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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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In the Matter

of Case No. 03-13057

ALLEGIANCE TELECOM, INC.

Debtors.

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July 15, 2003

United States Custom House
One Bowling Green
New York, New York 10004

Hearing re Motion to Reject and Motion
to Authorize.

B E F O R E:

HON. ROBERT D. DRAIN
U.S. Bankruptcy Judge.

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A P P E A R A N C E S :

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New York, New York 10022
BY: IRA S. DIZENGOFF, ESQ.
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ABID QURESHI, ESQ.

1 ALLEGIANCE TELECOM, INC.

2 P R O C E E D I N G S :

3 MR. HENES: Good morning, your Honor.

4 THE COURT: Good morning.

5 MR. HENES: Your Honor, we have two
6 motions on for today. My colleague will be
7 handling the motion.

8 MS. CHUPLYGINA: Good morning, your
9 Honor.

10 THE COURT: Good morning.

11 MS. CHUPLYGINA: As Mr. Henes said, we
12 have the two motions on the agenda today. The
13 first one relates to approval of the use of the
14 debtors existing investment guidelines as official
15 basis.

16 As your Honor knows, we've filed our
17 cash management motion on May 14th which also
18 requested authorization to use the investment
19 guidelines.

20 Your Honor entered an order authorizing
21 us to use those guidelines on an interim basis.
22 Thereafter, we had discussions with the U.S.
23 Trustees office. The U.S. Trustees office have
24 asked us to dispose of certain investments so that
25 we can get in compliance with Section 345 of the

1 ALLEGIANCE TELECOM, INC.
2 FCC Code, which we did and on June 18th we sold
3 certain commercial paper and through the proceeds
4 -- JP Morgan which we invest only secured --

5 We also have certain fees in Morgan
6 Stanley investment account. The U.S. Trustees
7 asked us to transfer funds to that account, to JP
8 Morgan account -- not always the investments from
9 the Morgan Stanley account either through -- by the
10 U.S. Government. We agreed to do that.

11 The U.S. Trustee's office agreed that
12 we should get a 30 day waiver of requirements of
13 Section 345 of the Bankruptcy code and we've
14 applied for that request by the proposed form of
15 order and overall our within 30 days and we will be
16 in compliance of Section 345.

17 THE COURT: You have to speak a little
18 bit more into the microphone.

19 MS. CHUPLYGINA: I apologize.

20 THE COURT: So, at this point, except
21 for the waiver for those, we are in compliance with
22 345?

23 MS. CHUPLYGINA: That is right, your
24 Honor.

25 THE COURT: Does anyone else have

1 ALLEGIANCE TELECOM, INC.
2 anything to add to this request. All right, well,
3 I'm happy to grant the waiver for the 30 days and
4 I'll grant the request as modified from the
5 original motion filed on the first day of the
6 case.

7 MS. CHUPLYGINA: Thank you, your Honor.
8 Would you like me to work with the order right
9 now?

10 THE COURT: Why don't you wait until
11 you're done with the other relief too.

12 MS. CHUPLYGINA: Thank you, your Honor.
13 The second motion that we have on the agenda is the
14 motion of the debtors to reject certain unexpired
15 leases of nonresidential real property.

16 We filed that motion on June 9th, the
17 same day we were served the motion on the Master
18 Service list. We, by this motion, we were seeking
19 to reject five leases.

20 We are out of those premises. We don't
21 need those premises any more. The proposed form
22 order has been paid. And, in fact, we received
23 only one objection to the motion.

24 The objection was filed by BP Commerce,
25 L.L.C. and Mr. Strickland, who is Counsel to the BP

1 ALLEGIANCE TELECOM, INC.

2 Commerce is in the court room today. We did
3 resolve their objection and I would like to
4 summarize the resolution for the order and to the
5 extent I summarize something wrong, I am sure
6 Mr. Strickland will correct me.

7 The resolution is as follows:

8 The rejection date will be June 18th of
9 this year, the date of rejection. We also agreed
10 to pay the purported rent through June 1st, through
11 and including June 17th and we agree to do it
12 within ten business days from the date the original
13 order entered to the order authorizing rejection of
14 the lease.

15 We also agreed that this resolution is
16 without prejudice to BP Commerce's rights to file
17 any claims for rejection damages or any claims for
18 any other amount, post petition amounts under the
19 lease.

20 It's also without prejudice to any
21 contract they may have and without prejudice to the
22 resolution of their motion as to the debtor and
23 statement will be filed with the accordancy without
24 prejudice to our right to object to all of that.

25 The Automatic Stay motion is set for

1 ALLEGIANCE TELECOM, INC.

2 Hearing on June 29th.

3 We are hopeful that we will resolve
4 this matter. If we can't, we will be in front of
5 the court.

6 THE COURT: You mean July 29th?

7 MS. CHUPLYGINA: Yes, that's right.

8 THE COURT: Is that a correct summary
9 of the settlement?

10 MR. STRICKLAND: It is, your Honor.

11 THE COURT: Is this memorialized
12 somewhere or you just want it on the record?

13 MS. CHUPLYGINA: All of that is on the
14 record. The status of the rejection is in the
15 order.

16 MR. STRICKLAND: And that's acceptable,
17 your Honor.

18 THE COURT: You will occupy the
19 premises until the 17th; is that correct?

20 MS. CHUPLYGINA: There was a dispute
21 with respect to when we surrendered, when we
22 resolved it. We surrendered as of the 17th.

23 THE COURT: I would think that the
24 Automatic Stay motion probably should get resolved
25 given that this resolution just hasn't had time to

1 ALLEGIANCE TELECOM, INC.

2 do that at this point.

3 MR. STRICKLAND: I'm hoping we can make
4 some progress on that quickly, your Honor.

5 THE COURT: Okay. In light of the
6 debtor's business judgement, which is clear here
7 and the absence of the contested objection, I'll
8 approve the motion.

9 MS. CHUPLYGINA: Thank you, your Honor.

10 MR. HENES: Your Honor, one final
11 point. I expect you use status on behalf of the
12 debtor post petition. As you know, your Honor, it
13 was supposed to be heard today. We've adjourned
14 that and I'm not sure we talked to Chambers yet but
15 we were going to adjourn it for the 29th of July.

16 THE COURT: I think I did get the
17 amendment late yesterday.

18 MR. HENES: As you also know there were
19 two objections that were filed; one by the
20 Committee and one by the lenders. The Committee
21 sought to take discovery of someone from the
22 company as well as from Mr. Krammer at Greenhill.
23 Mr. Mark Troskosky (phonetic) is the Executive Vice
24 President General Counsel of the company sat for a
25 deposition last Friday. Mr. Krammer will be

1 ALLEGIANCE TELECOM, INC.

2 sitting down, I believe, this week for a
3 deposition.

4 I just want to also let you know the
5 debtor will also be taking discovery of the
6 Committee as well as the lender and we will have --

7 THE COURT: On the Greenhill retention?

8 MR. HENES: Yes.

9 THE COURT: Okay. I guess the only --
10 I appreciate the update. It sounds like this is
11 more than your normal negotiation of an investment
12 banker letter. The only thing I request is that
13 you don't wait until the day before the Hearing to
14 submit papers on the matter so I can understand
15 what the issues are.

16 Obviously, if you're in negotiations
17 and you don't want to air your laundry in public,
18 then I'll give another further short adjournment
19 but I will leave that up to you guys.

20 One more last thing. I know that
21 there's been prevalent activities earlier in this
22 case, I'd like to get you all on a schedule where
23 we have one monthly Hearing.

24 So I hope that the parties can work
25 together on that. Obviously, if something comes up

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ALLEGIANCE TELECOM, INC.

on an emergency basis, that's a different story.
But if you can work that out, I'll appreciate it
and my Chambers can give you all, you know, dates
going out, basically a year if you want so you can
do that.

MR. MORRISSEY: Good morning, your
Honor. The suggestion Mr. Henes suggested since
this other matter is on for the 29th, that a Status
Conference be scheduled for that day and then
perhaps you can move forward from that.

THE COURT: I'm always available for
the Status Conference. They are usually not that
informal any way.

(Continued on next page to include jurat.)

1 ALLEGIANCE TELECOM, INC.

2 If there's an opportunity to give
3 notice to it, that's fine otherwise I think the
4 parties would really be produced for a Status
5 Conference, will be there any way so I'm -- with
6 that point, I guess it will be ordered. Okay thank
7 you.

8 (Whereupon, the above matter
9 adjourned.)

10

11

12 I, JASMIN OMOZUSI, a Notary Public for
13 and within the State of New York, do hereby certify
14 that the above is a correct transcription of my
15 stenographic notes.

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JASMIN OMOZUSI

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