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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**MOTION FOR AN ORDER PURSUANT
TO SECTION 365(a) OF THE BANKRUPTCY CODE
APPROVING THE REJECTION OF A CERTAIN EXECUTORY CONTRACT**

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, “Allegiance” or the “Debtors”), respectfully represent:

Introduction

1. On May 14, 2003 (the “Commencement Date”), the Debtors each commenced with this Court a voluntary case under chapter 11 of title 11, of the United States Bankruptcy Code (the “Bankruptcy Code”). The Debtors are authorized to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

2. 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 (the "Bankruptcy Rules").

3. 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 "Committee") in these chapter 11 cases.

Jurisdiction

4. This Court has subject matter jurisdiction to consider and determine this Motion pursuant to 28 U.S.C. § 1334. This is a core proceeding within the meaning of 28 U.S.C. § 157(b). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

Background

5. Allegiance is a facilities-based national local exchange carrier that provides integrated telecommunications products and services to small and medium-sized business customers, large businesses (i.e., national customers with multiple locations), governmental entities, wholesale customers and other institutional users. Allegiance offers its customers a variety of services, including:

- ?? local and long distance voice services, including basic telephone services and advanced calling features;
- ?? broadband and other Internet and data services, including high-speed Internet access, wide area network interconnection, domain name registration, web hosting, email and colocation services;
- ?? integrated local long distance/Internet access offerings, which provide customers with integrated voice and Internet access over a single broadband line;

?? wholesale services to other regional and national service providers, including equipment colocation, managed modem ports and Internet protocol traffic aggregation; and

?? customer premise equipment sales and maintenance services.

6. As of the December 31, 2003, the Debtors served more than 100,000 business customers in major markets throughout the United States. As of December 31, 2003, the Debtors employed approximately 2,893 people, of which approximately 66 employees were covered by collective bargaining agreements.

7. As of December 31, 2003, the Debtors had approximately \$284.2 million of unrestricted cash on hand. As of December 31, 2003, the Debtors' consolidated books and records reflected assets totaling approximately \$1.136 billion and liabilities totaling approximately \$1.449 billion. For the 12 months ending December 31, 2003, the Debtors, on a consolidated basis, reported revenues of approximately \$776.9 million and net losses of approximately \$360.0 million.

Relief Requested

8. By this Motion, the Debtors request the entry of an order, pursuant to section 365(a) of the Bankruptcy Code, approving the rejection of a certain executory contract (the "Rejected Contract"). The Rejected Contract is identified in Exhibit "A" annexed hereto.

9. The Debtors are parties to numerous executory contracts and unexpired personal property leases. Since the Commencement Date, the Debtors have been evaluating these executory contracts and unexpired personal property leases to decide which are valuable to their estates and which are burdensome. In that regard, as of the date hereof and as described below, the Debtors have determined that they no longer need the services covered by the Rejected Contract. Because the evaluation process is ongoing, the Debtors anticipate identifying

additional burdensome executory contracts and unexpired personal property leases and seeking the authority to reject such contracts and leases in the future.

Basis for Relief

10. Section 365(a) of the Bankruptcy Code provides that a debtor in possession, “subject to the court’s approval, may assume or reject any executory contract or unexpired lease of the debtor.” 11 U.S.C. § 365(a). The standard to be applied by a court to determine whether to authorize the rejection of an executory contract or an unexpired lease is the “business judgment” test, which is premised upon the debtor’s business judgment that rejection of the executory contract or unexpired lease would be beneficial to its estate. Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.), 4 F.3d 1095, 1098-99 (2d Cir. 1993). The business judgment standard requires that the court approve the debtor’s business decision unless that judgment is the product of bad faith, whim or caprice. Lubizol Enters. V. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.) 756 F.2d 1043, 1047 (4th Cir. 1985), cert. denied, 475 U.S. 1057 (1986).

11. Upon finding that a debtor has exercised its sound business judgment in determining that the rejection of a contract or lease is in the best interests of the debtor, its creditors, and all parties in interest, the court should approve the rejection under section 365(a) of the Bankruptcy Code. See, e.g., In re Riodizio, Inc., 204 B.R. 417, 424 (Bankr. S.D.N.Y. 1997); In re Bradlees Stores, Inc., 194 B.R. 555, 558 n.1 (Bankr. S.D.N.Y. 1996); In re G Survivor Corp., 171 B.R. 755, 757 (Bankr. S.D.N.Y. 1994); In re Child World, Inc., 142 B.R. 87, 89 (Bankr. S.D.N.Y. 1992); In re Ionosphere Clubs, Inc., 100 B.R. 670, 673 (Bankr. S.D.N.Y. 1989).

12. In an effort to maximize the value of their estates, the Debtors have been reviewing their overall operations and, as noted above, have determined that they no longer need

the services covered by the Rejected Contract. In many instances, to the extent necessary, the Debtors can purchase similar services from third parties on the same or more favorable terms and conditions. Consequently, the Debtors, in their sound business judgment, have determined that the Rejected Contract does not provide an economic value to their estates and, therefore, the administrative costs and obligations associated therewith are burdensome. Moreover, the rejection of the Rejected Contract will relieve the Debtors' estates of approximately \$600,000 of obligations under the Rejected Contract. Accordingly, the Debtors seek authority, pursuant to section 365(a) of the Bankruptcy Code, to reject the Rejected Contract effective as of the date hereof.

Waiver of Memorandum of Law

13. Because there are no novel issues of law presented herein, the Debtors respectfully request that the Court waive the requirement that the Debtors file a memorandum of law in support of this Motion pursuant to rule 9013-1(b) of the Local Bankruptcy Rules for the Southern District of New York.

Notice

14. Notice of this Motion has been provided to: (a) the U.S. Trustee; (b) attorneys for the Committee; (c) attorneys for the Debtors' prepetition secured lenders; (d) the counter-party to the Rejected Contract; and (e) all the other parties on the Master Service List maintained in these chapter 11 cases. In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is required.

No Prior Request

15. No prior Motion for the relief requested herein has been made to this or any other court.

WHEREFORE, the Debtors respectfully request that the Court enter an order (i) authorizing the Debtors to reject the Rejected Contract effective as of the date hereof; and (ii) granting such other relief as is just and proper.

Dated: New York, New York
March 10, 2004

Respectfully submitted,

/s/ Jonathan S. Henes
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