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Hearing Date: July 14, 2003 at 10:00 a.m.
Objections Due: July 9, 2003 at 4:00 p.m.

Attorneys for Debtors and Debtors in Possession

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	
	:	
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 AUTHORIZING THE DEBTORS TO REJECT
CERTAIN UNEXPIRED LEASES OF NONRESIDENTIAL REAL PROPERTY

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

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

Introduction

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

2. No trustee or examiner has been appointed in these chapter 11 cases. On May 28, 2003, pursuant to sections 1107(a) and 1108 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 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

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 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.

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

6. As of the Commencement Date, the Debtors had approximately \$245 million of cash. As of December 31, 2002, the Debtors' consolidated books and records reflected assets totaling approximately \$1.441 billion and liabilities totaling approximately \$1.397 billion. For the three months ending December 31, 2002, the Debtors, on a consolidated basis, reported revenues of approximately \$204.91 million, EBIDTA (i.e., earnings before interest, depreciation, taxes, amortization, non-cash deferred compensation expense and non-cash goodwill impairment charges) of approximately negative \$34 million and net losses of approximately \$120 million.

Relief Requested

7. The Debtors are parties to approximately 126 unexpired leases of nonresidential real property. The Debtors are in the process of evaluating these unexpired leases of nonresidential real property to determine which are valuable to the estates and which are burdensome.

8. The Debtors have identified five unexpired leases of nonresidential real property (each unexpired lease of nonresidential real property, a "Rejected Lease" and, collectively, the "Rejected Leases") that no longer are integral to the Debtors' ongoing business operations and are burdensome to their estates. Because the evaluation process is ongoing, the Debtors anticipate identifying additional burdensome unexpired leases of nonresidential real property, as well as other unexpired leases and executory contracts, and, in that regard, seek authority to reject such leases and contracts at later dates. The Rejected Leases are listed on Exhibit "A" annexed hereto.

9. By this Motion, the Debtors seek authority, pursuant to section 365(a) of the Bankruptcy Code, to reject each of the Rejected Leases effective as of the date on which the

Debtors surrender possession of the respective location, but in any case no later than June 30, 2003.¹

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).

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

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

¹ Upon surrendering each of the premises, the Debtors will notify each landlord in writing of the date of the applicable surrender and the effective date of rejection of the applicable Rejected Lease. The Debtors will file with the Court a revised version of the proposed order reflecting the effective date of rejection for each Rejected Lease.

13. The Debtors intend to close their offices located at the premises subject to the Rejected Leases and transfer the employees that are currently working in these offices to other locations. Once the offices are closed and the employees are transferred, the Debtors will no longer need the premises subject to the Rejected Leases. Thus, the Debtors seek to reject each of the Rejected Leases effective as of the date on which the Debtors surrender the respective premises to the applicable lessor, but in any case no later than June 30, 2003.²

14. In determining to seek authority to reject the Rejected Leases, the Debtors have concluded, based on a careful analysis, that the Rejected Leases hold little, if any, value given the terms of such Rejected Leases and the depressed commercial real estate markets in which the leased properties are located. Due to the foregoing and the continuing financial burden that the Debtors face as a result of the administrative expenses arising under the Rejected Leases during the chapter 11 cases, the Debtors believe that any attempt to market and assign the Rejected Leases would be significantly more costly than any potential value that might be realized by any future assignment or sublease thereof.

15. As the result of the relief requested in this Motion, the Debtors will save approximately \$251,259.91 per month - and over \$3 million on an annual basis - in costs and expenses that arise currently under the Rejected Leases. Accordingly, the decision to seek authority to reject the Rejected Leases is a product of the Debtors' sound business judgment and the relief requested herein should be approved.

Waiver of Memorandum of Law

16. 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

² See note 1.

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

17. Notice of this Motion has been provided to: (a) the Office of the U.S. Trustee; (b) attorneys for the Debtors' prepetition lenders; (c) attorneys for the Creditors' Committee and (d) attorneys for the counterparties to the Rejected Leases. In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is required.

No Prior Request

18. 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, substantially in the form annexed hereto, (i) authorizing the Debtors to reject each of the Rejected Leases effective as of the date on which the Debtors surrender the respective premises to the applicable lessor and (ii) granting such other relief as is just and proper.

Dated: New York, New York
June 6, 2003

Respectfully submitted,

/s/ Jonathan S. Henes
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Exhibit A

List of Rejected Leases

<u>Name of Debtor Tenant</u>	<u>Property Address</u>	<u>Landlord's Name and Address</u>	<u>Estimated Monthly Payments under Lease</u>	<u>Lease Expiration Date</u>
Shared Technologies Allegiance, Inc.	3251 Corte Malpaso Suite 507 Camarillo, CA 93012	Gary A. Jones, Trustee of the Jones Family Trust 3251 Corte Malpaso Suite 510 Camarillo, CA 93012	\$1,605.00	08/14/05
Allegiance Telecom Company Worldwide	3 Bethesda Metro Center Suites 300 & 450 Bethesda, MD 20814	BRE/Metrocenter, LLC 345 Park Avenue New York, NY 10154 BRE/Metrocenter, LLC c/o Realty Management Company 3 Bethesda Metro Center Suite 600 Bethesda, MD 20814	\$62,505.86	04/30/08
ALGX Business Internet, Inc.	7601 Ora Glen Drive Greenbelt, MD 20770	BP Commerce, LLC c/o Matan Asset Management 4600 Wedgewood Boulevard Suite A Frederick, MD 21703	\$137,240.56	11/30/10
Allegiance Telecom, Inc.	201 Route 17 North Suite 102 Rutherford, NJ 07070	CIN Meadows, LLC c/o Linque Management Company, Inc. 301 Route 17 North 9th Floor Rutherford, NJ 07070	\$27,217.73	05/31/06
Allegiance Telecom, Inc.	1415 Louisiana Suite 3900 Houston, TX 77002	1415 Louisiana K/LTD c/o Wedge International Tower 1415 Louisiana Houston, Texas 77002	\$22,690.76	12/31/05
TOTALS			\$251,259.91	