of the Debtors, as that term is defined in Bankruptcy Code section 101.

J. Buyer is a good faith purchaser under section 363(m) of the Bankruptcy Code and, as such, is entitled to all of the protections afforded thereby. Buyer will be acting in good faith within the meaning of section 363(m) of the Bankruptcy Code in closing the transactions contemplated by the Purchase Agreement at all times after the entry of this Order.

K. The Purchase Agreement was not entered into for the purpose of hindering, delaying, or defrauding creditors under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, or the District of Columbia.

L. The Purchase Price for the Sale Assets pursuant to the Purchase Agreement (i) is fair and reasonable, (ii) is the highest or best offer for the Sale Assets, and (iii) constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, or the District of Columbia.

M. The transfer of the Sale Assets to Buyer will be a legal, valid, and effective transfer of the Sale Assets, and will vest Buyer with all rights, title, and interest in and to the Sale Assets free and clear of all liens (other than Permitted Liens of the type set forth in clause (iii) of the definition thereof), claims, encumbrances, and interests, which have, or could have, been asserted by the Debtors or their creditors.

N. The Debtors have demonstrated a compelling and sound business justification for authorizing the payment of the Liquidated Damages to the Buyer under the circumstances, timing, and procedures set forth in the Motion and the Purchase Agreement. The Liquidated Damages are not a penalty, but rather, a reasonable estimate of the damages to be suffered by the Buyer in the event the transactions contemplated by the Purchase Agreement are not consummated under the circumstances set forth therein.

O. The Liquidated Damages were a material inducement for, and express conditions of, the Buyer's willingness to enter into the Purchase Agreement, and the Buyer was unwilling to commit to hold open its offer to acquire the Sale Assets, pending Closing, and consummate the other transactions under the terms of the Purchase Agreement unless it was assured of the payment of the Liquidated Damages.

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is granted.

2. All objections to the Motion or the relief requested therein, if any, that have not been withdrawn, waived, or settled, and all reservations of rights included therein, are hereby overruled on the merits.

Approval of the Purchase Agreement

3. The Purchase Agreement and all of the terms and conditions thereof are hereby approved.

4. Pursuant to section 363(b) of the Bankruptcy Code, the Debtors and Buyer are authorized and directed to consummate the Sale Transaction, pursuant to and in accordance with the terms and conditions of the Purchase Agreement.

5. The Debtors are authorized and directed to execute and deliver, and empowered to perform under, consummate and implement the Purchase Agreement, together with all additional instruments and documents that may be reasonably necessary or desirable to implement the Purchase Agreement, and to take all further actions as may be reasonably requested by Buyer as may be necessary or appropriate to the performance of the obligations as contemplated by the Purchase Agreement.

6. The Debtors have completed a full and complete auction process.

7. So long as the Purchase Agreement has not been terminated in accordance with its terms, the Debtors shall not be entitled to consider or accept a Competing Transaction.

8. The Regulatory Transition Process is hereby approved pursuant to sections 105, 363, and 365 of the Bankruptcy Code.

Transfer of the Sale Assets

9. Pursuant to sections 105(a), 363(b) and 363(f) of the Bankruptcy Code, the transfer of the Sale Assets, including any limited liability company ("LLC") membership interests and any equipment of Debtors that may be transferred to such LLC prior to the Closing, to Buyer on the later of (i) Closing or (ii) the applicable State PUC Consent or FCC Consent, shall vest Buyer (or such LLC as the case may be with respect to equipment) with all rights, title, and interest in and to the Sale Assets and shall be, free and clear of all liens (other than Permitted Liens of the type set forth in clause (iii) of the definition thereof), claims, encumbrances, and interests which have, or could have, been asserted by the Debtors or their creditors in connection with the Debtors' chapter 11 cases, if any, with all such liens, claims, encumbrances, and interests of any kind or nature whatsoever to attach to the net proceeds that the Debtors ultimately realize from the sale transaction contemplated herein in the order of their priority,

with the same validity, force and effect which they now have as against the Sale Assets, subject to any claims and defenses the Debtors may possess with respect thereto.

10. Buyer shall have no liability or responsibility for any liability or other obligation of the Debtors arising under or related to the Sale Assets other than as expressly set forth in the Purchase Agreement and in no event shall Buyer have any liability or responsibility for any Excluded Liabilities (including any unrecorded liabilities of the Debtors). Without limiting the effect or scope of the foregoing, the transfer of the Sale Assets from the Debtors to Buyer does not and will not subject Buyer or its affiliates, successors or assigns or their respective properties (including the Sale Assets) to any liability for claims (as that term is defined in section 101(5) of the Bankruptcy Code) against the Debtors or the Sale Assets by reason of such transfer under the laws of the United States or any state, territory or possession thereof applicable to such transactions. Neither Buyer nor its affiliates, successors, or assigns shall be deemed, as a result of actions taken in connection with the purchase of the Sale Assets: (i) to be a successor to the Debtors (except for purposes of section 1145 of the Bankruptcy Code)or (ii) be a continuation or substantial continuation of the Debtors or any enterprise of the Debtors. Neither Buyer nor its affiliates, successors, or assigns is acquiring or assuming any liability, warranty, or other obligation of the Debtors, including, without limitation, any tax incurred but unpaid by the Debtors prior to the date of the Closing (except as expressly set forth in the Purchase Agreement), including, but not limited to, any tax, any fine or penalty relating to a tax, or any addition to a tax, whether or not previously assessed, fixed or audited, whether or not paid, and whether or not contested before and adjudicated by a judicial or administrative tribunal of competent jurisdiction, except as otherwise expressly provided in the Purchase Agreement.

11. The process set forth in the Purchase Agreement, the Management Agreements, the Transition Plan and other related documents for obtaining all approvals, consents (including assignments of any permits and rights of way), certificates, waivers and other authorizations required to be obtained from, or filings or other notices required to be made with or to, any Governmental Entities (as defined in the Purchase Agreement) having jurisdiction over any of the Sale Assets in order to consummate the transactions contemplated by the Purchase Agreement and the other related transaction documents and the transfer of such Sale Assets, including the Non-Transferred Assets, to Buyer upon the receipt of such approvals (the "Regulatory Transition Process") is hereby approved pursuant to sections 105, 363 and 365 of the Bankruptcy Code.

Assumption and Assignment of Assumed Contracts to Buyer

12. Pursuant to sections 105(a) and 365 of the Bankruptcy Code, (x) on the later of (i) the Closing or (ii) the applicable State PUC Consent or FCC Consent or (y) in the event of an Early Closing Election, the Debtors' assumption and assignment to Buyer and Buyer's assumption on the terms and conditions set forth in the Purchase Agreement of the Assumed Contracts is hereby approved, provided that the requirements of section 365(b)(1) of the Bankruptcy Code with are satisfied as set forth in the Debtors Notice of Intent to Assume and Assign (as defined below). Buyer and the Debtors shall keep confidential the Executory Contracts as set forth in Section 3.5(d) of the Purchase Agreement.

13. Subject to (x) the later of (i) the Closing or (ii) the applicable State PUC Consent or FCC Consent or (y) an Early Closing Election, the Debtors are hereby authorized and directed in accordance with sections 105(a) and 365 of the Bankruptcy Code to (a) assume and assign to Buyer the Assumed Contracts free and clear of all liens (other than Permitted Liens),

claims, and encumbrances as well as all interests of any kind or nature whatsoever and (b) execute and deliver to Buyer such documents or other instruments as may be necessary to assign and transfer the Assumed Contracts to Buyer.

14. Pursuant to the procedures set forth in Sections 3.5, 6.3 and 8.3 of the Purchase Agreement, the Assumed Contracts shall be transferred to, and remain in full force and effect for the benefit of, Buyer in accordance with their respective terms, notwithstanding any provision in any of the Assumed Contracts (including those of the type described in sections 365(b)(2) and (f) of the Bankruptcy Code) that prohibits, restricts, or conditions such assignment or transfer and, pursuant to section 365(k) of the Bankruptcy Code, the Debtors shall be relieved from any further liability with respect to the Assumed Contracts after such assignment to and assumption by Buyer.

15. All defaults or other obligations of the Debtors under the Assumed Contracts (without giving effect to any acceleration clauses or any default provisions of the kind specified in section 365(b)(2) of the Bankruptcy Code) shall be promptly cured by the Debtors or Buyer as set forth in the Purchase Agreement as provided in Bankruptcy Code section 365(b)(1) and the cure amounts with respect to the Assumed Contracts will be those amounts (the "Cure Amounts") established in accordance with the procedures set forth in the Bidding Procedures Order and Exhibit 2 thereto.

16. With the exception of the Cure Amounts, except as otherwise set forth herein, each nondebtor party to an Assumed Contract hereby will be forever barred, estopped, and permanently enjoined from asserting against the Debtors or Buyer, or the property of any of them, any default existing under the Assumed Contracts as of the later of date of (i) the Closing or (ii) the applicable State PUC Consent or FCC Consent; or, against Buyer, any counterclaim,

defense, setoff, or any other claim under the Assumed Contracts asserted or assertable against the Debtors. All parties that provide telecommunications services pursuant to a tariff related to any of the Sale Assets are hereby directed to continue providing such services to Buyer.

17. If the Debtors receive an objection to the cure amounts (the "Cure Amount Objection") in the Notice of Intent to Assume and Assign, they shall attempt to resolve such disputed cure amounts with the party asserting the objection. If consensual resolution of the Cure Amount Objection cannot be reached, the Debtors or Buyer, as provided in the Purchase Agreement will (i) pay in full the undisputed portion of such Cure Amount on or before the applicable date of assumption and (ii) segregate the disputed portion of such cure amount (the "Segregated Amounts") pending the resolution of the Cure Amount Objection by this Court or by mutual agreement of the parties. In light of these procedures, the fact that any Cure Amount Objection is not resolved shall not prevent or delay the occurrence of the date of assumption or the assumption and assignment of any Assumed Contracts, and the objectors' only recourse after the relevant date of assumption shall be to the segregated amounts.

18. The Buyer is (i) permitted to participate and monitor any of the Debtors' negotiations and settlements regarding ILEC and non-ILEC Cure Amounts and (ii) has standing to participate in any disputes before the Bankruptcy Court regarding ILEC and non-ILEC Cure Amounts. Any treatment of ILEC charges under the Bankruptcy Plan, or otherwise, shall be reasonably acceptable to Buyer. The Debtors shall pay all ILEC Cure Amounts (whether in cash or by application of the ILEC Set Off Amounts) subject to and as set forth in Section 3.5 of the Purchase Agreement

Liquidated Damages

19. Pursuant to section 363(b) of the Bankruptcy Code and because damage suffered by the Buyer in the event of any such termination would be impossible to calculate and the Liquidated Damages (as defined below) constitute a reasonable estimate of such damages, the Debtors are required to pay to Buyer as liquidated damages and not as a penalty (i) the Expense Reimbursement (which shall not exceed $10 million) plus (ii) $30 million (clauses (i) and (ii) together, the "Liquidated Damages") immediately in the event that: (x) the Purchase Agreement is terminated pursuant to sections 8.1(b), (c), or (d) of the Purchase Agreement following the Sale Order Approval Date, or (y) Buyer elects to terminate the Purchase Agreement pursuant to Section 8.1(e) of the Purchase Agreement or not to close, in each case because the condition set forth in section 7.2(a) of the Purchase Agreement has not been satisfied, as a result of a Seller's Intentional Breach following the Sale Order Approval Date.

20. In the event of an Adverse Bankruptcy Event that Buyer does not agree to waive or extend, the Debtors shall either (i) immediately terminate the Purchase Agreement and simultaneously pay to Buyer the Liquidated Damages or (ii) immediately waive the condition set forth in Section 7.1(d) of the Purchase Agreement, send an irrevocable election of early closing on the date of such Adverse Bankruptcy Event and promptly close on the transactions contemplated by the Purchase Agreement (the "Early Closing Election"), provided, that the Debtors shall only be entitled to invoke clause (ii) above if all other conditions to Closing set forth in Article VII of the Purchase Agreement have been satisfied or waived if such conditions may be satisfied prior to Closing or will be satisfied or waived at Closing in accordance with the terms of the Purchase Agreement. Debtors shall also have the right to invoke clause (ii) above in accordance with the terms thereof at any time after the date hereof provided that the Closing

pursuant thereto shall not occur sooner than the later of 35 days after the Sale Order Approval Date or twenty (20) Business Days after the delivery of the Early Closing Election. In the event of any waiver of any deadline in Exhibit J to the Purchase Agreement, the Liquidated Damages otherwise payable shall be payable at such extended date if such extended deadline has not been met.

21. The Debtors are authorized and empowered to pay the Liquidated Damages to the Buyer, as required under and pursuant to the Purchase Agreement, without further order of the Court and the Liquidated Damages shall (i) receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code and (ii) the Buyer's right to the Liquidated Damages and the superpriority administrative claim status of such claims shall survive rejection or breach of the Purchase Agreement, and shall be unaffected thereby, provided, however, that the Liquidated Damages shall not prime the Liens held by the Sellers' senior secured lenders and any such amounts payable shall be subordinated to the carve out for professionals fees and fees under 28 U.S.C. § 1930 as provided in the Bankruptcy Court's order authorizing Debtors to use cash collateral that was entered in these cases.

Additional Provisions

22. Pursuant to section 364(c)(1) of the Bankruptcy Code, (i) the obligation of the Debtors to pay any adjustments to the Purchase Price, including interest with respect thereto, and (ii) any amounts that may be owed to Buyer pursuant to, or for Debtors' breach of, the Management Agreement, shall receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code, provided, however, that any such amounts

payable shall be subordinate to the carve out for professional fees and fees under 28 U.S.C. § 1930 as provided in the Bankruptcy Court's order authorizing Debtors to use cash collateral that was entered in these cases.

23. Any amounts payable by the Debtors pursuant to the Purchase Agreement or any of the documents delivered by the Debtors pursuant to or in connection with the Purchase Agreement shall (i) constitute administrative priority expenses of the Debtors' estates pursuant to Bankruptcy Code sections 503(b) and 507(a)(1), except as otherwise specifically provided in the Purchase Agreement, (ii) be paid by the Debtors in the time and manner provided in the Purchase Agreement without further order of this Court, and (iii) not be discharged, modified, or otherwise affected by any plan of reorganization of any of the Debtors.

24. On the date of the Closing, each of the Debtors' creditors is authorized and directed to execute such documents and take all other actions as may be necessary to release its interest in the Sale Assets, if any, as such interests may have been recorded or may otherwise exist.

25. All Liens held by the Debtors' senior secured lenders on the Non-Transferred Assets and all other Liens shall be released at the Closing and the Buyer shall be granted a first-priority, perfected Lien as security for all of the Debtors' obligations to Buyer pursuant to the Management Agreement on all Non-Transferred Assets pending FCC Approval and State PUC Approval, as applicable.

26. Regardless of whether the Debtors' creditors execute the releases set forth in the above paragraphs, this Order (a) shall be effective as a determination that, on the date of the Closing, all liens, claims, security interests, encumbrances, and interests of any kind or nature whatsoever existing with respect to the Debtors and the Sale Assets prior to the Closing have

been unconditionally released, discharged and terminated, and that the conveyances described herein have been effected and (b) shall be binding upon and shall govern the acts of all entities including without limitation, all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal, state, and local officials, and all other persons and entities who may be required by operation of law, the duties of their office, or contract, to accept, file, register or otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any of the Sale Assets.

27. Each and every federal, state, and local governmental agency or department is hereby directed to accept for filing and/or recording and approve as necessary any and all documents and instruments necessary and appropriate to consummate the transactions contemplated by the Purchase Agreement.

28. If any person or entity that has filed financing statements, mortgages, mechanic's liens, *lis pendens*, or other documents or agreements evidencing claims or interests with respect to the Debtors or the Sale Assets shall not have delivered to the Debtors prior to the date of the Closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all interests which the person or entity has with respect to the Debtors or the Sale Assets or otherwise, then (a) the Debtors are hereby authorized to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to the Sale Assets and (b) Buyer is hereby authorized to file, register, or otherwise record a certified copy of this Order, which, once filed, registered, or otherwise recorded, shall constitute conclusive evidence of the release of all claims and interests in the Sale Assets of any kind or nature whatsoever.

29. Pursuant to sections 105(a) and 1146(c) of the Bankruptcy Code, the transfer of the Sale Assets in connection with the Bankruptcy Plan is not subject to taxation under any federal, state, local, municipal, or other law imposing or purporting to impose a stamp, transfer, recording, or any other similar tax on any of the Debtors' transfers or conveyances of the Sale Assets, which includes real estate, personal property, and any other assets and is deemed to be part of a plan pursuant to section 1146(c) of the Bankruptcy Code.

30. All entities who presently are in possession of some or all of the Sale Assets are hereby directed to surrender possession of the Sale Assets to the Debtors at the Closing.

31. The Debtors are hereafter not permitted to cause their Representatives to initiate contact with, solicit or encourage submission of any inquiries, proposals or offers by, any Person in connection with any inquiry, proposal, offer, sale or other disposition related to any or all of the Acquired Assets.

32. This Court retains jurisdiction to enforce and implement the terms and provisions of the Purchase Agreement (including the breach of the Purchase Agreement as provided in Section 9.12 thereof), all amendments thereto, any waivers and consents thereunder, and of each of the agreements executed in connection therewith in all respects.

33. The transaction contemplated by the Purchase Agreement is undertaken by Buyer in good faith, as that term is used in section 363(m) of the Bankruptcy Code. Accordingly, the reversal or modification on appeal of the authorization provided herein to consummate the transaction(s) contemplated herein shall not affect the validity of the sale of the Sale Assets to Buyer, unless such authorization is duly stayed pending such appeal. Buyer is a

purchaser in good faith of the Sale Assets, and is entitled to all of the protections afforded by section 363(m) of the Bankruptcy Code.

34. The Purchase Agreement and the transactions and instruments contemplated hereby shall be specifically performed and enforceable against and binding upon, and not subject to rejection or avoidance by, Debtors, and their respective affiliates, successors, and assigns, or any chapter 7 or chapter 11 trustee of Debtors and their estates.

35. The Purchase Agreement and the transactions and instruments contemplated hereby shall be specifically performable and enforceable against and binding upon, and not subject to rejection or avoidance by, the Debtors or any chapter 7 or chapter 11 trustee of the Debtors and their estates.

36. The failure specifically to include any particular provision of the Purchase Agreement in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court that the Purchase Agreement be authorized and approved in its entirety.

37. The Purchase Agreement and any related agreements, documents or other instruments may be modified, amended, or supplemented by the parties thereto, in a writing signed by both parties, and in accordance with the terms thereof, without further order of the Court.

38. Notwithstanding the provisions of Bankruptcy Rules 6004(g) and 6006(d), there is no stay pursuant to Bankruptcy Rule 6004(g) and this Order shall be effective and enforceable immediately upon entry.

Dated: New York, New York
_____, 2004

_____
UNITED STATES BANKRUPTCY JUDGE

ASSET PURCHASE AGREEMENT

by and among

ALLEGIANCE TELECOM, INC.
And
THE OTHER SELLERS NAMED HEREIN,

jointly and severally as Sellers

And

QWEST COMMUNICATIONS INTERNATIONAL INC.

as Buyer

December 18, 2003

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EXHIBITS

ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT is dated as of December 18, 2003 by and among Allegiance Telecom, Inc., a Delaware corporation ("ATI"), each of the other parties set forth on the signature pages hereto under the caption "SELLERS" (collectively with ATI, "Sellers," and each individually, a "Seller"), and Qwest Communications International Inc., a Delaware corporation ("Buyer").

WITNESSETH:

WHEREAS, Sellers are engaged in the business of providing certain telecommunication products and services, including local and long-distance voice services, broadband and other Internet and data services and wholesale services, to business, government and other institutional users in major metropolitan areas across the United States (excluding any Excluded Asset (as defined herein), the "Business");

WHEREAS, on May 14, 2003, Sellers each commenced a case (collectively, the "Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), which cases are jointly administered under Case No. 03-13057;

WHEREAS, the sale of assets and certain liabilities of the Business are subject to the supervision and control of Sellers subject to the approval of the Bankruptcy Court;

WHEREAS, Sellers wish to sell to Buyer and Buyer wishes to purchase from Sellers substantially all of the assets and to assume from Sellers certain liabilities of the Business, pursuant to, inter alia, sections 105, 363, 365, 1122, 1129 and 1146(c) of the Bankruptcy Code and the applicable Federal Rules of Bankruptcy Procedure; provided, however, that in the event Sellers shall have delivered an Early Closing Election, Sellers shall not seek to sell the assets pursuant to sections 1122 and 1129 of the Bankruptcy Code;

WHEREAS, the Board of Directors of each Seller has determined that it is advisable and in the best interests of Sellers' estates and the beneficiaries of such estates to consummate the transactions contemplated by this Agreement, upon the terms and conditions provided for herein; and

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the terms and conditions hereof, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Defined Terms. As used herein, the terms below shall have the following respective meanings:

"Adverse Bankruptcy Event" means the occurrence of any of the events identified in Section 8.1(c) (other than Section 8.1(c)(i)) at any time after the entry of the Sale Order, or the failure to adhere to the timeline in Exhibit J attached hereto with respect to the dates for (i) approval of the Disclosure Statement, (ii) entry of the Confirmation Order, or (iii) effectiveness of the Bankruptcy Plan; provided, however, that to the extent Sellers shall have delivered an Early Closing Election, then an Adverse Bankruptcy Event shall not include the events identified in Sections 8.1(c)(iii) or 8.1(c)(iv).

"Affiliate" means any Person directly or indirectly controlling, controlled by or under common control with another Person where "control" means the possession, directly or indirectly, of the power to direct the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; provided, however, that under no circumstances shall creditors of Sellers be considered Affiliates of Sellers solely by virtue of their ownership of creditor claims against Sellers.

"Affiliated Group" means any affiliated group of corporations within the meaning of Section 1504 of the Internal Revenue Code that joins in the filing of (or is otherwise required to file) a federal consolidated Tax Return, as well as any other group of corporations filing (or otherwise required to file) consolidating, combined or unitary Tax Returns under state, local or foreign Law, of which a Seller is or was a member.

"Agreement" means this Asset Purchase Agreement (together with all schedules and exhibits referenced herein), as the same may be amended from time to time.

"ATCW" means Allegiance Telecom Company Worldwide, a Delaware corporation.

"Bankruptcy Plan" means Sellers' chapter 11 plan of reorganization that includes the sale of the Acquired Assets to Buyer as contemplated hereby, in a form reasonably acceptable to Buyer, unless Sellers shall have delivered an Early Closing Election.

"Base Working Capital" means the Net Working Capital as of September 30, 2003 equal to $16,099,016.

"Bidding Procedures Order" means an order in the form of Exhibit A hereto, and otherwise in form and substance reasonably acceptable to ATI and Buyer.

"Break Up Fee" means an amount equal to Twelve Million Eight Hundred Thousand Dollars ($12,800,000) and payable to Buyer in accordance with Section 8.2 or 8.3.

"Business Day" means any day other than a Saturday, Sunday or a legal holiday on which banking institutions in the State of New York are not required to open.

"COBRA" means section 4980B of the Internal Revenue Code and Part 6 of Subtitle B of Title I of ERISA.

"Communications Licenses" means the FCC Licenses and the State PUC Licenses.

"Confidentiality Agreement" means the agreement entered into by and between ATI and Qwest Services Corporation dated May 23, 2003.

"Confirmation Order" means a final, nonappealable order to be entered by the Bankruptcy Court in the Cases confirming the Bankruptcy Plan pursuant to section 1129 of the Bankruptcy Code.

"Contract" means any contract, agreement, indenture, note, bond, loan, instrument, lease, commitment or other arrangement or agreement, including all amendments thereof and supplements thereto.

"Convertible Note" means the convertible notes to be executed and delivered by Buyer in favor of ATI at the Closing for distribution to Sellers' creditors pursuant to the Bankruptcy Plan, such notes to contain the terms set forth in the term sheet attached hereto as Exhibit B.

"Cure Amounts" means all amounts payable in order to effectuate, pursuant to section 365 of the Bankruptcy Code, the assumption by Sellers and the assignment to the Buyer of any Assumed Contract.

"Disclosure Schedules" means the various disclosure schedules referred to herein.

"Employee" means each active employee, full-time or part-time, temporary or regular, of Sellers. An "active employee" shall include any current employee on Sellers' payroll records, regardless of whether such employee is absent from work, including due to short term or long term disability, military leave, leave of absence, illness, vacation or workers' compensation injury.

"Environmental Laws" means all Laws relating to the protection of the environment, or to any emission, discharge, generation, processing, storage, holding, abatement, existence, Release, threatened Release or transportation of any Hazardous Substances, including all Laws pertaining to reporting, licensing, permitting, investigation or remediation of emissions, discharges, Releases or threatened Releases of Hazardous Substances into the air, surface water, groundwater or land, or relating to the

manufacture, processing, distribution, use, sale, treatment, receipt, storage, disposal, transport or handling of Hazardous Substances.

"Environmental Permits" means any Licenses required pursuant to Environmental Laws for operation, installation or modification of equipment, processes, facilities or for occupancy of any of the real property owned or leased by Sellers.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended and the regulations promulgated thereunder.

"Escrow Amount" means the greater of (i) Seven Million Dollars ($7,000,000) and (ii) the sum of Five Million Dollars ($5,000,000) plus, to the extent positive, the Initial Working Capital Adjustment.

"Executory Contract" means any Contract that can be assumed or rejected in accordance with the Bankruptcy Code.

"Expense Reimbursement" means an amount payable to Buyer in accordance with Section 8.2 or 8.3 to reimburse Buyer for reasonable and documented out-of-pocket costs and expenses (including reasonable legal, accounting and financial advisors' fees and expenses) incurred by Buyer or its Affiliates in connection with the investigation, negotiation, execution, delivery and performance of this Agreement, the consummation of the transactions contemplated hereby and the participation in and monitoring of the Cases, such expenses to be set forth in a reasonably detailed written itemization of such expenses (the "Expense Reimbursement Statement").

"Expense Reimbursement Statement" shall have the meaning ascribed to such term in the definition of "Expense Reimbursement."

"FCC" means the Federal Communications Commission.

"FCC Consent" means the grant by the FCC of its consent to the assignment of the FCC Licenses in connection with the consummation of the transactions contemplated hereby.

"FCC Licenses" means all Licenses issued by the FCC held by Sellers, as set forth on Schedule 2.1(d) of the Disclosure Schedules.

"GAAP" means generally accepted accounting principles in the United States as in effect from time to time.

"Governmental Entity" means any federal, state, local or foreign government or any subdivision, agency, instrumentality, authority, department, commission, board or bureau thereof or any federal, state, local or foreign court, tribunal or arbitrator (including the Bankruptcy Court).

"Hazardous Substances" means any substance or material that: (i) is or contains asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls,

petroleum or petroleum-derived substances or wastes, radon gas or related materials, or (ii) requires investigation, removal or remediation under any Environmental Law, or is defined, listed or identified as a "hazardous waste," "hazardous substance," "toxic substance" or words of similar import thereunder.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and any successor law and the rules and regulations promulgated thereunder or under any successor law.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

"Law" means any federal, state, local, municipal or foreign statute, law, ordinance, regulation, rule, code, order, principle of common law or judgment enacted, promulgated, issued, enforced or entered by any Governmental Entity, or other requirement or rule of law.

"Liabilities" means, as to any Person, all debts, adverse claims, liabilities, commitments, responsibilities, damages and obligations of any kind or nature whatsoever, direct, indirect, absolute or contingent, of such Person, whether accrued, vested or otherwise, whether known or unknown and whether or not actually reflected, or required to be reflected, in such Person's balance sheets or other books and records.

"License" means all licenses, franchises, permits, consents, waivers, registrations, certificates, and other governmental or regulatory permits, authorizations or approvals required to be issued or granted by a Governmental Entity for the operation of the Business and for the ownership, lease or operation of Sellers' properties.

"Lien" means any lien, lease, right of first refusal, servitude, claim, pledge, option, charge, hypothecation, easement, security interest, right-of-way, encroachment, mortgage, deed of trust or any other encumbrance, restriction or limitation whatsoever.

"Litigation" means any claim, action, suit, investigation or proceeding before any court, arbitrator or other Governmental Entity.

"Material Adverse Effect" means any event, effect or change, individually or in the aggregate with such other events, effects or changes, that has had, has or could reasonably be expected to have a material adverse effect on the condition (financial or otherwise), Liabilities, properties, assets (including intangible assets) or results of operations of Sellers or the Business, in either case taken as a whole; provided that none of the following shall be deemed to constitute and none of the following shall be taken into account in determining whether there has been a Material Adverse Effect: any adverse event, effect or change arising from or relating to (1) general business or economic conditions; (2) national or international political conditions, including the engagement of the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon the United States, or any of its territories, possessions, or diplomatic or consular offices

or upon any military installation, equipment or personnel of the United States; (3) financial, banking or securities market conditions (including any disruption thereof and any decline in the price of any security (including any security or creditor claims of or with respect to Sellers) or any market index); (4) changes in GAAP or any application of accounting standards after the date hereof, including the American Institute of Certified Public Accountants Statement of Position 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" and Financial Accounting Standards Board in Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets;" (5) the taking of any action specifically contemplated by this Agreement and the other agreements contemplated hereby or the announcement of the transactions contemplated by this Agreement; or (6) changes in Law or binding directives issued by any Governmental Entity.

"Net Working Capital" means Working Capital Assets minus Working Capital Liabilities.

"Operational Restructuring Activities" means Sellers' actions taken with the intent to preserve cash, improve the efficiency and reduce the costs of the Business consisting of (i) reducing the number of Employees to approximately 3,000 as of September 30, 2003; (ii) rejecting Executory Contracts in the Cases (and from and after the date hereof, solely in accordance with this Agreement); (iii) waiving, decommissioning or abandoning assets and other rights that are not material to the operation of the Business and in instances in which the estimated cost of salvaging or selling such assets exceeds the anticipated proceeds; (iv) marketing and seeking to sell certain Excluded Assets; and (v) taking other actions in the Cases specifically approved by the Bankruptcy Court prior to the date hereof, whether such action occurs prior to, on or subsequent to the date hereof.

"Order" means any judgment, order, injunction, writ, ruling, decree, stipulation or award of any Governmental Entity.

"Ordinary Course of Business" means the ordinary and usual course of normal day-to-day operations of the Business by Sellers as debtors and debtors-in-possession in the Cases consistent with past practice through the date hereof.

"Out of Region Business" means the operations of the Business conducted outside of the states of Arizona, Colorado, Oregon, Washington and Minnesota.

"Permitted Lien" means (i) any Lien for Taxes not yet due or delinquent; (ii) any statutory Lien arising in the Ordinary Course of Business or by operation of Law with respect to a Liability that is not yet due or delinquent; (iii) easements, leases, reservations, licenses or other matters of record affecting any property or assets of Sellers, provided that such easements, leases, reservations, licenses or other matters do not materially detract from the value of or impair the use of such property or assets; and (iv) Liens on Acquired Assets in favor of Sellers' secured lenders to be released at Closing.

"Person" means an individual, a partnership, a joint venture, a corporation, a business trust, a limited liability company, a trust, an unincorporated organization, a joint stock company, a labor union, an estate, a Governmental Entity or any other entity.

"post-Petition" means any time after the commencement of the Cases.

"pre-Petition" means any time prior to the commencement of the Cases.

"Regulatory Transition Process" means the process as set forth in this Agreement, the Management Agreements, the Transition Plan and other related documents for obtaining all approvals, consents (including assignments of any permits and rights of way), certificates, waivers and other authorizations required to be obtained from, or filings or other notices required to be made with or to, any Governmental Entities having jurisdiction over any of the Acquired Assets in order to consummate the transactions contemplated by this Agreement and the other Transaction Documents and the transfer of such Acquired Assets, including the Non-Transferred Assets, to Buyer upon the receipt of such approvals.

"Release" means any releasing, disposing, discharging, injecting, spilling, leaking, leaching, pumping, dumping, emitting, escaping, emptying, seeping, dispersal, migration, transporting, placing and the like, including the moving of any materials through, into or upon, any land, soil, surface water, groundwater or air, or otherwise entering into the environment.

"Representative" means, with respect to any Person, such Person's officers, directors, employees, agents and representatives (including any investment banker, financial advisor, accountant, legal counsel or expert retained by or acting on behalf of such Person or its Subsidiaries).

"Retail Ending Lines" means the number of lines in service from Sellers' billing systems based upon line equivalency and consistent with the methodology used to report retail ending lines on Sellers' monthly flash reports. Line equivalency is defined per product and is maintained by Sellers' Product Hierarchy database. For example, a fully-utilized data T-1 is counted as 24 lines.

"Sale Delay" means the failure to adhere to the timeline attached hereto as Exhibit J with respect to (i) the date for the auction contemplated by the Bidding Procedures Order or (ii) the Sale Order Approval Date.

"Sale Hearing" means the hearing to be scheduled and conducted by the Bankruptcy Court to consider approval and entry of the Sale Order.

"Sale Motion" means the motion or motions of Sellers seeking approval and entry of the Bidding Procedures Order and the Sale Order.

"Sale Order" means an order in the form of Exhibit C hereto, and otherwise in form and substance reasonably acceptable to ATI and Buyer.

"Sale Order Approval Date" means the date the Bankruptcy Court approves the Sale Order.

"Scheduled Future Disconnects" means scheduled backlog of line disconnects from Sellers' backlog report as determined by Sellers in accordance with past custom and practice.

"Scheduled Future Installs" means scheduled backlog of line installs from Sellers' backlog report as determined by Sellers in accordance with past custom and practice.

"Sellers' Knowledge" and any similar terms used herein means the actual knowledge of Royce J. Holland, C. Daniel Yost, Thomas M. Lord, G. Clay Myers, Christopher MacFarland, J. Timothy Naramore, Anthony J. Parella or Mark B. Tresnowski, without any duty to investigate.

"Shared Technologies" means Shared Technologies Allegiance, Inc., a wholly owned Subsidiary of ATCW.

"State PUC" means any state and local public service and public utilities commission having regulatory authority over the Business, as conducted in any given jurisdiction.

"State PUC Consent" means the grant by any State PUC of its consent to the assignment of the State PUC Licenses or any Non-Transferred Assets associated with such Licenses, in connection with the consummation of the transactions contemplated hereby.

"State PUC Licenses" means all Licenses issued or granted by the State PUC held by Sellers in each applicable jurisdiction, as set forth on Schedule 2.1(d) of the Disclosure Schedules.

"Subsidiary" means, with respect to any particular Person, any corporation, limited liability company, partnership, association or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a limited liability company, partnership, association or other business entity, a majority of the partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a limited liability company, partnership, association or other business entity if such Person or Persons shall be allocated a majority of limited liability company, partnership, association or other business entity gains or losses or shall be or control any managing director or general partner of such limited liability company, partnership, association or other business entity.

"Tax" or "Taxes" means all taxes, charges, fees, duties, levies or other assessments, including income, gross receipts, net proceeds, ad valorem, turnover, real and personal property (tangible and intangible), sales, use, franchise, excise, value added, license, payroll, unemployment, environmental, customs duties, capital stock, disability, stamp, leasing, lease, user, transfer, fuel, excess profits, occupational and interest equalization, windfall profits, severance and employees' income withholding and Social Security taxes imposed by the United States or any other country or by any State, municipality, subdivision or instrumentality of the United States or of any other country or by any other tax authority, including interest, penalties or additions to tax attributable to such Taxes or any Tax Return, and shall include any transferee or successor liability in respect of Taxes (whether by contract or otherwise) and any liability in respect of any Taxes as a result of being a member of any Affiliated Group.

"Tax Return" means any statement, report, return or other information required to be filed with respect to any Tax (including any attachments thereto and any amendment thereof) including any information return, claim for refund, amended return or declaration of estimated Tax, and including, where permitted or required, consolidating, combined or unitary returns in which any Seller is or was included or includable.

"Transaction Documents" means this Agreement, the Management Agreements, the Transition Services Agreement, the Earnest Money Escrow Agreement, the Closing Escrow Agreement, the Convertible Note and all Disclosure Schedules, certificates, contracts and agreements being delivered or entered into pursuant to this Agreement.

"Transfer Tax" or "Transfer Taxes" means any federal, state, county, local, foreign and other sales, use, transfer, conveyance, documentary transfer, recording or other similar tax, fee or charge imposed upon the sale, transfer or assignment of property or any interest therein or the recording thereof, and any penalty, addition to tax or interest with respect thereto, but such term shall not include any tax on, based upon or measured by, the net income, gains or profits from such sale, transfer or assignment of the property or any interest therein.

"WARN Act" means the Worker Adjustment and Retraining Notification Act of 1988, as amended, and any successor law, and the rules and regulations promulgated thereunder and under any successor law, and any similar state, local or foreign law, regulation or ordinance.

"Working Capital Assets" means the current assets of Sellers set forth on Exhibit G, determined in accordance with GAAP applied on a basis consistent with the most recent balance sheet included in the Financial Statements to the extent they are included in the Acquired Assets.

"Working Capital Liabilities" means the current liabilities of Sellers set forth on Exhibit G, determined in accordance with GAAP applied on a basis consistent

with the most recent balance sheet included in the Financial Statements to the extent they are included in the Assumed Liabilities.

1.2 Other Defined Terms. The following additional terms shall have the meanings defined for such terms in the Sections set forth below:

Term	Section
Accounting Referee	3.4(d)
Acquired Assets	2.1
Additional Amount	3.6(d)
Additional Assumed Contracts	8.3
Allocation Schedule	3.7
Antitrust Laws	6.14(b)
Approval Motions	6.3(a)
Assumed Contracts	3.5(d)
Assumed Contracts List	3.5(d)
Assumed Liabilities	2.3
ATI	Recitals
Avoidance Actions	2.2(e)
Balance Sheet	4.6(a)
Balance Sheet Date	4.6(a)
Bankruptcy Code	Recitals
Bankruptcy Court	Recitals
Bidding Procedures Order Approval Date	6.17(a)
bulk sale	7.1(b)
Business	Recitals
Buyer	Recitals
Buyer Group	9.7
Buyer Protection Superpriority Claims	6.16(c)
Cases	Recitals
Cash and Cash Equivalents	2.2(a)
Cash ILEC Cure Amount	3.5(a)
Cash Purchase Price	3.2(a)
Claim Over	9.7
Claims	2.1(f)
Closing	3.1(a)
Closing Date	3.1(a)
Closing Escrow Agreement	3.2(b)
Closing Working Capital	3.4(b)
Committee	6.5(c)
Competing Transaction	6.17(a)
Convertible Note Amount	3.2(a)
Contracting Seller	6.13(c)
Deposit Adjustment Amount	3.5(b)

Term	Section
Designated Change	6.14(b)
Disclosure Statement	6.3(a)
Early Closing Election	8.3
Earnest Money Deposit	3.3
Earnest Money Escrow Agent	3.3
Earnest Money Escrow Agreement	3.3
Employee Benefit Plans	4.23(a)
Employee Schedule	6.8(a)
Equipment	2.1(b)
ERISA Affiliate	4.23(a)
Escrow Account	3.2(b)
Escrow Agent	3.2(b)
Estimated Closing Working Capital	3.4(a)
Exchange Act	4.6(c)
Excluded Assets	2.2
Excluded Liabilities	2.4
Exclusivity Period	6.3(d)(iii)
Final Performance Adjustment Amount	3.6(b)
Final Working Capital	3.4(i)
Financial Statements	4.6(a)
Form 10-Q	5.8
good faith	6.3(b)
ILECs	3.5(a)
ILEC Cure Adjustment	3.5(a)
ILEC Cure Amounts	3.5(a)
ILEC Set Off Amounts	3.5(a)
Initial Working Capital Adjustment	3.4(f)
Intellectual Property	2.1(i)
Liquidated Damages	8.2
Losses	9.7
Management Agreements	6.2(b)
Multiemployer Plan	4.23(d)
multiple employer plan	4.23(a)
Non-Compete Covenants	6.1(j)
Non-ILEC Cure Adjustment	3.5(c)
Non-ILEC Cure Amounts	3.5(c)
Non-ILEC Set Off Amounts	3.5(c)
Non-Recourse Person	9.7
Non-Transferred Assets	2.5
Owned Real Property	2.2(k)
Performance Adjustment Amount	3.6(a)
Personal Property Leases	2.1(c)
Purchase Price	3.2(a)
Real Property Leases	2.1(a)

Term	Section
Required Interconnection Agreements	2.5
SEC	4.6(c)
Seller Marks	6.24
Sellers	Recitals
Sellers' Intentional Breach	8.2
Senior Credit Agreement	4.12
Shared Hosting Business	6.1
Third Person	9.7
Total Gross End User Revenue	3.6(a)
Total Retail Net Ending Lines	3.6(a)
Transferred Employees	6.8(b)
Transition Plan	6.2(a)
Transition Services Agreement	7.3(f)

ARTICLE II
TRANSFER OF ASSETS AND LIABILITIES

2.1 Assets to be Sold. Subject to Sections 2.2, 2.5, 2.6, 2.7 and 6.2, the other provisions of this Agreement and the Sale Order, at the Closing, Sellers shall sell, convey, assign, transfer and deliver to Buyer free and clear of all Liens and Liabilities (other than Permitted Liens of the type included in clause (iii) of the definition of Permitted Liens), and Buyer shall purchase, acquire, and accept all of Sellers' right, title and interest in and to all of Sellers' properties, assets and rights of every nature, kind and description, tangible and intangible (including goodwill), whether real, personal or mixed, whether accrued, contingent or otherwise and whether now existing or hereafter acquired, including the following (collectively, the "Acquired Assets"):

(a) The leases or subleases and all amendments thereto under which any of Sellers is a lessor or lessee or sublessor or sublessee of real property (collectively, the "Real Property Leases") as set forth on the Assumed Contracts List, including all improvements, fixtures and other appurtenances thereto and rights in respect thereof and any related security deposits;

(b) The furniture, fixtures, equipment, machinery, supplies, vehicles, inventory, and other tangible personal property, including the network equipment assets and facilities owned or used by Sellers (collectively, the "Equipment");

(c) The leases which relate to Equipment and leases of dark fiber (collectively, the "Personal Property Leases") as set forth on the Assumed Contracts List;

(d) All Communications Licenses and any other Licenses, including those listed on Schedule 2.1(d) of the Disclosure Schedules, to the extent the same are transferable or assignable pursuant to section 365 of the Bankruptcy Code or as otherwise permitted by Law (or, to the extent not transferable or assignable, all right,

title and interest in such Licenses, to the fullest extent such right, title and interest may be transferred or assigned); provided, that to the extent that Buyer does not require any such Communications License or Licenses, it may in its sole discretion decline to acquire such Communications License or Licenses by providing written notice to Sellers prior to the Closing Date, in which case such a License shall not be an Acquired Asset hereunder.

(e) The Assumed Contracts not described in Section 2.1(a) or 2.1(c) above, including any related security deposits (including the deposits described in Section 3.5(b) hereof), advance payments, customer advances and customer deposits;

(f) Except as set forth in Section 2.2(e) and 2.2(f), all rights, demands, claims, actions, rights of set off, counterclaims and causes of action of any kind (collectively, the "Claims") brought by or for the benefit of any Seller relating to the operation of the Business;

(g) Accounts, notes and other receivables of Sellers (other than pre-Petition carrier gross accounts receivable, including those of ILECs which were recorded on the books and records of Sellers as of May 14, 2003, in an amount up to $58.3 million);

(h) Any books, records, files or papers of Sellers, whether in hard copy or computer format, relating to the Acquired Assets or the Non-Transferred Assets (upon such assets becoming Acquired Assets) or to the operation of the Business, including management information systems or software owned by Sellers, engineering information, sales and promotional literature, manuals and data, sales and purchase correspondence, personnel and employment records, customer lists, customer information, vendor lists, catalogs, research material, source codes, carrier identification codes, technical information, trade secrets, technology, know-how, specifications, designs, drawings, processes and quality control data, if any, or any other intangible property and applications for the same but excluding any books, records, files or papers that relate to any Tax of Sellers that are Excluded Liabilities;

(i) Any of Sellers' right, title or interest in or to any of Sellers' patents, patent registrations, patent applications, trademarks (including "*allegiancetelecom,inc.*" and design), trademark registrations, trademark applications, tradenames, copyrights, copyright applications, and copyright registrations relating to the Business and the rights to sue for, and remedies against, past, present and future infringements thereof and the rights of priority and protection of interests therein under applicable laws (collectively, the "Intellectual Property");

(j) Any computer software programs and databases used by any Seller, whether owned, licensed, leased, or internally developed to the extent the same are transferrable or assignable pursuant to section 365 of the Bankruptcy Code or as otherwise permitted by Law (or, to the extent not transferrable or assignable, all right, title and interest in such programs and databases, to the fullest extent such right, title and interest may be transferred or assigned);

(k) All taxation matrixes utilized by Sellers in the determination of the taxability of products sold by Sellers, other than those which are commercially available;

(l) Any telephone numbers, electronic mail addresses, carrier identification codes and local exchange codes used by Sellers in the conduct of the Business;

(m) All of Sellers' currently allocated, assigned, used and unused internet protocol addresses, domain names, and autonomous system numbers from applicable authorities governing the use and structure of the Internet, including the American Registry for Internet Numbers;

(n) All bank accounts and lock-boxes, including those listed on Schedule 2.1(n) of the Disclosure Schedules;

(o) All transferable rights of Sellers under or pursuant to all warranties, representations and guarantees made by suppliers, manufacturers and contractors to the extent relating to products sold, or services provided, to Sellers or to the extent affecting any Acquired Assets;

(p) All rights of Sellers under non-disclosure, confidentiality, non-compete or non-solicitation agreements with employees or agents of Sellers or with third parties;

(q) All insurance claims and insurance proceeds (other than with respect to any director and officer, errors and omissions, fiduciary and commercial crime policies) in respect of an Acquired Asset or an Assumed Liability; and

(r) All security, vendor, utility and other deposits.

2.2 Excluded Assets. The Acquired Assets shall not include any of Sellers' right, title or interest in or to any assets or properties of Sellers that are expressly enumerated below (collectively, the "Excluded Assets"):

(a) Subject to Section 2.1(q), cash and cash equivalents, short-term and long-term investments, or similar type investments, uncollected checks and funds in transit to the extent there is a corresponding reduction in accounts receivable included in Acquired Assets, Treasury bills and other marketable securities existing as of the Closing Date ("Cash and Cash Equivalents");

(b) Bank accounts and lock-boxes described as "Excluded Assets" on Schedule 2.1(n) of the Disclosure Schedules;

(c) Any security, vendor, utility or other deposits (but only to the extent such deposits specifically relate to Excluded Assets or Excluded Liabilities);

(d) Any Contracts other than the Assumed Contracts;

(e) All Claims that Sellers or any of their respective Affiliates may have against any third party, including any Governmental Entity, for causes of action based on Chapter 5 of the Bankruptcy Code ("Avoidance Actions") and for refund or credit of any type with respect to Taxes accrued or paid with respect to periods (or any portion thereof) ending on or prior to the Closing Date;

(f) All Claims which Sellers or any of their respective Affiliates may have against any third Person with respect to any Excluded Asset or Excluded Liability;

(g) The capital stock of Shared Technologies, which is a Subsidiary of ATCW, but is not a Seller hereunder, and its assets;

(h) The Shared Hosting Business, including Contracts, accounts receivable, equipment and Intellectual Property specifically related thereto.

(i) The capital stock of each Seller and each Seller's corporate books and records relating to its organization and existence;

(j) Any director and officer, errors and omissions, fiduciary or commercial crime insurance policies and related insurance claims and insurance proceeds;

(k) All insurance policies;

(l) Any real property which is owned by any of Sellers ("Owned Real Property");

(m) Any loans or notes payable to any Seller from any employee of any Seller, other than Ordinary Course of Business employee advances;

(n) Pre-Petition carrier gross accounts receivable, including those of ILECs, which were recorded on Sellers' books and records as of May 14, 2003, in an amount up to $58.3 million;

(o) Any assets set forth in Schedule 2.2(o) of the Disclosure Schedules.

2.3 Liabilities to be Assumed by Buyer. Subject to Sections 2.4, 2.5 and 6.2, upon the transfer of the Acquired Assets on the Closing Date, Buyer shall assume only the following Liabilities of Sellers (collectively, the "Assumed Liabilities"):

(a) Liabilities arising out of or relating to the ownership of the Acquired Assets and the operation of the Business by Buyer or any of its assignees, including Liability for personal injury of customers or employees, but in each case only to the extent that the event or state of facts giving rise to such Liability occurs after the Closing;

(b) (i) Liabilities under the Assumed Contracts, but only to the extent that the event or state of facts giving rise to such Liability occurs after the Closing, and (ii) any post-Petition Liabilities under the Assumed Contracts incurred in the Ordinary Course of Business but only to the extent such Liabilities are reflected in Sellers' financial statements as of the Closing Date and taken into account in the determination of Closing Working Capital;

(c) (i) Liabilities under trade accounts payable arising in the Ordinary Course of Business and (ii) current Liabilities arising in the Ordinary Course of Business under the accounts set forth on Exhibit K, and in each case only to the extent that (x) the event or state of facts giving rise to such Liability occurs post-Petition and (y) such Liabilities are reflected in Sellers' financial statements as of the Closing Date and taken into account in the determination of Closing Working Capital; provided, however, that Buyer shall not assume any of Sellers' Liabilities for professional fees and other related costs of administering the Cases;

(d) Liabilities for fifty percent (50%) of any and all Transfer Taxes due as a result of the transactions contemplated by this Agreement as set forth in Section 6.10;

(e) Liabilities for severance costs (the amount thereof in accordance with Sellers' currently existing severance policy and past practice as described in Exhibit L) related to non-Transferred Employees who are Employees on the date hereof or hired in the Ordinary Course of Business thereafter and are terminated at Buyer's request after the date hereof and Liabilities to Sellers' employees pursuant to Section 6.8(b); provided, however, that in no event shall Buyer be responsible for more than six (6) months of severance per Employee;

(f) Liabilities associated with customers of the Business, including credits or refunds due such customers for any reason, to the extent that the event or state of facts giving rise to such Liabilities occurs post-Closing; and

(g) Liabilities related to any obligations under Section 4980B of the Internal Revenue Code to provide continuation of group medical coverage on and after the Closing with respect to any employee or former employee employed in connection with the Business or other qualified beneficiary but only to the extent Buyer may be required to assume any such Liability by Law.

2.4 Excluded Liabilities. Buyer shall not assume, and shall not be deemed to have assumed, any Liabilities of Sellers, and Sellers shall be solely and exclusively liable and shall indemnify and hold harmless Buyer and its Affiliates with respect to all Liabilities of Sellers other than the Assumed Liabilities, including those Liabilities set forth below (collectively, the "Excluded Liabilities"):

(a) Any Liabilities which arise, whether before, on or after the Closing, out of, or in connection with, the Excluded Assets, including any Contract which is not an Assumed Contract;

(b) Any Liabilities under the Assumed Contracts or accounts payable to the extent not assumed pursuant to Section 2.3;

(c) Any Liabilities arising from a breach of an Assumed Contract to the extent that the event or state of facts giving rise to such Liability occurs pre-Closing;

(d) Any Liabilities arising out of, or in connection with, any pending or threatened Litigation arising out of the operation of the Business to the extent that the event or state of facts giving rise to such Liability occurs pre-Closing;

(e) Any Liabilities arising out of or in connection with any indebtedness of Sellers or any of their respective Affiliates to their lenders, noteholders or otherwise (other than, to the extent provided in Section 2.3, post-petition Liabilities relating to Assumed Contracts which are characterized as capital leases by Sellers);

(f) Any Liabilities for which Sellers have received an invoice which is not taken into account in the determination of Closing Working Capital;

(g) Liabilities related to Shared Technologies or the Shared Hosting Business;

(h) Liabilities related to the Owned Real Property;

(i) Any Liabilities of Sellers or any Affiliate thereof (or any predecessor thereto) relating to Taxes (other than Transfer Taxes referred to in Section 2.3(d) and Taxes described on Exhibit K), including all Taxes attributable to or incurred in any period (or portion thereof) ending on or before the Closing Date;

(j) All Liabilities of any Seller, any of their Affiliates or any predecessor of any Seller resulting from, caused by or arising out of, directly or indirectly, the conduct of the Business or any Seller's ownership, operation or lease of any properties or assets or any properties or assets previously used in the Business by any Seller, any of their Affiliates or any predecessor of any Seller at any time pre-Closing, that constitute, may constitute or are alleged to constitute a violation of or Liability arising under any Environmental Law or other Law including any state or federal communications law or regulation;

(k) All Liabilities arising from or relating to the employment, or termination of employment, of any Employee, former Employee, independent contractor or contingent worker with respect to the Business, including pursuant to Employee Benefit Plans, other than those specifically assumed pursuant to Section 2.3 and 6.8 herein; and

(l) All Liabilities arising from or relating to any collective bargaining agreement, including any obligation for benefits to employees covered thereunder and, specifically, any Multiemployer Plan liability.

2.5 Non-Transferred Assets. Notwithstanding the foregoing provisions of Article II, and subject to Section 6.2 and the Management Agreements, the parties agree that, to the extent that as of the Closing (i) certain of the Acquired Assets cannot be transferred to Buyer pending the issuance of further FCC Consents or State PUC Consents or (ii) certain of the Acquired Assets are associated with one or more interconnection agreements, for which the ILEC's consent is required and which are reasonably necessary, in Buyer's sole discretion, to the operation of the Acquired Assets ("Required Interconnection Agreements") and receipt of any ILEC consents or expiration of any notice periods necessary to assign such Required Interconnection Agreements remains pending as of the Closing, Sellers shall retain such assets (the "Non-Transferred Assets") pending receipt of such consents or expiration of such notice periods. For the avoidance of doubt, Buyer shall have the right, in its sole discretion, to designate any Acquired Asset (including any Required Interconnection Agreement) as a Non-Transferred Asset. During the period that the Non-Transferred Assets are held by Sellers, Buyer will provide management services to Sellers pursuant to the Management Agreements. Upon receipt from time to time of any such necessary consents, such Non-Transferred Assets as are subject to such consents shall be transferred to Buyer and Buyer will assume all related Assumed Liabilities; and within five (5) Business Days of Buyer's written request, Sellers will deliver a bill of sale and the requirements of Section 3.1 below shall have been deemed to be satisfied as if such Non-Transferred Assets and related Assumed Liabilities had otherwise been transferred to and assumed by Buyer at the Closing. With respect to assets that are designated by Buyer as Non-Transferred Assets and which are not subject to obtaining any further consents after the Closing, such Non-Transferred Assets shall be transferred to Buyer and Buyer will assume all related Assumed Liabilities, within five (5) Business Days of Buyer's written request, at which time Sellers will deliver a bill of sale and the requirements of Section 3.1 below shall have been deemed to be satisfied as if such Non-Transferred Assets had otherwise been transferred to Buyer at the Closing. In addition, Non-Transferred Assets shall include all of the Seller Marks, which shall be licensed to Buyer upon the Closing as set forth in the Management Agreements. After the expiration or termination of the Management Agreements, upon the written request of Buyer, all right, title and interest in and to the Seller Marks shall be transferred to and vest in Buyer.

2.6 Contract Assignment. Notwithstanding any provision to the contrary herein, Buyer and Sellers agree that there shall be excluded from the Acquired Assets any Assumed Contract that is not assignable or transferable pursuant to the Bankruptcy Code without the consent of any Person other than Sellers or any Affiliate of Sellers, to the extent that such consent shall not have been given on or prior to the Closing; provided, however, that Sellers shall use commercially reasonable efforts (including prosecution of appropriate motions pursuant to Section 365 of the Bankruptcy Code) to endeavor to obtain all necessary consents to the assignment thereof, and, upon obtaining the requisite consents thereto, such Acquired Asset shall be assigned to Buyer. Notwithstanding any provision to the contrary herein, Buyer and Sellers agree that all reasonable out-of-pocket costs and expenses (other than Cure Amounts) incurred relating to Sellers' assignment to Buyer of the Assumed Contracts set forth on Schedule 2.6 of the Disclosure Schedules shall be shared equally between Buyer and Sellers.

2.7 Alternative Structure. Notwithstanding Section 2.1, after the Sale Order Approval Date, Buyer shall have the right, on at least fifteen (15) Business Days notice to ATI, to require Sellers to transfer immediately prior to the Closing, some or all of the Equipment or other Acquired Assets to one or more newly formed Delaware limited liability companies to be formed and owned by one or more Sellers. If Buyer gives such notice, the membership interests in such limited liability companies shall be deemed Acquired Assets hereunder and Buyer shall acquire such membership interests at the Closing without the payment of any additional consideration. Buyer shall be permitted to give one or more notices pursuant to this Section 2.7. In addition, at Buyer's option, a similar procedure will apply to any Equipment or other Acquired Assets which constitutes a Non-Transferred Asset. Fifty percent (50%) of all reasonable out-of-pocket costs and expenses incurred in connection with Sellers' performance of this Section 2.7 shall be borne by each of Buyer and Sellers.

ARTICLE III
CLOSING

3.1 Closing; Transfer of Possession; Certain Deliveries.

(a) Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Article VIII hereof, the closing of the transactions contemplated herein (the "Closing") shall take place no later than the fifth (5th) Business Day following the date on which the conditions set forth in Article VII have been satisfied or waived (other than those conditions with respect to actions of the parties to be taken at the Closing itself, but subject to the satisfaction or waiver of such conditions), or on such other date as the parties hereto shall mutually agree; provided, however, that if the Closing would be scheduled to occur less than two (2) Business Days after the receipt of the performance reports for the prior month referred to in Section 6.5(d) hereof, Buyer shall not be required to close until two (2) Business Days after its receipt of such performance reports. The Closing shall be held at the offices of Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022, at 5:00 p.m., local time, unless the parties hereto otherwise agree. The actual time and date of the Closing are herein called the "Closing Date."

(b) At the Closing, Sellers shall deliver to Buyer:

(i) A duly executed bill of sale substantially in the form attached hereto as Exhibit D;

(ii) A certified copy of the Sale Order;

(iii) The officer's certificates required to be delivered pursuant to Section 7.2(c) hereof;

(iv) Assignments of lease and customary title affidavits;

(v) A certification of non-foreign status for each Seller in the form required under Treasury Regulation Section 1.1445-2(b); and

(vi) All other instruments of conveyance and transfer, in form and substance reasonably acceptable to Buyer and Sellers, as may be necessary to convey the Acquired Assets to Buyer or Buyer's designee.

(c) At the Closing, Buyer shall deliver to ATI (on behalf of Sellers):

(i) The Cash Purchase Price, plus or minus, the applicable adjustments to the Purchase Price as set forth in Section 3.2(a)(x) below;

(ii) The Convertible Note;

(iii) All certificates required by all relevant taxing authorities that are necessary to support any available exemption from the imposition of Transfer Taxes;

(iv) Certified resolutions of the Board of Directors of Buyer authorizing the execution, delivery and performance of the Transaction Documents and the transactions contemplated by this Agreement;

(v) The officer's certificate required to be delivered pursuant to Section 7.3(c) hereof; and

(vi) An assumption agreement substantially in the form attached hereto as Exhibit E.

3.2 Purchase Price.

(a) In consideration for the Acquired Assets, and subject to the terms and conditions of this Agreement, at the Closing, Buyer shall assume the Assumed Liabilities as provided in Section 2.3 and shall (x) pay to ATI (on behalf of Sellers) in immediately available funds, by wire transfer to an account or accounts designated by ATI, an amount in cash equal to (i) Three Hundred Million Dollars ($300,000,000.00) (the "Cash Purchase Price"), (ii) plus or minus, as the case may be, the Initial Working Capital Adjustment (if any) set forth in Section 3.4(f), (iii) minus the Escrow Amount, (iv) minus the Earnest Money Deposit, (v) minus the portion of the Performance Adjustment Amount that is to be settled in cash as determined in accordance with Section 3.6(a) (if any), (vi) plus or minus, as the case may be, the ILEC Cure Adjustment (if any) set forth in Section 3.5(a), (vii) plus the Deposit Adjustment Amount (if any) and (viii) plus the Non-ILEC Cure Adjustment (if any) set forth in Section 3.5(c) and (y) deliver to ATI the Convertible Note in the principal amount of Ninety Million Dollars ($90,000,000) as such amount may be reduced by that portion of the Performance Adjustment Amount that is to be settled by reduction in the face amount of the Convertible Note in accordance with Section 3.6(a) (the "Convertible Note Amount", and together with the Cash Purchase Price, the "Purchase Price"). The Cash Purchase Price is subject to the adjustments described in Section 3.4, Section 3.5 and Section 3.6 below.

(b) On the Closing Date, Buyer shall wire the Escrow Amount into an escrow account (the "Escrow Account") with a bank to be mutually agreed upon to act as escrow agent (the "Escrow Agent") pursuant to an escrow agreement, to be entered into on the Closing Date (the "Closing Escrow Agreement"), among ATI, ATCW, Buyer and the Escrow Agent, substantially in the form of Exhibit F-1 hereto, and otherwise in form and substance reasonably acceptable to ATI, ATCW and Buyer. Any payment Sellers are obligated to make to Buyer pursuant to Sections 3.4 and/or 3.6 shall be paid from the Escrow Amount plus accrued interest thereon. After payment of any required amounts pursuant to Sections 3.4 and 3.6, the Escrow Agent shall release the residual amounts of the Escrow Amount remaining in the Escrow Account to ATI.

3.3 Earnest Money Deposit. Within five (5) Business Days after the date hereof, Buyer shall pay in immediately available funds, by wire transfer to an escrow account with a bank to be mutually agreed upon to act as escrow agent (the "Earnest Money Escrow Agent") pursuant to an escrow agreement among ATI, ATCW, Buyer and the Earnest Money Escrow Agent (the "Earnest Money Escrow Agreement"), substantially in the form attached hereto as Exhibit F-2, an earnest money deposit equal to Thirty Million Dollars ($30,000,000) (the "Earnest Money Deposit"). At the Closing, (i) the Earnest Money Deposit shall be deducted from the Cash Purchase Price, (ii) the Earnest Money Deposit shall be paid to Sellers immediately upon Sellers' instructions to the Earnest Money Escrow Agent in accordance with the terms of the Earnest Money Escrow Agreement and (iii) the accrued interest thereon shall be paid to Buyer. If Buyer terminates this Agreement in breach of Section 8.1 hereof or if ATI terminates this Agreement pursuant to Section 8.1(b) (when Buyer does not have the right to terminate this Agreement pursuant to Section 8.1(b) due to breach of the Agreement by Buyer) or Section 8.1(d) pursuant to a breach by Buyer, then Buyer and Sellers shall deliver a written notice within two (2) Business Days pursuant to the Earnest Money Escrow Agreement instructing the Earnest Money Escrow Agent to pay (i) the Earnest Money Deposit to Sellers and (ii) the accrued interest thereon to Buyer, in each case by wire transfer of immediately available funds, and Sellers shall have no further obligations to Buyer, provided, that in no event shall the payment of the Earnest Money Deposit limit any other remedies Sellers may have against Buyer in the event of any such termination. If this Agreement is terminated for any other reason, then Sellers shall deliver a written notice within two (2) Business Days pursuant to the Earnest Money Escrow Agreement instructing the Earnest Money Escrow Agent to pay the Earnest Money Deposit plus accrued interest thereon to Buyer by wire transfer of immediately available funds. Notwithstanding the foregoing, within five (5) Business Days of the date hereof, Buyer and ATI may agree that Buyer will provide an alternative credit support to Sellers in lieu of the Earnest Money Deposit, on terms reasonably acceptable to ATI.

3.4 Working Capital Purchase Price Adjustment.

(a) Not less than five (5) Business Days prior to the Closing, Sellers will prepare and deliver to Buyer a good faith estimate of the Net Working Capital as of the Closing Date (the "Estimated Closing Working Capital"). Sellers will prepare the Estimated Closing Working Capital in accordance with GAAP and consistent with ATI's preparation of its unaudited balance sheet as of September 30, 2003.

(b) As promptly as practicable, but no later than sixty (60) Business Days after the Closing Date, Buyer will prepare and deliver to ATI a good faith calculation of Net Working Capital as of the Closing Date (the "Closing Working Capital"). Buyer will prepare the Closing Working Capital in accordance with GAAP and consistent with ATI's preparation of its unaudited balance sheet as of September 30, 2003. Attached as Exhibit G is a schedule showing the calculation of Base Working Capital.

(c) If Sellers disagree with Buyer's calculation of Closing Working Capital, Sellers may, within fifteen (15) days after delivery by Buyer of the statement pursuant to Section 3.4(b), deliver a notice to Buyer disagreeing with such calculation and setting forth Sellers' calculation of such amount. Any such notice of disagreement shall specify those items or amounts as to which Sellers disagree, and Sellers shall be deemed to have agreed with all other items and amounts contained in the calculation of the Closing Working Capital. If Sellers do not raise any objections to the Closing Working Capital within the period described herein, the Closing Working Capital will become final and binding upon Buyer and Sellers.

(d) If a notice of disagreement shall be duly delivered pursuant to Section 3.4(c), Buyer and Sellers shall, during the fifteen (15) days following such delivery, use their commercially reasonable efforts to reach agreement on the disputed items or amounts in order to determine, as may be required, the amount of Closing Working Capital. If during such period, Buyer and Sellers are unable to reach such agreement, they shall promptly thereafter cause representatives from the Dallas office of Ernst & Young LLP which representatives have not been engaged or employed within the past five years by Buyer, Sellers or any of their Affiliates (or, if Sellers and Buyer agree to another nationally recognized independent accounting firm, such other firm) (the "Accounting Referee") to review this Agreement and the disputed items or amounts for the purpose of calculating Closing Working Capital (it being understood that in making such calculation, the Accounting Referee shall be functioning as an expert and not as an arbitrator). In making such calculation, the Accounting Referee shall consider only those items or amounts as to which the parties have disagreed. The Accounting Referee shall deliver to Buyer and Sellers, as promptly as practicable (but in any case no later than thirty (30) days from the date of engagement of the Accounting Referee), a report setting forth such calculation. Such report shall be final and binding upon Buyer and Sellers. The cost of such review and report shall be borne by Buyer and Sellers in the reverse proportion that the aggregate dollar amounts of disputed items which are resolved in favor of Buyer or Sellers (as applicable) bears to the aggregate dollar amount of all disputed items resolved by the Accounting Referee.

(e) Buyer and Sellers shall, and shall cause their respective Representatives to, cooperate and assist in the calculation of Closing Working Capital and in the conduct of the review referred to in Section 3.4(d), including providing reasonable and timely access to the books, records, work papers and personnel involved in preparing these calculations.

(f) If Estimated Closing Working Capital (i) exceeds Base Working Capital, then at the Closing Buyer shall pay into the Escrow Account an additional amount of cash equal to such excess or (ii) is less than Base Working Capital, then the Cash Purchase Price will be reduced by an amount equal to such deficiency. Any adjustment pursuant to this Section 3.4(f) is referred to herein as the "Initial Working Capital Adjustment."

(g) If Final Working Capital equals Estimated Working Capital, and if no further payments are or may become due pursuant to Section 3.6 hereof, then within three (3) Business Days of the final determination of such amount pursuant to this Section 3.4, Buyer and Sellers shall deliver a written notice to the Escrow Agent pursuant to the Escrow Agreement instructing the Escrow Agent to pay the Escrow Amount plus the accrued interest on such amount (by wire transfer of immediately available funds) to Sellers.

(h) If Final Working Capital exceeds Estimated Working Capital, then within three (3) Business Days of the final determination of such amount pursuant to this Section 3.4, Buyer shall pay such amount (by wire transfer of immediately available funds) to Sellers and, if no further payments are or may become due pursuant to Section 3.6 hereof, Buyer and Sellers shall deliver a written notice to the Escrow Agent pursuant to the Escrow Agreement instructing the Escrow Agent to pay the Escrow Amount plus the accrued interest on such amount (by wire transfer of immediately available funds) to Sellers.

(i) If Final Working Capital is less than Estimated Working Capital, then within three (3) Business Days of the final determination of such amount pursuant to this Section 3.4, Sellers and Buyer shall deliver a written notice to the Escrow Agent pursuant to the Escrow Agreement instructing the Escrow Agent to pay such deficit amount plus the accrued interest thereon out of the Escrow Account (by wire transfer of immediately available funds) to Buyer; provided that the Escrow Account shall be the sole source of payment for any such deficiency and in no event shall Sellers be otherwise liable for any such deficiency. To the extent any Escrow Amount remains after payment of any such deficit, and if no further payments are or may become due pursuant to Section 3.6 hereto, Buyer and Sellers shall deliver a written notice to the Escrow Agent pursuant to the Escrow Agreement instructing the Escrow Agent to pay the remaining Escrow Amount plus the accrued interest on such amount (by wire transfer of immediately available funds) to Sellers. For purposes of this Agreement, "Final Working Capital" means Closing Working Capital (i) as shown in Buyer's calculation delivered pursuant to Section 3.4(b) if no notice of disagreement with respect thereto is duly delivered pursuant to Section 3.4(c); or (ii) if such a notice of disagreement is delivered, (A) as agreed by Buyer and Sellers pursuant to Section 3.4(d) or (B) in the absence of such agreement, as shown in the Accounting Referee's calculation delivered pursuant to Section 3.4(d).

(j) Any adjustment under this Section 3.4 shall be treated as an adjustment to the Purchase Price for federal, state and local income Tax purposes.

3.5 Cure Price Adjustment.

(a) The Cure Amounts, if any, as determined by the Bankruptcy Court, necessary to cure all defaults, if any, under the Sellers' interconnection agreements with incumbent local exchange carriers ("ILECs"), together with any other payments made to settle pre-Petition disputes between any of Sellers and ILECs under such agreements, under tariffs or otherwise after the date hereof (the "ILEC Cure Amounts") shall be resolved in accordance with this Section 3.5(a). Buyer and Sellers shall work cooperatively and in good faith with respect to paying, objecting to and settling the ILEC Cure Amounts, it being understood that all pre-Petition accounts receivable of Sellers owed by ILECs (the "ILEC Set Off Amounts") shall be set off against the ILEC Cure Amounts and thereby used as currency to pay the ILEC Cure Amounts. Buyer and Sellers agree that given this Section 3.5(a), Buyer should have standing in the Cases with regard to ILEC Cure Amounts and the parties shall take such position in the Cases. The treatment of the ILEC Cure Amounts and all matters related thereto under the Bankruptcy Plan shall be reasonably acceptable to Buyer. Sellers shall pay all ILEC Cure Amounts (whether in cash or by application of the ILEC Set Off Amounts); provided that: (i) if the ILEC Cure Amounts are less than $40 million, the Cash Purchase Price shall be reduced by an amount equal to one-third (1/3) of the amount by which $40 million exceeds the ILEC Cure Amounts; and (ii) if the ILEC Cure Amounts are equal to or greater than $40 million, the Cash Purchase Price shall be increased by an amount equal to the lesser of (A) two-thirds of the amount by which the ILEC Cure Amounts exceed $40 million and (B) $16.667 million.

The net adjustment to the Cash Purchase Price pursuant to this Section 3.5(a) is referred to herein as the "ILEC Cure Adjustment." An illustration of the foregoing is set forth in Exhibit M. If as of the time of the Closing any reserves are established with respect to disputed ILEC Cure Amounts pending resolution of such disputes, the Purchase Price adjustments provided in this Section 3.5(a) shall be made, with respect to the agreed ILEC Cure Amounts, at the Closing, and with respect to any such reserved amounts, within two (2) Business Days following the resolution of the disputes.

Notwithstanding anything herein to the contrary (including Section 6.1(k)), prior to the Sale Order Approval Date, as between Buyer and Sellers, Sellers shall have sole control over their business relationships with the ILECs (other than Buyer itself and its Affiliates) and shall be permitted, with Buyer's consent (which will not be unreasonably withheld), to terminate, adopt and amend interconnection agreements but shall not prior to such time settle any ILEC Cure Amounts without Buyer's consent (which will not be unreasonably withheld) or take any action (including as specified above) if the intent or reasonably anticipated consequence thereof is or would be to increase the ILEC Cure Amounts generally and/or the portion thereof payable by Buyer hereunder.

(b) If deposits are required by ILECs in connection with establishing new interconnection agreements for the Business between the date hereof and the Closing and such deposits are outstanding at the time of the Closing, the Cash Purchase

Price shall be increased by an amount (the "Deposit Adjustment Amount") equal to seventy-five percent (75%) of the first $13 million of such deposits and one hundred percent (100%) of the deposits above $13 million.

(c) The Cure Amounts, if any, as determined by the Bankruptcy Court, necessary to cure all defaults, if any, under the Assumed Contracts, other than the ILEC Cure Amounts (the "Non-ILEC Cure Amounts") shall be resolved in accordance with this Section 3.5(d). Buyer and Sellers shall work cooperatively and in good faith with respect to paying, objecting to and settling the Non-ILEC Cure Amounts, it being understood that all pre-Petition accounts receivable of Sellers owed by non-ILECs (the "Non-ILEC Set Off Amounts") shall be set off against the Non-ILEC Cure Amounts and thereby used as currency to pay the Non-ILEC Cure Amounts. Buyer and Sellers agree that given this Section 3.5(d), Buyer should have standing in the Cases with regard to Non-ILEC Cure Amounts and the parties shall take such position in the Cases. The treatment of the Non-ILEC Cure Amounts and all matters related thereto under the Bankruptcy Plan shall be reasonably acceptable to Buyer. Sellers shall pay all Non-ILEC Cure Amounts (whether in cash or by application of the Non-ILEC Set Off Amounts); provided that if the Non-ILEC Cure Amounts are more than $11 million, the Cash Purchase Price shall be increased by an amount equal to the lesser of (A) two-thirds of the amount by which the Non-ILEC Cure Amounts exceed $11 million and (B) $8 million.

The adjustment to the Cash Purchase Price pursuant to this Section 3.5(d) is referred to herein as the "Non-ILEC Cure Adjustment." If as of the time of the Closing any reserves are established with respect to disputed Non-ILEC Cure Amounts pending resolution of such disputes, the Purchase Price adjustment provided in this Section 3.5(d) shall be made, with respect to the agreed Non-ILEC Cure Amounts, at the Closing, and with respect to any such reserved amounts, within two (2) Business Days following the resolution of the disputes.

(d) Subject to Section 8.3, (i) prior to the date of the Bankruptcy Court's auction relating to the transactions contemplated hereby, Buyer shall designate the (A) Real Property Leases identified on Schedule 4.21 of the Disclosure Schedules and (B) other Executory Contracts that are designated with an asterisk on Schedule 4.20 that are to be assumed by Sellers and not rejected pursuant to section 365 of the Bankruptcy Code and (ii) at least (20) days prior to the date of the Bankruptcy Court's confirmation of the Bankruptcy Plan, Buyer shall designate other Executory Contracts that are to be assumed by Sellers and not rejected pursuant to section 365 of the Bankruptcy Code (collectively, the "Assumed Contracts List") (those Contracts ultimately set forth on the Assumed Contracts List and as Additional Assumed Contracts pursuant to Section 8.3, if applicable are referred to herein as the "Assumed Contracts"). Such assignment and assumption by Sellers shall be made at the Closing; provided, however, that the assignment to Buyer of any Assumed Contract related to Non-Transferred Assets shall occur on the later of (i) the Closing or (ii) State PUC Consent or FCC Consent, as applicable. At Buyer's discretion, Sellers agree to assume or reject any Executory Contract, in whole or in part, to the extent portions of such Executory Contracts are severable. Buyer and Sellers agree to keep confidential and not

disclose to anyone except (x) legal counsel for the Creditors Committee in the Cases and the agent to Sellers' senior lenders, provided, that, such counsel and agent have executed confidentiality agreements reasonably acceptable to Buyer and Sellers prior to such disclosure and (y) as otherwise required by Law, the Executory Contracts that are identified by Buyer as Assumed Contracts.

3.6 Performance Price Adjustment.

(a) At least two (2) Business Days prior to the Closing, ATI shall prepare and deliver to Buyer a certificate setting forth the following: (i) total Retail Ending Lines as determined by Sellers in accordance with past custom and practice, as of the last day of the last full calendar month prior to the date of the Closing plus Scheduled Future Installs less Scheduled Future Disconnects as of such day ("Total Retail Net Ending Lines") and (ii) total gross end user revenue for the last full calendar month prior to the date of the Closing (the "Total Gross End User Revenue"). The Purchase Price shall be reduced by the greater of the following (the "Performance Adjustment Amount"): (x) the product of $625.00 and the amount, if any, by which the Total Retail Net Ending Lines for Sellers' Out of Region Business is less than 730,000; and (y) the product of fifteen (15) and the amount, if any, by which Total Gross End User Revenue for Sellers' Out of Region Business is less than $28 million. To the extent Cash and Cash Equivalents immediately prior to the Closing exceed One Hundred Eighty Seven Million Dollars ($187,000,000), the Performance Adjustment Amount (if any) shall reduce the Cash Purchase Price until Cash and Cash Equivalents equals One Hundred Eighty Seven Million Dollars ($187,000,000). To the extent such Cash and Cash Equivalents are less than or equal to One Hundred Eighty Seven Million Dollars ($187,000,000) or have been reduced to such amount pursuant to the immediately preceding sentence, any remaining portion of the Performance Adjustment Amount shall be a reduction in the face amount of the Convertible Note. ATI's certificate shall include a calculation of the Performance Adjustment Amount.

(b) If Buyer disagrees with the certificate delivered by ATI pursuant to Section 3.6(a) hereof, Buyer may, within thirty (30) days after Closing, deliver a notice to ATI disagreeing with the calculations contained in such certificate and setting forth Buyer's calculations. Any such notice of disagreement shall specify those items or amounts as to which Buyer disagrees, and Buyer shall be deemed to have agreed with all other items and amounts contained in the calculation of the Performance Adjustment Amount. If Buyer does not raise any objections to the Performance Adjustment Amount within the period described herein, the Performance Adjustment Amount will become final and binding upon Buyer and Sellers (the "Final Performance Adjustment Amount"). In such event, if no further payments are or may become due pursuant to Section 3.4 hereof, ATI, ATCW and Buyer shall deliver a written notice to the Escrow Agent pursuant to the Escrow Agreement instructing the Escrow Agent to pay the Escrow Amount plus the accrued interest on such amount (by wire transfer of immediately available funds) to ATI.

(c) If a notice of disagreement shall be duly delivered pursuant to Section 3.6(b), Buyer and Sellers shall, during the five (5) days following such delivery,

use their commercially reasonable efforts to reach agreement on the disputed items or amounts in order to determine, as may be required, the Final Performance Adjustment Amount. If during such period, Buyer and Sellers are unable to reach such agreement, they shall promptly thereafter cause the Accounting Referee to review the disputed items or amounts for the purpose of calculating the Final Performance Adjustment Amount (it being understood that in making such calculation, the Accounting Referee shall be functioning as an expert and not as an arbitrator). In making such calculation, the Accounting Referee shall consider only those items or amounts as to which the parties have disagreed. The Accounting Referee shall deliver to Buyer and Sellers, as promptly as practicable (but in any case no later than fifteen (15) days from the date of engagement of the Accounting Referee), a report setting forth such calculation. Such report shall be final and binding upon Buyer and Sellers. The cost of such review and report shall be borne by Buyer and Sellers in the reverse proportion that the aggregate dollar amounts of disputed items which are resolved in favor of Buyer or Sellers (as applicable) bears to the aggregate dollar amount of all disputed items resolved by the Accounting Referee.

(d) If the parties hereto agree, or the Accounting Referee determines, that the Final Performance Adjustment Amount is greater (the "Additional Amount") than the amount set forth in ATI's certificate delivered pursuant to Section 3.6(a), then within two (2) Business Days of such determination pursuant to this Section 3.6, Buyer and Sellers shall deliver a written notice to the Escrow Agent pursuant to the Escrow Agreement instructing the Escrow Agent to pay the Additional Amount plus the accrued interest on such amount (by wire transfer of immediately available funds) to Buyer, and, if no further payments are or may become due pursuant to Section 3.4 hereof, the balance of the Escrow Amount plus the accrued interest thereon to ATI. The Escrow Account shall be the sole source of payment for any payment obligation of Sellers pursuant to Section 3.6.

3.7 Allocation of Purchase Price. Buyer shall, within 120 days after the Closing Date, prepare and deliver to Sellers a schedule (the "Allocation Schedule") allocating the Purchase Price and the Assumed Liabilities among the Acquired Assets in accordance with Treasury Regulation Section 1.1060-1 (or any comparable provisions of state or local tax law) or any successor provision. ATI may propose to Buyer specific changes in the Allocation Schedule within ten (10) days of the receipt thereof. If no such changes are proposed in writing to Buyer within such time, Sellers will be deemed to have agreed to the Allocation Schedule. If such changes are proposed, Buyer and ATI will negotiate in good faith and will use their best efforts to agree upon the Purchase Price allocation. If Buyer and ATI cannot mutually resolve ATI's reasonable objections to the Allocation Schedule within ten (10) days after Buyer's receipt of such objections, such dispute with respect to the Allocation Schedule shall be presented to the Accounting Referee, on the next day for a decision that shall be rendered by the Accounting Referee within thirty calendar days thereafter and shall be final and binding upon each of the parties. The fees, costs and expenses incurred in connection therewith shall be shared in equal amounts by Buyer, on the one hand, and Sellers, on the other hand. Buyer and Sellers each shall report and file all Tax Returns (including amended Tax Returns and claims for refund) consistent with the Allocation Schedule, and shall take no position

contrary thereto or inconsistent therewith (including in any audits or examinations by any taxing authority or any other proceedings). Buyer and Sellers shall cooperate in the filing of any forms (including Form 8594) with respect to such allocation. Notwithstanding any other provisions of this Agreement, the foregoing agreement shall survive the Closing Date.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SELLERS

Sellers hereby, jointly and severally, represent and warrant to Buyer as follows:

4.1 Existence; Good Standing and Power. Each Seller is a corporation validly existing and in good standing under the laws of the state of its incorporation, and has all requisite power and authority to own, lease and operate the Acquired Assets to be sold hereunder and to carry on its business as presently conducted. Each Seller is qualified or licensed to do business as a foreign corporation and is in good standing in every jurisdiction where the nature of the business conducted by it or the properties owned or leased by it requires qualification, except where the failure to be so qualified, licensed or in good standing would not reasonably be expected to have a Material Adverse Effect. Each Seller has all requisite power and authority (a) to execute and deliver this Agreement and the Transaction Documents and (b) subject to entry of the Sale Order, to perform its obligations hereunder and thereunder.

4.2 Authority. The execution, delivery and performance of this Agreement and the Transaction Documents by each Seller, the performance of Sections 6.17(a) and 6.17(b) by each Seller, and subject to entry of the Sale Order, the performance by each Seller of its other obligations hereunder and thereunder and the consummation by each Seller of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of each Seller.

4.3 Execution and Binding Effect. This Agreement has been and each of the Transaction Documents has been or will be at Closing, duly and validly executed and delivered by each Seller and constitutes, and, following the entering of the Sale Order, this Agreement, the Transaction Documents and the transactions contemplated hereby and thereby will constitute (assuming in each case the due and valid authorization, execution and delivery thereof by the other parties hereto and thereto), a valid and legally binding obligation of such Seller enforceable against such Seller in accordance with its terms.

4.4 No Violation. Except as disclosed in Schedule 4.4 of the Disclosure Schedules, the execution, delivery and performance by each Seller of this Agreement, the Transaction Documents and the transactions contemplated hereby and thereby, do not and will not conflict with or result in, with or without the giving of notice or lapse of time or both, any violation of or constitute a breach or default, or give rise to the creation of a Lien upon any of the Acquired Assets or to any right of acceleration, payment, amendment, cancellation or termination, under (a) the certificate of

incorporation or bylaws of any Seller or any resolution adopted by the board of directors of such Seller and not rescinded, (b) subject to entry of the Sale Order, any agreement or other instrument to which any Seller is a party or by which such Seller or any of its respective properties or assets is bound, (c) subject to entry of the Sale Order, any Order of any Governmental Entity to which any Seller is bound or subject, or (d) subject to entry of the Sale Order, any Law applicable to or binding on any Seller or any of its respective properties or assets, except, in the case of clauses (b), (c) and (d) of this Section 4.4, to the extent such conflict, violation, breach, default, creation of Lien or right would not be reasonably expected to have a Material Adverse Effect.

4.5 Third Party Approvals. Except for (a) any approvals required in order to comply with the provisions of the HSR Act, (b) any FCC Consent and State PUC Consent as required by applicable Law, (c) the Sale Order and (d) any other third party approvals as are reflected on Schedule 4.5 of the Disclosure Schedules hereto, including with respect to any computer software program and databases, the execution, delivery and performance by Sellers of this Agreement, the Transaction Documents and the transactions contemplated hereby and thereby, do not require any consents, waivers, authorizations or approvals of, or filings with, any third Persons which are both material to the Business and which have not been obtained by Sellers.

4.6 Financial Statements.

(a) ATI has delivered to Buyer copies of (i) the audited consolidated balance sheets of ATI and its Subsidiaries as of December 31, 2002 and 2001 and the related audited consolidated statements of income and of cash flows of ATI and its Subsidiaries for the years then ended and (ii) the unaudited consolidated balance sheets of ATI and its Subsidiaries as at September 30, 2003 and the related consolidated statements of income and cash flows of ATI and its Subsidiaries for the nine (9) month period then ended (such audited and unaudited statements, including the related notes and schedules thereto, are referred to herein as the "Financial Statements"). Each of the Financial Statements has been prepared in accordance with GAAP consistently applied throughout the periods presented and presents fairly in all material respects the consolidated financial position, results of operations and cash flows of ATI and its Subsidiaries as at the dates and for the periods indicated.

For the purposes hereof, the audited consolidated balance sheet of ATI and its Subsidiaries as at December 31, 2002 is referred to as the "Balance Sheet" and December 31, 2002 is referred to as the "Balance Sheet Date."

(b) ATI has delivered or made available to Buyer copies of each of Sellers' (i) post-Petition monthly latest flash reports and (ii) post-Petition monthly operating reports that Sellers' have filed with the Bankruptcy Court. To Sellers' Knowledge, each such monthly operating report is, and each monthly operating report to be filed with the Bankruptcy Court will be, complete, accurate and truthful. Each such monthly flash report previously delivered or made available to Buyer has been, and each flash report to be delivered to Buyer pursuant to Section 6.5(d) hereof will be, prepared

in good faith consistent with past practice and based on the Sellers' preliminary books and records.

(c) Seller has made all required filings with the U.S. Securities and Exchange Commission (the "SEC") since December 31, 2001. As of their respective dates of filing, all such filings complied as to form in all material respects with the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the SEC promulgated thereunder applicable to such SEC filings, and such SEC filings did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

4.7 No Undisclosed Liabilities. Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, Sellers have no indebtedness, obligation or Liability of any kind (whether accrued, absolute, contingent or otherwise, and whether due or to become due), that would have been required to be reflected in, reserved against or otherwise described on a balance sheet of a Seller or in the notes thereto in accordance with GAAP which (i) is not shown or described on the Balance Sheet or the other Financial Statements or the notes thereto, (ii) is not shown or described on Schedules 4.7, 4.9, 4.17 and 4.20 of the Disclosure Schedules or (iii) was not incurred in the Ordinary Course of Business since the Balance Sheet Date.

4.8 Title to Acquired Assets; Sufficiency. Except as set forth on Schedule 4.8 of the Disclosure Schedules, Sellers own and have good title to each of the Acquired Assets, free and clear of all Liens other than Permitted Liens. The Acquired Assets constitute all of the assets and properties used in or held for use in the Business (other than the Excluded Assets) and are sufficient for Buyer to conduct the Business (other than the Excluded Assets) from and immediately after the Closing Date without interruption and in the Ordinary Course of Business.

4.9 Communications Licenses. Sellers are the authorized legal holders or otherwise have rights to the Communications Licenses, which licenses constitute all of the material Licenses, from the FCC or the State PUCs that are necessary or required for and/or used in the operation of the Business as presently operated. All the Communications Licenses were duly obtained and are valid and in full force and effect, unimpaired by any condition, except those conditions that may be contained within the terms of such Communications Licenses which would not have a Material Adverse Effect on the Business as presently operated. Except as set forth on Schedule 4.9 of the Disclosure Schedules, Sellers are in compliance in all material respects with the Communications Act of 1934, as amended, and the rules, regulations and policies of the FCC and all applicable State PUCs. There is not now pending or, to Sellers' Knowledge, threatened, any action by or before the FCC or any State PUC in which the requested remedy is the revocation, suspension, cancellation, rescission or modification of any of the Communications Licenses. Schedule 2.1(d) of the Disclosure Schedules contains a complete and correct list of Sellers' Communications Licenses.

4.10 Absence of Certain Developments. Except as expressly contemplated by this Agreement or the Operational Restructuring Activities, as set forth on Schedule 4.10 of the Disclosure Schedules or in connection with the filing of the Cases, from the Balance Sheet Date through the date hereof Sellers have conducted the Business only in the Ordinary Course of Business.

4.11 Tangible Personal Property. All items of tangible personal property which are Acquired Assets and which, individually or in the aggregate, are material to the operation of the Business are in good condition and in a state of good maintenance and repair (ordinary wear and tear excepted) and are suitable for the purposes used.

4.12 Insurance. Sellers have insurance policies in full force and effect for such amounts as are sufficient for all requirements of Law and the Credit and Guaranty Agreement dated as of February 15, 2000 among Sellers and the lenders party thereto (the "Senior Credit Agreement").

4.13 Accounts and Notes Receivable and Payable.

(a) All accounts and notes receivable of Sellers have arisen from bona fide transactions in the Ordinary Course of Business and in the case of accounts and notes receivable that are Acquired Assets, are payable on ordinary trade terms and are reflected on Sellers' books and records in accordance with GAAP consistently applied, including reserves for returns and doubtful accounts.

(b) All accounts payable of Sellers reflected in the Balance Sheet or arising after the date thereof are the result of bona fide transactions in the Ordinary Course of Business and have been paid, are not yet due and payable or are being disputed in good faith and are reflected on Sellers' books and records in accordance with GAAP consistently applied.

4.14 Related Party Transactions.

(a) Except as set forth in Schedule 4.14(a) of the Disclosure Schedules, none of Sellers, any Affiliate of any Seller or any of their respective directors and officers with a title of Senior Vice President or higher (i) owns any direct or indirect material interest of any kind in, or controls or is a director, officer, employee or partner of, or consultant to, or lender to or borrower from or has a material right to participate in the profits of, any Person which is (A) a competitor, supplier, customer, landlord, tenant, of any Seller, (B) engaged in a business related to the Business, or (C) a participant in any transaction (including a loan transaction, other than employee advances in the Ordinary Course of Business) to which any Seller is a party or (ii) is a party to any Contract with any Seller.

(b) Except as set forth in Schedule 4.14(b) of the Disclosure Schedules, each Contract, agreement, or arrangement between any Seller on the one hand, and any Affiliate of any Seller or any director of any Seller or any officer of Sellers with a title of Senior Vice President or higher on the other hand, is on

commercially reasonable terms no more favorable to the Affiliate, director, officer or employee of such Seller than what any third party negotiating on an arms-length basis would expect.

4.15 Suppliers. Set forth on Schedule 4.15 of the Disclosure Schedules is a complete and accurate list of (a) the ten (10) most significant equipment suppliers and (b) the ten (10) most significant maintenance suppliers (based upon dollars billed to Sellers) during the quarter ended September 30, 2003, showing the approximate total billings to Sellers from each such supplier during such quarter. Except as set forth on Schedule 4.15 of the Disclosure Schedules, since September 30, 2003, there has not been any (i) termination, cancellation or curtailment of the business relationship of any Seller with any of the suppliers set forth on Schedule 4.15 of the Disclosure Schedules or (ii) written notice from any of the suppliers set forth on Schedule 4.15 of the Disclosure Schedules of an intent or request to so terminate, cancel, curtail or change, and, to Sellers' Knowledge, no written threat or written indication that any such termination, cancellation, curtailment or change is reasonably foreseeable, except, in each case, for such termination, cancellation, curtailment or change which would not reasonably be expected to result in, individually or in the aggregate, a Material Adverse Effect.

4.16 Fees and Expenses. Sellers have engaged the firm of Greenhill & Co., LLC to assist them in connection with the matters contemplated by this Agreement and will be responsible for the fees and expenses of such firm. Other than as described in the preceding sentence or as is payable by Sellers or their Affiliates and not by Buyer, no broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement, based upon arrangements made by or on behalf of any Seller or any of their respective Affiliates.

4.17 Compliance With Laws; Licenses. (a) Except as set forth on Schedule 4.17(a) of the Disclosure Schedules, since December 31, 2002 (i) Sellers have complied in all material respects with all Laws relating to the operation of the Business; and (ii) no Seller has received any written or other notice of or been charged with the violation of any Laws. To Sellers' Knowledge, no Seller is under investigation with respect to any material violation of any Laws.

(b) Schedule 4.17(b) of the Disclosure Schedules contains a list of all material Licenses (other than Communications Licenses) which are required for the operation of the Business as presently conducted and as presently intended to be conducted. Except as set forth on Schedule 4.17(a) of the Disclosure Schedules, Sellers currently have all such material Licenses which are required for the operation of the Business as presently conducted. No Seller is in default or violation, and no event has occurred which, with notice or the lapse of time or both, would constitute a default or violation, in any material respect of any term, condition or provision of such License to which it is a party, to which the Business is subject or by which its properties or assets are bound other than any such violation that would not reasonably be expected to have a Material Adverse Effect.

4.18 Environmental Matters. To Sellers' Knowledge, except as described on the attached Schedule 4.18 of the Disclosure Schedules:

(a) Each Seller and the operations of each Seller are in compliance with all applicable Environmental Laws, except to the extent such noncompliance would not reasonably be expected to have a Material Adverse Effect.

(b) No Seller is the subject of any Order or has received any written notice of any violations or Liabilities, including any investigatory, remedial or corrective obligations, arising under Environmental Laws and relating to the operation of the Business, except notices of such violation or Liability which would not reasonably be expected to have a Material Adverse Effect.

4.19 Intellectual Property. Schedule 4.19 of the Disclosure Schedules contains an accurate and complete list of all Intellectual Property owned by any Seller, other than unregistered trademarks, tradenames and copyrights, none of which is material to the operation of the Acquired Assets. Except as set forth in Schedule 4.19 of the Disclosure Schedules, there is no pending, or to Sellers' Knowledge, threatened claims or Litigation of any nature materially affecting or relating to the Intellectual Property. Schedule 4.19 of the Disclosure Schedules lists all written notices or written claims currently pending or received by any Seller that claim infringement of any material domestic or foreign letters patent, patent applications, patent licenses, software licenses and know-how licenses, trade names, trademark registrations and applications, service marks, copyrights, copyright registrations or applications, trade secrets, technical knowledge, know-how or other confidential proprietary information. Except as set forth on Schedule 4.19 of the Disclosure Schedules, there is, to Sellers' Knowledge, no reasonable basis upon which any claim may be asserted against any Seller for material infringement or misappropriation of any of the foregoing. Neither any Seller, nor to Sellers' Knowledge, any other Person, is in material default or violation of any Contract pursuant to which any Seller licenses Intellectual Property for the Business.

4.20 Contracts. Except as set forth on Schedule 4.20 of the Disclosure Schedules, Schedule G of Sellers' schedule of assets and liabilities as filed with the Bankruptcy Court contains a list of all pre-Petition material Contracts, including: (i) each Executory Contract containing a Non-Compete Covenant, (ii) each Executory Contract related to the purchases or sales of indefeasible rights of use or leases of capacity and (iii) each interconnection agreement with an ILEC. Schedule 4.20 of the Disclosure Schedules sets forth as of the date hereof, each material Executory Contract to which any Seller is a party and by or to which any Seller or any of their properties is currently bound or subject or may be bound or subject. True and complete copies of all material Executory Contracts have been delivered or made available to Buyer. All of the Assumed Contracts are valid, binding and enforceable in accordance with their respective terms, except as designated on the attached Schedule 4.20 of the Disclosure Schedules and except as such enforceability may be limited by (i) applicable insolvency, bankruptcy, reorganization, moratorium or other similar laws affecting creditors' rights generally and (ii) applicable equitable principles (whether considered in a proceeding at law or in equity). Except as set forth on Schedule 4.20 of the Disclosure Schedules, no

Seller is, and to Sellers' Knowledge, no other party thereto is, in material default in the performance, observance or fulfillment of any obligation under any Assumed Contract (other than any Cure Amounts to be paid hereunder by Buyer or Sellers, as applicable), and, to Sellers' Knowledge, no event has occurred, which with or without the giving of notice or lapse of time, or both, would constitute a material default thereunder. Except as set forth on Exhibit A of Schedule 4.20 of the Disclosure Schedules, Sellers have not entered into any material post-Petition Contracts (including interconnection agreements).

4.21 Real Property.

(a) Schedule 4.21(a) of the Disclosure Schedules lists, as of the date of this Agreement, all Real Property Leases relating to the operation of the Business to which any of Sellers is a party.

(b) Except as set forth on Schedule 4.21(b) of the Disclosure Schedules, the Real Property Leases constitute all interests in real property currently used or currently held for use in connection with the Business by Sellers and which are necessary for the continued operation of the Business by Sellers as the Business is currently conducted.

4.22 Taxes. Except as described on the attached Schedule 4.22 of the Disclosure Schedules:

(a) (i) all income Tax Returns and all other material Tax Returns required to be filed by or on behalf of Sellers or any Affiliated Group have been duly and timely filed with the appropriate Governmental Entity in all material respects, in all jurisdictions in which such Tax Returns are required to be filed (after giving effect to any valid extensions of time in which to make such filings), and all such Tax Returns are true, complete and correct in all material respects, (ii) except as prohibited or stayed by the Bankruptcy Code, all Taxes payable by or on behalf of Sellers or any Affiliated Group have been fully and timely paid or adequately reserved for on Sellers' Financial Statements (in each case, other than Taxes that, in the aggregate, are not material in amount), and any Taxes not yet due have been adequately accrued in accordance with GAAP, and (iii) no waivers of statutes of limitation have been given or requested with respect to any Tax Return required to be filed by or on behalf of Sellers or any Affiliated Group;

(b) except as prohibited or stayed by the Bankruptcy Code, for all open Tax years all Taxes required to be withheld, collected or deposited by Sellers have been timely withheld, collected and deposited in all material respects and, to the extent required by Law, all such Taxes have been paid when due to the appropriate Governmental Entity and each Seller is in compliance in all material respects with respect to all withholding and information reporting requirements under all applicable Laws;

(c) no federal, state, local or foreign Tax audits or administrative or judicial Tax proceedings are pending or being conducted with respect to Sellers, and none of Sellers or any predecessor has received from any federal, state, local or foreign

Governmental Entity (including jurisdictions where Sellers have not filed a Tax Return) any (A) notice indicating an intent to open an audit or other review, or commence any other administrative or judicial Tax proceeding that is still active, (B) request for information related to Tax matters where the examination or investigation giving rise to such request is still open, or (C) notice of deficiency or proposed adjustments for any amount of Tax proposed, asserted, or assessed by any Governmental Entity that remains unpaid. No written claim has been made by a Governmental Entity in a jurisdiction where such Seller does not file Tax Returns that such Seller is or may be subject to taxation by that jurisdiction; and

(d) Buyer and the Acquired Assets will not be bound by a Tax sharing, Tax allocation, Tax indemnity or other similar agreements or arrangements (whether or not written) with respect to or involving Sellers or the Acquired Assets after the Closing Date.

4.23 Employee Benefits; Labor Matters.

(a) Schedule 4.23(a) of the Disclosure Schedules sets forth a list of all material "employee benefit plans," as defined in section 3(3) of ERISA (whether or not subject to ERISA) other than a "multiemployer plan," as defined in Section 3(37) of ERISA, and each material cafeteria, material bonus, incentive or deferred compensation, severance, termination, retention, change of control, stock option, stock appreciation, stock purchase, phantom stock or other equity-based, loan, performance or other employee or retiree benefit or compensation plan, program, arrangement, agreement, policy or understanding, whether written or unwritten, under which any Employee or former Employee (including any beneficiaries and dependents thereof) is or may become eligible to participate or derive a benefit and that is or has been maintained, established or contributed to or required to be contributed to by Sellers ("Employee Benefit Plans"). With respect to each Employee Benefit Plan, a copy of each of the following documents (if applicable) has been provided or made available to Buyer: (i) the most recent plan document for any Employee Benefit Plan covered by ERISA and all amendments thereto; (ii) the most recent summary plan description; (iii) the most recent trust document or any third party funding vehicle (including insurance) and all amendments thereto; (iv) the two most recent Forms 5500 required to have been filed with the IRS and all schedules thereto, and the most recent IRS determination letter. All contributions required to have been made by Sellers under any Employee Benefit Plan or any applicable Law to any trusts established thereunder or in connection therewith have been made by the due date therefore (including any extensions). The Employee Benefit Plans have been administered in accordance with their terms in all material respects and are in compliance with applicable Law in all material respects. Neither Sellers nor any trade or business (whether or not incorporated) which is or has ever been under common control, or which is or has ever been treated as a single employer, with Sellers under Section 414(b), (c), (m) or (o) of the Code ("ERISA Affiliate") have at any time within the last six years, maintained, contributed to, or had any obligation to contribute to, or has any liability (fixed or contingent) with respect to, any "single-employer plan" as defined in Section 4001(a)(15) of ERISA or any plan subject to Sections 4063 or 4064 of ERISA ("multiple employer plan").

(b) Each Employee Benefit Plan intended to be qualified under Section 401(a) of the Code, and the trust (if any) forming a part thereof, is qualified and tax exempt under Code Section 401(a) and 501(a) and has received a favorable determination letter from the IRS as to its qualification under the Code and to the effect that each such trust is exempt from taxation under Section 501(a) of the Code, which determination letter covers the GUST Amendments and to the Knowledge of Sellers, nothing has occurred since the date of such determination letter that could reasonably be expected to adversely affect such qualification or tax-exempt status.

(c) The Sellers do not provide nor are they obligated to provide, any life insurance or health benefits, including prescription drugs (whether or not insured) to any individual after his or her termination of employment or service with any of the Sellers, except as may be required under COBRA and at the expense of the individual or the individual's beneficiary and except as provided under severance agreements. Sellers and their ERISA Affiliates which maintain a "group health plan" within the meaning of Section 5000(b)(1) of the Code have complied in all material respects with the notice and continuation requirements of COBRA and the regulations thereunder and comparable state laws.

(d) Schedule 4.23(d) of the Disclosure Schedules lists each multiemployer plan (as defined in Section 4001(a)(3) of ERISA) to which the Sellers or their ERISA Affiliates are obligated to contribute ("Multiemployer Plan"), and there is no potential liability under any other multiemployer plan to which the Sellers or their ERISA Affiliates are, or within the preceding six years were, obligated to contribute. To Sellers' Knowledge: (i) no condition exists and (ii) no event has occurred with respect to any Multiemployer Plan that presents a material risk of a complete or partial withdrawal of the Sellers or any ERISA Affiliate under subtitle E of Title IV of ERISA and the Sellers and their ERISA Affiliates have not, within the preceding six years, withdrawn in a complete or partial withdrawal from any multiemployer plan or incurred any contingent liability under Section 4204 of ERISA. To the Knowledge of Sellers, no Multiemployer Plan is in "reorganization" or "insolvent."

(e) There are no collective bargaining agreements with any labor union representing Sellers' Employees. There is no Employee labor strike, dispute, slowdown, or stoppage pending or, to the Sellers' Knowledge, threatened by Employees against Sellers. To Sellers' Knowledge: (i) no collective bargaining agreement is currently being negotiated and (ii) no organizing effort is currently being made or has been threatened with respect to the Sellers' Employees. Sellers are and have been in material compliance with all Laws relating to employment practices, terms and conditions of employment (including termination of employment), wages, hours of work and occupational safety and health, and worker classification and at all times since November 23, 1999, has been in material compliance with the requirements of the Immigration Reform Control Act of 1986. The Sellers are in compliance with WARN and any similar state or local "mass layoff" or "plant closing" Law in all material respects. There is no unfair labor practice complaint pending or, to the Knowledge of the Sellers, threatened against the Sellers before the National Labor Relations Board.

(f) There is no Assumed Contract covering any person that, individually or collectively, could give rise to the payment of any amount that would constitute an "excess parachute payment" within the meaning the Section 280G of the Internal Revenue Code or any similar provision of foreign, state or local Law.

4.24 Litigation. Except as set forth on Schedule 4.24 of the Disclosure Schedules and for Claims that will be discharged pursuant to the Bankruptcy Court Order:

(a) other than the Cases, there is no Litigation pending or, to Sellers' Knowledge, threatened against, relating to or affecting Sellers with respect to the Business or any of the Acquired Assets which would reasonably be expected (i) to result in the issuance of an Order restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement or (ii) to have a Material Adverse Effect; and

(b) except for Orders of the Bankruptcy Court, there are no Orders outstanding against Sellers which would reasonably be expected to have a Material Adverse Effect.

4.25 Network Facilities. Schedule 4.25 of the Disclosure Schedules contains certain information relating to Sellers' network. Schedule 4.25 of the Disclosure Schedules sets forth: (i) for each segment, the number of fibers, fiber miles owned or leased by the Sellers, route and name of third party provider, if any and (ii) for Sellers' IP backbone, route and circuit type (including DS3s, OC3s, OC12s, OC48 and lambda waves). The information provided on Schedule 4.25 of the Disclosure Schedules is accurate and current in all material respects.

4.26 Bank Accounts. Schedule 2.1(n) of the Disclosure Schedules contains a true and complete list of all of Sellers' bank accounts and lock-boxes.

4.27 Subsidiaries. Except for Sellers and Shared Technologies, ATI has no Subsidiaries.

4.28 Limitations on Sellers' Representations and Warranties. Except for the representations and warranties contained in this Agreement, Sellers make no other express or implied representation or warranty, including, representations or warranties as to the condition of the Acquired Assets, their contents, the income derived or potentially to be derived from the Acquired Assets or the Business and Sellers hereby expressly disclaim all such representations or warranties of any kind or nature, or the expenses incurred or potentially to be incurred in connection with the Acquired Assets or the Business. Sellers are not, and will not be, liable or bound in any manner by express or implied warranties, guarantees, statements, promises, representations or information pertaining to the Acquired Assets or the Business, made or furnished by any Representatives or other person representing or purporting to represent Sellers, unless and to the extent the same is expressly set forth in this Agreement.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Sellers as follows:

5.1 Existence, Good Standing and Power. Buyer is a corporation validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to own, lease and operate the property it now owns, leases and operates. Buyer has all requisite power and authority to conduct its business as presently conducted, to execute and deliver this Agreement, the Transaction Documents and to perform its obligations hereunder and thereunder. Buyer is duly authorized, qualified and licensed to transact business as a foreign corporation, and is in good standing, in every jurisdiction where the nature of its business conducted by it or the properties owned or licensed by it requires qualification, except where that failure would not have a material adverse effect on Buyer or its business, or the consummation of the transactions contemplated by this Agreement.

5.2 Authority. The execution, delivery and performance of this Agreement and the Transaction Documents to which Buyer is or will be a party and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Buyer.

5.3 Execution and Binding Effect. This Agreement has been, and each of the Transaction Documents to which Buyer is or will be a party has been or will be at Closing, duly and validly executed and delivered by Buyer and constitutes, and this Agreement, the Transaction Documents and the transactions contemplated hereby and thereby will constitute (assuming, in each case, the due and valid authorization, execution and delivery thereof by the other parties thereto), a valid and legally binding obligation of Buyer, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the rights and remedies of creditors generally and to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

5.4 No Violation. Except as disclosed in the attached Schedule 5.4 of the Disclosure Schedules, the execution, delivery and performance by Buyer of this Agreement and the Transaction Documents and the transactions contemplated hereby and thereby, do not and will not conflict with or result in, with or without the giving of notice or lapse of time or both, any violation of or constitute a breach or default, or give rise to any right of acceleration, payment, amendment, cancellation or termination, under (a) the certificate of incorporation or bylaws of Buyer or any resolution adopted by the board of directors of Buyer and not rescinded, (b) any agreement or other instrument to which Buyer is a party or by which Buyer or any of its properties or assets is bound, (c) any Order of any Governmental Entity to which Buyer is bound or subject or (d) any Law applicable to or binding on Buyer or any of its properties or assets except, in the case of clauses (b)-(d), for such conflicts, violations, breaches, defaults or creation of rights as would not, individually or in the aggregate, have a material adverse effect on the business

of Buyer or the ability of Buyer to consummate the transactions contemplated by this Agreement and each of the Transaction Documents.

5.5 Third Party Approvals. Except for (a) any approvals required in order to comply with the provisions of the HSR Act, (b) any FCC Consent and State PUC Consent as required by applicable Law and (c) any other third party approvals as are reflected on the attached Schedule 5.5 of the Disclosure Schedules, the execution, delivery and performance by Buyer of this Agreement and the Transaction Documents and the transactions contemplated hereby and thereby do not require any consents, waivers, authorizations or approvals of, or filings with, any third Persons which have not been obtained by Buyer.

5.6 Brokers and Finders. Buyer has engaged the firms of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Rothschild Inc. to assist them in connection with the matters contemplated by this Agreement and will be responsible for the fees and expenses of such firms. Other than as described in the preceding sentence or as is payable by Buyer or its Affiliates and not by Sellers, no broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement, based upon arrangements made by or on behalf of Buyer or any of its Affiliates.

5.7 Financing. As of the date hereof and as of the Closing Date, Buyer has and will have sufficient unrestricted funds on hand or committed lines of credit to consummate the transactions contemplated by this Agreement (including the payment of all fees and expenses incurred in connection with the transactions contemplated hereunder).

5.8 SEC Filings. The Form 10-K filed with the SEC for Buyer's year ended December 31, 2002 and the Form 10-Q filed with the SEC for Buyer's quarter ended September 30, 2003 (the "Form 10-Q"), as of the dates of their respective filings, each complied as to form in all material respects with the requirements of the Exchange Act, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC filing and such filing did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

5.9 Capitalization. The Form 10-Q sets forth the authorized shares of capital stock of the Buyer as of the date hereof and the number of shares of its common stock that were issued and outstanding as of October 30, 2003. Upon conversion of the Convertible Note in accordance with the terms thereof, the common stock of Buyer issued upon such conversion will be validly and legally issued, free and clear of any and all Liens, and will be fully paid and non-assessable. Buyer will reserve for issuance an adequate number of shares of its common stock to give effect to the conversion of the Convertible Note.

5.10 Limitations on Sellers' Representations and Warranties. Buyer acknowledges and agrees that it shall acquire the Acquired Assets "AS IS," "WHERE IS" and "WITH ALL FAULTS" on the Closing Date and after giving effect to the Closing, subject to the terms and conditions of this Agreement.

ARTICLE VI
COVENANTS OF THE PARTIES

6.1 Conduct of Business. Except for the Operational Restructuring Activities, as expressly contemplated by this Agreement (including the prosecution of the Cases) or as otherwise consented to by Buyer in writing, during the period from the date of this Agreement and continuing until the Closing, each Seller shall:

(a) (i) conduct its business in the Ordinary Course of Business and (ii) keep the Acquired Assets intact in accordance with the Ordinary Course of Business and not transfer any of such assets to Shared Technologies;

(b) not knowingly take or fail to take any action if the intent of such action or failure to act is or would be to cause any representation or warranty of Sellers made in Article IV to be untrue or incorrect if such representation or warranty were made immediately following the taking or failure to take such action;

(c) not waive, release, grant, transfer or permit to lapse any rights of value, to which any Seller has any right on the date of this Agreement other than immaterial waivers in the Ordinary Course of Business;

(d) comply in all material respects with all provisions of any Assumed Contract to which such Seller is a party;

(e) comply in all material respects with all applicable Laws that relate to or affect the operation of the Business;

(f) not enter into any new or amended contract, agreement, side letter or memorandum of understanding with any unions representing Employees;

(g) notify Buyer in writing of any incidents or accidents occurring on or after the date of this Agreement involving any property owned or operated by any Seller that resulted or could reasonably be expected to result in damages or losses in excess of One Million Dollars ($1,000,000);

(h) notify Buyer in writing of the commencement of any material Litigation against any Seller;

(i) not enter into any business or arrangement or otherwise take any action that would reasonably be expected to have a material adverse impact on the ability of the Sellers and the Buyer to obtain any material consents of Governmental Entities necessary in connection with this Agreement;

(j) not enter into any Contract containing covenants purporting to limit the freedom of any Seller or any of their respective Affiliates to compete or participate in any line of business or activities in any geographic area ("Non-Compete Covenants");

(k) not enter into any material Contract or renew, fail to renew, extend, terminate, reject, amend, modify or waive any material provision of any Contract designated with an asterisk on Schedule 4.20 to the Disclosure Schedules, except (i) that if within five (5) Business Days after notice provided by Sellers to Buyer of its intent to take any such actions, Buyer does not object in writing to Sellers, then Buyer shall be deemed to have provided consent to such action and (ii) for those actions for which a motion has been filed with the Bankruptcy Court on or prior to the date hereof; and

(l) not enter into any agreement or understanding in excess of twelve months with any other party containing any exclusivity or similarly restrictive provision.

Notwithstanding anything herein to the contrary, Sellers shall have the right to consummate a sale of (i) the shared web hosting business segment of the Business (the "Shared Hosting Business"), (ii) the Owned Real Property, and/or (iii) the assets or capital stock of Shared Technologies, and retain any proceeds from any such transactions as an Excluded Asset.

Notwithstanding anything herein to the contrary, Sellers shall have the right, subject to Bankruptcy Court approval, but only after the Sale Order Approval Date, to pay up to $100 million of the amount outstanding under its Senior Credit Agreement.

6.2 Transition; Management Agreements.

(a) As promptly as practicable after the execution and delivery of this Agreement and in any event within forty-five (45) days thereafter, Sellers and Buyer shall use their best efforts to (i) identify the Non-Transferred Assets and (ii) design and implement a plan (the "Transition Plan") to effectuate the separation of the Non-Transferred Assets to be retained by Sellers, in order to facilitate the transfer of the Non-Transferred Assets to Buyer as promptly as possible upon subsequent receipt of any necessary consents. Buyer shall have ultimate discretion regarding the terms of such Transition Plan. The Transition Plan shall be subject to amendment from time to time as reasonably appropriate to achieve the foregoing objective and permit the Closing to occur on the Closing Date. Sellers and Buyer shall exercise their best efforts to implement the Transition Plan, as it may be amended from time to time, to provide for separation of the Non-Transferred Assets prior to the Closing and the transfer of Non-Transferred Assets as promptly as possible.

(b) Sellers and Buyer shall enter into one or more management agreements, each such agreement substantially in the form of Exhibit I hereto (the "Management Agreements") effective as of the Closing Date. Pursuant to and as set forth in the Management Agreements, Buyer shall agree to provide management and

related services to Sellers, on behalf of Sellers and subject to the ultimate direction of Sellers and consistent with all applicable law and regulation, in each state or jurisdiction for which FCC Consent or State PUC Consent, where required, has not been obtained as of the Closing Date. Pursuant to Sections 1.1 and 2.5, (i) at such time as any necessary FCC Consent and/or State PUC Consent shall have been issued and (ii) the parties shall have received any necessary ILEC consents, or the notice period shall have expired, for the assignment of any Required Interconnection Agreements, the corresponding Non-Transferred Assets shall be transferred to Buyer and Buyer shall assume all related Assumed Liabilities.

6.3 Reorganization Process.

(a) Unless Sellers shall have delivered an Early Closing Election, Sellers shall, as soon as reasonably practicable after the date hereof, prepare and file with the Bankruptcy Court: (i) a Disclosure Statement with respect to the Bankruptcy Plan meeting the requirements of section 1125(b) of the Bankruptcy Code (the "Disclosure Statement"); (ii) a motion to approve the Disclosure Statement; and (iii) the Bankruptcy Plan (items (i) through (iii) collectively, the "Approval Motions"). Unless Sellers shall have delivered an Early Closing Election, the Bankruptcy Plan, any and all exhibits and attachments to the Bankruptcy Plan, the Disclosure Statement, and the other Approval Motions and the orders approving the same (including the Confirmation Order) shall be reasonably acceptable in form and substance to the Buyer. Until the Closing, the Sellers shall consult with the Buyer and obtain Buyer's consent, which shall not be unreasonably withheld, prior to taking any material action with respect to the Cases. Unless Sellers shall have delivered an Early Closing Election, the Buyer shall provide the Sellers with all information concerning the Buyer required to be included in the Disclosure Statement. This Section 6.3(a) shall not be applicable if Sellers shall have delivered an Early Closing Election.

(b) The Confirmation Order shall provide, among other things, that (i) the Bankruptcy Plan has been proposed in good faith and not by any means forbidden by Law, (ii) Buyer and its Affiliates, and their respective members, shareholders, partners and Representatives are released from any claims of any party related to the Sellers, the Business or the Cases, whether arising prior to or during the Cases, except for the Assumed Liabilities, (iii) Buyer and its Affiliates, and their respective members, shareholders, partners and Representatives have acted in "good faith" within the meaning of section 1125(e) of the Bankruptcy Code in compliance with the applicable provisions of the Bankruptcy Code and Bankruptcy Rules in connection with all their respective activities relating to the solicitation of acceptances to the Bankruptcy Plan and their participation in the activities described in section 1125 of the Bankruptcy Code and are entitled to the protections afforded by section 1125(e) of the Bankruptcy Code and the exculpation and any other release provisions set forth in the Bankruptcy Plan and (iv) all Persons are enjoined from commencing any action in violation of such release and exculpation provisions. This Section 6.3(b) shall not be applicable if Sellers shall have delivered an Early Closing Election.

(c) The Sellers shall take such actions and cause any filings and actions to be taken by one or more of the Sellers as applicable in compliance with the dates set forth in the timetable attached hereto as Exhibit J; provided, however, that in the event Sellers shall have delivered an Early Closing Election, any such filings and actions relating to the Bankruptcy Plan or Disclosure Statement shall no longer be required or subject to the timetable attached hereto as Exhibit J.

(d) Prior to the Closing, no Seller shall, without the prior written consent of Buyer:

(i) seek or consent to the conversion of the Cases to cases under chapter 7 of the Bankruptcy Code or the appointment of a trustee or examiner with managerial powers under section 1104 of the Bankruptcy Code;

(ii) consent to any relief from the automatic stay under section 362 of the Bankruptcy Code with respect to any Acquired Assets having an aggregate market value of more than $150,000;

(iii) file any plan of reorganization other than the Bankruptcy Plan, file any material amendment to the Bankruptcy Plan, consent to the reduction of the exclusivity period under section 1121 of the Bankruptcy Code for the filing of a plan of reorganization (the "Exclusivity Period") or fail timely to file motions seeking to obtain orders of the Bankruptcy Court extending the Exclusivity Period; provided, however, that in the event Sellers shall have delivered an Early Closing Election, this Section 6.3(d)(iii) shall be inapplicable;

(iv) sell or abandon, or file any motion to sell or abandon, any Acquired Assets, other than sales in the Ordinary Course of Business or except as contemplated by the Operational Restructuring Activities;

(v) commence or continue to prosecute Avoidance Actions against any Seller or related to the Business, or against any employee of, creditor of or other party to a contract with any Seller;

(vi) commence or continue any Claims that Sellers or any of their respective Affiliates may have against any active Employee of, creditor of or other party to an existing Contract with any Seller (other than Contracts that are Excluded Assets); or

(vii) authorize, or commit or agree to take, any of the foregoing actions.

(e) At the Closing, Sellers shall reject in the Cases all Executory Contracts that do not constitute Assumed Contracts other than any such Executory Contracts (A) relating to the Excluded Assets or (B) assigned to any other Person. At Buyer's written request, Sellers shall delay the effective date of the rejection of any Executory Contract designated by Buyer.

(f) At Buyer's reasonable direction and sole expense, Sellers (i) shall file all requisite pleadings with the Bankruptcy Court, or any other applicable forum, to recharacterize any capital lease as a secured financing, (ii) agree, after the Sale Order Approval Date, to assume or reject any capital lease, in whole or in part, to the extent portions of such lease are severable, and (iii) agree to allow Buyer to participate in any negotiations with counterparties with respect to restructuring or recharacterizing the capital leases. The Sale Order shall provide that the Buyer has standing to participate in any disputes regarding such capital leases.

6.4 Insurance. Effective upon the Closing, to the extent Sellers' insurance policies are designated by Buyer as Non-Transferred Assets, Sellers shall take all actions necessary to cause Buyer to be designated as an additional loss-payee on such policies and shall maintain such insurance policies on the same terms as currently in effect at Buyer's sole expense.

6.5 Access; Transition Committee; Information Rights.

(a) Subject to any relevant Antitrust Laws, from the date hereof until the Closing Date, Sellers shall allow Buyer's employees and other Representatives during regular business hours (and in a manner so as not to interfere with the normal business operations of Sellers) to make such investigation of the Sellers' employees, the Business and Sellers' books and records related thereto, as Buyer reasonably deems necessary or advisable, and Sellers shall instruct Sellers' employees to cooperate in any such investigation. Buyer shall be permitted to make extracts from or to make copies of such books and records.

(b) From and after the Closing Date, Buyer hereby acknowledges that it shall grant to Sellers upon Sellers' request full and complete access, as promptly as practicable but in no event no later than two (2) days after receiving a request, to any records related to Sellers' operation of the Business prior to the Closing Date, upon Sellers' request, and Sellers shall be permitted to copy, and retain a copy of, any such records. Buyer shall keep such records in a manner consistent with Buyer's past practice and such records shall not be destroyed until the later of seven (7) years from the Closing Date or the conclusion of all bankruptcy proceedings related to the Business. Sellers hereby agree that from and after the Closing Date they will grant to Buyer upon Buyer's reasonable request access during normal business hours (and instruct its employees to reasonably cooperate with Buyer), in a reasonably prompt manner but in any event no later than five (5) days after receiving a request, to any tax records relating to the Acquired Assets or to Sellers' operation of the Business prior to the Closing Date (including any Tax Liabilities for which Buyer may be held liable). Buyer shall be permitted to copy, and retain a copy of, any such records (including any Tax Returns). To the extent that a Seller retains any books and records related to the Business, such Seller shall keep such records in a manner consistent with such Seller's past practice and such records shall not be destroyed before such Seller offers such records to Buyer.

(c) Subject to any relevant Antitrust Laws, immediately upon the Bankruptcy Court approval of the Bidding Procedures Order and subject to compliance with any regulatory restrictions, Sellers and Buyer shall establish a joint transition committee (the "Committee") to plan the steps necessary to efficiently implement the purchase of the Business by Buyer and to agree upon changes to the Business which will increase operating efficiencies. The Committee will be chaired by a Buyer Representative, shall have appropriate Representatives of both Sellers and Buyer, and shall meet in person or telephonically as frequently as shall be reasonably determined by Buyer. The Committee shall establish working groups to discuss the following specific aspects of the transactions contemplated hereby: (i) human resources, (ii) network, (iii) operations, (iv) sales and marketing, (v) finance and (vi) information technology and shall agree as promptly as possible as to actions that will be taken to more efficiently operate the Business prior to Closing; provided that no such actions implemented prior to Closing shall have, or be reasonably expected to have, a detrimental impact on the ability of Sellers to conduct the auction in a manner customary in similar proceedings, and further provided that all such actions shall be conducted in full compliance with the relevant Antitrust Laws. All reasonable costs associated with the establishment and the operation of the Committee shall be borne by Buyer. Prior to any meetings of the Committee, Sellers and Buyer shall implement appropriate procedures for the protection of the confidential information of both Sellers and Buyer in the event the transaction is not concluded for any reason.

(d) As soon as practicable, but in no event less than fifteen (15) days after the end of each month, ATI shall provide Buyer with a copy of its monthly flash report, together with a performance report of the Total Retail Net Ending Lines (as of the end of the month covered by the flash report) and Total Gross End User Revenue (as of the end of the month covered by the flash report), including a certification as to the number of Scheduled Future Installs and Scheduled Future Disconnects as of the end of the month covered by the flash report.

6.6 Public Announcements. No Seller shall issue a press release or otherwise make any public statements with respect to the transactions contemplated hereby, except as may be required by Law, by obligations pursuant to any listing agreement with any national securities exchange or over-the-counter market or with respect to filings to be made with the Bankruptcy Court in connection with this Agreement (in which case such Sellers shall notify Buyer as promptly as practicable and prior to making such public statement), without the prior consent of Buyer, which consent shall not be unreasonably withheld or delayed. To the extent reasonably practicable, Buyer shall consult with ATI before Buyer issues any press release or otherwise makes any public statements with respect to the transactions contemplated hereby and consider any comments ATI may have with respect thereto.

6.7 Notification of Certain Matters. Sellers shall give prompt notice to Buyer, and Buyer shall give prompt notice to Sellers, of (i) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement and (ii) any

written objection, litigation or administrative proceeding that challenges the transactions contemplated hereby or the entry of the Bidding Procedures Order or the Sale Order.

6.8 Employees.

(a) Sellers shall deliver to Buyer not later than fifteen (15) Business Days after the date of this Agreement: a complete and accurate schedule (the "Employee Schedule") setting forth, as of a recent date prior to the delivery of the Employee Schedule, (x) the name and position of each Employee, (y) the annual base salary or hourly rate, as applicable, for each Employee and (z) the date each Employee commenced employment with Sellers. Seller and Buyer shall cooperate in identifying those employees for which Buyer shall offer full-time employment effective as of the Closing Date.

(b) Buyer anticipates extending offers of employment to substantially all of Sellers' Employees who provide services related to or associated with the Acquired Assets. Buyer shall make offers of employment in accordance with its normal hiring practices. Those Employees who accept Buyer's offer of employment effective as of the Closing Date are referred to as the "Transferred Employees." Following the Closing, Buyer shall provide any Employee who does not receive an offer of employment from the Buyer and any Employee who receives an offer of employment which does not provide for the terms of employment described in Section 6.8(d) with severance benefits in accordance with Sellers' severance policies and past practice, provided, however, any Transferred Employee shall not be eligible to receive severance benefits pursuant to this Agreement.

(c) Pursuant to the "Alternative Procedure" provided in section 5 of Revenue Procedure 96-60, 1996-2 C.B. 399, (i) Buyer and Sellers shall report on a predecessor/successor basis as set forth therein, (ii) Sellers will be relieved from filing a Form W-2 with respect to the Transferred Employees and (iii) Buyer will undertake to file (or cause to be filed) a Form W-2 for each such Transferred Employee for the year that includes the Closing Date (including the portion of such year that such Employee was employed by Sellers). Sellers will provide Buyer on a timely basis with all payroll and employment-related information with respect to each such Employee.

(d)

(i) Buyer shall grant each Transferred Employee service credit with Sellers (based on the employment commencement date set forth in the Employee Schedule), for purposes of eligibility and participation in the benefit plans, programs and arrangements (including the vacation and the severance policies), of Buyer, excluding service credit for benefit accruals under the defined benefit pension plan and eligibility for the retiree medical plan.

(ii) Unless otherwise required by any collective bargaining agreement to which any of Buyer's employees are subject to as of the Closing Date, with respect to Transferred Employees who will be subject to such collective bargaining

agreement after the Closing, effective on the Closing Date, Buyer shall provide the Transferred Employees with (i) a salary or regular wage rate and bonus opportunity (if applicable) which is substantially the same in the aggregate as the salary or wage rate received or bonus opportunity available to such Transferred Employee immediately prior to the Closing, (ii) a job location no more than 75 miles from such Transferred Employee's current job location and (iii) health, welfare and other employee benefits on the same basis as similarly situated employees of Buyer (or an Affiliate of Buyer), as determined by Buyer and in accordance with the terms of the plans governing such benefits.

(iii) As of the Closing Date, Buyer (or an Affiliate of Buyer) shall credit the Transferred Employees for all deductibles and out-of pocket expenses incurred by the Transferred Employees with respect to such benefits during the calendar year in which the Closing Date occurs and shall further waive (to the extent waived under Sellers' employee benefit plans) all pre-existing conditions, exclusions and waiting periods under Buyer's employee benefit plans for Transferred Employees.

(iv) Except as otherwise provided in this Agreement, Buyer shall not assume any Employee Benefit Plan or any liability or obligation thereunder, and, except as expressly provided in this Section 6.8, the terms of a Transferred Employee's employment with Buyer (or an Affiliate) after the Closing shall be upon such terms and conditions as Buyer, in its sole discretion, shall determine.

(e) Sellers shall cause the accounts of all Transferred Employees under any tax-qualified defined contribution plan maintained by Sellers to become fully vested as of the Closing, and shall permit distribution of such accounts in accordance with the terms of any such plan. Notwithstanding the foregoing, Sellers shall amend such defined contribution plan to permit the rollover of promissory notes evidencing outstanding participant loans of Transferred Employees, without default of such loan, to a tax-qualified defined contribution plan established by Buyer, and Buyer shall cause, as of a specified date within 90 days of Closing as determined by Buyer, such plan to accept such rollovers, provided that the Sellers have provided the Buyer evidence satisfactory to the Buyer of the qualified status of the Sellers' Internal Revenue Code Section 401(k) arrangement under Internal Revenue Code Section 401(a). Buyer shall take all action necessary and appropriate to ensure that, as of the Closing, Buyer maintains a tax-qualified defined contribution plan.

(f) Sellers shall cause, and Buyer agrees to assume, the health care and dependent care flexible spending accounts (and any corresponding assets and liabilities thereto) maintained with respect to Transferred Employees under any cafeteria plan maintained by Sellers to be transferred to Buyer's flexible benefits plan in accordance with IRS Revenue Ruling 2002-32.

(g) Sellers shall not, at any time between the date hereof and the Closing Date, or at any time prior to 60 days after the Closing Date, effectuate a "plant closing" or "mass layoff," as those terms are defined in the WARN Act, affecting in whole or in part any site of employment, facility, operating unit or Employee, without

complying with the notice requirements and other provisions of the WARN Act except to the extent arising from Buyer's actions, in which case Buyer shall be responsible for any Liabilities related thereto. In order to protect all parties, to the extent required by the WARN Act, Sellers agree to give notice in compliance with the WARN Act in a form satisfactory to Buyer, to all Employees required under the WARN Act to receive such notice not less than sixty (60) days and no more than ninety (90) days prior to the anticipated Closing Date, and shall repeat such notice, if necessary, due to any delay of Closing; provided, however, to the extent Sellers are unable to provide notice in compliance with the WARN Act due to any act, omission or direction of Buyer, Buyer shall be responsible for any Liabilities related thereto.

(h) Except where prohibited by law, Sellers shall provide promptly to Buyer, at Buyer's request, any information or copies of personnel records (including addresses, dates of birth, dates of hire and dependent information) relating to the Transferred Employees or relating to the service of Transferred Employees with Sellers prior to the Closing. Sellers and Buyer shall each cooperate with the other and shall provide to the other such documentation, information and assistance as is reasonably necessary to effect the provisions of this Section 6.8(h).

(i) As part of the Transition Plan, certain Employees of Sellers will be retained by Sellers as of the Closing. Those Employees may or may not be Transferred Employees as referenced in this Section 6.8. The parties will cooperate in developing the Transition Plan such that, to the extent permitted by law, such Employees are subject to the same terms and conditions as they would have been if they had not been retained by Sellers at Closing, and instead had become Transferred Employees or been terminated, as the case may be, at Closing. For purposes of Sections 6.8(a), (b), (c), (d), (e), (f) and (h) in the case of an Employee who remains with the Sellers subsequent to the Closing Date for the purposes of continuing to conduct the Business with respect to the Non-Transferred Assets and who receives and accepts an offer of employment from the Buyer post-Closing, references to the "Closing Date" shall be replaced with the date of hire by the Buyer, or as otherwise specified in the Management Agreements.

6.9 Further Agreements. Sellers authorize and empower Buyer after the Closing Date to receive and to open all mail received by Buyer relating to the Acquired Assets, the Business or the Assumed Liabilities and to deal with the contents of such communications in any proper manner. Sellers shall (a) promptly deliver to Buyer, any mail or other communication received by them after the Closing Date, (b) promptly wire transfer in immediately available funds to Buyer, any cash, electronic credit or deposit received by Sellers and (c) promptly forward to Buyer, any checks or other instruments of payment that it received, in each case relating to the Acquired Assets, the Business or the Assumed Liabilities. Buyer shall (a) promptly deliver to Sellers, any mail or other communication received by it after the Closing Date, (b) promptly wire transfer in immediately available funds to ATI, any cash, electronic credit or deposit received by Buyer and (c) promptly forward to ATI, any checks or other instruments of payment that it receives, in each case relating to the Excluded Assets or any Excluded Liabilities. From and after the Closing Date, Sellers shall refer all inquiries with respect to the

Business, the Acquired Assets and the Assumed Liabilities to Buyer, and Buyer shall refer all inquiries with respect to the Excluded Assets and the Excluded Liabilities to Sellers.

6.10 Payment of Transfer Taxes and Tax Filings.

(a) Fifty percent (50%) of all Transfer Taxes arising out of the transfer of the Acquired Assets and any Transfer Taxes required to effect any recording or filing with respect thereto shall be paid by each of Buyer and Sellers. The parties shall use commercially reasonable efforts to have included in the Sale Order and Confirmation Order a provision that provides that the transfer of the Acquired Assets shall be free and clear of any stamp or similar taxes under section 1146(c) of the Bankruptcy Code. At least twenty (20) Business Days prior to Closing, Sellers shall submit to Buyer a list of all Transfer Taxes (by tax name, tax jurisdiction and general description of the Acquired Assets subject to such tax) that it anticipates collecting from Buyer at Closing. Buyer may submit to Sellers evidence that it believes such Transfer Tax should not be applicable. Sellers shall review such evidence in a timely and good faith manner and respond to Buyer prior to Closing. Sellers and Buyer shall cooperate to timely prepare and file any returns or other filings relating to such Transfer Taxes, including any claim for exemption or exclusion from the application or imposition of any Transfer Taxes.

(b) Each party shall furnish or cause to be furnished to the others, upon request, as promptly as practicable, such information and assistance relating to the Acquired Assets and the Business as is reasonably necessary for filing of all Tax Returns, including any claim for exemption or exclusion from the application or imposition of any Taxes or making of any election related to Taxes, the preparation for any audit by any taxing authority and the prosecution or defense of any claim, suit or proceeding relating to any Tax Return.

(c) Sellers acknowledge and agree that Buyer shall have an administrative expense claim with respect to Sellers' share of any Transfer Taxes arising out of the transfer of the Acquired Assets under this Section 6.10 that have not been paid when due.

6.11 Filing of Tax Returns. The Sellers shall prepare and file, or cause to be prepared and filed, all Tax Returns for or on behalf of the Sellers and any Affiliated Group that are required to be filed for periods that include or end on or prior to the Closing Date. Subject to Section 2.3(c), the Sellers shall pay, or shall cause to be paid, all Taxes due and payable by the Sellers with respect to periods that include or end on or prior to the Closing Date when due.

6.12 Proration of Taxes and Certain Charges. Except as provided in Section 6.10, all real property Taxes, personal property Taxes or similar ad valorem obligations levied with respect to the Acquired Assets for any taxable period that includes the day before the Closing Date and ends after the Closing Date, whether imposed or assessed before or after the Closing Date, shall be prorated between Sellers and Buyer as

of 12:01 A.M. on the Closing Date. If any Taxes subject to proration are paid by Buyer, on the one hand, or Sellers, on the other hand, the proportionate amount of such Taxes paid (or in the event a refund of any portion of such Taxes previously paid is received, such refund) shall be paid promptly by (or to) the other after the payment of such Taxes (or promptly following the receipt of any such refund). Notwithstanding the foregoing proration, any interest, penalties or additions to Tax relating to a Tax that is subject to proration shall be borne by the party whose actions or omissions gave rise to such item, and shall be reimbursed (and any refund remitted) consistent with the preceding sentence.

6.13 Best Efforts.

(a) Subject to the terms and conditions of this Agreement, each of the parties hereto shall use its respective best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties hereto in doing, all things necessary, proper or advisable under applicable Laws and regulations to ensure that the conditions set forth in this Agreement are satisfied and to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement, including prosecuting confirmation of the Bankruptcy Plan notwithstanding the objection of any party in interest. Subject to the terms and conditions of this Agreement, the parties shall not take any action or refrain from taking any action, the effect of which would be to delay or impede the ability of Sellers and Buyer to consummate the transactions contemplated by this Agreement, unless in such party's reasonable judgment, taking such action or refraining from action is consistent with achieving the ultimate objective of consummating the transactions contemplated hereby.

(b) Without limiting the generality of the foregoing, the parties hereto shall furnish to each other such necessary information and reasonable assistance, as each may request in connection with preparation and filing of applications and motion papers, including the Sale Motion needed to obtain Bankruptcy Court approval of the transactions contemplated by this Agreement, including the Break-Up Fee and the Expense Reimbursement.

(c) If Sellers are unable to obtain any consent required to assign the Contract identified as item 1 on Schedule 7.2(f) of the Disclosure Schedules, Sellers may propose an alternate structure to acquire such contract or the capital stock of the Seller party to such contract (the "Contracting Seller"), and Buyer shall cooperate in good faith to implement such proposal subject to the following sentences. Sellers shall provide Buyer with such information as Buyer reasonably requests in connection with analyzing such alternative structure. Buyer shall be entitled to reject, in its sole discretion, any proposal that exposes Buyer or any of its Affiliates to any material Liabilities other than the Assumed Liabilities or Liabilities that are immaterial, or if the Contracting Seller has, at the time of the Closing, any such material Liabilities. If Buyer acquires the capital stock of the Contracting Seller, the Sellers shall not be entitled to deliver an Early Closing Election.

6.14 HSR Act and General Governmental Consents.

(a) Subject to the terms and conditions of this Agreement, each of the parties hereto shall use its respective best efforts to (1) obtain from any Governmental Entity, any consents, licenses, permits, waivers, approvals, authorizations or orders required to be obtained or made by Sellers or Buyer or any of their respective Subsidiaries, or to avoid any action or proceeding by any Governmental Entity (including those in connection with the HSR Act), in connection with the authorization, execution and delivery of this Agreement and the consummation of the transactions contemplated herein, (2) subject to any restrictions under Antitrust Laws (as defined herein), to the extent practicable, (A) promptly notify each other of any communication to that party from any Governmental Entity with respect to this Agreement and the transactions contemplated hereby, (B) permit a Representative of the other party reasonably acceptable to the first party to attend and participate in meetings (telephonic or otherwise) with any Governmental Entity and (C) permit the other party to review in advance, as reasonable, any proposed written communication to any Governmental Entity, and (3) make all necessary filings (including, to the extent applicable, appropriate filing of a notification and report form pursuant to the HSR Act on or prior to January 20, 2004), and thereafter make any other required submissions, with respect to this Agreement and the transactions contemplated hereby under any applicable Law. Sellers and Buyer shall cooperate with each other in connection with the making of all such filings, including (i) providing all information required or appropriate for any application or other filing and (ii) as reasonably practicable, providing copies of all such documents to the other party and its advisors prior to filing and, if requested, accepting all reasonable additions, deletions or changes suggested in connection therewith.

(b) In furtherance and not in limitation of the foregoing, the parties shall use their best efforts to resolve such objections, if any, as may be asserted with respect to the transactions contemplated by this Agreement under any antitrust, competition or trade regulatory Laws of any Governmental Entity ("Antitrust Laws"). The parties agree to take any action (including agreeing to hold separate or to divest any of the Acquired Assets (a "Designated Change") that may be required by or would otherwise resolve any objections made by (1) the applicable Governmental Entity (including the Antitrust Division of the United States Department of Justice or the Federal Trade Commission) in order to resolve any objections as such Governmental Entity or authority may have to such transactions under such Antitrust Law, or (2) by any domestic or foreign court or similar tribunal, in any suit brought by a private party or Governmental Entity challenging the transactions contemplated by this Agreement as violative of any Antitrust Law, in order to (i) avoid material delay in the closing of such transactions or (ii) avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order that has the effect of preventing the consummation of any of such transactions. The entry by a court, in any suit brought by a private party or Governmental Entity challenging the transactions contemplated by this Agreement as violative of any Antitrust Law, of an order or decree permitting the transactions contemplated by this Agreement, but requiring a Designated Change, or that would otherwise limit the Buyer's freedom of action with respect to, or its ability to retain, the Acquired Assets, shall not be deemed a failure to satisfy the conditions

specified in Section 7.1(a) or Section 7.1(c) hereof. Notwithstanding any other provision of this Agreement, nothing herein shall require Buyer or any of its Affiliates to hold separate or to divest any of the businesses, product lines or assets of Buyer or its Affiliates.

(c) Buyer shall bear sole responsibility for all filing fees under the HSR Act.

6.15 Bulk Sales. Each of the parties hereto waives compliance with any applicable provisions of the Uniform Commercial Code Article 6 (bulk sales or bulk transfers) or analogous provisions of Law, as adopted in the states in which the Business is conducted, as such provisions may apply to the transactions contemplated by this Agreement.

6.16 Sale Motion.

(a) As promptly as practicable, and in any event within two (2) Business Day after the date hereof, Sellers shall file with the Bankruptcy Court the Sale Motion and related notices and proposed orders, each in form reasonably satisfactory to Buyer seeking the Bankruptcy Court's issuance of: (i) the Bidding Procedures Order and (ii) the Sale Order.

(b) Sellers shall serve a copy of the Sale Motion on all taxing authorities that have jurisdiction over the Acquired Assets, all Governmental Agencies having jurisdiction over the Acquired Assets with respect to Environmental Laws, and on the attorneys general of all states in which the Acquired Assets are located. Sellers shall serve a notice of the Sale Motion on all parties to Executory Contracts.

(c) Pursuant to section 364(c)(1) of the Bankruptcy Code, the administrative claims in respect of the Expense Reimbursement, the Break-Up Fee and the Liquidated Damages shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a) or 507(b) of the Bankruptcy Code (the "Buyer Protection Superpriority Claims"); provided, however, that the Buyer Protection Superpriority Claims (i) shall not prime the liens of Sellers' pre-Petition lenders and (ii) shall be subordinate to the carve out for professional fees and fees pursuant to 28 U.S.C. of 1930 in accordance with the Bankruptcy Court's order authorizing Sellers to use cash collateral in the Cases.

(d) The rights of Buyer to the Expense Reimbursement, the Break-Up Fee, the Liquidated Damages and the Buyer Protection Superpriority Claims shall all survive rejection or breach of this Agreement, and shall be unaffected thereby.

(e) Buyer and Sellers shall cooperate with filing and prosecuting the Sale Motion and obtaining entry of the Bidding Procedures Order and the Sale Order, and Sellers shall use their best efforts to provide Buyer with copies of all material proposed pleadings, motions, orders and notices prepared by or on behalf of the Sellers relating to the Acquired Assets or this Agreement at least two (2) Business Days prior to the filing thereof in the Cases so as to allow Buyer to provide reasonable comments for

incorporation into same. With respect to the Assumed Contracts, Buyer shall cooperate with Sellers to provide adequate assurance of future performance as required by section 365 of the Bankruptcy Code.

6.17 Competing Transaction.

(a) (i) From the date hereof through the date the Bankruptcy Court enters the Bidding Procedures Order (the "Bidding Procedures Order Approval Date") and (ii) following the Sale Order Approval Date and until such time as this Agreement has been terminated (other than a termination by Sellers in violation of this Agreement), Sellers shall not, nor shall they authorize or permit any Representative of Sellers to, (A) directly or indirectly solicit, initiate or encourage the submission of any offer or proposal concerning any (x) sale, lease or other disposition directly or indirectly by merger, consolidation, business combination, share exchange, joint venture or otherwise, of any or all of the Acquired Assets, (y) issuance or sale of any equity interests in any Seller, or (z) transaction pursuant to which any Person will acquire beneficial ownership or the right to acquire beneficial ownership of equity interests in any Seller (any of the foregoing, a "Competing Transaction"), (B) directly or indirectly participate in any discussions or negotiations regarding, or furnish to any Person any information with respect to, or take any other action to facilitate the making of, any proposal or expression of interest that constitutes or is reasonably likely to lead to a Competing Transaction, or (C) enter into any agreement with respect to any Competing Transaction; provided, however, that, prior to the Bidding Procedures Order Approval Date, Sellers may, in response to unsolicited bona fide inquiries from Persons indicating an interest in pursuing a Competing Transaction, and after giving Buyer written notice of any Sellers' intention to enter into a confidentiality agreement as provided in Section 6.17(b) below, furnish publicly available information and any information on Sellers' virtual data room in response to such inquiry. Following the Bidding Procedures Order Approval Date and until the Sale Order Approval Date, Sellers are permitted to cause their Representatives to initiate contact with, solicit or encourage submission of any inquiries, proposals or offers by, any Person (in addition to Buyer and its Affiliates, agents and Representatives) in connection with any Competing Transaction; provided, however, that any such contact, solicitation, or encouragement shall be undertaken in accordance with the terms of the Bidding Procedures Order. Notwithstanding anything to the contrary contained herein, Sections 6.16(a) and (b) shall be immediately enforceable and binding on the parties, and are not subject to entry of the Bidding Procedures Order or any other conditions. The Bidding Procedures Order shall provide, among other things, that (i) any Competing Transaction shall provide for the acquisition of substantially all of the Acquired Assets, (ii) any Competing Transaction shall comply with the Bidding Procedures Order, and (iii) Sellers shall provide to Buyer copies of any written bids received on or after the date hereof for any of the Acquired Assets no later than one (1) Business Day after such bids are received by any Seller, provided that Buyer shall keep such bids confidential and shall not contact or communicate with any bidder or bidders with respect to any such bids or discuss the bids with any party whatsoever except as required by Law. The Sellers shall use best efforts to seek entry of the Bidding Procedures Order.

(b) Sellers shall not furnish information concerning their business, properties or assets to any third party, except (i) in the Ordinary Course of Business to potential and current vendors, customers and agents, (ii) to Governmental Entities or (iii) pursuant to a confidentiality agreement with terms and conditions no less restrictive than those contained in the Confidentiality Agreement as modified by Section 9.9 below. Sellers shall not release any third party from, or waive any provision of, any such confidentiality agreement to which any Seller is a party other than to the extent a similar release or waiver was granted to Buyer. Sellers shall use reasonable efforts to promptly provide, or identify and make available to Buyer any non-public information concerning Sellers, the Acquired Assets or the Business provided to any other Person after the date hereof which was not previously provided to Buyer. To the extent that this Section 6.17(b) conflicts with the Bidding Procedures Order, the Bidding Procedures Order shall govern.

6.18 Disclosure Supplements. From time to time prior to the Closing, Sellers shall supplement the Disclosure Schedules hereto with respect to any matter hereafter arising or any information obtained after the date hereof which, if existing, occurring or known at or prior to the date of this Agreement, would have been required to be set forth or described in the Disclosure Schedules, or which is necessary to complete or correct any information in such schedule or in any representation and warranty of Sellers which has been rendered inaccurate thereby. For purposes of determining the satisfaction of the conditions set forth in Article VII hereof, no such supplement or amendment shall be considered.

6.19 Communications Licenses. Sellers shall maintain the validity of the Communications Licenses and, except as disclosed on Schedule 4.9 of the Disclosure Schedules, comply in all material respects with all requirements of the Communications Licenses and the rules and regulations of the FCC and State PUCs. Seller shall use reasonable commercial efforts to (a) refrain from taking any action which may jeopardize the validity of any of the Communications Licenses or result in the revocation, surrender or any adverse modification of, forfeiture of, or failure to renew under regular terms, any of the Communications Licenses, (b) prosecute with due diligence any pending applications with respect to the Communications Licenses, including any renewals thereof, and (c) with respect to Communications Licenses, make all filings and reports and pay all fees necessary or reasonably appropriate for the continued operation of the Business, as and when such approvals, consents, permits, licenses, filings, or reports or other authorizations are necessary or appropriate.

6.20 FCC Applications/State PUC Applications.

(a) As promptly as practicable after the execution and delivery of this Agreement and in no event later than December 31, 2003, the parties hereto shall prepare and file, or cause to be prepared and filed, the necessary application or applications with the FCC seeking the FCC Consents. Each party shall provide the other party with all information necessary for the preparation of such applications on a timely basis, including those portions of such applications which are required to be completed by the first party.

(b) As promptly as practicable after the execution and delivery of this Agreement and in no event later than January 20, 2004, the parties hereto shall prepare and file, or cause to be prepared and filed, the necessary application or applications with the State PUCs seeking the State PUC Consents. Each party shall provide the other party with all information necessary for the preparation of such applications on a timely basis, including those portions of such applications which are required to be completed by the first party. In addition, the parties hereto shall cooperate to make any notice filings required in connection with this matter on a timely basis.

(c) Each of Buyer and Sellers shall bear its own expenses in connection with the preparation and prosecution of the FCC applications and the State PUC applications. Subject to the terms and conditions of this Agreement, each of the parties hereto shall use its best efforts to prosecute the FCC applications and the State PUC applications in good faith and with due diligence before the FCC and the State PUCs and in connection therewith shall take such action or actions as may be necessary or reasonably required in connection with the FCC applications and the State PUC applications, including furnishing to the FCC and the State PUCs any documents, materials, or other information requested by the FCC and the State PUCs in order to obtain the FCC Consent and the State PUC Consents as expeditiously as practicable. In addition, to the extent practicable, the parties hereto shall use their best efforts to (i) promptly notify each other of any communication to that party from the FCC or any State PUC with respect to the FCC applications or the State PUC applications, as applicable, (ii) permit a Representative of the other party reasonably acceptable to the first party to attend and participate in meetings (telephonic or otherwise) with the FCC or any State PUC and (iii) permit the other party to review in advance, as reasonable, any proposed written communication to the FCC or any State PUC. No party hereto shall knowingly take, or fail to take, any action if the intent or reasonably anticipated consequence of such action or failure to act is, or would be, to cause the FCC or any State PUC not to grant approval of any FCC application or of any State PUC application or materially delay either such approval, to the material detriment of the other party.

6.21 Cooperation on Environmental Matters. Sellers agree to cooperate with Buyer and to assist Buyer in identifying the permits required under Environmental Laws required by Buyer to operate the business from and after the Closing Date and either transferring existing Environmental Permits of Buyer, where permissible, or obtaining new Environmental Permits for Buyer (at Buyer's sole expense).

6.22 Trust Indenture Act. To the extent required by the Trust Indenture Act of 1939, Buyer shall file all necessary documents with the SEC to qualify an indenture for the Convertible Notes.

6.23 Non-Compete Covenants. Sellers shall use their reasonable efforts to identify to Buyer those material Contracts containing Non-Compete Covenants within ten (10) Business Days following the date of this Agreement.

6.24 Use of Name. Sellers hereby agree that upon the consummation of the transactions contemplated hereby, Buyer shall be granted a license as set forth in the

Management Agreements to the name "Allegiance Telecom" or similar names, and any other names used in the business to be managed by Buyer pursuant to the Management Agreements, or any service marks, trademarks, trade names, identifying symbols, logos, emblems or signs containing or comprising the foregoing or otherwise used in the business to be managed by Buyer pursuant to the Management Agreements, including any name or mark confusingly similar thereto (collectively, the "Seller Marks") and Sellers shall not, and shall not permit any of their Affiliates to, use such name or any variation or simulation thereof, except in connection with the completion of the Cases. In furtherance thereof, upon expiration or termination of the Management Agreements, Sellers shall remove, strike over or otherwise obliterate all Seller Marks from all materials owned by Sellers and used or displayed publicly including any sales and marketing materials, displays, signs, promotional materials and other materials. On or before the Closing, at Buyer's expense, Sellers shall take any action reasonably requested by Buyer to perfect the chain of title in all of Sellers' registered trademarks used in the Business.

6.25 Further Assurances.Buyer shall use commercially reasonable best efforts to obtain any material Governmental Entity License, approval or consent reasonably necessary to operate as a local exchange carrier in any jurisdiction where the Business is operated and Buyer represents and warrants that it or its Affiliate has and, Buyer shall, maintain through the Closing Date such License, approval or consent in California, Illinois, Michigan and Texas.

6.26 Colocation/PRI Services Agreement. At the Closing, if requested by ATI and subject to Bankruptcy Court approval, ATCW or an Affiliate of ATCW and Buyer shall enter into a Master Services Agreement (the "Master Services Agreement"), pursuant to which Buyer shall provide colocation, primary rate interface and other services to ATCW (or such Affiliate) on terms specified on Schedule 6.26 of the Disclosure Schedules and as otherwise mutually satisfactory to ATCW and Buyer.

ARTICLE VII
CONDITIONS TO OBLIGATIONS OF THE PARTIES

7.1 Conditions Precedent to Obligations of Buyer and Sellers. The respective obligations of Buyer, on the one hand, and Sellers, on the other hand, to close under this Agreement shall be subject to the satisfaction or waiver at or prior to the Closing Date of the following conditions:

(a) No Injunction. No preliminary or permanent injunction or other order issued by, and no Litigation or Order by or before any United States Governmental Entity nor any Law or Order promulgated or enacted by any United States Governmental Entity shall be in effect or pending which materially delays, restrains, enjoins or otherwise prohibits or seeks to restrain, enjoin or otherwise prohibit the transactions contemplated hereby; provided that with respect to pending Litigation, such condition shall only apply to Litigation commenced by a Governmental Entity.

(b) The Sale Order. The Bankruptcy Court shall have entered the Sale Order, which approves this Agreement and all of the terms and conditions hereof and authorizes the Sellers to consummate the transactions contemplated hereby. The Sale Order shall provide that (i) this Agreement results from the Sellers having completed a full and complete auction process and, so long as the Agreement has not been terminated in accordance with its terms, the Sellers shall not be entitled to entertain or enter into a Competing Transaction; (ii) the Acquired Assets sold to Buyer pursuant to this Agreement shall be transferred to Buyer free and clear of all Liens (other than Permitted Liens of the type included in clause (iii) of the definition of Permitted Liens) and Liabilities of any Person (other than Assumed Liabilities), such Liens and Liabilities to attach to the Purchase Price payable pursuant to Section 3.2(a); (iii) the Regulatory Transition Process is approved pursuant to sections 105, 363 and 365 of the Bankruptcy Code; (iv) Buyer has acted in good faith within the meaning of section 363(m) of the Bankruptcy Code and, as such, is entitled to the protections afforded thereby; (v) this Agreement was negotiated, proposed and entered into by the parties without collusion, in good faith and from arm's length bargaining positions; (vi) Buyer is not acquiring or assuming any of Sellers' or any other Person's Liabilities except as expressly provided in this Agreement and in no event shall Buyer have any Liability or responsibility for any Excluded Liability; (vii) the transactions contemplated herein shall be exempt from stamp, transfer, or similar taxes to the extent provided by Section 1146(c) of the Bankruptcy Code; (viii) Buyer will not have any successor or transferee liability for liabilities of the Sellers (whether under federal or State law or otherwise) as a result of the sale, purchase, transfer or assignment of the Acquired Assets, and will be exempt from any so-called "bulk sale" laws in all applicable jurisdictions; (ix) all Assumed Contracts shall, at Closing, be assumed by Sellers and assigned to Buyer pursuant to section 365 of the Bankruptcy Code and, as required by this Agreement, Sellers shall be obligated to pay all Cure Amounts in respect thereof, in accordance with this Agreement; (x) Buyer will have the right to participate in any of Sellers' negotiations and settlements regarding ILEC and Non-ILEC Cure Amounts in accordance with Section 3.5, (xi) Buyer will have standing to participate in any disputes before the Bankruptcy Court regarding ILEC and non-ILEC Cure Amounts, (xii) any treatment of ILEC charges under the Bankruptcy Plan, or otherwise, shall be reasonably acceptable to Buyer, (xiii) the Bankruptcy Court shall retain jurisdiction to resolve any controversy or claim arising out of or relating to this Agreement, or the breach hereof as provided in Section 9.12 hereof; (xiv) all Liens held by the Sellers' senior secured lenders on the Non-Transferred Assets shall be released at the Closing and the Buyer shall be granted a Lien on all Non-Transferred Assets pending FCC Consent and State PUC Consent, as applicable and (xv) this Agreement and the transactions and instruments contemplated hereby shall be specifically performable and enforceable against and binding upon, and not subject to rejection or avoidance by, Sellers or any chapter 7 or chapter 11 trustee of Sellers and its estate. The Sellers shall provide each applicable taxing authority in each jurisdiction in which it is subject to Tax with copies of any motion for entry of the Sale Order at least 10 days prior to the hearing on such motion. In the event that the Bankruptcy Court does not approve the Sale Order, Buyer shall, within one (1) Business Day, decide and inform Sellers and the Bankruptcy Court and communicate to the Sellers whether Buyer consents to the Sale Order, as modified.

For the avoidance of doubt, if Buyer consents to modifications to the Sale Order, then Buyer agrees that the condition in Section 7.1(b) has been satisfied.

(c) HSR Act. Any applicable waiting period under the HSR Act shall have expired or shall have been earlier terminated.

(d) Approval of Plan. (i) All conditions to the "Effective Date" set forth in the Bankruptcy Plan (including the entry of the Confirmation Order by the Bankruptcy Court) shall have been satisfied or duly waived, with the express written consent of Buyer, such consent not to be unreasonably withheld, in accordance with the applicable provisions of the Bankruptcy Plan and (ii) the transactions contemplated by the Bankruptcy Plan to occur on or prior to the Closing shall have been or shall be consummated simultaneously with the Closing in accordance with the Bankruptcy Plan.

(e) Non-Transferred Assets. The Non-Transferred Assets shall have been retained by Sellers.

(f) Management Agreements. To the extent there are Non-Transferred Assets as of the Closing, Sellers and Buyer shall have entered into the Management Agreements, and such agreements shall be in full force and effect.

(g) Closing Escrow Agreement. ATI, ATCW and Buyer shall have entered into the Closing Escrow Agreement, and such agreement shall be in full force and effect.

7.2 Conditions Precedent to Obligations of Buyer. The obligation of Buyer to close under this Agreement is subject to the satisfaction (or waiver by Buyer) at or prior to the Closing Date of each of the following additional conditions:

(a) Accuracy of Representations and Warranties. The representations and warranties of Sellers contained herein shall be true and correct, without regard to any qualifications concerning materiality or Material Adverse Effect, as of the date hereof and on and as of the Closing Date (or, if made as of a specific date, at and as of such date), with the same force and effect as though such representations and warranties had been made on and as of the Closing Date, except where the effect of all such inaccuracies of representations and warranties would not reasonably be expected to, in the aggregate, have a Material Adverse Effect.

(b) Performance of Agreements. Sellers shall have performed and complied in all material respects with all material covenants and material agreements contained in this Agreement required to be performed or complied with by them prior to or on the Closing Date.

(c) Officer's Certificate. Buyer shall have received a certificate, dated the Closing Date, of an officer of Sellers to the effect that the conditions specified in Sections 7.2(a) and (b) above have been fulfilled.

(d) Notice of Sale Motion and Hearing. Sellers shall have given and published notice of the Sale Motion and Sale Hearing as required by the Bidding Procedures Order.

(e) Sellers' Deliveries. Sellers shall have delivered to Buyer all items set forth in Section 3.1(b).

(f) Assumed Contracts. (i) All Contracts set forth on Schedule 7.2(f) of the Disclosure Schedules shall have been validly assigned to Buyer (or assumed by the applicable Seller and assigned to Buyer) (and Sellers shall have obtained all consents, waivers and approvals (if any) necessary for such assumption and/or assignment) and (ii) all of the other Assumed Contracts (other than those set forth on Schedule 2.6 of the Disclosure Schedules or Exhibit A to Schedule 4.5 of the Disclosure Schedules) shall have been assumed by the applicable Seller and assigned to Buyer (and Sellers shall have obtained all consents, waivers and approvals (if any) necessary for such assumption and/or assignment), except, in the case of this clause (ii), where the failure to assume and assign such Contracts would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(g) Employee Retention. Exclusive of any key employee retention program approved by the Bankruptcy Court in the Cases, Sellers shall have paid their bonus-eligible employees the ordinary course, year-end cash bonuses (not to exceed $10.7 million plus applicable employer payroll taxes), as reflected in Sellers' cash budgets provided to their pre-Petition lenders and the statutory committee of unsecured creditors appointed in the Cases in connection with the Bankruptcy Court's Order authorizing Sellers' use of cash collateral, in an effort to retain, motivate and compensate Sellers' key employees.

7.3 Conditions Precedent to the Obligations of Sellers. The obligation of Sellers to close under this Agreement is subject to the satisfaction (or waiver by Sellers) at or prior to the Closing Date of each of the following additional conditions:

(a) Accuracy of Representations and Warranties. The representations and warranties of Buyer contained herein shall be true and correct, without regard to any qualifications concerning materiality or material adverse effect, as of the date hereof and on and as of the Closing Date (or, if made as of a specific date, at and as of such date), with the same force and effect as though such representations and warranties had been made on and as of the Closing Date, except where the effect of all such inaccuracies of representations and warranties would not reasonably be expected to, in the aggregate, have a material adverse effect on Buyer.

(b) Performance of Agreements. Buyer shall have performed and complied in all material respects with all material covenants and material agreements contained in this Agreement required to be performed or complied with by it prior to or at the Closing Date.

(c) Officer's Certificate. ATI shall have received a certificate, dated the Closing Date, of an officer of Buyer to the effect that the conditions specified in Sections 7.3(a) and (b) above have been fulfilled.

(d) Buyer's Deliveries. Buyer shall have delivered to Sellers all items set forth in Section 3.1(c).

(e) Transition Services Agreement for Shared Technologies. Shared Technologies and Buyer shall have entered into a Transition Services Agreement (the "Transition Services Agreement") reasonably satisfactory to Buyer and Sellers, the maximum term of which shall be sixty (60) days from the Closing Date and which shall contain arm's-length financial terms, and such agreement shall be in full force and effect. A copy of the Transition Services Agreement shall be annexed to this Agreement no later than the Sale Order Approval Date.

ARTICLE VIII
TERMINATION

8.1 Termination of Agreement. This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing:

(a) By mutual written consent of Buyer and ATI;

(b) By Buyer or ATI if the Closing shall not have occurred on or before the eight month anniversary of the date hereof; provided, however, that if the Closing shall not have occurred on or before the eight month anniversary of the date hereof due to a breach of this Agreement by Buyer or any Seller, Buyer or ATI (if a Seller is the breaching party) as the case may be, may not terminate this Agreement pursuant to this Section 8.1(b);

(c) By Buyer, immediately if any of the following shall have occurred:

(i) Any Seller (A) agrees in writing, (B) publicly announces its intention (including by selecting a competing bidder at the Bankruptcy Court's auction relating to the transactions contemplated hereby), or (C) is authorized by its board of directors to proceed with a Competing Transaction, irrespective of whether such Competing Transaction is approved by the Bankruptcy Court and/or consummated;

(ii) Prior to the Closing, any Seller abandons or files a motion with the Bankruptcy Court to abandon all or any material portion of the Acquired Assets;

(iii) Prior to the Closing, any Seller files any plan of reorganization other than the Bankruptcy Plan, files any material amendment to the Bankruptcy Plan, withdraws the Bankruptcy Plan or consents to the reduction of the Exclusivity Period or fails timely to file motions to obtain orders of the Bankruptcy Court extending the Exclusivity Period or the Bankruptcy Court denies confirmation of the

Bankruptcy Plan; provided, however, that to the extent Sellers shall have delivered an Early Closing Election, this Section 8.1(c)(iii) shall be inapplicable;

(iv) The Bankruptcy Court terminates the Exclusivity Period or declines to extend the Exclusivity Period; provided, however, that to the extent Sellers shall have delivered an Early Closing Election, this Section 8.1(c)(iv) shall be inapplicable;

(v) The voluntary dismissal or conversion of any of the Cases to a case under chapter 7 of the Bankruptcy Code;

(vi) Upon the appointment in the Cases of a trustee or examiner with managerial powers under section 1104 of the Bankruptcy Code; or

(vii) Any Order is entered by the Bankruptcy Court which would result in the failure of any of the conditions to the obligations of Buyer set forth in Section 7.1 or 7.2, other than Section 7.1(d) if Sellers shall have delivered an Early Closing Election;

(d) By Sellers, on the one hand, or Buyer, on the other, if Buyer or Sellers, as the case may be, materially breach any of its covenants under this Agreement, unless such breach shall be cured within ten (10) Business Days after such other party shall have received notice of such breach in accordance with the terms hereof.

(e) By Buyer if there is a breach of any representation or warranty contained in Article IV hereof (without regard to any qualifications concerning materiality or Material Adverse Effect contained in Article IV), which breach, in the aggregate with all other such breaches, if any, would give rise to a failure of the condition set forth in Section 7.2(a) (with the date of such termination being substituted for the references to Closing Date therein) and which breach could not reasonably be expected to be cured using reasonable efforts by the date set forth in Section 8.1(b).

(f) By Sellers, at any time on or after the Bidding Procedures Order Approval Date and prior to the Sale Order Approval Date, immediately if Sellers have complied with Section 6.17 and agree to a Competing Transaction in accordance with the Bidding Procedures Order and simultaneously make the payments required by Section 8.2.

(g) Subject to Section 8.3 with respect to Adverse Bankruptcy Events, by Buyer if there is a Sale Delay or an Adverse Bankruptcy Event.

8.2 Effect of Termination; Expense Reimbursement; Breakup Fee. In the event (i) this Agreement is terminated (A) by Buyer pursuant to Section 8.1(b) when ATI does not have the right to terminate this Agreement pursuant to Section 8.1(b) due to breach of the Agreement by Sellers, (B) by Buyer pursuant to Section 8.1(c) or (d) or (C) by Sellers pursuant to Section 8.1(f); or (ii) Buyer terminates this Agreement pursuant to Section 8.1(e) as a result of Sellers' gross negligence or willful, wanton or

reckless action or inaction taken or not taken with an intent to cause the termination of this Agreement or otherwise negatively impact the transactions contemplated hereby (collectively, a "Sellers' Intentional Breach") or Buyer elects not to close because the condition set forth in Section 7.2(a) has not been satisfied as a result of a Sellers' Intentional Breach, Buyer shall be entitled to immediate payment (simultaneous payment in the case of a termination by Sellers pursuant to Section 8.1(f)) of the Break Up Fee and to the Expense Reimbursement (which Expense Reimbursement shall not exceed $5 million); provided, however, that with respect to (i) any such termination of this Agreement pursuant to Section 8.1(b), (c) or (d) following the Sale Order Approval Date, or (ii) Buyer's election to terminate this Agreement pursuant to Section 8.1(e) or not to close, in each case because the condition set forth in Section 7.2(a) has not been satisfied, as a result of a Sellers' Intentional Breach following the Sale Order Approval Date, Buyer shall be entitled to immediate payment, as liquidated damages and not as a penalty, of (i) the Expense Reimbursement (which Expense Reimbursement shall not exceed $10 million) and (ii) $30 million (clauses (i) and (ii) together, the "Liquidated Damages"). Sellers and Buyer acknowledge that the damage suffered by the Buyer in the event of any such termination would be impossible to calculate, and the Liquidated Damages constitutes a reasonable estimate of such damages. In the event Buyer terminates this Agreement pursuant to Section 8.1(e) or elects not to close, in each case because the condition set forth in Section 7.2(a) has not been satisfied as a result of some reason other than a Sellers' Intentional Breach, Buyer shall be entitled to immediate payment of the Expense Reimbursement (which Expense Reimbursement shall not exceed $5 million or, if after the Sale Order Approval Date, $10 million). Except as provided in Section 9.15, Buyer's sole and exclusive remedy under this Agreement shall be limited to the recovery of the amounts set forth in this Section 8.2. None of the amounts payable under this Section 8.2 or 8.3 shall prime the Liens held by the Sellers' senior secured lenders and any such amounts payable shall be subordinate to the carve out for professional fees and fees under 28 U.S.C. § 1930 as provided in the Bankruptcy Court's order authorizing Sellers to use cash collateral that was entered in the Cases.

8.3 Bankruptcy Events. In the event of a Sale Delay that Buyer does not agree to waive or extend, Sellers shall pay to Buyer, within two (2) Business Days following Buyer's termination of this Agreement pursuant to Section 8.1(g), the Break Up Fee and the Expense Reimbursement. In the event of an Adverse Bankruptcy Event that Buyer does not agree to waive or extend, Sellers shall either (i) immediately terminate the Agreement and simultaneously pay to Buyer the Liquidated Damages or (ii) immediately waive the condition set forth in Section 7.1(d), send an irrevocable election of early closing on the date of such Adverse Bankruptcy Event and promptly close the transactions contemplated by this Agreement (the "Early Closing Election"). Sellers shall have the right to invoke clause (ii) above in accordance with the terms thereof at any time after the date hereof provided that the Closing pursuant thereto shall not occur sooner than the later of 35 days after the Sale Order Approval Date or twenty (20) Business Days after the delivery of the Early Closing Election. In the event Sellers deliver an Early Closing Election, the provisions of Section 3.5 hereof shall apply; provided, however, that Sellers shall serve, at least twenty (20) days prior to the Closing, the notice of Sellers' intent to assume and assign the Assumed Contracts on all non-debtor parties to the Assumed Contracts, rather than at least twenty (20) days prior to the

hearing to confirm the Bankruptcy Plan. In the event of any waiver of any deadline in Exhibit J, the Break-up Fee, Expense Reimbursement and Liquidated Damages otherwise payable shall be payable at such extended date if such extended deadline has not been met and Buyer terminates the Agreement as a result thereof. Within three (3) Business Days of receipt of an Early Closing Election notice, Buyer will provide to Sellers a list of Executory Contracts to be assigned to Buyer (the "Additional Assumed Contracts") and Sellers shall immediately notify the counterparties to such Additional Assumed Contracts substantially in the form of notice attached to the Sale Order. Except as provided above, the Closing following an Early Closing Election shall be no sooner than twenty (20) Business Days after the delivery of such notice. For the avoidance of doubt, Sellers shall have the sole and absolute right to waive the condition set forth in Section 7.1(d) by invoking the Early Closing Election.

ARTICLE IX
MISCELLANEOUS

9.1 Expenses. Except as set forth in this Agreement (e.g., Break-Up Fee, Expense Reimbursement and Liquidated Damages provisions) and whether or not the transactions contemplated hereby are consummated, each party shall bear its own costs and expenses incurred or to be incurred by such party in connection with this Agreement and the consummation of the transactions contemplated hereby.

9.2 Assignment. Neither this Agreement nor any of the rights or obligations hereunder may be assigned by Sellers without the prior written consent of Buyer, or by Buyer without the prior written consent of ATI; provided, however, that, Buyer may assign its rights and obligations hereunder, in whole or in part, to any wholly-owned Subsidiary of Buyer, provided that no such assignment shall relieve Buyer of its liabilities and obligations hereunder if such assignee does not perform such obligations and provided, further that this Agreement may be assigned to one or more trustees appointed by the Bankruptcy Court to succeed to the rights of Sellers. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and except as otherwise expressly provided herein, no other Person shall have any right, benefit or obligation hereunder.

9.3 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of Sellers and Buyer, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement. Without limiting the foregoing, no direct or indirect holder of any equity interests or securities of either Sellers (other than Sellers themselves) or Buyer (whether such holder is a limited or general partner, member, stockholder or otherwise), nor any Affiliate of either Sellers or Buyer, nor any Representative or other controlling person of each of the parties hereto and their respective Affiliates shall have any liability or obligation arising under this Agreement or the transactions contemplated thereby.

9.4 Notices. Unless otherwise provided herein, any notice, request, instruction or other document to be given hereunder by any party to any other party shall

be in writing and shall be delivered in person or by courier or facsimile transmission (with such facsimile transmission confirmed by sending a copy of such notice, request, instruction or other document by certified mail, return receipt requested, or overnight mail) or mailed by certified mail, postage prepaid, return receipt requested (such mailed notice to be effective on the date such receipt is acknowledged), as follows:

If to Sellers:

c/o Allegiance Telecom, Inc.
700 E. Butterfield Road, Suite 400
Lombard, IL 60148
Attention: Mark B. Tresnowski, Esq.
Executive Vice President, General Counsel and
Secretary
Fax: (630) 522-5250

With a copy to (which shall not constitute notice):

Kirkland & Ellis LLP
153 East 53rd
New York, NY 10022
Attention: Jonathan S. Henes, Esq.
Michael Movsovich, Esq.
Fax: (212) 446-4900

If to Buyer:

Qwest Communications International Inc.
1801 California Street
Denver, CO 80202
Attention: General Counsel
Fax: (303) 296-5974

With a copy to (which shall not constitute notice):

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Attention: Paul M. Basta, Esq.
Howard Chatzinoff, Esq.
Fax: (212) 310-8007

or to such other place and with such other copies as either party may designate as to itself by written notice to the other party. Notices sent as provided herein shall be deemed given on the date received by the recipient. If a recipient rejects or refuses to accept a notice given pursuant to this Section, or if a notice is not deliverable because of a changed address or fax number of which no notice was given in accordance with the

provisions hereof, such notice shall be deemed to be received two (2) days after such notice was mailed (whether as the actual notice or as the confirmation of a faxed notice) in accordance with the terms hereof.

9.5 Choice of Law. This Agreement shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the Bankruptcy Code and the substantive laws of the State of New York for contracts expected and likely to be performed solely within such state without regard to the conflict of laws principles thereof or of any other jurisdiction.

9.6 Entire Agreement; Amendments and Waivers. This Agreement (including the schedules and exhibits hereto) constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations, and discussions, whether oral or written, of the parties. No supplement, modification or waiver of this Agreement (including any schedule hereto) shall be binding unless the same is executed in writing by all parties. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), and no such waiver shall constitute a continuing waiver unless otherwise expressly provided.

9.7 No Recourse Against Third Parties. Buyer agrees for itself and for all of its officers, directors, shareholders, Affiliates, attorneys, agents and any other parties making any claim by, through or under the rights of such persons (collectively, the "Buyer Group") that no member of the Buyer Group shall have any rights against any creditor, officer, director, shareholder (other than Sellers themselves), Affiliate, attorney or agent of Sellers (each, individually, a "Non-Recourse Person") for any damages, suits, claims, proceedings, fines, judgments, costs or expenses (including attorneys' fees and incidental, consequential or punitive damages) (collectively, "Losses") that any Buyer Party may suffer in connection with this Agreement. If any member of the Buyer Group makes a claim against any person or entity other than Buyer that is not a Non-Recourse Person (a "Third Person") that in any way gives rise to a claim by such Third Party against any Non-Recourse Person asserting that such Non-Recourse Person is or may be liable to such Third Party with respect to any Losses arising in connection with this Agreement (whether by way of indemnification, contribution, or otherwise on any theory whatever) (a "Claim Over"), such member of the Buyer Group shall reduce or credit against any judgment or settlement such member of the Buyer Group may obtain against such Third Party the full amount of any judgment or settlement such Third Party may obtain against the Non-Recourse Person on such Claim Over, and shall, as part of any settlement with such Third Party, obtain from such Third Party for the benefit of such Non-Recourse Person a satisfaction in full of such Third Party's Claim Over against the Non-Recourse Person. The provisions of this Section 9.7, however, shall not apply as to any fraud claims.

9.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopy shall be as effective as delivery of a

manually executed counterpart of this Agreement. In proving this Agreement, it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

9.9 Confidentiality. Prior to the Closing and after any termination of this Agreement, the provisions of the Confidentiality Agreement shall continue in full force and effect; provided, however, that effective as of the date hereof the provisions of the Confidentiality Agreement restricting Buyer and its Affiliates from discussing the transaction contemplated by this Agreement with third parties shall no longer apply. After the Closing, Buyer shall no longer be subject to the provisions of the Confidentiality Agreement, except to the extent the confidential information specifically relates to Shared Technologies. In the event of any conflict between the provisions of this Agreement and the Confidentiality Agreement, the provisions of this Agreement shall prevail. From and after the Closing, Sellers agree to keep confidential all confidential information relating to the Business, and agree not to disclose such information except as required by Law. Notwithstanding anything herein to the contrary, Buyer and Sellers (and each Affiliate and person acting on behalf of any such party) agree that each party (and each Representative of such party) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to such party or such person relating to such tax treatment and tax structure, except to the extent necessary to comply with any applicable federal or state securities laws. This authorization is not intended to permit disclosure of any other information, including (i) any portion of any materials to the extent not related to the tax treatment or tax structure of the transaction, (ii) the identities of participants or potential participants in the transaction, (iii) the existence or status of any negotiations, (iv) any pricing or financial information (except to the extent such pricing or financial information is related to the tax treatment or tax structure of the transaction) or (v) any other term or detail not relevant to the tax treatment or the tax structure of the transaction.

9.10 Invalidity. If anyone or more of the provisions contained in this Agreement (other than any of the provisions contained in Article II or Article III hereof) or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, the parties shall use their best efforts, including the amendment of this Agreement, to ensure that this Agreement shall reflect as closely as practicable the intent of the parties hereto on the date hereof.

9.11 Headings. The table of contents and the headings of the Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of, or to affect the meaning or interpretation of, this Agreement.

9.12 Exclusive Jurisdiction. Without limiting any party's right to appeal any order of the Bankruptcy Court, (a) the Bankruptcy Court shall retain exclusive jurisdiction to enforce the terms of this Agreement and to decide any claims or disputes which may arise or result from, or be connected with, this Agreement, any breach or default hereunder, or the transactions contemplated hereby, and (b) any and all claims, actions, causes of action, suits and proceedings related to the foregoing shall be filed and

maintained only in the Bankruptcy Court, and the parties hereby consent to and submit to the jurisdiction and venue of the Bankruptcy Court and shall receive notices at such locations as indicated in Section 9.4 hereof.

9.13 Waiver of Right to Trial by Jury. Each party to this Agreement waives any right to trial by jury in any action, matter or proceeding regarding this Agreement or any provision hereof.

9.14 Specific Performance. Each of the parties hereto acknowledges that the other party hereto would be irreparably damaged in the event any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the parties hereto shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions thereof in any action instituted in any court of the United States or any state thereof having subject matter jurisdiction, in addition to any other remedy to which the parties may be entitled, at law, in equity or pursuant to this Agreement.

9.15 Counting. If the due date for any action to be taken under this Agreement (including the delivery of notices) is not a Business Day, then such action shall be considered timely taken if performed on or prior to the next Business Day following such due date.

9.16 Service of Process. Each party irrevocably consents to the service of process in any action or proceeding by receipt of mailed copies thereof by national courier service or registered United States mail, postage prepaid, return receipt requested, to its address as specified in or pursuant to Section 9.4 hereof. However, the foregoing shall not limit the right of a party to effect service of process on the other party by any other legally available method.

9.17 Time of Essence. With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

9.18 Exhibits and Schedules. The Exhibits and Schedules attached to, delivered with and identified to this Agreement are a part of this Agreement the same as if fully set forth herein and all references herein to any Section of this Agreement shall be deemed to include a reference to any Schedule named therein. Any disclosure made in any Schedule to this Agreement which is applicable to another Schedule to this Agreement shall be deemed to be made with respect to such other Schedule regardless of whether or not a specific cross reference is made thereto if the relevance of such disclosure to such other schedule is reasonably apparent on its face.

9.19 Interpretation.

(a) Whenever the words "include," "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation."

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) The meanings given to terms defined herein shall be equally applicable to both singular and plural forms of such terms.

(d) Words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(e) A reference to any party to this Agreement or any other agreement or document shall include such party's successors and permitted assigns.

(f) A reference to any legislation or to any provision of any legislation shall include any modification or re-enactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto.

(g) All references to "$" and "dollars" shall be deemed to refer to United States currency unless otherwise specifically provided.

(h) All references to any financial or accounting terms shall be defined in accordance with GAAP.

9.20 Preparation of this Agreement. Buyer and Sellers hereby acknowledge that (i) Buyer and Sellers jointly and equally participated in the drafting of this Agreement and all other agreements contemplated hereby, (ii) Buyer and Sellers have been adequately represented and advised by legal counsel with respect to this Agreement and the transactions contemplated hereby, and (iii) no presumption shall be made that any provision of this Agreement shall be construed against either party by reason of such role in the drafting of this Agreement and any other agreement contemplated hereby.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Sellers and Buyer as of the date first above written.

SELLERS:

ALLEGIANCE TELECOM, INC.

By: _____
Name:
Title:

ALLEGIANCE TELECOM COMPANY WORLDWIDE
ADGRAFIX CORPORATION
ALGX BUSINESS INTERNET, INC.
ALLEGIANCE INTERNET, INC.
ALLEGIANCE TELECOM INTERNATIONAL, INC.
ALLEGIANCE TELECOM OF ARIZONA, INC.
ALLEGIANCE TELECOM OF CALIFORNIA, INC.
ALLEGIANCE TELECOM OF COLORADO, INC.
ALLEGIANCE TELECOM OF FLORIDA, INC.
ALLEGIANCE TELECOM OF GEORGIA, INC.
ALLEGIANCE TELECOM OF ILLINOIS, INC.
ALLEGIANCE TELECOM OF INDIANA, INC.
ALLEGIANCE TELECOM OF MARYLAND, INC.
ALLEGIANCE TELECOM OF MASSACHUSETTS, INC.
ALLEGIANCE TELECOM OF MICHIGAN, INC.
ALLEGIANCE TELECOM OF MINNESOTA, INC.
ALLEGIANCE TELECOM OF MISSOURI, INC.
ALLEGIANCE TELECOM OF NEVADA, INC.
ALLEGIANCE TELECOM OF NEW JERSEY, INC.
ALLEGIANCE TELECOM OF NEW YORK, INC.
ALLEGIANCE TELECOM OF NORTH CAROLINA, INC.
ALLEGIANCE TELECOM OF OHIO, INC.
ALLEGIANCE TELECOM OF OKLAHOMA, INC.
ALLEGIANCE TELECOM OF OREGON, INC.
ALLEGIANCE TELECOM OF PENNSYLVANIA, INC.
ALLEGIANCE TELECOM OF TEXAS, INC.
ALLEGIANCE TELECOM OF THE DISTRICT OF COLUMBIA, INC.
ALLEGIANCE TELECOM OF VIRGINIA, INC.
ALLEGIANCE TELECOM OF WASHINGTON, INC.
ALLEGIANCE TELECOM OF WISCONSIN, INC.
ALLEGIANCE TELECOM PURCHASING COMPANY
ALLEGIANCE TELECOM SERVICE CORPORATION
COAST TO COAST TELECOMMUNICATIONS, INC.
HOSTING.COM, INC.
INTERACCESS TELECOMMUNICATIONS CO.

(Signatures Continued)

JUMP.NET, INC.
VIRTUALIS SYSTEMS, INC.

By: _____
Name:
Title:

(Signatures Continued)

BUYER:

QWEST COMMUNICATIONS INTERNATIONAL, INC.

By: _____

Name: Richard C. Notebaert

Title: Chairman & CEO

EXHIBIT A

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

ORDER (A) ESTABLISHING BIDDING PROCEDURES AND BID PROTECTIONS IN CONNECTION WITH THE SALE OF SUBSTANTIALLY ALL OF THE ASSETS OF THE DEBTORS (B) APPROVING THE FORM AND MANNER OF NOTICES, (C) APPROVING THE ASSET PURCHASE AGREEMENT WITH QWEST COMMUNICATIONS INTERNATIONAL, INC., SUBJECT TO HIGHER AND BETTER OFFERS AND (D) SETTING A SALE HEARING DATE

Upon the motion, dated December 18, 2003 (the "Motion"), of Allegiance Telecom, Inc. ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors"), for orders (i) establishing bidding procedures and certain protections (the "Bidding Procedures") payable to the Buyer including a break-up fee and expense reimbursement in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) approving the Purchase Agreement,[1] subject to higher and better offers; (iv) setting a hearing date to consider approval of the sale of the Sale Assets (the "Sale Hearing"); (v) approving the sale to the Buyer, subject to higher and better offers, free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes; (vi) authorizing the assumption and

[1] Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion or Purchase Agreement, as applicable.

assignment of certain executory contracts and unexpired leases; and (vii) granting certain related relief; and an interim hearing having been held (the "Procedures Hearing") in respect of the relief requested in the Motion (as described in clauses (i) – (iv) above (the "Preliminary Relief")); and it appearing that notice of the hearing has been provided to (i) the Office of the United States Trustee; (ii) the attorneys for Prepetition Lenders; (iii) the attorneys for the Creditors' Committee; (iv) all nondebtor contracting and lease parties identified on Schedules 4.20 and 4.21 of the Disclosure Schedules, (v) all parties that provide telecom services to the Debtors pursuant to tariffs; (vi) the attorneys for the Buyer; (vii) all counterparties to the Assumed Contracts, (viii) all parties who have made written expressions of interest in acquiring the Sale Assets or the Business within two (2) months prior to the date of the Motion; (ix) all known persons holding a lien on any of the Sale Assets; (x) the Securities and Exchange Commission; (xi) all taxing authorities that have jurisdiction over the Sale Assets; (xii) all Governmental Agencies having jurisdiction over the Sale Assets with respect to Environmental Laws, (xiii) the attorneys general of all states in which the Sale Assets are located; (xiv) the Federal Communications Commission and applicable estate public utility commissions; and (xv) all other parties that had filed a notice of appearance and demand for service of papers in these bankruptcy cases under Bankruptcy Rule 2002 as of the date of the Motion; and it appearing that such notice constitutes good and sufficient notice of the Motion and Preliminary Relief and that no other or further notice need be provided; and upon the hearing held on December 18, 2003 approving the Lock-Up Order; and upon the Motion and the record of the Procedures Hearing and all other proceedings had before the Court; and it appearing that an order granting the Preliminary Relief is in the best interest of the

Debtors and parties in interest; and it appearing that the Court has jurisdiction over this matter; and after due deliberation and sufficient cause appearing therefor.

IT IS HEREBY FOUND AND DETERMINED THAT:

A. The Bidding Procedures as set forth and defined below, are fair, reasonable, and appropriate and are designed to maximize the recovery on the Sale Assets, including the Assumed Contracts.

B. The Debtors have demonstrated a compelling and sound business justification for authorizing the payment of the Break-Up Fee and the Expense Reimbursement to the Buyer under the circumstances, timing, and procedures set forth in the Motion and the Purchase Agreement.

C. The Break-Up Fee and the Expense Reimbursement are fair and reasonable, provide a benefit to the Debtors' estates and creditors, and were negotiated by the parties to the Purchase Agreement in good faith and at arm's-length.

D. The Debtors' payment to the Buyer (under the conditions of and as set forth in the Purchase Agreement), of the Breakup Fee and the Expense Reimbursement is (i) an actual and necessary cost and expense of preserving the Debtors' estates, (ii) of substantial benefit to the Debtors' estates, (iii) reasonable and appropriate, in light of, among other things, (a) the size and nature of the proposed sale under the Agreement, (b) the substantial efforts that have been and will be expended by the Buyer, and (c) the benefits the Buyer has provided to the Debtors' estates and creditors and all parties in interest herein, notwithstanding that the proposed sale is subject to higher or better offers, and (iv) necessary to ensure that the Buyer will continue to pursue its proposed acquisition of the Sale Assets. In particular, the Purchase Agreement was the

culmination of a process undertaken by the Debtors and their professionals to negotiate a transaction with a bidder who was prepared to pay the highest or otherwise best purchase price to date for the Sale Assets in order to maximize the value of the Debtors' estates.

E. The payment of the Break-Up Fee and the Expense Reimbursement should be approved because, among other things, (i) no other party to date has entered into a definitive agreement for the acquisition of the Sale Assets on terms acceptable to the Debtors, (ii) the execution of the Purchase Agreement is a necessary prerequisite to determining whether any party other than the Buyer is willing to enter into a definitive agreement for the acquisition of the Sale Assets on terms acceptable to the Debtors and their creditor constituencies, (iii) the protections afforded to the Buyer by the Break-Up Fee and the Expense Reimbursement were material inducements for, and express conditions of, the Buyer's willingness to enter into the Purchase Agreement, and (iv) the Buyer is unwilling to commit to hold open its offer to acquire the Sale Assets under the terms of the Purchase Agreement unless it is assured of the payment of the Break-Up Fee and the Expense Reimbursement.

F. The assurance of the payment of the Break-Up Fee and the Expense Reimbursement has (i) promoted more competitive bidding by inducing the Buyer's bid, which otherwise would not have been made, without which competitive bidding would be limited, and which may be the highest and best available offer for the Sale Assets, (ii) induced the Buyer to research the value of the Sale Assets and propose the transactions contemplated by the Purchase Agreement, including, among other things, submission of a bid that will serve as a minimum or floor bid on which all other bidders

can rely, and (iii) provided a benefit to the Debtors' estates by increasing the likelihood that the price at which the Sale Assets are sold will reflect their true worth.

G. The payment of the Break-Up Fee and the Expense Reimbursement is an expense necessary to maximize the value of the Debtors' estates and the entry of this Order is in the best interests of the Debtors, their estates, creditors, and all other parties in interest.

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. With respect to the Preliminary Relief, the Motion is granted.

2. The Auction shall be conducted on the following terms and conditions (the "Bidding Procedures"):

PROVISION	DESCRIPTION
The Stalking Horse Bid	Under the terms of the Purchase Agreement, the Buyer has agreed to purchase the Sale Assets for approximately $390 million, plus Assumed Liabilities (the "Stalking Horse Bid"), subject to the terms of the Purchase Agreement. Under the terms of the Purchase Agreement, beginning on the date the Bidding Procedures Order is entered by the Court and continuing until the conclusion of the Auction, the Debtors are entitled to, among other things, solicit and negotiate Competing Transactions.
Due Diligence	Unless otherwise determined by the Debtors, each potential bidder (a "Potential Bidder") must deliver (unless previously delivered) to the Debtors, c/o Jonathan S. Henes, Esq., Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611 and Michael A. Kramer, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022, the following documents (the "Preliminary Bid Documents") in order to participate in the bidding process: a. an executed confidentiality agreement in form and substance satisfactory to the Debtors; and b. preliminary proof by the Potential Bidder of its financial capacity to close a proposed transaction, the adequacy of

PROVISION	DESCRIPTION
	which the Debtors and their advisors will determine in their sole discretion. Within two (2) business days after a Potential Bidder delivers the Preliminary Bid Documents, the Debtors shall determine, and shall notify the Potential Bidder, whether the Potential Bidder has submitted acceptable Preliminary Bid Documents so that such Potential Bidder may conduct due diligence with respect to the Sale Assets sought to be acquired. Only those Potential Bidders that have submitted acceptable Preliminary Bid Documents may submit bids for the Sale Assets.
Bid Deadline	Bids for the Sale Assets must (a) be in writing; (b) at a minimum, exceed the Stalking Horse Bid by $40 million; (c) satisfy the Bid Requirements set forth herein and (d) be received by (i) the attorneys for the Debtors, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the financial advisors for the Debtors, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022 (Attn: Michael A. Kramer), (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iv) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), and (v) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), so as to be actually received no later than 5:00 p.m. (prevailing Eastern Time) on February 9, 2004 (the "Bid Deadline"). Such bids shall be deemed "Qualified Bids" and those parties submitting such Qualified Bids shall be "Qualified Bidders." One (1) Business Day after the Debtors receive such Qualified Bids, the Debtors shall provide copies of such bids to Buyer, provided, that Buyer shall keep the Qualified Bids confidential and shall not contact or communicate with any Qualified Bidder with respect to any such bids or discuss the Qualified Bids with any party, except as required by law. Parties that do not submit a Qualified Bid by the Bid Deadline will not be permitted to participate at the Auction.

PROVISION	DESCRIPTION
Bid Requirements	Qualified Bids must meet the following requirements (the "Bid Requirements"): a. Each Qualified Bid must be on the same or better terms and conditions as those terms set forth in the Purchase Agreement and the documents set forth as exhibits thereto. The Debtors shall not entertain bids for the individual assets comprising their businesses. b. Each Qualified Bid must constitute a good faith, bona fide offer to acquire the Sale Assets. c. Each Qualified Bid shall not be conditioned on obtaining any of the following: financing, regulatory approval, shareholder approval, environmental contingencies, and/or the outcome of due diligence by the bidder. d. Each Qualified Bid must remain irrevocable until the Closing. e. As a condition to making a Qualified Bid, any competing bidder must provide the Debtors on or before the Bid Deadline, with sufficient and adequate information to demonstrate, to the satisfaction of the Debtors, that such competing bidder (i) has the financial wherewithal and ability to consummate the acquisition of the their business, and (ii) can provide all nondebtor contracting parties to the Assumed Contracts with adequate assurance of future performance as contemplated by section 365 of the Bankruptcy Code. f. In order for a bid to constitute a Qualified Bid, any bidder shall submit a deposit equal to the $35 million (the "Good Faith Deposit"). The bidder shall, in immediately available funds, by wire transfer to an account or accounts designated by the Debtors, pay such amount on the date such bid is submitted.
Auction and Overbids	If no Qualified Bid is received by the Bid Deadline, the Auction will not occur and the Debtors shall promptly pursue entry of an order by the Court authorizing the Sale to the Buyer. If the Debtors receive a Qualified Bid by the Bid Deadline, in addition to the Stalking Horse Bid, the Debtors shall conduct an auction (the "Auction") with respect to the Sale Assets. The Auction shall commence at 9:00 a.m. (prevailing Eastern Time) on February 12, 2004, at the offices of Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022-4611, or such later time

PROVISION	DESCRIPTION
	or other place as the Debtors shall notify all Qualified Bidders who have submitted Qualified Bids. The Auction may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Auction. No further notice of any such continuance will be required to be provided to any party. Subsequent bids at the Auction shall be made in increments of at least $5 million. At the Auction, the Buyer shall have the right to bid all or part of the Break-Up Fee (as defined herein) and the Expense Reimbursement (as defined herein).
Winning Bid	Upon conclusion of the Auction, the Debtors, in the exercise of their business judgment and after consulting with their advisors, shall identify the highest and best offer for the Sale Assets (the "Winning Bid") (the bidder having submitted a Winning Bid is the "Successful Bidder").
Sale Approval Hearing	The Sale Approval Hearing is presently scheduled to take place on February 17, 2004 at 10:00 a.m. (prevailing Eastern Time), before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408. The Sale Approval Hearing may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Sale Approval Hearing; provided, that any such continuance shall not be later than the deadline set forth in Schedule J of the Purchase Agreement. No further notice of any such continuance will be required to be provided to any party. At the Sale Approval Hearing, the Debtors shall present to the Bankruptcy Court for approval the Winning Bid for the Sale Assets.
Return of Good Faith Deposit	The Good Faith Deposit of the Successful Bidder shall be credited to the price paid for the Sale Assets. The Good Faith Deposit of any unsuccessful bidders will be returned within fifteen (15) days after consummation of the Sale Transaction or upon permanent withdrawal by the Debtors of the proposed sale of such assets. The deposit of the Buyer, if not chosen as the Winning Bid, shall be returned in accordance with the Purchase Agreement.
Reservation of Right	The Debtors reserve the right to reject any (other than the Buyer's offer pursuant to the Purchase Agreement) Qualified Bid (as defined below) if the Debtors determine that such Qualified Bid is

PROVISION	DESCRIPTION
	(i) inadequate or insufficient; (ii) not in conformity with the requirement of the Bankruptcy Code, any related rules or the terms set forth herein; or (iii) contrary to the best interests of the Debtors and their estates.
Break-Up Fee and Expense Reimbursement	In the event, among others set forth in the Purchase Agreement and as set forth below, that the Bankruptcy Court enters an order approving the Sale Transaction to a Successful Bidder other than Buyer, the Debtors shall pay to Buyer (i) a break-up fee in the amount of $12.8 million (the "Break-Up Fee) and (ii) a reimbursement of Buyer's expenses in connection with the transaction contemplated in the Purchase Agreement, not to exceed $5 million (the "Expense Reimbursement").

3. Pursuant to section 363(b) of the Bankruptcy Code, the Debtors are directed to pay (i) the Expense Reimbursement plus (ii) the Break-Up Fee immediately by wire transfer of immediately available funds to an account designated in writing by the Buyer in the event that: (i) the Purchase Agreement is terminated (A) by Buyer pursuant to Section 8.1(b) of the Purchase Agreement when ATI does not have the right to terminate the Agreement pursuant to Section 8.1(b) of the Purchase Agreement, (B) by Buyer pursuant to Section 8.1(c) or (d) of the Purchase Agreement, or (C) by Sellers pursuant to Section 8.1(f) of the Purchase Agreement; or (ii) Buyer terminates the Purchase Agreement pursuant to Section 8.1(e) as a result of Debtors' gross negligence or willful, wanton or reckless action or inaction taken or not taken with an intent to cause the termination of the Agreement or otherwise negatively impact the transactions contemplated thereby (collectively, a "Sellers' Intentional Breach") or Buyer elects not to close because the condition set forth in Section 7.2(a) of the Purchase Agreement has not been satisfied as a result of a Sellers' Intentional Breach.

4. In the event the Buyer terminates the Purchase Agreement pursuant to Section 8.1(e) of the Purchase Agreement or elects not to close, in each case

because the condition set forth in Section 7.2(a) of the Purchase Agreement has not been satisfied as a result of some reason other than a Sellers' Intentional Breach, the Buyer shall be entitled to immediate payment of the Expense Reimbursement (which Expense Reimbursement shall not exceed $5 million).

5. In the event of a Sale Delay that the Buyer does not agree to waive or extend, the Debtors shall pay to the Buyer, within two (2) Business Days following the Buyer's termination of the Purchase Agreement pursuant to Section 8.1(g) thereof, the Break Up Fee and the Expense Reimbursement. In the event of any waiver of any default in Exhibit J to the Purchase Agreement, the Break Up Fee and the Expense Reimbursement, otherwise payable, shall by payable at such extended date if such extended deadline has not been met and the Buyer terminates the Purchase Agreement as a result thereof.

6. The Debtors are authorized and empowered to pay the Break-Up Fee and the Expense Reimbursement to the Buyer, as required under and pursuant to the Purchase Agreement, without further order of the Court.

7. Pursuant to section 364(c)(1) of the Bankruptcy Code, the Break-Up Fee and the Expense Reimbursement shall receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code; provided, however, that the Break Up Fee and Expense Reimbursement shall not prime the Liens held by Sellers' senior secured lenders and any such amounts payable shall be subordinated to this carve out for professionals fees and fees under 28 U.S.C. § 1930 as

provided in the Bankruptcy Court's order authorizing Debtors to use cash collateral that was entered in these cases.

8. The rights of the Buyer to the Break-Up Fee and the Expense Reimbursement and the superpriority administrative status of such claims shall all survive rejection or breach of the Purchase Agreement, and shall be unaffected thereby.

9. Following the Sale Order Approval Date, and so long as the Purchase Agreement has not been terminated in accordance with its terms, the Debtors are directed not to enter or solicit a Competing Transaction as set forth in Section 6.17 of the Purchase Agreement.

10. Pursuant to Bankruptcy Rule 2002(a)(2), (a) the Sale Hearing shall be held on February 17, 2004, before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408 at 10:00 a.m. (EST), and (b) objections to approval of the relief requested in the Motion (other than the Preliminary Relief provided herein), if any, shall be in writing, shall state the name of the objecting party, shall state with particularity the reasons and basis for the objection, and shall be filed with the Court and served upon (i) the attorneys for the Debtors, Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the agent for the Debtors' prepetition lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin,

III, Esq.), (iv) the attorneys for the Creditors' Committee, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), and (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.), so as to be actually received by such persons no later than February 9, 2004 at 4:00 p.m. (EST).

11. Pursuant to Bankruptcy Rule 2002(1), the Debtors are authorized to publish, at least seven (7) days prior to the Auction, Notice of the Auction and Sale Approval Hearing, once, in the form annexed hereto as Exhibit 1, in each of the national editions of The New York Times and The Wall Street Journal.

12. Pursuant to Bankruptcy Rule 2002, within two (2) Business Days following entry of the Bidding Procedures Orders, notice of the proposed Auction and the Sale Approval Hearing in the form annexed hereto as Exhibit 1, shall be sent by first class mail to (i) the United States Trustee, (ii) the attorneys for the agent for the Debtors' prepetition lenders, (iii) the attorneys for the Creditors' Committee, (iv) all nondebtor contracting and lease parties listed on Schedules 4.20 and 4.21 of the Disclosure Schedules, (v) all parties that provide telecommunications services to the Debtors pursuant to a tariff, (vi) all parties who have made written expressions of interest in acquiring the Sale Assets or the Business within two (2) months prior to the date of this Bidding Procedures Order (vii) all appropriate federal, state and local taxing authorities, (viii) all known persons holding a lien on any of the Sale Assets, and (ix) all parties having filed a notice of appearance in the Debtors' chapter 11 cases pursuant to Bankruptcy Rule 2002, shall constitute good and sufficient notice of the Sale Transaction, Auction and Sale Hearing.

13. Pursuant to Bankruptcy Rule 2002, notice of the proposed assumption and assignment of the Assumed Contracts (the "Cure Procedures"), in the form annexed hereto as Exhibit "2" which shall reflect the Cure Amounts that the Debtors believe must be paid to cure all defaults under the Assumed Contracts, shall constitute good and sufficient notice of the Debtors' intent to assume and assign the Assumed Contracts, and shall (i) be served, at Buyer's direction, at least 20 days prior to the hearing to confirm the Bankruptcy Plan, to all counterparties to the Assumed Contracts or (ii) in the event of an Early Closing Notice, be served on all counterparties to the Assumed Contracts within four (4) Business Days of such Early Closing Notice. Buyer and the Debtors shall keep confidential the Executory Contracts as set forth in Section 3.5(d) of the Purchase Agreement. With respect to the Assumed Contracts, Buyer shall cooperate with Sellers to provide adequate assurance of future performance as required by section 365 of the Bankruptcy Code.

14. With respect to the proposed assumption and assignment of the Assumed Contracts, Cure Amounts that must be paid to cure defaults under the Assumed Contract shall be determined in accordance with the following procedures (the "Cure Procedures"):

Procedure	**Description**
Notice of Assumption and Assignment Objection Deadline	At least 20 days prior to the hearing to confirm the Bankruptcy Plan (or, in the event of an Early Closing Notice, within four Business Days of such Early Closing Notice), the Debtors, or the Debtors' noticing agent, shall serve a copy of the Bidding Procedures Order together with the Notice of the Debtors' Intent to Assume and Assign Executory Contracts and Unexpired Leases (the "Contract Assignment Notice"), substantially in the form of Exhibit 2 attached to the Bidding Procedures Order, by first class mail to the Contract Parties notifying them of the Debtors' intent to assume and assign each agreement listed on Schedule (a) of the Disclosure Schedules (as it may be modified by that time) and of

Procedure	Description
	the Cure Amount determined by the Debtors for each such Assumed Contract to be necessary for such assumption and assignment on the Closing Date.
Assumption and Assignment Objections	Any Contract Party seeking to (a) assert a Cure Amount based on defaults, conditions or pecuniary losses under its Assumed Contract (collectively, the "Cure Obligation") different from that set forth on any of the Contract Assignment Notices or (b) object to the potential assumption and assignment of its Assumed Contract on any other grounds, shall be required to file and serve an objection (an "Assumption and Assignment Objection"), in writing, setting forth with specificity (i) any and all Cure Obligations that the Contract Party asserts must be cured or satisfied with respect to such Assumed Contract and/or (ii) if the objection to the potential assignment of such Assumed Contract is based on adequate assurance issues, the information required regarding the Buyer to satisfy the Contract Party's adequate assurance concerns.
Assumption and Assignment Objection Deadline	To be considered a timely Assumption and Assignment Objection, the Assumption and Assignment Objection must be filed with the Court and a copy delivered to (i) the attorneys for the Debtors, Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611, Attn: Michael J. Frishberg, Esq., (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), (iv) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.) and (vi) any other party or partner set forth in the Contract Assignment Notice so as to be received no later than **15** days after service of the Contract Assignment Notice (the "Assumption and Assignment Objection Deadline").
Failure to File Assumption and Assignment Objection	Unless an Assumption and Assignment Objection is timely filed and served by a Contract Party by the Assumption and Assignment Objection Deadline, the assumption and assignment of the applicable Assumed Contract at the Sale Approval Hearing may occur without regard to any objection such party may have or any provisions to the contrary in the applicable Assumed Contract.

Procedure	Description
Waiver of Assumption and Assignment Objection	Contract Parties that fail to file and serve Assumption and Assignment Objections as provided above shall be deemed to have waived and released any and all Cure Obligations and shall be forever barred and estopped from asserting or claiming against the Debtors, the Buyer or any other Successful Bidder of the relevant contract or lease that any additional amounts are due or defaults exist, or prohibitions or conditions to assignment exist or must be satisfied, under such Assumed Contract for the period prior to the closing date.

15. The Debtors are hereby authorized to take any and all actions necessary or appropriate to implement the Bidding Procedures and Cure Procedures.

Dated: New York, New York
_____ __, 2004

_____
UNITED STATES BANKRUPTCY JUDGE

EXHIBIT 1

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

NOTICE OF AUCTION AND HEARING TO CONSIDER APPROVAL OF THE SALE OF SUBSTANTIALLY ALL OF THE ASSETS OF THE DEBTORS

NOTICE IS HEREBY GIVEN, as follows:

1. On December __, 2003, Allegiance Telecom, Inc. ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors-in-possession (collectively, the "Debtors") filed a motion (the "Motion") with the United States Bankruptcy Court for the Southern District of New York for or orders (i) establishing bidding procedures and certain protections (the "Bidding Procedures") payable to the Buyer including a break-up fee and expense reimbursement in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) approving the Purchase Agreement,[1] subject to higher and better offers; (iv) setting a hearing date to consider approval of the sale of the Sale Assets (the "Sale Hearing"); (v) approving the sale to the Buyer, subject to higher and better offers, free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes; (vi) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (vii) granting certain related relief. The successful

[1] Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion or Purchase Agreement, as applicable.

bidder at the Auction will agree to purchase the Sale Assets, free and clear of all liabilities, obligations, claims, liens, and encumbrances on the same terms and conditions as those set forth in the Purchase Agreement entered into between the Debtors and the Buyer.

2. By order dated **[inset date, 2004]** (the "Bidding Procedures Order"), the Court authorized the Debtors, among other things, to conduct an Auction of the Sale Assets at Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022, on **[insert date, 2004]** at --:00 --.m. (prevailing Eastern Time).

3. The Debtors will conduct the Auction pursuant to the following terms and conditions (the "Bidding Procedures"):

PROVISION	DESCRIPTION
The Stalking Horse Bid	Under the terms of the Purchase Agreement, the Buyer has agreed to purchase the Sale Assets for approximately $390 million, plus Assumed Liabilities (the "Stalking Horse Bid"), subject to the terms of the Purchase Agreement. Under the terms of the Purchase Agreement, beginning on the date the Bidding Procedures Order is entered by the Court and continuing until the conclusion of the Auction, the Debtors are entitled to, among other things, solicit and negotiate Competing Transactions.
Due Diligence	Unless otherwise determined by the Debtors, each potential bidder (a "Potential Bidder") must deliver (unless previously delivered) to the Debtors, c/o Jonathan S. Henes, Esq., Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611 and Michael A. Kramer, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022, the following documents (the "Preliminary Bid Documents") in order to participate in the bidding process: a. an executed confidentiality agreement in form and substance satisfactory to the Debtors; and b. preliminary proof by the Potential Bidder of its financial capacity to close a proposed transaction, the adequacy of which the Debtors and their advisors will determine in their

PROVISION	DESCRIPTION
	sole discretion. Within two (2) business days after a Potential Bidder delivers the Preliminary Bid Documents, the Debtors shall determine, and shall notify the Potential Bidder, whether the Potential Bidder has submitted acceptable Preliminary Bid Documents so that such Potential Bidder may conduct due diligence with respect to the Sale Assets sought to be acquired. Only those Potential Bidders that have submitted acceptable Preliminary Bid Documents may submit bids for the Sale Assets.
Bid Deadline	Bids for the Sale Assets must (a) be in writing; (b) at a minimum, exceed the Stalking Horse Bid by $40 million; (c) satisfy the Bid Requirements set forth herein and (d) be received by (i) the attorneys for the Debtors, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the financial advisors for the Debtors, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022 (Attn: Michael A. Kramer), (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iv) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), and (v) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), so as to be actually received no later than 5:00 p.m. (prevailing Eastern Time) on **[insert date]** (the "Bid Deadline"). Such bids shall be deemed "Qualified Bids" and those parties submitting such Qualified Bids shall be "Qualified Bidders." One (1) Business Day after the Debtors receive such Qualified Bids, the Debtors shall provide copies of such bids to Buyer, provided, that Buyer shall keep the Qualified Bids confidential and shall not contact or communicate with any Qualified Bidder with respect to any such bids or discuss the Qualified Bids with any party, except as required by law. Parties that do not submit a Qualified Bid by the Bid Deadline will not be permitted to participate at the Auction.

PROVISION	DESCRIPTION
Bid Requirements	Qualified Bids must meet the following requirements (the "Bid Requirements"): a. Each Qualified Bid must be on the same or better terms and conditions as those terms set forth in the Purchase Agreement and the documents set forth as exhibits thereto. The Debtors shall not entertain bids for the individual assets comprising their businesses. b. Each Qualified Bid must constitute a good faith, bona fide offer to acquire the Sale Assets. c. Each Qualified Bid shall not be conditioned on obtaining any of the following: financing, regulatory approval, shareholder approval, environmental contingencies, and/or the outcome of due diligence by the bidder. d. Each Qualified Bid must remain irrevocable until the Closing. e. As a condition to making a Qualified Bid, any competing bidder must provide the Debtors on or before the Bid Deadline, with sufficient and adequate information to demonstrate, to the satisfaction of the Debtors, that such competing bidder (i) has the financial wherewithal and ability to consummate the acquisition of the their business, and (ii) can provide all nondebtor contracting parties to the Assumed Contracts with adequate assurance of future performance as contemplated by section 365 of the Bankruptcy Code. f. In order for a bid to constitute a Qualified Bid, any bidder shall submit a deposit equal to the $35 million (the "Good Faith Deposit"). The bidder shall, in immediately available funds, by wire transfer to an account or accounts designated by the Debtors, pay such amount on the date such bid is submitted.
Auction and Overbids	If no Qualified Bid is received by the Bid Deadline, the Auction will not occur and the Debtors shall promptly pursue entry of an order by the Court authorizing the Sale to the Buyer. If the Debtors receive a Qualified Bid by the Bid Deadline, in addition to the Stalking Horse Bid, the Debtors shall conduct an auction (the "Auction") with respect to the Sale Assets. The Auction shall commence at 10:00 a.m. (prevailing Eastern Time) on **[INSERT]**, at the offices of Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022-4611, or such later time or other

PROVISION	DESCRIPTION
	place as the Debtors shall notify all Qualified Bidders who have submitted Qualified Bids. The Auction may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Auction. No further notice of any such continuance will be required to be provided to any party. Subsequent bids at the Auction shall be made in increments of at least $5 million. At the Auction, the Buyer shall have the right to bid all or part of the Break-Up Fee (as defined herein) and the Expense Reimbursement (as defined herein).
Winning Bid	Upon conclusion of the Auction, the Debtors, in the exercise of their business judgment and after consulting with their advisors, shall identify the highest and best offer for the Sale Assets (the "Winning Bid") (the bidder having submitted a Winning Bid is the "Successful Bidder").
Sale Approval Hearing	The Sale Approval Hearing is presently scheduled to take place on **[insert date]** at [____] (prevailing Eastern Time), before the Hon. Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004-1408. The Sale Approval Hearing may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Sale Approval Hearing; provided, that any such continuance shall not be later than the deadline set forth in Schedule J of the Purchase Agreement. No further notice of any such continuance will be required to be provided to any party. At the Sale Approval Hearing, the Debtors shall present to the Bankruptcy Court for approval the Winning Bid for the Sale Assets.
Return of Good Faith Deposit	The Good Faith Deposit of the Successful Bidder shall be credited to the price paid for the Sale Assets. The Good Faith Deposit of any unsuccessful bidders will be returned within fifteen (15) days after consummation of the Sale Transaction or upon permanent withdrawal by the Debtors of the proposed sale of such assets. The deposit of the Buyer, if not chosen as the Winning Bid, shall be returned in accordance with the Purchase Agreement.
Reservation of Right	The Debtors reserve the right to reject any (other than the Buyer's offer pursuant to the Purchase Agreement) Qualified Bid (as defined below) if the Debtors determine that such Qualified Bid is

PROVISION	DESCRIPTION
	(i) inadequate or insufficient; (ii) not in conformity with the requirement of the Bankruptcy Code, any related rules or the terms set forth herein; or (iii) contrary to the best interests of the Debtors and their estates.
Break-Up Fee and Expense Reimbursement	In the event, among others set forth in the Purchase Agreement and as set forth below, that the Bankruptcy Court enters an order approving the Sale Transaction to a Successful Bidder other than Buyer, the Debtors shall pay to Buyer (i) a break-up fee in the amount of $12.8 million (the "Break-Up Fee) and (ii) a reimbursement of Buyer's expenses in connection with the transaction contemplated in the Purchase Agreement, not to exceed $5 million (the "Expense Reimbursement").

4. The Bidding Procedures Order further provides that the Sale Hearing will be held following the Auction on **[insert date]**, at _:00 a.m. (EST), before the Honorable Robert D. Drain, United States Bankruptcy Judge, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004-1408.

5. At the Sale Hearing, the Debtors shall request that the Court enter an order approving the Purchase Agreement and approving the sale of the Sale Transaction to the Successful Bidder.

6. At the Sale Hearing, the Court may enter such orders as it deems appropriate under applicable law and as required by the circumstances and equities of these cases. Objections, if any, to the relief requested in the Motion, other than the relief granted in the Bidding Procedures Order, shall be in writing, shall conform to the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court for the Southern District of New York, shall set forth the name of the objectant, the nature and amount of any claims or interests held or asserted against the Debtors' estates or properties, the basis for the objection and the specific grounds therefor, and shall be

served upon (i) the attorneys for the Debtors, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the agent for the Debtors' prepetition lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), (iv) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), and (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.), so as to be actually received no later than **[insert date]** at 4:00 p.m. (EST).

7. A copy of the Purchase Agreement is annexed as Exhibit A to the Motion. All requests for information concerning the sale of the Sale Assets should be directed by written request to Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Jonathan S. Henes, Esq.).

Dated: New York, New York
[insert date]

KIRKLAND & ELLIS LLP

By:_____
Matthew A. Cantor, Esq. (MC-7727)
Jonathan S. Henes, Esq. (JH-1979)
Kirkland & Ellis LLP
Citigroup Center
153 East 53rd Street
New York, New York 10022-4675
Telephone: (212) 446-4800
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Attorneys for Debtors and Debtors in Possession

EXHIBIT 2

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

NOTICE OF DEBTORS' INTENT TO ASSUME AND ASSIGN CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES

NOTICE IS HEREBY GIVEN, as follows:

1. On December __, 2003, Allegiance Telecom, Inc. ("Allegiance") its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors") filed a motion (the "Motion") with the United States Bankruptcy Court for the Southern District of New York for or orders (i) establishing bidding procedures and certain protections (the "Bidding Procedures") payable to the Buyer including a break-up fee and expense reimbursement in connection with the sale of substantially all of the assets of the Debtors (the "Sale Assets"); (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) approving the Purchase Agreement,[1] subject to higher and better offers; (iv) setting a hearing date to consider approval of the sale of the Sale Assets (the "Sale Hearing"); (v) approving the sale to the Buyer, subject to higher and better offers, free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes; (vi) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (vii) granting certain related relief.

[1] Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion or Purchase Agreement, as applicable.

2. Pursuant to the Motion and sections 363 and 365 of the Bankruptcy Code, the Debtors intend to assume and assign to the Buyer, on the later of (i) the Closing or (ii) State PUC Consent or FCC Consent, the Assumed Contracts listed on Exhibit A annexed hereto.

3. The Debtors have identified on Exhibit A annexed hereto the cure amounts that the Debtors believe must be paid to cure all defaults under the Assumed Contracts to which you are a party (in each instance, the "Cure Amount"). The Debtors believe that there are no non-monetary defaults (other than the filing of these chapter 11 cases) that will not be cured by payment of the Cure Amount. Pursuant to the Purchase Agreement, the Buyer has no liability to the Debtors or any party to an Assumed Contract for any Cure Amounts that arise from any Excluded Liabilities (including any unrecorded liabilities of the Debtors).

4. The Buyer's obligation to pay the amounts arising under the Assumed Contracts after the Closing constitutes adequate assurance of future performance of the Assumed Contracts in accordance with section 365(f)(2)(b) of the Bankruptcy Code.

5. If you seek to (a) assert a Cure Amount based on defaults, conditions or pecuniary losses under its Assumed Contract (collectively, the "Cure Obligation") different from that set forth on any of the Contract Assignment Notices or (b) object to the potential assumption and assignment of its Assumed Contract on any other grounds, you are required to file and serve an objection (an "Assumption and Assignment Objection"), in writing, setting forth with specificity (i) any and all Cure Obligations that you assert must be cured or satisfied with respect to such Assumed

Contract and/or (ii) if the objection to the potential assignment of such Assumed Contract is based on adequate assurance issues, the information required regarding the Buyer to satisfy your adequate assurance concerns.

6. To be considered a timely Assumption and Assignment Objection, the Assumption and Assignment Objection must be filed with the Court and a copy delivered to the attorneys for the Debtors, Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611, Attn: Michael J. Frishberg, Esq., (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the Prepetition Lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), (iv) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), (v) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.) so as to be received no later than **15** days after service of the Contract Assignment Notice (the "Assumption and Assignment Objection Deadline").

7. Unless your Assumption and Assignment Objection is timely filed and served by the Assumption and Assignment Objection Deadline, the assumption and assignment of the applicable Assumed Contract at the Sale Approval Hearing may occur without regard to any objection you may have or any provisions to the contrary in the applicable Assumed Contract.

8. If you fail to file and serve Assumption and Assignment Objections as provided above you shall be deemed to have waived and released any and all Cure Obligations and shall be forever barred and estopped from asserting or claiming against the Debtors, the Buyer or any other Successful Bidder of the relevant contract or lease that any additional amounts are due or defaults exist, or prohibitions or conditions to assignment exist or must be satisfied, under such Assumed Contract for the period prior to the closing date.

9. Hearings with respect to the Assumption and Assignment Objections may be held at such other date as the Court may designate upon motion by the Debtors and the Buyer, provided, that, if the subject Assumed Contracts are assumed and assigned, the cure amount asserted by the objecting party (or such lower amount as may be agreed to by the parties or fixed by the Court) shall be deposited by the Debtors or the Buyer, in accordance with the Debtors and Buyer's respective liabilities for Cure Amounts pursuant to the Purchase Agreement, and held in a segregated account by the Debtors or Buyer, applicable, pending further order of the Court or mutual agreement of the parties. The fact that any Assumption and Assignment Objections are not resolved shall not prevent or delay the occurrence of the date of assumption and assignment of any Assumed Contracts, and the objector's only recourse after the relevant assumption date shall be to the segregated amounts.

10. If you agree that there are no cure amounts due under the Assumed Contract, and otherwise do not object to the Debtors' assumption and assignment of your Assumed Contract, you need not take any further action.

11. The Buyer reserves the right to exclude or add any Assumed Contract from or to the proposed sale and to withdraw the request to assume and assign any Assumed Contract pursuant to the terms of the Purchase Agreement.

12. The Debtors' decision to assume and assign to the Buyer the Assumed Contracts is subject to Court approval, the Closing and State PUC Approval or FCC Approval. Accordingly, the Debtors shall be deemed to have assumed and assigned each of the Assumed Contracts as of the later of (i) the Closing or (ii) State PUC Consent or FCC Consent. Absent such Closing, State PUC Consent or FCC Consent, any of the affected Assumed Contracts shall not be deemed assumed nor assigned, and shall in all respects be subject to further administration under the Bankruptcy Code. The inclusion of any document on the list of Assumed Contracts shall not constitute or be deemed to be a determination or admission by the Debtors or the Buyer that such document is, in fact, an executory contract or unexpired lease within the meaning of the Bankruptcy Code (all rights with respect thereto being expressly reserved).

Dated: New York, New York
[insert date], 2004

KIRKLAND & ELLIS LLP

By:_____

Matthew A. Cantor, Esq. (MC-7727)
Jonathan S. Henes, Esq. (JH-1979)
Kirkland & Ellis LLP
Citigroup Center
153 East 53rd Street
New York, New York 10022-4675
Telephone: (212) 446-4800
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Attorneys for Debtors and Debtors in Possession

EXHIBIT B

Confidential

Regarding: Term sheet for the convertible notes to be issued at part of the purchase price consideration for Allegiance Telecom

	Convertible Security
Issuer	Qwest Communications International, Inc. ("QCII")
Face Value	$90,000,000
Issue Rank	Senior Notes
Maturity	20 Year with Puts in Yrs 5, 10, 15
Non-Call Period	5 Years
Premium / Conversion Price	$6.10
Covenants	Change of control only with no additional financial covenants
Yield	1.50%
Coupon	Cash pay until end of non-call period (Year 5), Zero thereafter

EXHIBIT C

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	**Chapter 11** **Case No. 02-130507 (RDD)**
Allegiance Telecom, Inc., et al.,	**(Jointly Administered)**
Debtors.	

ORDER (I) APPROVING THE SALE FREE AND CLEAR OF ALL LIENS, CLAIMS AND ENCUMBRANCES TO THE SUCCESSFUL BIDDER, (II) AUTHORIZING THE ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES AND (III) GRANTING RELATED RELIEF

Upon the motion, dated December 18, 2003 (the "Motion") of Allegiance Telecom, Inc., ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors") for an order (i) approving the sale of the Sale Assets,[1] free and clear of (a) all liens, claims and encumbrances and (b) certain transfer taxes, to the successful bidder (the "Successful Bidder"); (ii) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (iii) granting certain related relief, and the Court having entered an order (the "Bidding Procedures Order") on [insert date]__ 2004, approving the Bidding Procedures (as defined therein); and the Court having held a hearing on [insert date], 2004, to approve the relief requested in the Motion (the "Sale Hearing"); and it appearing that notice of the Sale Hearing has been provided to (i) the Office of the United States Trustee; (ii) the attorneys for Prepetition Lenders; (iii) the attorneys for the Creditors' Committee; (iv) all nondebtor contracting and lease parties identified on Schedule 4.20 and 4.21 of the Disclosure Schedules, (v) all parties that provide telecom services to the Debtors pursuant

[1] Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Motion or the Purchase Agreement, as applicable.

to tariffs; (vi) the attorneys for the Buyer; (vii) all parties who have made written expressions of interest in acquiring the Sale Assets or the Business within two (2) months prior to the date of the Motion; (viii) all known persons holding a lien on any of the Sale Assets; (ix) the Securities and Exchange Commission; (x) all taxing authorities that have jurisdiction over the Sale Assets; (xi) all Governmental Agencies having jurisdiction over the Sale Assets with respect to Environmental Laws, (xii) the attorneys general of all states in which the Sale Assets are located; (xiii) the Federal Communications Commission and applicable state public utility commissions; and (xiv) all other parties that had filed a notice of appearance and demand for service of papers in these bankruptcy cases under Bankruptcy Rule 2002 as of the date of the Motion; and it appearing that such notice constitutes good and sufficient notice of the Motion and Sale Hearing and that no other or further notice need be provided; and upon the Motion and the record of the Sale Hearing and all other proceedings had before the Court; and it appearing that an order approving the transaction(s) contemplated in the Purchase Agreement is in the best interests of the Debtors and all parties in interest; and it appearing that the Court has jurisdiction over this matter; and after due deliberation and sufficient cause appearing therefor,

IT IS HEREBY FOUND AND DETERMINED THAT:

A. This Court has jurisdiction over the Motion under 28 U.S.C. §§ 157 and 1334, and this matter is a core proceeding under 28 U.S.C. § 157(b)(2)(A). Venue of these cases and the motion in this District is proper under 28 U.S.C. §§ 1408 and 1409.

B. The statutory predicates for the relief sought in the Motion are sections 105(a), 363(b), (f), (m), and (n) of the Bankruptcy Code and Bankruptcy Rules 2002, 6004, 6006, and 9014.

C. Proper, timely, adequate, and sufficient notice of the Motion and the sale set forth herein (the "Sale") has been provided in accordance with sections 105(a) and 363 of the Bankruptcy Code and Bankruptcy Rules 2002, 2002(i), 6004, and 9014, in compliance with the Order Establishing Notice Procedures, dated May 15, 2003, and in compliance with the Bidding Procedures Order, such notice was good and sufficient, and appropriate under the particular circumstances, and no other or further notice of the Motion or the Sale Hearing is or shall be required.

D. As demonstrated by the pleadings and affidavit of publication filed herein, the Debtors have marketed the Sale Assets and conducted the sale process in compliance with the Bidding Procedures Order and have completed a full and complete auction process.

E. No consents or approvals, other than those expressly set forth in and required by the Purchase Agreement or expressly set forth herein, are required for the Debtors or Buyer to consummate the transaction(s) contemplated in the Purchase Agreement.

F. Approval of the Purchase Agreement and consummation of the transaction(s) contemplated therein at this time are in the best interests of the Debtors, their creditors, and their estates.

G. The Debtors have demonstrated both (i) good, sufficient, and sound business purpose and justification and (ii) compelling circumstances for approval of the sale transaction(s) contemplated in the Purchase Agreement pursuant to section 363(b) of the Bankruptcy Code and in connection with a plan of reorganization.

H. A reasonable opportunity to object or be heard with respect to the Motion and the relief requested therein has been afforded to all interested persons and entities.

I. The Purchase Agreement was negotiated, proposed, and entered into by the Debtors and Buyer, in good faith, without collusion, and from arm's-length bargaining positions. Neither the Debtors nor Buyer have engaged in any conduct that would cause or permit the Purchase Agreement to be avoided under section 363(n) of the Bankruptcy Code. Buyer is not an "insider" of any of the Debtors, as that term is defined in Bankruptcy Code section 101.

J. Buyer is a good faith purchaser under section 363(m) of the Bankruptcy Code and, as such, is entitled to all of the protections afforded thereby. Buyer will be acting in good faith within the meaning of section 363(m) of the Bankruptcy Code in closing the transactions contemplated by the Purchase Agreement at all times after the entry of this Order.

K. The Purchase Agreement was not entered into for the purpose of hindering, delaying, or defrauding creditors under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, or the District of Columbia.

L. The Purchase Price for the Sale Assets pursuant to the Purchase Agreement (i) is fair and reasonable, (ii) is the highest or best offer for the Sale Assets, and (iii) constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, or the District of Columbia.

M. The transfer of the Sale Assets to Buyer will be a legal, valid, and effective transfer of the Sale Assets, and will vest Buyer with all rights, title, and interest in and to the Sale Assets free and clear of all liens (other than Permitted Liens of the type set forth in clause (iii) of the definition thereof), claims, encumbrances, and interests, which have, or could have, been asserted by the Debtors or their creditors.

N. The Debtors have demonstrated a compelling and sound business justification for authorizing the payment of the Liquidated Damages to the Buyer under the circumstances, timing, and procedures set forth in the Motion and the Purchase Agreement. The Liquidated Damages are not a penalty, but rather, a reasonable estimate of the damages to be suffered by the Buyer in the event the transactions contemplated by the Purchase Agreement are not consummated under the circumstances set forth therein.

O. The Liquidated Damages were a material inducement for, and express conditions of, the Buyer's willingness to enter into the Purchase Agreement, and the Buyer was unwilling to commit to hold open its offer to acquire the Sale Assets, pending Closing, and consummate the other transactions under the terms of the Purchase Agreement unless it was assured of the payment of the Liquidated Damages.

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is granted.

2. All objections to the Motion or the relief requested therein, if any, that have not been withdrawn, waived, or settled, and all reservations of rights included therein, are hereby overruled on the merits.

Approval of the Purchase Agreement

3. The Purchase Agreement and all of the terms and conditions thereof are hereby approved.

4. Pursuant to section 363(b) of the Bankruptcy Code, the Debtors and Buyer are authorized and directed to consummate the Sale Transaction, pursuant to and in accordance with the terms and conditions of the Purchase Agreement.

5. The Debtors are authorized and directed to execute and deliver, and empowered to perform under, consummate and implement the Purchase Agreement, together with all additional instruments and documents that may be reasonably necessary or desirable to implement the Purchase Agreement, and to take all further actions as may be reasonably requested by Buyer as may be necessary or appropriate to the performance of the obligations as contemplated by the Purchase Agreement.

6. The Debtors have completed a full and complete auction process.

7. So long as the Purchase Agreement has not been terminated in accordance with its terms, the Debtors shall not be entitled to consider or accept a Competing Transaction.

8. The Regulatory Transition Process is hereby approved pursuant to sections 105, 363, and 365 of the Bankruptcy Code.

Transfer of the Sale Assets

9. Pursuant to sections 105(a), 363(b) and 363(f) of the Bankruptcy Code, the transfer of the Sale Assets, including any limited liability company ("LLC") membership interests and any equipment of Debtors that may be transferred to such LLC prior to the Closing, to Buyer on the later of (i) Closing or (ii) the applicable State PUC Consent or FCC Consent, shall vest Buyer (or such LLC as the case may be with respect to equipment) with all rights, title, and interest in and to the Sale Assets and shall be, free and clear of all liens (other than Permitted Liens of the type set forth in clause (iii) of the definition thereof), claims, encumbrances, and interests which have, or could have, been asserted by the Debtors or their creditors in connection with the Debtors' chapter 11 cases, if any, with all such liens, claims, encumbrances, and interests of any kind or nature whatsoever to attach to the net proceeds that the Debtors ultimately realize from the sale transaction contemplated herein in the order of their priority,

with the same validity, force and effect which they now have as against the Sale Assets, subject to any claims and defenses the Debtors may possess with respect thereto.

10. Buyer shall have no liability or responsibility for any liability or other obligation of the Debtors arising under or related to the Sale Assets other than as expressly set forth in the Purchase Agreement and in no event shall Buyer have any liability or responsibility for any Excluded Liabilities (including any unrecorded liabilities of the Debtors). Without limiting the effect or scope of the foregoing, the transfer of the Sale Assets from the Debtors to Buyer does not and will not subject Buyer or its affiliates, successors or assigns or their respective properties (including the Sale Assets) to any liability for claims (as that term is defined in section 101(5) of the Bankruptcy Code) against the Debtors or the Sale Assets by reason of such transfer under the laws of the United States or any state, territory or possession thereof applicable to such transactions. Neither Buyer nor its affiliates, successors, or assigns shall be deemed, as a result of actions taken in connection with the purchase of the Sale Assets: (i) to be a successor to the Debtors (except for purposes of section 1145 of the Bankruptcy Code)or (ii) be a continuation or substantial continuation of the Debtors or any enterprise of the Debtors. Neither Buyer nor its affiliates, successors, or assigns is acquiring or assuming any liability, warranty, or other obligation of the Debtors, including, without limitation, any tax incurred but unpaid by the Debtors prior to the date of the Closing (except as expressly set forth in the Purchase Agreement), including, but not limited to, any tax, any fine or penalty relating to a tax, or any addition to a tax, whether or not previously assessed, fixed or audited, whether or not paid, and whether or not contested before and adjudicated by a judicial or administrative tribunal of competent jurisdiction, except as otherwise expressly provided in the Purchase Agreement.

11. The process set forth in the Purchase Agreement, the Management Agreements, the Transition Plan and other related documents for obtaining all approvals, consents (including assignments of any permits and rights of way), certificates, waivers and other authorizations required to be obtained from, or filings or other notices required to be made with or to, any Governmental Entities (as defined in the Purchase Agreement) having jurisdiction over any of the Sale Assets in order to consummate the transactions contemplated by the Purchase Agreement and the other related transaction documents and the transfer of such Sale Assets, including the Non-Transferred Assets, to Buyer upon the receipt of such approvals (the "Regulatory Transition Process") is hereby approved pursuant to sections 105, 363 and 365 of the Bankruptcy Code.

Assumption and Assignment of Assumed Contracts to Buyer

12. Pursuant to sections 105(a) and 365 of the Bankruptcy Code, (x) on the later of (i) the Closing or (ii) the applicable State PUC Consent or FCC Consent or (y) in the event of an Early Closing Election, the Debtors' assumption and assignment to Buyer and Buyer's assumption on the terms and conditions set forth in the Purchase Agreement of the Assumed Contracts is hereby approved, provided that the requirements of section 365(b)(1) of the Bankruptcy Code with are satisfied as set forth in the Debtors Notice of Intent to Assume and Assign (as defined below). Buyer and the Debtors shall keep confidential the Executory Contracts as set forth in Section 3.5(d) of the Purchase Agreement.

13. Subject to (x) the later of (i) the Closing or (ii) the applicable State PUC Consent or FCC Consent or (y) an Early Closing Election, the Debtors are hereby authorized and directed in accordance with sections 105(a) and 365 of the Bankruptcy Code to (a) assume and assign to Buyer the Assumed Contracts free and clear of all liens (other than Permitted Liens),

claims, and encumbrances as well as all interests of any kind or nature whatsoever and (b) execute and deliver to Buyer such documents or other instruments as may be necessary to assign and transfer the Assumed Contracts to Buyer.

14. Pursuant to the procedures set forth in Sections 3.5, 6.3 and 8.3 of the Purchase Agreement, the Assumed Contracts shall be transferred to, and remain in full force and effect for the benefit of, Buyer in accordance with their respective terms, notwithstanding any provision in any of the Assumed Contracts (including those of the type described in sections 365(b)(2) and (f) of the Bankruptcy Code) that prohibits, restricts, or conditions such assignment or transfer and, pursuant to section 365(k) of the Bankruptcy Code, the Debtors shall be relieved from any further liability with respect to the Assumed Contracts after such assignment to and assumption by Buyer.

15. All defaults or other obligations of the Debtors under the Assumed Contracts (without giving effect to any acceleration clauses or any default provisions of the kind specified in section 365(b)(2) of the Bankruptcy Code) shall be promptly cured by the Debtors or Buyer as set forth in the Purchase Agreement as provided in Bankruptcy Code section 365(b)(1) and the cure amounts with respect to the Assumed Contracts will be those amounts (the "Cure Amounts") established in accordance with the procedures set forth in the Bidding Procedures Order and Exhibit 2 thereto.

16. With the exception of the Cure Amounts, except as otherwise set forth herein, each nondebtor party to an Assumed Contract hereby will be forever barred, estopped, and permanently enjoined from asserting against the Debtors or Buyer, or the property of any of them, any default existing under the Assumed Contracts as of the later of date of (i) the Closing or (ii) the applicable State PUC Consent or FCC Consent; or, against Buyer, any counterclaim,

defense, setoff, or any other claim under the Assumed Contracts asserted or assertable against the Debtors. All parties that provide telecommunications services pursuant to a tariff related to any of the Sale Assets are hereby directed to continue providing such services to Buyer.

17. If the Debtors receive an objection to the cure amounts (the "Cure Amount Objection") in the Notice of Intent to Assume and Assign, they shall attempt to resolve such disputed cure amounts with the party asserting the objection. If consensual resolution of the Cure Amount Objection cannot be reached, the Debtors or Buyer, as provided in the Purchase Agreement will (i) pay in full the undisputed portion of such Cure Amount on or before the applicable date of assumption and (ii) segregate the disputed portion of such cure amount (the "Segregated Amounts") pending the resolution of the Cure Amount Objection by this Court or by mutual agreement of the parties. In light of these procedures, the fact that any Cure Amount Objection is not resolved shall not prevent or delay the occurrence of the date of assumption or the assumption and assignment of any Assumed Contracts, and the objectors' only recourse after the relevant date of assumption shall be to the segregated amounts.

18. The Buyer is (i) permitted to participate and monitor any of the Debtors' negotiations and settlements regarding ILEC and non-ILEC Cure Amounts and (ii) has standing to participate in any disputes before the Bankruptcy Court regarding ILEC and non-ILEC Cure Amounts. Any treatment of ILEC charges under the Bankruptcy Plan, or otherwise, shall be reasonably acceptable to Buyer. The Debtors shall pay all ILEC Cure Amounts (whether in cash or by application of the ILEC Set Off Amounts) subject to and as set forth in Section 3.5 of the Purchase Agreement

Liquidated Damages

19. Pursuant to section 363(b) of the Bankruptcy Code and because damage suffered by the Buyer in the event of any such termination would be impossible to calculate and the Liquidated Damages (as defined below) constitute a reasonable estimate of such damages, the Debtors are required to pay to Buyer as liquidated damages and not as a penalty (i) the Expense Reimbursement (which shall not exceed $10 million) plus (ii) $30 million (clauses (i) and (ii) together, the "Liquidated Damages") immediately in the event that: (x) the Purchase Agreement is terminated pursuant to sections 8.1(b), (c), or (d) of the Purchase Agreement following the Sale Order Approval Date, or (y) Buyer elects to terminate the Purchase Agreement pursuant to Section 8.1(e) of the Purchase Agreement or not to close, in each case because the condition set forth in section 7.2(a) of the Purchase Agreement has not been satisfied, as a result of a Seller's Intentional Breach following the Sale Order Approval Date.

20. In the event of an Adverse Bankruptcy Event that Buyer does not agree to waive or extend, the Debtors shall either (i) immediately terminate the Purchase Agreement and simultaneously pay to Buyer the Liquidated Damages or (ii) immediately waive the condition set forth in Section 7.1(d) of the Purchase Agreement, send an irrevocable election of early closing on the date of such Adverse Bankruptcy Event and promptly close on the transactions contemplated by the Purchase Agreement (the "Early Closing Election"), provided, that the Debtors shall only be entitled to invoke clause (ii) above if all other conditions to Closing set forth in Article VII of the Purchase Agreement have been satisfied or waived if such conditions may be satisfied prior to Closing or will be satisfied or waived at Closing in accordance with the terms of the Purchase Agreement. Debtors shall also have the right to invoke clause (ii) above in accordance with the terms thereof at any time after the date hereof provided that the Closing

pursuant thereto shall not occur sooner than the later of 35 days after the Sale Order Approval Date or twenty (20) Business Days after the delivery of the Early Closing Election. In the event of any waiver of any deadline in Exhibit J to the Purchase Agreement, the Liquidated Damages otherwise payable shall be payable at such extended date if such extended deadline has not been met.

21. The Debtors are authorized and empowered to pay the Liquidated Damages to the Buyer, as required under and pursuant to the Purchase Agreement, without further order of the Court and the Liquidated Damages shall (i) receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code and (ii) the Buyer's right to the Liquidated Damages and the superpriority administrative claim status of such claims shall survive rejection or breach of the Purchase Agreement, and shall be unaffected thereby, provided, however, that the Liquidated Damages shall not prime the Liens held by the Sellers' senior secured lenders and any such amounts payable shall be subordinated to the carve out for professionals fees and fees under 28 U.S.C. § 1930 as provided in the Bankruptcy Court's order authorizing Debtors to use cash collateral that was entered in these cases.

Additional Provisions

22. Pursuant to section 364(c)(1) of the Bankruptcy Code, (i) the obligation of the Debtors to pay any adjustments to the Purchase Price, including interest with respect thereto, and (ii) any amounts that may be owed to Buyer pursuant to, or for Debtors' breach of, the Management Agreement, shall receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code, provided, however, that any such amounts

payable shall be subordinate to the carve out for professional fees and fees under 28 U.S.C. § 1930 as provided in the Bankruptcy Court's order authorizing Debtors to use cash collateral that was entered in these cases.

23. Any amounts payable by the Debtors pursuant to the Purchase Agreement or any of the documents delivered by the Debtors pursuant to or in connection with the Purchase Agreement shall (i) constitute administrative priority expenses of the Debtors' estates pursuant to Bankruptcy Code sections 503(b) and 507(a)(1), except as otherwise specifically provided in the Purchase Agreement, (ii) be paid by the Debtors in the time and manner provided in the Purchase Agreement without further order of this Court, and (iii) not be discharged, modified, or otherwise affected by any plan of reorganization of any of the Debtors.

24. On the date of the Closing, each of the Debtors' creditors is authorized and directed to execute such documents and take all other actions as may be necessary to release its interest in the Sale Assets, if any, as such interests may have been recorded or may otherwise exist.

25. All Liens held by the Debtors' senior secured lenders on the Non-Transferred Assets and all other Liens shall be released at the Closing and the Buyer shall be granted a first-priority, perfected Lien as security for all of the Debtors' obligations to Buyer pursuant to the Management Agreement on all Non-Transferred Assets pending FCC Approval and State PUC Approval, as applicable.

26. Regardless of whether the Debtors' creditors execute the releases set forth in the above paragraphs, this Order (a) shall be effective as a determination that, on the date of the Closing, all liens, claims, security interests, encumbrances, and interests of any kind or nature whatsoever existing with respect to the Debtors and the Sale Assets prior to the Closing have

been unconditionally released, discharged and terminated, and that the conveyances described herein have been effected and (b) shall be binding upon and shall govern the acts of all entities including without limitation, all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal, state, and local officials, and all other persons and entities who may be required by operation of law, the duties of their office, or contract, to accept, file, register or otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any of the Sale Assets.

27. Each and every federal, state, and local governmental agency or department is hereby directed to accept for filing and/or recording and approve as necessary any and all documents and instruments necessary and appropriate to consummate the transactions contemplated by the Purchase Agreement.

28. If any person or entity that has filed financing statements, mortgages, mechanic's liens, *lis pendens*, or other documents or agreements evidencing claims or interests with respect to the Debtors or the Sale Assets shall not have delivered to the Debtors prior to the date of the Closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all interests which the person or entity has with respect to the Debtors or the Sale Assets or otherwise, then (a) the Debtors are hereby authorized to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to the Sale Assets and (b) Buyer is hereby authorized to file, register, or otherwise record a certified copy of this Order, which, once filed, registered, or otherwise recorded, shall constitute conclusive evidence of the release of all claims and interests in the Sale Assets of any kind or nature whatsoever.

29. Pursuant to sections 105(a) and 1146(c) of the Bankruptcy Code, the transfer of the Sale Assets in connection with the Bankruptcy Plan is not subject to taxation under any federal, state, local, municipal, or other law imposing or purporting to impose a stamp, transfer, recording, or any other similar tax on any of the Debtors' transfers or conveyances of the Sale Assets, which includes real estate, personal property, and any other assets and is deemed to be part of a plan pursuant to section 1146(c) of the Bankruptcy Code.

30. All entities who presently are in possession of some or all of the Sale Assets are hereby directed to surrender possession of the Sale Assets to the Debtors at the Closing.

31. The Debtors are hereafter not permitted to cause their Representatives to initiate contact with, solicit or encourage submission of any inquiries, proposals or offers by, any Person in connection with any inquiry, proposal, offer, sale or other disposition related to any or all of the Acquired Assets.

32. This Court retains jurisdiction to enforce and implement the terms and provisions of the Purchase Agreement (including the breach of the Purchase Agreement as provided in Section 9.12 thereof), all amendments thereto, any waivers and consents thereunder, and of each of the agreements executed in connection therewith in all respects.

33. The transaction contemplated by the Purchase Agreement is undertaken by Buyer in good faith, as that term is used in section 363(m) of the Bankruptcy Code. Accordingly, the reversal or modification on appeal of the authorization provided herein to consummate the transaction(s) contemplated herein shall not affect the validity of the sale of the Sale Assets to Buyer, unless such authorization is duly stayed pending such appeal. Buyer is a

purchaser in good faith of the Sale Assets, and is entitled to all of the protections afforded by section 363(m) of the Bankruptcy Code.

34. The Purchase Agreement and the transactions and instruments contemplated hereby shall be specifically performed and enforceable against and binding upon, and not subject to rejection or avoidance by, Debtors, and their respective affiliates, successors, and assigns, or any chapter 7 or chapter 11 trustee of Debtors and their estates.

35. The Purchase Agreement and the transactions and instruments contemplated hereby shall be specifically performable and enforceable against and binding upon, and not subject to rejection or avoidance by, the Debtors or any chapter 7 or chapter 11 trustee of the Debtors and their estates.

36. The failure specifically to include any particular provision of the Purchase Agreement in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court that the Purchase Agreement be authorized and approved in its entirety.

37. The Purchase Agreement and any related agreements, documents or other instruments may be modified, amended, or supplemented by the parties thereto, in a writing signed by both parties, and in accordance with the terms thereof, without further order of the Court.

38. Notwithstanding the provisions of Bankruptcy Rules 6004(g) and 6006(d), there is no stay pursuant to Bankruptcy Rule 6004(g) and this Order shall be effective and enforceable immediately upon entry.

Dated: New York, New York
_____, 2004

_____
UNITED STATES BANKRUPTCY JUDGE

EXHIBIT D

BILL OF SALE

THIS BILL OF SALE (this "Bill of Sale") is made and delivered this ___ day of _____, 2004, by Allegiance Telecom, Inc., a Delaware corporation ("ATI"), and each of the other parties set forth on the signature pages hereto under the caption "SELLERS" (each individually, "Seller," and collectively with ATI, "Sellers"), to Qwest Communications International Inc., a Delaware corporation ("Buyer"). Capitalized terms defined in the Asset Purchase Agreement (as defined below) which are used but not defined herein shall have the meanings ascribed to such terms in the Asset Purchase Agreement.

WHEREAS, the Sellers have entered into that certain Asset Purchase Agreement, dated as of December 18, 2003 (as amended from time to time, the "Asset Purchase Agreement"), by and among the Sellers and the Buyer, which provides, among other things, for the assignment by the Sellers to the Buyer of the Acquired Assets.

NOW, THEREFORE, in consideration of the mutual promises contained in the Asset Purchase Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the terms and conditions of the Asset Purchase Agreement:

1. Each Seller does hereby sell, convey, assign, transfer and deliver to Buyer free and clear of all Liens and Liabilities (other than Permitted Liens of the type included in clause (iii) of the definition of Permitted Liens in the Asset Purchase Agreement), all of such Seller's right, title and interest in and to the Acquired Assets.

2. This Bill of Sale is executed and delivered pursuant to the Asset Purchase Agreement. Nothing in this Bill of Sale, express or implied, is intended to or shall be construed to supersede, modify, expand or limit in any way the terms of the Asset Purchase Agreement. To the extent that any provision of this Bill of Sale conflicts or is inconsistent with the terms of the Asset Purchase Agreement, the Asset Purchase Agreement shall govern.

3. This Bill of Sale shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns.

4. The Bill of Sale shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the Bankruptcy Code and the substantive laws of the State of New York for contracts expected and likely to be performed solely within such state, in each case without regard to the conflict of laws principles thereof or of any other jurisdiction.

5. This Bill of Sale may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, and all of which together shall constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, and intending to be legally bound hereby, the parties have caused this Bill of Sale to be executed and delivered as of the day and year first above written.

SELLERS:

ALLEGIANCE TELECOM, INC.

By: _____
Name:
Title:

ALLEGIANCE TELECOM COMPANY WORLDWIDE
ADGRAFIX CORPORATION
ALGX BUSINESS INTERNET, INC.
ALLEGIANCE INTERNET, INC.
ALLEGIANCE TELECOM INTERNATIONAL, INC.
ALLEGIANCE TELECOM OF ARIZONA, INC.
ALLEGIANCE TELECOM OF CALIFORNIA, INC.
ALLEGIANCE TELECOM OF COLORADO, INC.
ALLEGIANCE TELECOM OF FLORIDA, INC.
ALLEGIANCE TELECOM OF GEORGIA, INC.
ALLEGIANCE TELECOM OF ILLINOIS, INC.
ALLEGIANCE TELECOM OF INDIANA, INC.
ALLEGIANCE TELECOM OF MARYLAND, INC.
ALLEGIANCE TELECOM OF MASSACHUSETTS, INC.
ALLEGIANCE TELECOM OF MICHIGAN, INC.
ALLEGIANCE TELECOM OF MINNESOTA, INC.
ALLEGIANCE TELECOM OF MISSOURI, INC.
ALLEGIANCE TELECOM OF NEVADA, INC.
ALLEGIANCE TELECOM OF NEW JERSEY, INC.
ALLEGIANCE TELECOM OF NEW YORK, INC.
ALLEGIANCE TELECOM OF NORTH CAROLINA, INC.
ALLEGIANCE TELECOM OF OHIO, INC.
ALLEGIANCE TELECOM OF OKLAHOMA, INC.
ALLEGIANCE TELECOM OF OREGON, INC.
ALLEGIANCE TELECOM OF PENNSYLVANIA, INC.

(Signatures Continued)

ALLEGIANCE TELECOM OF TEXAS, INC.

ALLEGIANCE TELECOM OF THE DISTRICT OF COLUMBIA, INC.

ALLEGIANCE TELECOM OF VIRGINIA, INC.

ALLEGIANCE TELECOM OF WASHINGTON, INC.

ALLEGIANCE TELECOM OF WISCONSIN, INC.

ALLEGIANCE TELECOM PURCHASING COMPANY

ALLEGIANCE TELECOM SERVICE CORPORATION

COAST TO COAST TELECOMMUNICATIONS, INC.

HOSTING.COM, INC.

INTERACCESS TELECOMMUNICATIONS CO.

JUMP.NET, INC.

VIRTUALIS SYSTEMS, INC.

By: _____

Name:

Title:

(Signatures Continued)

BUYER:

QWEST COMMUNICATIONS INTERNATIONAL INC.

By: _____

Name:
Title:

EXHIBIT E

ASSUMPTION AGREEMENT

ASSUMPTION AGREEMENT (this "Agreement") dated as of _____, 2004 by and among Allegiance Telecom, Inc., a Delaware corporation ("ATI"), and each of the other parties set forth on the signature pages hereto under the caption "SELLERS" (each individually, "Seller," and collectively with ATI, "Sellers") and Qwest Communications International Inc., a Delaware corporation ("Buyer"). Capitalized terms defined in the Asset Purchase Agreement (as defined below) which are used but not defined herein shall have the meanings ascribed to such terms in the Asset Purchase Agreement.

WHEREAS, Sellers and Buyer have entered into that certain Asset Purchase Agreement, dated as of December 18, 2003 (as amended from time to time, the "Asset Purchase Agreement"), pursuant to which Sellers have agreed to sell, convey, assign, transfer and deliver to Buyer, and Buyer has agreed to purchase, acquire and accept from Sellers, all right, title and interest of Sellers in and to all Acquired Assets and Assumed Liabilities;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

1. In accordance with and subject to the terms, provisions and limitations of the Asset Purchase Agreement, Buyer hereby assumes the Assumed Liabilities.

2. This Agreement is executed and delivered pursuant to the Asset Purchase Agreement. Nothing in this Agreement, express or implied, is intended to or shall be construed to supersede, modify, expand or limit in any way the terms of the Asset Purchase Agreement. To the extent that any provision of this Agreement conflicts or is inconsistent with the terms of the Asset Purchase Agreement, the Asset Purchase Agreement shall govern.

3. Nothing in this Agreement, express or implied, is intended or shall be construed to confer upon, or give to, any Person other than Buyer and Sellers and their respective successors and permitted assigns, any remedy or claim under or by reason of this instrument or any term, covenant or condition hereof, and all the terms, covenants and conditions, promises and agreements contained in this instrument shall be for the sole and exclusive benefit of Buyer and Sellers and their respective successors and permitted assigns.

4. This Agreement may be amended, supplemented or modified, and any provision hereof may be waived, only pursuant to a written instrument making specific reference to this Agreement signed by each of the parties hereto.

5. This Agreement shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the Bankruptcy Code and the substantive laws of the State of New York for contracts expected and likely to be

performed solely within such state, in each case without regard to the conflict of laws principles thereof or of any other jurisdiction.

6. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, and all of which together shall constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Assumption Agreement as of the date and year first above written.

SELLERS:

ALLEGIANCE TELECOM, INC.

By: _____
Name:
Title:

ALLEGIANCE TELECOM COMPANY WORLDWIDE
ADGRAFIX CORPORATION
ALGX BUSINESS INTERNET, INC.
ALLEGIANCE INTERNET, INC.
ALLEGIANCE TELECOM INTERNATIONAL, INC.
ALLEGIANCE TELECOM OF ARIZONA, INC.
ALLEGIANCE TELECOM OF CALIFORNIA, INC.
ALLEGIANCE TELECOM OF COLORADO, INC.
ALLEGIANCE TELECOM OF FLORIDA, INC.
ALLEGIANCE TELECOM OF GEORGIA, INC.
ALLEGIANCE TELECOM OF ILLINOIS, INC.
ALLEGIANCE TELECOM OF INDIANA, INC.
ALLEGIANCE TELECOM OF MARYLAND, INC.
ALLEGIANCE TELECOM OF MASSACHUSETTS, INC.
ALLEGIANCE TELECOM OF MICHIGAN, INC.
ALLEGIANCE TELECOM OF MINNESOTA, INC.
ALLEGIANCE TELECOM OF MISSOURI, INC.
ALLEGIANCE TELECOM OF NEVADA, INC.
ALLEGIANCE TELECOM OF NEW JERSEY, INC.
ALLEGIANCE TELECOM OF NEW YORK, INC.
ALLEGIANCE TELECOM OF NORTH CAROLINA, INC.
ALLEGIANCE TELECOM OF OHIO, INC.
ALLEGIANCE TELECOM OF OKLAHOMA, INC.
ALLEGIANCE TELECOM OF OREGON, INC.
ALLEGIANCE TELECOM OF PENNSYLVANIA, INC.

(Signatures Continued)

ALLEGIANCE TELECOM OF TEXAS, INC.
ALLEGIANCE TELECOM OF THE DISTRICT OF COLUMBIA, INC.
ALLEGIANCE TELECOM OF VIRGINIA, INC.
ALLEGIANCE TELECOM OF WASHINGTON, INC.
ALLEGIANCE TELECOM OF WISCONSIN, INC.
ALLEGIANCE TELECOM PURCHASING COMPANY
ALLEGIANCE TELECOM SERVICE CORPORATION
COAST TO COAST TELECOMMUNICATIONS, INC.
HOSTING.COM, INC.
INTERACCESS TELECOMMUNICATIONS CO.
JUMP.NET, INC.
VIRTUALIS SYSTEMS, INC.

By: _____
Name:
Title:

(Signatures Continued)

BUYER:

QWEST COMMUNICATIONS INTERNATIONAL INC.

By: _____

Name:
Title:

CLOSING ESCROW AGREEMENT

CLOSING ESCROW AGREEMENT (this "*Escrow Agreement*"), dated as of _____, 2004, by and among Allegiance Telecom, Inc., a Delaware corporation ("*ATI*"), and Allegiance Telecom Company Worldwide, a Delaware corporation, debtors-in-possession under title 11, of the United States Code, 11 U.S.C. in the United States Bankruptcy Court for the Southern District of New York (each individually, "*Seller*," and together, "*Sellers*"), Qwest Communications International Inc., a Delaware corporation ("*Buyer*"), and [_____] as escrow agent (the "*Escrow Agent*").

WITNESSETH

WHEREAS, Buyer and Sellers have entered into an Asset Purchase Agreement, dated as of December 18, 2003 (the "*Asset Purchase Agreement*" and capitalized terms used herein and not otherwise defined in this Escrow Agreement shall have the meaning ascribed to them in the Asset Purchase Agreement);

WHEREAS, pursuant to Section 3.2(b) of the Asset Purchase Agreement, Buyer and Sellers have agreed that Buyer will deliver a deposit equal to the greater of (i) $7,000,000 and (ii) the sum of $5,000,000 plus, to the extent required by Section 3.4(f) of the Asset Purchase Agreement, the Initial Working Capital Adjustment (the "*Escrowed Funds*") into an escrow account;

WHEREAS, Buyer and Sellers desire to appoint the Escrow Agent to act as escrow agent hereunder in the manner hereinafter set forth and the Escrow Agent is willing to act in such capacity;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Buyer, Sellers and the Escrow Agent hereby agree as follows:

1. Establishment of Escrow Account. The Escrow Agent shall establish and maintain on behalf of the parties hereto, an interest bearing trust account (the "*Escrow Account*") to which there shall be immediately credited and held all amounts received by the Escrow Agent from Buyer in accordance with Section 2 hereof. The funds credited to the Escrow Account shall be applied and disbursed only as provided herein. The Escrow Agent shall, to the extent required by law, segregate the funds credited to the Escrow Account from its other funds held as an agent or in trust.

2. Deposits to the Escrow Account; Investment.

(a) Buyer shall deliver to the Escrow Agent for deposit in the Escrow Account the Escrowed Funds as required pursuant to Section 3.2(b) and Section 3.4(f) of the Asset Purchase Agreement and the terms set forth herein.

(b) All amounts to be deposited with the Escrow Agent shall be transferred by wire transfer of immediately available funds to the following account of the Escrow Agent (or to such other account of the Escrow Agent as the Escrow Agent shall notify Sellers and Buyer in writing prior to the transfer of funds and which account Sellers and Buyer approve):

[Name of Escrow Agent]
ABA No.: [_____]
Account No.: [_____]
Allegiance Telecom Escrow
Attention: [_____]

(c) The Escrow Agent shall confirm in writing to Sellers and Buyer the deposit received by it pursuant to Section 2(a) above and the amount of such deposit and of any other amounts from time to time deposited with the Escrow Agent in connection with the Asset Purchase Agreement.

(d) Funds on deposit in the Escrow Account shall be invested in short-term United States government securities, money-market funds, interest bearing depository accounts or short-term certificates of deposit of a bank or trust company having combined capital, surplus and retained earnings of at least $500 million; provided that any such investment can be liquidated upon [three] days notice. The Escrow Agent shall not be accountable or liable for any losses resulting from the sale or depreciation in the market value of such investments thereof.

(e) ATI shall be deemed the owner of all Escrowed Funds and investments in the Escrow Account and shall be responsible for the preparation of all tax returns associated with the investments therein and shall pay all costs relating to such returns, and all taxes, fines and penalties and interest. The Escrow Account shall be assigned the federal tax identification number of ATI. ATI shall provide Escrow Agent, at any time upon request of Escrow Agent with a Form W-8 or W-9 to evidence ATI is not subject to any back-up withholding under the United States Internal Revenue Code. ATI shall report all income, if any, that is earned on, or derived from, the Escrowed Funds as its income, in the taxable year or years in which such income is properly includible and pay any taxes attributable thereto.

3. Distributions from Escrow Account.

(a) Funds on deposit in the Escrow Account shall be withdrawn by the Escrow Agent only in accordance with this Section 3.

(b) If the Escrow Agent receives joint written instructions signed by Buyer and Sellers pursuant to Section 3.4 and/or Section 3.6 of the Asset Purchase Agreement that the Escrowed Funds, or any portion thereof, should be paid to (i) Buyer, (ii) Sellers or (iii) Buyer and Sellers under the terms of the Asset Purchase Agreement, the Escrow Agent shall disburse the Escrowed Funds to Buyer and/or Sellers, as the case may be, in

such amounts as are set forth in such joint written instructions, together with the earnings thereon, within three (3) business days of receipt thereof.

(c) If one of the parties (the "*Notifying Party*") (without joint instructions from the other party) notifies the Escrow Agent that it is entitled to the Escrowed Funds, such notice (the "*Notice*") shall state the reason under Section 3(b) that the Notifying Party is entitled to the Escrowed Funds, and the Notice will also be sent to the other party (the "*Recipient*"). The Recipient shall have ten (10) calendar days from its actual receipt of the Notice to provide notice to the Escrow Agent and the Notifying Party disputing the Notifying Party's entitlement to the Escrowed Funds. If the Escrow Agent does not receive notice disputing such entitlement to the Escrowed Funds within ten (10) calendar days after the Recipient actually receives the Notice, the Escrow Agent shall pay the Escrowed Funds as directed by the Notifying Party. If the Escrow Agent receives notice disputing such entitlement to the Escrowed Funds within ten days after the Recipient receives the Notice, the Escrow Agent shall not pay the Escrowed Funds until the Escrow Agent receives either an order of the Bankruptcy Court, which order has become final and not subject to appeal and has been certified by the clerk of the Bankruptcy Court or other appropriate official, or joint written notice signed by Buyer and Sellers indicating that the dispute has been resolved and directing the Escrow Agent to whom to pay the Escrowed Funds and income earned thereon and in what amounts (collectively, a "*Final Resolution*"). The Escrow Agent shall pay the Escrowed Funds within three (3) business days of its receipt of the written evidence of a Final Resolution required above in this Section 3(c). The Escrow Agent shall be entitled to rely, exclusively, on any representation jointly made by Buyer and Sellers in writing in relation to the release of funds from the Escrow Account, and shall release funds from the Escrow Account from time to time as directed in any such joint written instruction from Buyer and Sellers or pursuant to a Final Resolution.

(d) Any written instructions delivered to the Escrow Agent by Buyer shall only be effective if such instructions are executed on behalf of Buyer by both Mark T. Evans and Peter Hutchinson, or their respective successors.

(e) All disbursements of the Escrowed Funds, or any portion thereof, and the earnings thereon to Buyer shall be disbursed to Buyer in accordance with the instructions attached hereto as Exhibit A. Buyer may amend Exhibit A hereto from time to time by providing written notice to the Escrow Agent. Any such amendment shall be effective immediately upon receipt by the Escrow Agent of such written notice.

(f) All disbursements of the Escrowed Funds, or any portion thereof, and the earnings thereon to Sellers shall be disbursed to Sellers in accordance with the instructions attached hereto as Exhibit B. Sellers may amend Exhibit B hereto from time to time by providing written notice to the Escrow Agent. Any such amendment shall be effective immediately upon receipt by the Escrow Agent of such written notice.

4. Termination of Escrow Account and Escrow Agreement. The Escrow Account shall be deemed dissolved and this Escrow Agreement shall terminate upon the

written agreement of the parties hereto, upon disbursement of all of the funds in the Escrow Account, or upon transfer of all amounts in the Escrow Account then in the possession of the Escrow Agent to the Bankruptcy Court or such other party as the parties hereto may jointly agree upon in writing in accordance with the terms of this Escrow Agreement.

5. Escrow Agent.

(a) Buyer and Sellers, jointly and severally, agree to pay the Escrow Agent reasonable compensation for its services as Escrow Agent hereunder, as listed on Schedule A annexed hereto, promptly upon request therefor, and to reimburse the Escrow Agent for all reasonable expenses of or reasonable disbursements incurred by the Escrow Agent in the performance of its duties hereunder, including the reasonable fees, expenses and disbursements of counsel to the Escrow Agent. Notwithstanding the foregoing, and without prejudice to the Escrow Agent's rights hereunder, each of Buyer and Sellers shall bear 50% of the fees, costs and expenses of the Escrow Agent and of any indemnity obligation pursuant to Section 6(c) hereof.

(b) The Escrow Agent may retain that portion of the Escrow Account equal to any such unpaid reasonable costs, expenses and fees incurred by the Escrow Agent as contemplated by Section 5(a) above until such time as such costs, expenses and fees have been paid.

6. Rights, Duties and Immunities of Escrow Agent. Acceptance by the Escrow Agent of its duties under this Escrow Agreement is subject to the following terms and conditions, which all parties to this Escrow Agreement hereby agree shall govern and control the rights, duties and immunities of the Escrow Agent:

(a) The duties and obligations of the Escrow Agent shall be determined solely by the express provisions of this Escrow Agreement and the Escrow Agent shall not be liable, except for the performance of such duties and obligations as are specifically set out in this Escrow Agreement. The Escrow Agent shall not be required to inquire as to the performance or observation of any obligation, term or condition under any agreement or arrangement by Buyer and Sellers. The Escrow Agent is not a party to, and is not bound by, any agreement or other document out of which this Escrow Agreement may arise. The Escrow Agent shall be under no liability to any party hereto by reason of any failure on the part of any other party hereto or any maker, guarantor, endorser or other signatory of any document or any other person to perform such person's obligations under any such document. The Escrow Agent shall not be bound by any waiver, modification, termination or rescission of this Escrow Agreement or any of the terms hereof, unless evidenced by a writing delivered to the Escrow Agent signed by the proper party or parties and, if the duties or rights of the Escrow Agent are affected, unless it shall give its prior written consent thereto. This Escrow Agreement shall not be deemed to create a fiduciary relationship between the parties hereto under state or federal law.

(b) The Escrow Agent shall not be responsible in any manner for the validity or sufficiency of this Escrow Agreement or of any property delivered hereunder, or for the value or collectibility of any note, check or other instrument, if any, so delivered, or for any representations made or obligations assumed by any party other than the Escrow Agent. Nothing herein contained shall be deemed to obligate the Escrow Agent to deliver any cash, instruments, documents or any other property referred to herein, unless the same shall have first been received by the Escrow Agent pursuant to this Escrow Agreement.

(c) Buyer and Sellers will reimburse and indemnify the Escrow Agent for, and hold it harmless against, any loss, liability or expense, including but not limited to reasonable counsel fees, incurred without bad faith, willful misconduct or gross negligence on the part of the Escrow Agent arising out of or in conjunction with its acceptance of, or the performance of its duties and obligations under this Escrow Agreement, as well as the costs and expenses of defending against any claim or liability arising out of or relating to this Escrow Agreement.

(d) The Escrow Agent shall be fully protected in acting on and relying upon any written notice direction, request, waiver, consent, receipt or other paper or document which the Escrow Agent in good faith believes to have been signed and presented by the proper party or parties.

(e) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith or for any mistake in act or law, or for anything which it may do or refrain from doing in connection herewith, except its own gross negligence or willful misconduct.

(f) The Escrow Agent may seek the advice of legal counsel in the event of any dispute or question as to the construction of any of the provisions of this Escrow Agreement or its duties hereunder, and it shall incur no liability and shall be fully protected in respect of any action taken, omitted or suffered by it in good faith in accordance with the written advice or opinion of such counsel.

(g) The parties hereto agree that should any dispute arise with respect to the payment, ownership or right of possession of the Escrow Account, the Escrow Agent is authorized and directed to retain in its possession, without liability to anyone, except for its bad faith, willful misconduct or gross negligence, all or any part of the Escrow Account until such dispute shall have been settled either by mutual agreement by the parties concerned or by the final order, decree or judgment of the Bankruptcy Court and a notice executed by the parties to the dispute or their authorized representatives shall have been delivered to the Escrow Agent setting forth the resolution of the dispute, which notice Buyer and Sellers hereby agree to so execute and deliver to the Escrow Agent in the event that such an order, decree or judgment is obtained from or issued by the Bankruptcy Court. The Escrow Agent shall be under no duty whatsoever to institute, defend or partake in such proceedings.

(h) The agreements set forth in this Section 6 shall survive the resignation or removal of the Escrow Agent, the termination of this Escrow Agreement and the payment of all amounts hereunder.

7. Resignation of Escrow Agent. The Escrow Agent shall have the right to resign upon 30 days written notice to Sellers and Buyer. In the event of such resignation, Sellers and Buyer shall mutually agree upon and appoint a successor escrow agent hereunder by delivering to the Escrow Agent a written notice of such appointment. Upon receipt of such notice, the Escrow Agent shall deliver to the designated successor escrow agent all money and other property held hereunder and shall thereupon be released and discharged from any and all further responsibilities whatsoever under this Escrow Agreement; provided, however, that the Escrow Agent shall not be deprived of its compensation earned prior to such time.

If no successor escrow agent shall have been designated by the date specified in the Escrow Agent's notice, all obligations of the Escrow Agent hereunder shall nevertheless cease and terminate. Its sole responsibility thereafter shall be to keep safely all property then held by it and to deliver the same to a person designated by the other parties hereto or in accordance with the direction of a final order or judgment of the Bankruptcy Court.

8. Notices. All claims, notices, consents, objections and other communications under this Escrow Agreement shall be in writing and shall, except as otherwise provided herein, be deemed to have been duly given when (i) delivered by hand, (ii) sent by telecopier (with receipt confirmed), or (iii) when received by the addressee, if sent by Express Mail, Federal Express or other reputable overnight delivery service, in each case, at the appropriate addresses and telecopier numbers as set forth below:

ESCROW AGENT:	[Name of Escrow Agent] [Address of Escrow Agent] Attention: [_____] Telecopier: (___) ___-____
BUYER:	Qwest Communications International Inc. 1801 California Street Denver, CO 80202 Telecopier: (303) 296-5974 Attention: General Counsel

With a copy to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Telecopier: (212) 310-8007
Attention: Paul M. Basta, Esq.
Howard Chatzinoff, Esq.

SELLERS:

c/o Allegiance Telecom, Inc.
700 E. Butterfield Road, Suite 400
Lombard, IL 60148
Telecopier: (630) 522-5250
Attention: Mark B. Tresnowski, Esq.
Executive Vice President,
General Counsel and Secretary

With a copy to:

Kirkland & Ellis LLP
153 East 53rd St.
New York, NY 10022
Telecopier: (212) 446-4900
Attention: Jonathan S. Henes, Esq.
Michael Movsovich, Esq.

(or to such other addresses and telecopier numbers as a party may designate as to itself by notice to the other parties). Notwithstanding any of the foregoing, any computation of a time period which is to begin after receipt of a notice by the Escrow Agent shall run from the date of receipt by it.

9. Successors. This Escrow Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that this Escrow Agreement may not be assigned by any party without the prior written consent of the other parties, which consent shall not be unreasonably withheld.

10. Severability. If any portion or provision of this Escrow Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Escrow Agreement shall be construed by modifying or limiting it so as to be valid and enforceable to the maximum extent compatible with, and possible under, applicable law. The provisions hereof are severable, and in the event any provision hereof should be held invalid or unenforceable in any respect, it shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

11. Amendments. Except as set forth in Sections 3(e) and 3(f) above, this Escrow Agreement may be amended or modified at any time or from time to time in writing executed by the parties to this Escrow Agreement.

12. Governing Law. This Escrow Agreement shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the substantive laws of the State of New York, without regard to the conflict of laws principles thereof or of any other jurisdiction.

13. JURISDICTION. THE BANKRUPTCY COURT SHALL HAVE EXCLUSIVE JURISDICTION TO RESOLVE ANY AND ALL DISPUTES ARISING UNDER THIS ESCROW AGREEMENT AND EACH OF THE PARTIES HERETO HEREBY EXPRESSLY CONSENTS TO SUCH EXCLUSIVE JURISDICTION.

14. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Escrow Agreement, or the waiver by any party of any breach of this Escrow Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

15. Headings. The headings and captions in this Escrow Agreement are for convenience of reference only and shall not in any way affect the meaning or interpretation of this Escrow Agreement.

16. Counterparts. This Escrow Agreement may be executed in any number of counterparts and by each of the parties hereto in separate counterparts (including by facsimile), each of which when so executed shall be deemed to be an original and all of which together shall constitute one and the same agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the undersigned have executed this Escrow Agreement as of the date first written above.

ALLEGIANCE TELECOM, INC.

By: _____
Name:
Title:

ALLEGIANCE TELECOM COMPANY WORLDWIDE

By: _____
Name:
Title:

QWEST COMMUNICATIONS INTERNATIONAL INC.

By: _____
Name:
Title:

[INSERT NAME OF ESCROW AGENT],
as Escrow Agent

By: _____
Name:
Title:

ALLEGIANCE

SCHEDULE OF FEES

To act as an
Escrow Agent

Annual Administration Fee $[_____]

Covers acceptance of appointment as Escrow Agent including complete study of drafts of Escrow Agreement and all supporting documents in connection therewith, conferences until the final Escrow Agreement is agreed upon and execution of final Agreement.

Investments (if applicable)

Per purchase, sale, redemption, maturity or exchange $[_____]

Wire Transfer of Funds $[_____] out going
$[_____] incoming

NOTE:

Charges for any services not specifically covered in this schedule will be billed commensurate with the services rendered. This schedule reflects charges that are now in effect for our normal and regular services and are subject to modification where unusual conditions or requirements prevail, and does not include counsel fees or expenses and disbursements, which will be billed at cost. The fees of our counsel shall be due and payable whether or not the transaction closes.

[Remainder of Page Intentionally Left Blank]

EXHIBIT A

[to come from Buyer]

EXHIBIT B

[to come from Sellers]

EARNEST MONEY ESCROW AGREEMENT

EARNEST MONEY ESCROW AGREEMENT (this "*Escrow Agreement*"), dated as of December __, 2003, by and among Allegiance Telecom, Inc., a Delaware corporation, and Allegiance Telecom Company Worldwide, a Delaware corporation, debtors-in-possession under title 11, of the United States Code, 11 U.S.C. in the United States Bankruptcy Court for the Southern District of New York (each individually, "*Seller*," and together, "*Sellers*"), Qwest Communications International Inc., a Delaware corporation ("*Buyer*"), and [_____] as escrow agent (the "*Escrow Agent*").

WITNESSETH

WHEREAS, Buyer and Sellers have entered into an Asset Purchase Agreement, dated as of December 18, 2003 (the "*Asset Purchase Agreement*" and capitalized terms used herein and not otherwise defined in this Escrow Agreement shall have the meaning ascribed to them in the Asset Purchase Agreement);

WHEREAS, pursuant to Section 3.3 of the Asset Purchase Agreement, Buyer and Sellers have agreed that Buyer will deliver a deposit of $30,000,000 (the "*Escrowed Funds*") into an escrow account;

WHEREAS, Buyer and Sellers desire to appoint the Escrow Agent to act as escrow agent hereunder in the manner hereinafter set forth and the Escrow Agent is willing to act in such capacity;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Buyer, Sellers and the Escrow Agent hereby agree as follows:

1. Establishment of Escrow Account. The Escrow Agent shall establish and maintain on behalf of the parties hereto, an interest bearing trust account (the "*Escrow Account*") to which there shall be immediately credited and held all amounts received by the Escrow Agent from Buyer in accordance with Section 2 hereof. The funds credited to the Escrow Account shall be applied and disbursed only as provided herein. The Escrow Agent shall, to the extent required by law, segregate the funds credited to the Escrow Account from its other funds held as an agent or in trust.

2. Deposits to the Escrow Account; Investment.

(a) Buyer shall deliver to the Escrow Agent for deposit in the Escrow Account $30,000,000 as required pursuant to Section 3.3 of the Asset Purchase Agreement and the terms set forth herein.

(b) All amounts to be deposited with the Escrow Agent shall be transferred by wire transfer of immediately available funds to the following account of

the Escrow Agent (or to such other account of the Escrow Agent as the Escrow Agent shall notify Sellers and Buyer in writing prior to the transfer of funds and which account Sellers and Buyer approve):

[Name of Escrow Agent]
ABA No.: [_____]
Account No.: [_____]
Allegiance Telecom Escrow
Attention: [_____]

(c) The Escrow Agent shall confirm in writing to Sellers and Buyer the deposit received by it pursuant to Section 2(a) above and the amount of such deposit and of any other amounts from time to time deposited with the Escrow Agent in connection with the Asset Purchase Agreement.

(d) Funds on deposit in the Escrow Account shall be invested in short-term United States government securities, money-market funds, interest bearing depository accounts or short-term certificates of deposit of a bank or trust company having combined capital, surplus and retained earnings of at least $500 million; provided that any such investment can be liquidated upon three days notice. The Escrow Agent shall not be accountable or liable for any losses resulting from the sale or depreciation in the market value of such investments thereof.

(e) Buyer shall be deemed the owner of all Escrowed Funds and investments in the Escrow Account and shall be responsible for the preparation of all tax returns associated with the investments therein and shall pay all costs relating to such returns, and all taxes, fines and penalties and interest. The Escrow Account shall be assigned the federal tax identification number of Buyer. Buyer shall provide Escrow Agent, at any time upon request of Escrow Agent with a Form W-8 or W-9 to evidence Buyer is not subject to any back-up withholding under the United States Internal Revenue Code. Buyer shall report all income, if any, that is earned on, or derived from, the Escrowed Funds as its income, in the taxable year or years in which such income is properly includible and pay any taxes attributable thereto.

3. Distributions from Escrow Account.

(a) Funds on deposit in the Escrow Account shall be withdrawn by the Escrow Agent only in accordance with this Section 3.

(b) If the Escrow Agent receives joint written instructions signed by Buyer and Sellers pursuant to the Asset Purchase Agreement that such agreement has been terminated, the Escrow Agent shall disburse in accordance with the joint written instructions of Buyer and Sellers the Escrowed Funds to Buyer or Sellers and all accrued investment income thereon to Buyer, in each case within three (3) Business Days of receipt of notice of such termination.

(c) If one of the parties (the "*Notifying Party*") (without joint instructions from the other party) notifies the Escrow Agent that it is entitled to the Escrowed Funds, such notice (the "*Notice*") shall state the reason that the Notifying Party is entitled to the Escrowed Funds, and the Notice will also be sent to the other party (the "*Recipient*"). The Recipient shall have ten (10) calendar days from its actual receipt of the Notice to provide notice to the Escrow Agent and the Notifying Party disputing the Notifying Party's entitlement to the Escrowed Funds. If the Escrow Agent does not receive notice disputing such entitlement to the Escrowed Funds within ten (10) calendar days after the Recipient actually receives the Notice, the Escrow Agent shall pay the Escrowed Funds as directed by the Notifying Party. If the Escrow Agent receives notice disputing such entitlement to the Escrowed Funds within ten days after the Recipient receives the Notice, the Escrow Agent shall not pay the Escrowed Funds until the Escrow Agent receives either an order of the Bankruptcy Court, which order has become final and not subject to appeal and has been certified by the clerk of the Bankruptcy Court or other appropriate official, or joint written notice signed by Buyer and Sellers indicating that the dispute has been resolved and directing the Escrow Agent to whom to pay the Escrowed Funds and income earned thereon and in what amounts (collectively, a "*Final Resolution*"). The Escrow Agent shall pay the Escrowed Funds within three (3) business days of its receipt of the written evidence of a Final Resolution required above in this Section 3(c). The Escrow Agent shall be entitled to rely, exclusively, on any representation jointly made by Buyer and Sellers in writing in relation to the release of funds from the Escrow Account, and shall release funds from the Escrow Account from time to time as directed in any such joint written instruction from Buyer and Sellers or pursuant to a Final Resolution.

(d) Upon the Escrow Agent receiving written notice, signed by Buyer and Sellers, of the Closing of the transactions contemplated by the Asset Purchase Agreement, the Escrow Agent shall disburse to Sellers the Escrowed Funds, and the earnings thereon shall be disbursed to Buyer, in each case within three (3) Business Days of receipt of notice of the Closing.

(e) Any written instructions delivered to the Escrow Agent by Buyer shall only be effective if such instructions are executed on behalf of Buyer by both Mark T. Evans and Peter Hutchinson, or their respective successors.

(f) All disbursements of the Escrowed Funds, or any portion thereof, and the earnings thereon to Buyer shall be disbursed to Buyer in accordance with the instructions attached hereto as Exhibit A. Buyer may amend Exhibit A hereto from time to time by providing written notice to the Escrow Agent. Any such amendment shall be effective immediately upon receipt by the Escrow Agent of such written notice.

(g) All disbursements of the Escrowed Funds, or any portion thereof, to Sellers shall be disbursed to Sellers in accordance with the instructions attached hereto as Exhibit B. Sellers may amend Exhibit B hereto from time to time by providing written notice to the Escrow Agent. Any such amendment shall be effective immediately upon receipt by the Escrow Agent of such written notice.

4. Termination of Escrow Account and Escrow Agreement. The Escrow Account shall be deemed dissolved and this Escrow Agreement shall terminate upon the written agreement of the parties hereto, upon disbursement of all of the funds in the Escrow Account, or upon transfer of all amounts in the Escrow Account then in the possession of the Escrow Agent to the Bankruptcy Court or such other party as the parties hereto may jointly agree upon in writing in accordance with the terms of this Escrow Agreement.

5. Escrow Agent.

(a) Buyer and Sellers, jointly and severally, agree to pay the Escrow Agent reasonable compensation for its services as Escrow Agent hereunder, as listed on Schedule A annexed hereto, promptly upon request therefor, and to reimburse the Escrow Agent for all reasonable expenses of or reasonable disbursements incurred by the Escrow Agent in the performance of its duties hereunder, including the reasonable fees, expenses and disbursements of counsel to the Escrow Agent. Notwithstanding the foregoing, and without prejudice to the Escrow Agent's rights hereunder, each of Buyer and Sellers shall bear 50% of the fees, costs and expenses of the Escrow Agent and of any indemnity obligation pursuant to Section 6(c) hereof.

(b) The Escrow Agent may retain that portion of the Escrow Account equal to any such unpaid reasonable costs, expenses and fees incurred by the Escrow Agent as contemplated by Section 5(a) above until such time as such costs, expenses and fees have been paid.

6. Rights, Duties and Immunities of Escrow Agent. Acceptance by the Escrow Agent of its duties under this Escrow Agreement is subject to the following terms and conditions, which all parties to this Escrow Agreement hereby agree shall govern and control the rights, duties and immunities of the Escrow Agent:

(a) The duties and obligations of the Escrow Agent shall be determined solely by the express provisions of this Escrow Agreement and the Escrow Agent shall not be liable, except for the performance of such duties and obligations as are specifically set out in this Escrow Agreement. The Escrow Agent shall not be required to inquire as to the performance or observation of any obligation, term or condition under any agreement or arrangement by Buyer and Sellers. The Escrow Agent is not a party to, and is not bound by, any agreement or other document out of which this Escrow Agreement may arise. The Escrow Agent shall be under no liability to any party hereto by reason of any failure on the part of any other party hereto or any maker, guarantor, endorser or other signatory of any document or any other person to perform such person's obligations under any such document. The Escrow Agent shall not be bound by any waiver, modification, termination or rescission of this Escrow Agreement or any of the terms hereof, unless evidenced by a writing delivered to the Escrow Agent signed by the proper party or parties and, if the duties or rights of the Escrow Agent are affected, unless it shall give its prior written consent thereto. This Escrow Agreement shall not be deemed to create a fiduciary relationship between the parties hereto under state or federal law.

(b) The Escrow Agent shall not be responsible in any manner for the validity or sufficiency of this Escrow Agreement or of any property delivered hereunder, or for the value or collectibility of any note, check or other instrument, if any, so delivered, or for any representations made or obligations assumed by any party other than the Escrow Agent. Nothing herein contained shall be deemed to obligate the Escrow Agent to deliver any cash, instruments, documents or any other property referred to herein, unless the same shall have first been received by the Escrow Agent pursuant to this Escrow Agreement.

(c) Buyer and Sellers will reimburse and indemnify the Escrow Agent for, and hold it harmless against, any loss, liability or expense, including but not limited to reasonable counsel fees, incurred without bad faith, willful misconduct or gross negligence on the part of the Escrow Agent arising out of or in conjunction with its acceptance of, or the performance of its duties and obligations under this Escrow Agreement, as well as the costs and expenses of defending against any claim or liability arising out of or relating to this Escrow Agreement.

(d) The Escrow Agent shall be fully protected in acting on and relying upon any written notice direction, request, waiver, consent, receipt or other paper or document which the Escrow Agent in good faith believes to have been signed and presented by the proper party or parties.

(e) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith or for any mistake in act or law, or for anything which it may do or refrain from doing in connection herewith, except its own gross negligence or willful misconduct.

(f) The Escrow Agent may seek the advice of legal counsel in the event of any dispute or question as to the construction of any of the provisions of this Escrow Agreement or its duties hereunder, and it shall incur no liability and shall be fully protected in respect of any action taken, omitted or suffered by it in good faith in accordance with the written advice or opinion of such counsel.

(g) The parties hereto agree that should any dispute arise with respect to the payment, ownership or right of possession of the Escrow Account, the Escrow Agent is authorized and directed to retain in its possession, without liability to anyone, except for its bad faith, willful misconduct or gross negligence, all or any part of the Escrow Account until such dispute shall have been settled either by mutual agreement by the parties concerned or by the final order, decree or judgment of the Bankruptcy Court and a notice executed by the parties to the dispute or their authorized representatives shall have been delivered to the Escrow Agent setting forth the resolution of the dispute, which notice Buyer and Sellers hereby agree to so execute and deliver to the Escrow Agent in the event that such an order, decree or judgment is obtained from or issued by the Bankruptcy Court. The Escrow Agent shall be under no duty whatsoever to institute, defend or partake in such proceedings.

(h) The agreements set forth in this Section 6 shall survive the resignation or removal of the Escrow Agent, the termination of this Escrow Agreement and the payment of all amounts hereunder.

7. Resignation of Escrow Agent. The Escrow Agent shall have the right to resign upon 30 days written notice to Sellers and Buyer. In the event of such resignation, Sellers and Buyer shall mutually agree upon and appoint a successor escrow agent hereunder by delivering to the Escrow Agent a written notice of such appointment. Upon receipt of such notice, the Escrow Agent shall deliver to the designated successor escrow agent all money and other property held hereunder and shall thereupon be released and discharged from any and all further responsibilities whatsoever under this Escrow Agreement; provided, however, that the Escrow Agent shall not be deprived of its compensation earned prior to such time.

If no successor escrow agent shall have been designated by the date specified in the Escrow Agent's notice, all obligations of the Escrow Agent hereunder shall nevertheless cease and terminate. Its sole responsibility thereafter shall be to keep safely all property then held by it and to deliver the same to a person designated by the other parties hereto or in accordance with the direction of a final order or judgment of the Bankruptcy Court.

8. Notices. All claims, notices, consents, objections and other communications under this Escrow Agreement shall be in writing and shall, except as otherwise provided herein, be deemed to have been duly given when (i) delivered by hand, (ii) sent by telecopier (with receipt confirmed), or (iii) when received by the addressee, if sent by Express Mail, Federal Express or other reputable overnight delivery service, in each case, at the appropriate addresses and telecopier numbers as set forth below:

ESCROW AGENT:	[Name of Escrow Agent] [Address of Escrow Agent] Attention: [_____] Telecopier: (___) ___-____
BUYER:	Qwest Communications International Inc. 1801 California Street Denver, CO 80202 Telecopier: (303) 296-5974 Attention: General Counsel

With a copy to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Telecopier: (212) 310-8007
Attention: Paul M. Basta, Esq.
Howard Chatzinoff, Esq.

SELLERS:

c/o Allegiance Telecom, Inc.
700 E. Butterfield Road, Suite 400
Lombard, IL 60148
Telecopier: (630) 522-5250
Attention: Mark B. Tresnowski, Esq.
Executive Vice President,
General Counsel and Secretary

With a copy to:

Kirkland & Ellis LLP
153 East 53rd St.
New York, NY 10022
Telecopier: (212) 446-4900
Attention: Jonathan S. Henes, Esq.
Michael Movsovich, Esq.

(or to such other addresses and telecopier numbers as a party may designate as to itself by notice to the other parties). Notwithstanding any of the foregoing, any computation of a time period which is to begin after receipt of a notice by the Escrow Agent shall run from the date of receipt by it.

9. Successors. This Escrow Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that this Escrow Agreement may not be assigned by any party without the prior written consent of the other parties, which consent shall not be unreasonably withheld.

10. Severability. If any portion or provision of this Escrow Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Escrow Agreement shall be construed by modifying or limiting it so as to be valid and enforceable to the maximum extent compatible with, and possible under, applicable law. The provisions hereof are severable, and in the event any provision hereof should be held invalid or unenforceable in any respect, it shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

11. Amendments. Except as set forth in Sections 3(f) and 3(g) above, this Escrow Agreement may be amended or modified at any time or from time to time in writing executed by the parties to this Escrow Agreement.

12. Governing Law. This Escrow Agreement shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the substantive laws of the State of New York, without regard to the conflict of laws principles thereof or of any other jurisdiction.

13. JURISDICTION. THE BANKRUPTCY COURT SHALL HAVE EXCLUSIVE JURISDICTION TO RESOLVE ANY AND ALL DISPUTES ARISING UNDER THIS ESCROW AGREEMENT AND EACH OF THE PARTIES HERETO HEREBY EXPRESSLY CONSENTS TO SUCH EXCLUSIVE JURISDICTION.

14. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Escrow Agreement, or the waiver by any party of any breach of this Escrow Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

15. Headings. The headings and captions in this Escrow Agreement are for convenience of reference only and shall not in any way affect the meaning or interpretation of this Escrow Agreement.

16. Counterparts. This Escrow Agreement may be executed in any number of counterparts and by each of the parties hereto in separate counterparts (including by facsimile), each of which when so executed shall be deemed to be an original and all of which together shall constitute one and the same agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the undersigned have executed this Escrow Agreement as of the date first written above.

ALLEGIANCE TELECOM, INC.

By: _____
Name:
Title:

ALLEGIANCE TELECOM COMPANY WORLDWIDE

By: _____
Name:
Title:

QWEST COMMUNICATIONS INTERNATIONAL INC.

By: _____
Name:
Title:

[INSERT NAME OF ESCROW AGENT],
as Escrow Agent

By: _____
Name:
Title:

ALLEGIANCE

SCHEDULE OF FEES

To act as an
Escrow Agent

Annual Administration Fee $[_____]

Covers acceptance of appointment as Escrow Agent including complete study of drafts of Escrow Agreement and all supporting documents in connection therewith, conferences until the final Escrow Agreement is agreed upon and execution of final Agreement.

Investments (if applicable)

Per purchase, sale, redemption, maturity or exchange $[_____]

Wire Transfer of Funds $[_____] out going
$[_____] incoming

NOTE:

Charges for any services not specifically covered in this schedule will be billed commensurate with the services rendered. This schedule reflects charges that are now in effect for our normal and regular services and are subject to modification where unusual conditions or requirements prevail, and does not include counsel fees or expenses and disbursements, which will be billed at cost. The fees of our counsel shall be due and payable whether or not the transaction closes.

[Remainder of Page Intentionally Left Blank]

EXHIBIT A

[to come from Buyer]

EXHIBIT B

[to come from Sellers]

EXHIBIT G

Base Working Capital Calculation

Current Assets	
Accounts Receivable:	
	Net of Shared Technologies (Net of allowance for doubtful accounts)
	Net of Shared Hosting (Net of allowance for doubtful accounts)
	Net of pre-Petition carrier access billings A/R (Net of allowance for doubtful accounts)
	Net of Level 3 Communications Integrated Solutions Network Purchase Agreement (Net of allowance for doubtful accounts)
Prepaid Expenses and other Current Assets:	
	Prepaid Rent and Leases - Net of Shared Technologies
	Prepaid Insurance
	Prepaid Services
Current Liabilities:	
Accounts Payable	
	Net of Administrative Fees related to the Cases
	Net of Excluded Contracts: Amvescap Group, Biddle Consulting Group, Ceridian Benefits Services, Cigna Behavioral Health, Connecticut General Life, Equiserve, My Benergy, Salomon Smith Barney, TMP Worldwide, The Hartford Financial Services, Vision Service Plan, Watson Wyatt & Company, KMC Telecom Primary Rate Interface Services Agreement
	Net of Shared Technologies and Shared Hosting related Payables
Accrued Liabilities	Accrued Liabilities - Other - Net of Shared Technologies and Shared Hosting
	Accrued Liabilities - Legal - Net of Shared Technologies and Shared Hosting
	Accrued Liabilities - Audit Fees - Net of Shared Technologies and Shared Hosting

(Signatures Continued)

Accrued Customer Invoice Processing Fees - Net of Shared Technologies and Shared Hosting
Post-Petition Accrued Network Costs - Net of Shared Technologies and Shared Hosting

Exhibit I

FORM OF MANAGEMENT AGREEMENTS

This MANAGEMENT AGREEMENT ("Agreement") is dated as of _____, by Allegiance Telecom, Inc. and its subsidiaries listed as Sellers on the signature page hereto (collectively, "Sellers"), and Qwest Communications International Inc., a Delaware corporation ("Manager").

WHEREAS, the Sellers and the Manager are parties to an Asset Purchase Agreement dated as of [_____], 2003 (the "Asset Purchase Agreement") whereby Manager has agreed to purchase the Acquired Assets from Sellers;

WHEREAS, on [_____], the Asset Purchase Agreement was approved by the Bankruptcy Court presiding over the Chapter 11 cases of the Sellers ("Bankruptcy Court");

WHEREAS, pursuant to the Asset Purchase Agreement, the Non-Transferred Assets will be transferred to Manager from time to time upon receipt of the FCC Consents and the State PUC Consents, or any of them;

WHEREAS, in order to ensure uninterrupted service to Sellers' customers pending issuance of the FCC Consents and the State PUC Consents, and to avoid associated potential harm to customers, Sellers and Manager desire that Manager provide management services to Sellers after the Closing Date, in conformity with the rules and policies of the FCC, the State PUCs and the terms and conditions of the Asset Purchase Agreement and this Agreement;

WHEREAS, this Agreement and the Asset Purchase Agreement are interrelated according to their respective provisions; and

WHEREAS, the Bankruptcy Court has approved this Agreement in connection with its approval of the Asset Purchase Agreement.

NOW, THEREFORE, in consideration of the above recitals and mutual promises and covenants contained herein, the parties, intending to be legally bound, agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Definitions. Any term capitalized herein and not otherwise defined shall have the meaning assigned to it in the Asset Purchase Agreement.

ARTICLE II
APPOINTMENT AND TERM OF THE AGREEMENT

Section 2.1 Appointment; Expenses.

(a) Manager hereby agrees, on the terms and conditions set forth herein, to provide management services to Sellers so as to meet any and all ongoing obligations associated with the Non-Transferred Assets, including obligations of Sellers to their respective customers pursuant to existing contractual relationships and to any new customers that may from time to time purchase such services from Sellers or their respective customers, in compliance with the Communications Licenses. The duties of Manager under this Agreement shall include:

(i) Providing all operational personnel necessary to the operation of the Non-Transferred Assets;

(ii) Collecting all accounts receivable, rendering all bills, processing all credit card charges and keeping books and records substantially in accordance with Sellers' standard practices prior to the Closing;

(iii) Providing all technical resources necessary to operate the Non-Transferred Assets substantially as Sellers had operated such assets prior to the Closing;

(iv) Monitoring all of the administrative and governmental notice, filing, tax, fee and permit requirements with respect to the Non-Transferred Assets (other than any notices, filings or fees associated with the transfer of the Communications Licenses from Sellers to Manager or other disposition of the Sellers' assets, including the Communications Licenses which are addressed in the Asset Purchase Agreement) and, when such notices, reports or fees fall due, Manager shall submit to Sellers those notices, reports or invoices for Sellers to remit to the appropriate agency (together with instructions for remission and payment reimbursing Sellers for any fees or taxes Sellers must pay such agency); and

(v) Doing all things commercially reasonable to carry out the duties of operating and managing the Non-Transferred Assets in a manner substantially similar to that of Sellers prior to the Closing Date.

(b) Manager hereby agrees to pay during the Term such newly-accruing actual costs and expenses of the ongoing operations of the Business. Manager shall either pay directly, or reimburse Sellers for (within fifteen (15) days of receipt of an invoice therefor), all such costs and expenses.

(c) Manager hereby agrees in furtherance of its obligations hereunder to ensure that, not later than the date hereof, it will fund an account at [bank] with at least Five Million dollars ($5,000,000) in cash (the "Reserve Account") from which, during the Term,

funds may be withdrawn by Sellers, in consultation with Manager, to pay amounts required to be paid pursuant to Section 2.1 which are due and owing but which Manager has failed to pay. In the event that any funds shall be on deposit in the Reserve Account at the conclusion of the Term, and all accrued and unpaid costs required to be paid pursuant to Section 2.1 shall have been paid, any balance may, upon five (5) days' written notice to the Sellers, be withdrawn by Manager.

(d) In the event that the Sellers shall be held liable for any costs or expenses required to be paid by the Manager pursuant to this Agreement for which the funds deposited in the Reserve Account are insufficient, the Manager hereby agrees to indemnify the Sellers for all such costs and expenses.

ARTICLE III
MANAGEMENT OF THE BUSINESS

Section 3.1 During the Term, the Manager shall have the duty to manage the facilities and operations authorized under the Communications Licenses on behalf of Sellers in the operation of the Non-Transferred Assets consistent with the provisions of this Agreement and subject to Sellers' continued ownership and control of the Non-Transferred Assets and Sellers' reasonable supervision and direction. Manager hereby agrees to report regularly to Sellers' designee the status of the operations of the Business.

Section 3.2 Sellers and Manager desire that this Agreement and the obligations performed hereunder be in full compliance with (i) the terms and conditions of the Communications Licenses; (ii) the Communications Act of 1934, as amended (the "Act"); (iii) all applicable rules, regulations and policies of the FCC and the State PUCs; and (iv) any other applicable federal, state and local law or regulation. It is expressly understood by Sellers and Manager that nothing in this Agreement is intended to give Manager any right which would be deemed to constitute a transfer of control (as is defined in the Act and/or any applicable FCC or state rules, regulations or case law) by the Sellers of any of the Communications Licenses or Non-Transferred Assets from Sellers to Manager.

Section 3.3 Manager acknowledges and agrees that Sellers have certain rights and obligations pursuant to the Communications Licenses with respect to activities authorized thereunder, which include compliance with the Act, and the rules, regulations, and policies of the FCC and the State PUCs. The services provided by Manager hereunder are not intended to diminish or restrict Sellers' compliance with their respective obligations under applicable law or before the FCC or the State PUCs, and this Agreement shall not be construed to diminish or interfere with any Seller's obligation or ability to comply with the rules, regulations or directives of any governmental or jurisdictional authority with respect to the Communications Licenses or the Non-Transferred Assets.

Section 3.4 At their discretion and at their expense, Sellers may conduct periodic audits (during normal business hours, upon reasonable notice, and in a manner so as not to interfere unreasonably with the operation of the Business) of Manager's management of the Business to ensure compliance in all material respects with the Communications Licenses and applicable federal, state and local law or regulation. In addition, the Sellers shall have access

and authority to inspect the equipment and related hardware that is required to transmit and/or receive telecommunications, including but not limited to network facilities, switching equipment, customer premises equipment and testing equipment, for any reason, including but not limited to determining whether under the Manager's management, the Non-Transferred Assets are operating in a manner that violates the terms of this Agreement, the Act or the FCC's or State PUC's rules, regulations, or policies or is otherwise operating in a harmful or unlawful manner.

Section 3.5 Manager shall be responsible for providing the management services in compliance with the Sellers' existing tariffs and service contracts, and all applicable law, including, without limitation, tariffs in effect from time to time. Manager shall perform the management services in a professional manner and in accordance with all applicable professional or industry standards.

Section 3.6 The parties shall both have the right to use the Seller Marks during the Term (as hereinafter defined). The Manager shall take reasonable steps to maintain the distinct identities of the Sellers using each such entity's name and logo in all billing and other correspondence on behalf of the Sellers, maintaining accurate accounting books and records of operations for the Non-Transferred Assets separate from the Manager's accounting books and records of operations for other assets and following such other procedures as the parties may mutually agree upon from time to time.

Section 3.7 Sellers shall retain a reasonably sufficient number of employees to supervise and assist in the operation of the Non-Transferred Assets and meet Sellers' associated regulatory responsibilities, as designated herein and in the Transition Plan.

ARTICLE IV
COMPENSATION

Section 4.1 As consideration for Manager providing Sellers the management services described herein, Sellers agree to pay to Manager a monthly fee ("Management Fee") equal to the sum of (x) Manager's costs incurred in providing the management services (including, without limitation, Manager's own out-of-pocket expenses and any of Sellers' costs that are reimbursed by Manager pursuant to Section 2.1(b) above) ("Manager's Aggregate Monthly Expenses") plus (y) 15% of Manager's Aggregate Monthly Expenses. Manager shall be paid solely out of the revenue generated by the Non-Transferred Assets for such month (the "Monthly Fee Receipts"), collectible by Manager solely from cash receipts related to the Non-Transferred Assets. In any month during the Term in which the Monthly Fee Receipts are not equal to or in excess of the Management Fee, Sellers will not have any obligation to pay Manager any additional amount or reimburse Manager for any costs or losses associated with the Non-Transferred Assets in excess of such receipts ("Payment Shortfall"), provided that to the extent Monthly Fee Receipts in any month exceed the Management Fee otherwise due to Manager hereunder ("Excess Payments"), such Excess Payments shall, first, be applied to reduce Payment Shortfalls in prior months, if any, and second, any residual Excess Payment amounts shall be held in escrow to be applied to Payment Shortfalls in future months, if any. Upon termination of this Agreement any cash receipts from customers in excess of the Management Fee shall be remitted to Sellers. Sellers and Manager agree to review the fee set forth above on a monthly basis and to negotiate in good faith a modification to such fee to reflect changing circumstances or operating results.

ARTICLE V
COMPLIANCE WITH APPLICABLE LAWS

Section 5.1 Compliance with Applicable Laws and Regulations.

(a) Manager agrees that, in connection with providing the management services hereunder, it shall comply in all material respects with all applicable laws, ordinances, rules, regulations, and restrictions, including but not limited to the Act, the FCC's and State PUCs' rules, regulations, and policies, and local ordinances.

(b) Manager and Sellers recognize that Sellers remain ultimately responsible for compliance with the terms of the Communications Licenses. In that regard, the Manager shall not, without the prior consent of the Sellers, such consent not to be unreasonably withheld, take the following actions with respect to the Non-Transferred Assets:

(i) enter into, modify, intentionally breach or terminate any material agreement relating to the Non-Transferred Assets, other than in the ordinary course of business;

(ii) sell, assign, lease, transfer or otherwise dispose of any material Non-Transferred Asset or purchase or otherwise acquire any assets for the Sellers except for non-material assets acquired in the Ordinary Course of Business;

(iii) alter or change in any material respect the Sellers' accounting procedures or accounting practices, including their practices with respect to the maintenance of working capital balances, maintenance of inventory and write-downs and charge-offs of accounts receivable, collection of accounts receivable, payment of accounts payable and cash management practices generally;

(iv) initiate, settle or terminate any material litigation relating to the Non-Transferred Assets or waive any material rights of the Non-Transferred Assets;

(v) demote or terminate any employee of the Sellers;

(vi) hire any employee for the Sellers;

(vii) delay or hinder the deployment of network facilities in accordance with the existing network deployment plans relating to the Non-Transferred Assets; or

(viii) cause the Sellers to take any action or neglect to take any action which would constitute a default under this Agreement or the Asset Purchase Agreement.

(b) Sellers shall be responsible for the filing of all applications, reports, correspondence and other documentation with the FCC or the State PUCs relating to the Non-

Transferred Assets; *provided, however*, that Manager shall cooperate in Sellers' preparation of such filings; and *provided, further*, that Manager shall reimburse Sellers for all reasonable out-of-pocket legal fees and other expenses incurred in connection with such applications, correspondence and other related matters. Manager shall provide upon Sellers' reasonable request any information which will enable them to prepare any records and reports required by the FCC or the State PUCs and other federal, state or local government authorities.

(c) Manager shall not represent itself as the holder of any of the Communications Licenses or as the representative of Sellers before the FCC or the State PUCs.

Section 5.2 Obligation to Renegotiate; Indemnification. In the event of any order or decree of an administrative agency or court of competent jurisdiction or any other action or determination by any Governmental Entity, including without limitation any material change in or clarification of FCC or State PUC rules, policies, or precedent, that would cause this Agreement to be invalid, in whole or in part, or violate any applicable Law, or if the staff of any Governmental Entity has advised the parties, orally or in writing, that the review of any request by the parties for authority for the transactions contemplated hereby will be inordinately delayed or will likely be determined adversely to the parties, the parties will use their respective reasonable efforts and negotiate in good faith to modify this Agreement to the minimum extent necessary so as to comply with such order, decree, action or determination and/or remove any controversy identified by such Government Entity without material economic detriment to either party, and to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible. This Agreement, as so modified, shall then continue in full force and effect. If after fulfilling the obligation to renegotiate set forth in this section, the parties mutually determine that they cannot modify this Agreement to comply with a Government Entity order, decree, action, determination, or remove a controversy identified by such Government Entity, Manager may elect not to pursue the transfer or assignment of any affected Non-Transferred Assets. If the FCC or any State PUC determines that this Agreement, the Asset Purchase Agreement or the transactions contemplated hereby or thereby has effectuated the transfer of any of the FCC Licenses or State PUC Licenses or is otherwise in violation of the Act or any applicable FCC or state regulations, rules or precedent, the Manager will indemnify and hold harmless the Sellers and their Representatives for any Liabilities arising out of or relating thereto.

ARTICLE VI
TERM

Section 6.1 Term. This Agreement shall commence on the Closing Date and shall expire upon the earlier to occur of (x) the transfer or assignment of all Non-Transferred Assets, including as applicable all FCC Licenses and PUC Licenses associated therewith, to the Manager pursuant to the terms and subject to the conditions of the Asset Purchase Agreement or to a third party pursuant to Section 6.2 below, or (y) the six (6) month anniversary of the Closing Date; *provided, however*, that, in the event and on the date that this Agreement expires pursuant to clause (y) above, then, to the extent that any FCC Consent or any State PUC Consent, as applicable, has not been obtained, the Agreement shall automatically renew, as necessary, for two (2) additional successive three (3) month periods with respect to the Non-Transferred Assets until the last of such FCC Consents and/or State PUC Consents is obtained and any Non-

Transferred Assets subject to such FCC Consents and/or State PUC Consents have been transferred or assigned to the Manager (the initial term and any extensions thereof are herein referred to as the "Term"), unless, after fulfilling its obligation to renegotiate set forth in Section 5.2 above, the Manager determines that the parties cannot modify this Agreement to comply with a Government Entity order, decree, action, determination or remove a controversy identified by such Governmental Entity and Manager elects not to pursue the transfer, assignment or reauthorization of any affected Non-Transferred Assets. Notwithstanding the foregoing, upon the receipt from time to time of all necessary consents or approvals from any Governmental Entity, including FCC Consents and State PUC Consents, applicable to the Non-Transferred Assets, and the transfer of the Non-Transferred Assets relating to such FCC and/or State PUC Consent by the Sellers to the Manager pursuant to Section 2.5 of the Asset Purchase Agreement, such Non-Transferred Assets shall be considered Acquired Assets under the Asset Purchase Agreement and shall no longer be subject to this Agreement.

Section 6.2 Sale and Disposition of Proceeds. Manager may at any time designate an alternative purchaser of some or all of the Non-Transferred Assets, and upon Sellers' consent (such consent not to be unreasonably withheld) Sellers shall use commercially reasonable efforts to transfer such assets to the alternative purchaser, with all costs and expenses incurred in connection therewith to be borne by Manager, and promptly pay over to Manager the net proceeds of such sale. If any Non-Transferred Assets are not transferred to Manager within six (6) months of the Closing Date, then, subject to the provisions of Section 6.1, after that date Manager may give notice to Sellers of an intent to terminate this Agreement, and Sellers shall take actions, at Manager's expense, to dispose of any remaining Non-Transferred Assets, and remit any proceeds arising therefrom to Manager.

ARTICLE VII
MISCELLANEOUS

Section 7.1 Amendment and Modification. This Agreement may be amended, modified or supplemented only by written agreement of Sellers and Manager.

Section 7.2 Waiver of Compliance; Consents. Except as otherwise provided in this Agreement, any failure of any of the parties to comply with any obligation, covenant or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, or condition shall not operate as a waiver of or estoppel with respect to any subsequent or other failure.

Section 7.3 Notices. Unless otherwise provided herein, any notice, request, instruction or other document to be given hereunder by any party to any other party shall be in writing and shall be delivered in person or by courier or facsimile transmission (with such facsimile transmission confirmed by sending a copy of such notice, request, instruction or other document by certified mail, return receipt requested, or overnight mail) or mailed by certified mail, postage prepaid, return receipt requested (such mailed notice to be effective on the date such receipt is acknowledged), as follows:

If to Sellers:

c/o Allegiance Telecom, Inc.
700 E. Butterfield Road, Suite 400
Lombard, IL 60148
Attention: Mark B. Tresnowski, Esq.
Executive Vice President, General Counsel and
Secretary
Fax: (630) 522-5250

With a copy to (which shall not constitute notice):

Kirkland & Ellis LLP
153 East 53rd
New York, NY 10022
Attention: Jonathan S. Henes, Esq.
Michael Movsovich, Esq.
Fax: (212) 446-4900

and

Swidler Berlin Shereff Friedman LLP
3000 K Street, NW, Suite 300
Washington, DC 20007
Attention: Jean L. Kiddoo, Esq.
Catherine Wang, Esq.
Fax: (202) 424-7645

If to Manager:

Qwest Communications International Inc.
1801 California Street
Denver, CO 80202
Attention: General Counsel
Fax: (303) 308-0385

With a copy to (which shall not constitute notice):

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Attention: Paul M. Basta, Esq.
Howard Chatzinoff, Esq.
Fax: (212) 310-8007

and

Hogan & Hartson, L.L.P.
555 Thirteenth Street, N.W.
Washington, DC 20004-1109
Attention: Peter A. Rohrbach, Esq.
Mace J. Rosenstein, Esq.
Fax: (212) 637-5910

or to such other place and with such other copies as either party may designate as to itself by written notice to the other party. Notices sent as provided herein shall be deemed given on the date received by the recipient. If a recipient rejects or refuses to accept a notice given pursuant to this Section, or if a notice is not deliverable because of a changed address or fax number of which no notice was given in accordance with the provisions hereof, such notice shall be deemed to be received two (2) days after such notice was mailed (whether as the actual notice or as the confirmation of a faxed notice) in accordance with the terms hereof.

Section 7.4 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto, including by operation of law, without the prior written consent of the other party; *provided, however*, that Manager may assign this Agreement and any of the rights, interests and obligations hereunder to any Affiliate upon written notice to Sellers; *provided further, however*, that Manager shall remain liable hereunder. Any assignment of this Agreement or any of the rights, interests or obligations hereunder in contravention of this Section 7.4 shall be null and void and shall not bind or be recognized by any of the Sellers or Manager.

Section 7.5 Third-Party Beneficiaries; Limitation of Liability. Nothing in this Agreement shall be construed as giving any person other than the parties hereto any legal or equitable right, remedy or claim under or with respect to this Agreement. Manager shall have no liability to Sellers or any other person or entity for any actual or alleged damage to the Non-Transferred Assets during the Term.

Section 7.6 Invalidity. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy all other terms, conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party.

Section 7.7 Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York (regardless of the laws that might otherwise govern under applicable New York principles of conflicts of law) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies.

Section 7.8 Submission to Jurisdiction. The parties hereto irrevocably submit to the exclusive jurisdiction of the Bankruptcy Court (or any court exercising appellate jurisdiction over the Bankruptcy Court) over any dispute arising out of or relating to this

Agreement or any other agreement or instrument contemplated hereby or entered into in connection herewith or any of the transactions contemplated hereby or thereby. Each party hereby irrevocably agrees that all claims in respect of such dispute or proceedings may be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection that they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum in connection therewith.

Section 7.9 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopy shall be as effective as delivery of a manually executed counterpart of this Agreement. In proving this Agreement, it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

Section 7.10 Entire Agreement; Amendments and Waivers. This Agreement, together with the Asset Purchase Agreement (including the schedules and exhibits thereto) constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations, and discussions, whether oral or written, of the parties. No supplement, modification or waiver of this Agreement (including, without limitation, any schedule hereto) shall be binding unless the same is executed in writing by all parties. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), and no such waiver shall constitute a continuing waiver unless otherwise expressly provided.

Section 7.11 Headings. The headings of the Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of, or to affect the meaning or interpretation of, this Agreement.

Section 7.12 Remedies. Sellers and Manager hereby acknowledge and agree that money damages may not be an adequate remedy for any breach or threatened breach of any of the provisions of this Agreement and that, in such event, Sellers or their successors or assigns, or Manager or its successors or assigns, as the case may be, may, in addition to any other rights and remedies existing in their favor, apply to the Bankruptcy Court for specific performance, injunctive and/or other relief in order to enforce or prevent any violations of this Agreement.

Section 7.13 No Partnership or Joint Venture Created. Nothing in this Agreement shall be construed or interpreted to make Manager and Sellers partners or joint venturers, or to afford any rights to any third party other than as expressly provided herein.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Sellers and Manager as of the date first above written.

SELLERS:

ALLEGIANCE TELECOM, INC.

By: _____
Name:
Title:

ALLEGIANCE TELECOM COMPANY WORLDWIDE
ADGRAFIX CORPORATION
ALGX BUSINESS INTERNET, INC.
ALLEGIANCE INTERNET, INC.
ALLEGIANCE TELECOM INTERNATIONAL, INC.
ALLEGIANCE TELECOM OF ARIZONA, INC.
ALLEGIANCE TELECOM OF CALIFORNIA, INC.
ALLEGIANCE TELECOM OF COLORADO, INC.
ALLEGIANCE TELECOM OF FLORIDA, INC.
ALLEGIANCE TELECOM OF GEORGIA, INC.
ALLEGIANCE TELECOM OF ILLINOIS, INC.
ALLEGIANCE TELECOM OF INDIANA, INC.
ALLEGIANCE TELECOM OF MARYLAND, INC.
ALLEGIANCE TELECOM OF MASSACHUSETTS, INC.
ALLEGIANCE TELECOM OF MICHIGAN, INC.
ALLEGIANCE TELECOM OF MINNESOTA, INC.
ALLEGIANCE TELECOM OF MISSOURI, INC.
ALLEGIANCE TELECOM OF NEVADA, INC.
ALLEGIANCE TELECOM OF NEW JERSEY, INC.
ALLEGIANCE TELECOM OF NEW YORK, INC.
ALLEGIANCE TELECOM OF NORTH CAROLINA, INC.
ALLEGIANCE TELECOM OF OHIO, INC.
ALLEGIANCE TELECOM OF OKLAHOMA, INC.
ALLEGIANCE TELECOM OF OREGON, INC.
ALLEGIANCE TELECOM OF PENNSYLVANIA, INC.
ALLEGIANCE TELECOM OF TEXAS, INC.
ALLEGIANCE TELECOM OF THE DISTRICT OF COLUMBIA, INC.
ALLEGIANCE TELECOM OF VIRGINIA, INC.
ALLEGIANCE TELECOM OF WASHINGTON, INC.
ALLEGIANCE TELECOM OF WISCONSIN, INC.
ALLEGIANCE TELECOM PURCHASING COMPANY
ALLEGIANCE TELECOM SERVICE CORPORATION
COAST TO COAST TELECOMMUNICATIONS, INC.
HOSTING.COM, INC.
INTERACCESS TELECOMMUNICATIONS CO.
JUMP.NET, INC.
VIRTUALIS SYSTEMS, INC.

By: _____
Name:
Title:

MANAGER:

QWEST COMMUNICATIONS INTERNATIONAL INC.

By:_____
Name:
Title:

Timetable

Action	Time from Start Date
Execution of Agreement.	December 18, 2003
Filing of Motion to Approve (i) Bidding Procedures and Break Up Fee and (ii) Agreement With Qwest.	2 Business Days
Bankruptcy Court Approval of Bidding Procedures.	January 9, 2004
Auction.	February 13, 2004
Bankruptcy Court Approval of Sale Order.	March 1, 2004
Bankruptcy Court Approval of Disclosure Statement.	March 11, 2004
Bankruptcy Court Entry of Confirmation Order.	April 26, 2004
Effective Date of Plan.	May 17, 2004

EXHIBIT K

Current Liabilities

Wage Accruals
Payroll Taxes, to the extent related to wage accruals
Bonus
Commissions
Vacation
IBNR Medical/Dental
Workers Comp/Auto Liability
Legal Fees, not related to the Cases
Audit Fees, not related to the Cases
Invoice Processing
Network Accruals
Other Accrued Liabilities, not related to the Cases
Network Expense Settlements
Subscriber Taxes, other than Subscriber Taxes relating to Tax audit liabilities
Deferred Revenue – End User
Deferred Revenue – Set Up

EXHIBIT L

Sellers' Severance Practices	
Employee Group	**Estimated Weeks of Severance**
Non-Exempt	2
Non-management Exempt	2
Supervisors	2
Managers	2
Directors	2
Commissionable Directors	2
VPs	4
SVPs	Case by Case
Above SVPs	Case by Case

EXHIBIT M

ILEC Cure Adjustment Illustration

To illustrate the provisions of clauses (i) and (ii) of Section 3.5(a):

(i) If the ILEC Cure Amount is $25 million, Sellers would pay $25 million and Buyer would reduce the Cash Purchase Price by $5 million;

(ii) If the ILEC Cure Amount if $35 million, Sellers would pay $35 million and Buyer would reduce the Cash Purchase Price by $1.67 million;

(iii) If the ILEC Cure Amount is $40 million, Sellers would pay the entire $40 million; or

(iv) If the ILEC Cure Amount is $45 million, Sellers would pay $40 million plus one third (1/3) of the additional $5 million for a total of $41.67 million and Buyer would pay $3.34 million as an increase to the Cash Purchase Price.