

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

-----X
In re: : Chapter 11
ALLEGIANCE TELECOM, INC., *et al.*, : Case No. 03-13057 (RDD)
Debtors. :
(Jointly Administered) :
-----X

STIPULATION AND AGREED ORDER RESOLVING, AMONG OTHER THINGS, OBJECTION OF MCI, INC. TO DEBTORS' SECOND AMENDED JOINT PLAN OF REORGANIZATION PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE DATED APRIL 22, 2004

MCI, Inc. (formerly, WorldCom, Inc.) and its direct and indirect subsidiaries (collectively, "MCI") and Allegiance Telecom, Inc., Allegiance Telecom Company Worldwide ("ATCW"), and ATCW's direct and indirect subsidiaries (collectively, "Allegiance" or the "Debtors," and together with MCI, the "Parties") respectfully submit this Stipulation and Agreed Order ("Stipulation"):

WHEREAS, on May 14, 2003 (the "Petition Date"), Allegiance commenced cases under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the Bankruptcy Court for the Southern District of New York, Case No. 03-13057 (RDD) (the "Bankruptcy Court"). Allegiance continues to operate its businesses and manage its properties as debtors in possession.

WHEREAS, prior to the Petition Date, MCI and Allegiance entered into various agreements including the following: (1) the Asset Purchase Agreement, dated November 30, 2001 (the "IBI Agreement"); (2) the Asset Purchase Agreement dated June 17, 2002 (the "APA"); and (3) the Domestic & Metro Private Line Special Carrier

Service Agreement, dated September 29, 2000 (as amended, the “MSA”). In order to resolve certain disputes and claims raised under such contracts and various other agreements and tariffs between the Parties, MCI and Allegiance entered into an Agreement for Additional Services, Security, and Settlement of Certain Matters, as amended by Addendum No. 1, dated as of April 15, 2003 (as amended, the “Settlement Agreement”), and together with the IBI Agreement, the APA, the MSA, and all other prepetition agreements, tariffs and service orders between the Parties, the “Prepetition Agreements”). MCI continues to provide various services to Allegiance pursuant to the Prepetition Agreements.

WHEREAS, as of April 28, 2003, and in accordance with the Settlement Agreement, ATCW is the account party with respect to a certain irrevocable standby letter of credit (the “LOC”) issued by JPMorgan Chase Bank (“JPMorgan”) in the amount of \$3,000,000. JPMorgan issued the LOC to MCI and solely for the benefit of MCI. The LOC will expire by its terms on April 30, 2005.

WHEREAS, on November 25, 2003, MCI filed various proofs of claim against Allegiance in the aggregate amount of \$6,591,441.37 (the “Prepetition Claims”), for, among other things, amounts alleged to be due and owing to MCI under the Prepetition Agreements. The Debtors dispute that they owe a portion of the Prepetition Claims.

WHEREAS, MCI has reduced the outstanding amount owed on its Prepetition Claims by making a \$1,404,295.77 draw on the LOC (the “Draw”). Allegiance has disputed MCI’s right to the Draw and has filed an adversary proceeding against MCI with respect to the Draw, styled *Allegiance Telecom, Inc., et. al. v. MCI*,

Inc., et. al. (Adv. Pro. 04-03098-rdd) (the "Lawsuit"). In the Lawsuit, Allegiance asserts, *inter alia*, that the Draw is an avoidable preference under sections 547 and 550 of the Bankruptcy Code. MCI has not yet answered the Lawsuit, but nevertheless disputes that the Draw is avoidable by Allegiance as a preference or otherwise.

WHEREAS, the Debtors have filed their Second Amended Plan of Reorganization to Chapter 11 of the Bankruptcy Code, dated April 22, 2004 (the "Plan").¹ Allegiance intends to reject certain of the Prepetition Agreements pursuant to the Plan. Allegiance has also notified MCI that it intends to assume, assume and assign, or assign to Buyer a certain Telecommunications Services Agreement with MCI pursuant to the Plan (the "Assumed Agreement") and has proposed an amount that will cure defaults under the Assumed Agreement in such notice.

WHEREAS, on June 1, 2004, MCI filed its objection to the Plan (the "Objection") (docket no. 1357). In the Objection, MCI raises, among other things, certain concerns related to the proposed rejection of certain of the Prepetition Agreements under the Plan.

WHEREAS, in order to resolve the disputes between the Parties, including disputes related to the Objection, the Lawsuit, and the Prepetition Claims, the Parties have negotiated this Stipulation in good faith and at arms' length and desire that it shall be binding on each of them.

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and between the Allegiance and MCI, through their undersigned counsel, that:

¹ Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Plan.

1. Upon entry of a final, non-appealable order approving this Stipulation (the "Order"), the Objection shall be deemed withdrawn with prejudice.
2. The Order shall constitute a complete dismissal of the Lawsuit with prejudice and Allegiance shall file notice of such dismissal with prejudice on the docket of the Lawsuit within three (3) business days after entry of the Order.
3. MCI proof of claim number 2229, filed against ATCW, is hereby Allowed in the aggregate amount of \$3,000,000 (the "Allowed Claim Amount"). MCI acknowledges and agrees that it has satisfied \$1,404,295.77 of the Allowed Claim Amount by means of the Draw. Allegiance acknowledges and agrees that MCI shall fully satisfy the Allowed Claim Amount by means of an additional draw on the LOC in the amount of \$1,595,704.23. Allegiance waives any right to further prior written notice of such additional draw. After taking account of such additional draw on the LOC, MCI shall have a remaining prepetition claim against the Debtors' chapter 11 estates in the amount of \$0.00.
4. Except as otherwise provided herein, Allegiance and its predecessors, successors, parents, subsidiaries, affiliates, assigns, transferees, agents, directors, officers, employees, shareholders, and attorneys hereby release and forever discharge the MCI and its predecessors, successors, parents, subsidiaries, affiliates, assigns, transferees, agents, directors, officers, employees, shareholders, and attorneys from and against all actions, causes of action, claims, suits, debts, damages, judgments, defaults, breaches, violations, liabilities, and demands whatsoever, whether at law or in equity, whether now known or unknown, that Allegiance now has, may have had, or may in the future claim to have on behalf of itself or any other person or entity, that arise from

the beginning of time through the date hereof, including, without limitation, all causes of action under chapter 5 of the Bankruptcy Code, and all claims and causes of action which have been asserted, or which could have been asserted, in the Lawsuit.

5. MCI waives and releases any claim deemed to have arisen prior to the Petition Date for damages arising from the rejection of executory contracts under section 365 of the Bankruptcy Code.

6. Nothing contained in this Stipulation shall be construed to be a waiver of MCI's rights and claims against Allegiance or Buyer, as the case may be, with respect to postpetition amounts owed under the Prepetition Agreements, the Assumed Agreement, or otherwise, and all such rights and claims are expressly reserved. Further, nothing in this Stipulation shall be deemed to be a waiver of MCI's right to the cure amount proposed by Allegiance with respect to the Assumed Agreement.

7. This Stipulation shall be governed, in all respects, by the laws of the State of New York, irrespective of its choice of law rules.

8. This Stipulation may be executed in any number of counterparts, and all such counterparts, taken together, shall be deemed to constitute one and the same instrument.

9. This Stipulation may not be modified, except in a written instrument signed by each of the Parties hereto.

10. Allegiance and MCI represent and agree that this Stipulation is binding on the Parties and their predecessors, successors, subsidiaries, affiliates, assignees, agents, directors, officers, employees, the Plan Administrator, and any trustee appointed chapter 7 of the Bankruptcy Code.

11. This Stipulation shall be binding on the Parties from the date of its execution, but is expressly subject to and contingent upon its approval by the Bankruptcy Court. If the Bankruptcy Court does not approve this Stipulation, this Stipulation shall be null and void.

12. The Bankruptcy Court shall retain exclusive jurisdiction over any and all disputes arising out of or otherwise relating to the matter in this Stipulation.

By: /s/Alfredo R. Pérez
WEIL, GOTSHAL & MANGES LLP
700 Louisiana, Suite 1600
Houston, TX 77002
Telephone: (713) 546-5000
Facsimile: (713) 224-9511
Alfredo R. Pérez, Esq.

Attorneys for MCI, Inc. and
its direct and indirect subsidiaries

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

Attorneys for the Debtors and debtors in
possession

IT IS SO ORDERED.

Dated: New York, New York
June 8, 2004

/s/Robert D. Drain
United States Bankruptcy Judge