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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

MOTION FOR ORDER UNDER SECTIONS 105(a), 345, 363, 1107, AND 1108 OF THE BANKRUPTCY CODE AUTHORIZING THE (A) MAINTENANCE OF EXISTING BANK ACCOUNTS, (B) CONTINUED USE OF EXISTING CHECKS AND BUSINESS FORMS, (C) CONTINUED USE OF EXISTING CASH MANAGEMENT SYSTEM AND (D) INVESTMENT OF FUNDS USING THE DEBTORS' EXISTING INVESTMENT GUIDELINES

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. Simultaneously with the filing of their petitions and this Motion,

the Debtors requested an order for joint administration of their chapter 11 cases pursuant to rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

Jurisdiction

2. 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.

An Overview of Allegiance's Business

3. 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.

4. 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.

5. As of the Commencement Date, the Debtors have 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, EBITDA (i.e., earnings before interest, taxes, depreciation, amortization, non-cash deferred compensation expense and non-cash goodwill impairment charges) of approximately negative $34 million and net losses of approximately $120 million.

Allegiance is Critical to Promoting Sustainable Competition in the Local Telecommunication Marketplace

The Telecommunications Act of 1996

6. In February of 1996, Congress enacted the Telecommunications Act of 1996 (the "Telecom Act"), with the stated purpose of:

> promot[ing] competition and reduc[ing] regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies.

H.R. REP No. 104-204(I), 104th Cong. 1st Sess. 1995 (July 24, 1995), reprinted in 1996 U.S.C.C.A.N. 10, **10. In that regard, the Telecom Act required Incumbent Local Exchange Carriers, including the Regional Bell Operating Companies ("ILECs") – i.e., existing telecommunications monopolies – to allow newly created Competitive Local Exchange Carriers ("CLECs") to (a) interconnect with the ILECs, (b) access portions of the ILEC network and (c) collocate their equipment in ILEC facilities all at forward-looking cost based rates. In addition, CLECs were permitted to purchase ILEC services at wholesale prices and resell them to customers at retail prices.

7. The enactment of the Telecom Act spurred entrepreneurs to start hundreds of new businesses to compete in the local telecommunications marketplace. During the late 1990s, investors recognized the growth opportunity inherent in the opening of a competitive local telecommunications marketplace and invested billions of dollars in equity and debt capital into a multitude of telecommunications companies primed to provide competing services to American consumers.

8. Funded with significant amounts of investment capital, two types of CLECs emerged. The first type of CLECs were "resellers". Specifically, "reseller" CLECs purchased telecommunications services from ILECs at a discount and resold the services to customers at a higher price. Thus, these CLECs simply offered consumers the same services supplied by ILECs - generally at lower prices. To be successful with this low margin business model, "reseller" CLECs invested their capital in sales and marketing efforts designed to acquire a substantial customer-base and attendant market-share in a relatively short period of time and ahead of their many competitors. However, because resellers were providing the identical services as the ILECs (with no differentiation) and were attempting to build a large market share in a highly competitive market, this business model was flawed and many in the telecommunications industry believe that the "resale" business will fail.

9. The second type of CLECs were "facilities-based" CLECs. These CLECs invested significant sums of money to build their own proprietary infrastructure and network in order to effectively compete with the ILECs. Specifically, facilities-based CLECs combined elements of an ILEC's network with their own to provide consumers with true differentiated services. As Michael Powell stated in his partial dissent to the FCC's 2003 Triennial Review:

> Facilities -based competition means a competitor can offer real differentiated service to consumers . . . . Facilities-based competitors own more of their own network and control more of their costs, thereby offering

> consumers real potential for lower prices. Facilities-based competitors offer greater rewards for the economy – buying more equipment from other suppliers . . . and creating more jobs. . . . . And, facilities providers create vital redundant networks that can serve own nation if other facilities are damaged by those hostile to our way of life.

F.C.C., 2003 Triennial Review - Open Meeting, Separate Statement of Chairman Michael R. Powell, dissenting in part (February 20, 2003) (transcript available at www.fcc.gov/wcb/cpd/triennial_review/). Allegiance is such a facilities-based CLEC with a nationwide network and a facility-based business strategy.

The Allegiance Nationwide Network – Servicing 36 Metropolitan Areas

10. In 1997, a management team of industry veterans launched Allegiance and focused on building a reliable nationwide network based on proven technologies, a nationwide direct sales force primarily focused on the small to medium sized business enterprise and information processing systems to support its operations. Allegiance was one of the first major local exchange carriers to open markets utilizing the "smart build" strategy. This strategy allowed a more rapid ramp-up in operations than the traditional competitive local exchange model in which extensive networks were built, including fiber networks, prior to the generation of significant revenues. In contrast, Allegiance's initial network build-out simply required (a) deploying digital switching platforms with local and long distance capability and (b) leasing transport facilities from the incumbent local exchange carriers and other competitive local exchange carriers to connect its switches with its transmission equipment colocated in the incumbent local exchange carrier's central offices. Once traffic volume justified further "success-based" investment, Allegiance leased dark fiber or built specific network segments. This strategy offered two major economic benefits. First, it enabled Allegiance to enter new markets with alacrity and reduce up-front capital requirements for entering individual markets prior to revenue generation. Second, in contrast to the traditional competitive local exchange

carriers that generally built their networks in highly concentrated downtown areas due to the high cost of constructing fiber networks, Allegiance's business model enabled it to provide services to customers in downtown areas as well as the more geographically dispersed, less competitive areas of its targeted markets.

11. Allegiance's initial business plan proposed entering into 24 of the largest metropolitan areas in the United States. Subsequently, management expanded its business plan to (a) increase the total number of target markets to 36, (b) increase its service area, i.e., its colocation "footprint" in its original 24 markets, and (c) acquire long-term rights to use dark fiber rings to replace network elements leased by the Debtors from the incumbent local exchange carriers.

12. In addition to internal growth, Allegiance's business plan included growth through strategic acquisitions. For example, in December 2001, Allegiance acquired certain assets of Intermedia Business Internet (the "Intermedia Acquisition"). The Intermedia Acquisition enabled Allegiance to (a) become a Tier 1 Internet access provider, (b) provide large quantities of data transmitted at high-speeds over the Internet to and from a customer's premises, (c) efficiently exchange traffic with other Internet backbone providers giving Allegiance greater control over its Internet access, and (d) leverage its local service presence to provide additional services to its target market. In June 2003, Allegiance acquired certain assets of Shared Technologies (the "Shared Technologies Acquisition"). The Shared Technologies Acquisition (a) added customer premises equipment sales, installation and maintenance to Allegiance's portfolio of integrated products and services, (b) strategically enhanced Allegiance's target market of small to medium size business enterprises, and (c) allowed Allegiance to provide a complete communications solution to business customers.

13. As of the date hereof, Allegiance provides its telecommunications services in major metropolitan areas across the United States, including the following 36 markets: Atlanta,

Austin, Baltimore, Boston, Chicago, Cleveland, Dallas, Denver, Detroit, Fort Lauderdale, Fort Worth, Houston, Long Island, Los Angeles, Miami, Minneapolis/St. Paul, New York City, Northern New Jersey, Oakland, Ontario/Riverside, CA, Orange County, Philadelphia, Phoenix, Pittsburgh, Portland, Sacramento, St. Louis, San Antonio, San Diego, San Francisco, San Jose, Seattle, Tampa, Washington, D.C., West Palm Beach/Boca Raton and White Plains. Allegiance is colocated in 849 central offices and has a Tier 1 Internet backbone.

The FCC Recognizes the Importance of Allegiance

14. Federal policy recognizes the importance of facilities-based CLECs and Allegiance is the model. In that regard, the Federal Communications Commission (the "FCC") recently published its latest rules for local competition in the *FCC Triennial Review*. In reviewing these rules, a Kaufman Bros. Equity Research Report, dated March 4, 2003, stated that "*Allegiance is the blueprint for local competition proposed by the FCC*." In addition, Kevin J. Martin, Commissioner of the FCC has noted:

> Allegiance has focused on building a business that adheres to the letter of the Telecom Act while leveraging the entrepreneurial spirit of the law, as well. Today, Allegiance stands as a model of what Congress intended in 1996, and what we hope to achieve in the years ahead – new entrants that have the opportunity to continue to invest in infrastructure, bring innovation and offer new service offerings to consumers in local markets that are open to fair and robust competition.

Kevin J. Martin, Commissioner, F.C.C., Address to the Telecommunications Law Conference and the Texas Chapter of the Federal Communications Bar Association (March 7, 2002) (transcript available at www.fcc.gov/Speeches/Martin/2002/spkjm203.html).

15. Thus, it is clear that Allegiance, by focusing on an intelligent – well thought out business model – building its own network and offering its consumers innovative services, is an integral player in the telecommunications marketplace and a model for the

nation's policy of promoting sustainable facilities-based competition in the local telecommunications arena. With an appropriate capital structure and a reduction in unnecessary costs, Allegiance believes it will be one of the most successful telecommunications companies in the United States.

Capital Structure of the Debtors

Capital Stock

16. Allegiance Telecom, Inc. has two classes of authorized stock: (a) 750,000,000 shares of common stock, with par value of $0.01 per share and (b) 1,000,000 shares of preferred stock, with par value of $0.01 per share. As of December 31, 2002, Allegiance Telecom, Inc. had (i) 124,830,110 shares of common stock issued and outstanding, with 295 registered holders and at least 20,000 beneficial owners, and (ii) no shares of preferred stock outstanding. Allegiance Telecom, Inc.'s common stock is publicly traded on the Nasdaq National Market under the symbol "ALGX."

17. Allegiance Telecom, Inc. owns 100% of the capital stock of Allegiance Telecom Company Worldwide ("ATCW"), and ATCW directly or indirectly owns 100% of the capital stock of each of the other Debtors.

Prepetition Notes

18. In 1998, Allegiance Telecom, Inc. issued two series of notes: (i) 11 3/4% Senior Discount Notes with a face value of $445 million, due on February 15, 2008 (the "Senior Discount Notes") and (ii) 12 7/8% Senior Notes with a face value of $205 million, due on May 15, 2008 (the "Senior Notes"). The Senior Discount Notes were issued under that certain Indenture, dated as of February 3, 1998, between Allegiance Telecom, Inc. and The Bank of New York, as Indenture Trustee. The Senior Notes were issued under that certain Indenture, dated as of July 7, 1998, between Allegiance Telecom, Inc. and The Bank of New York, as

Indenture Trustee. Neither the Senior Discount Notes nor the Senior Notes are secured by any assets of the Debtors or guaranteed by any of the Debtors.

Prepetition Credit Agreement

19. Prior to the Commencement Date, ATCW entered into that certain Credit and Guaranty Agreement, dated as of February 15, 2000, as amended as of November 27, 2002 (the "Prepetition Credit Agreement"), among ATCW, as borrower; all of the other Debtors, as guarantors; Goldman Sachs Credit Partners L.P. ("Goldman Sachs"), as syndication agent and sole lead arranger; General Electric Capital Corporation ("GECC") (as successor to Toronto Dominion (Texas), Inc.), as administrative agent, BankBoston, N.A. ("BankBoston") and Morgan Stanley Senior Funding, Inc. ("Morgan Stanley"), as co-documentation agents; Goldman Sachs, GECC, BankBoston, Morgan Stanley, certain managing agents, and lenders party thereto from time to time (collectively, the "Prepetition Lenders"). As of the Commencement Date, the amount outstanding under the Prepetition Credit Agreement was approximately $465.3 million. The Debtors have pledged substantially all of their assets as collateral under the Prepetition Credit Agreement, including (a) the capital stock of ATCW and (b) substantially all of the assets of ATCW and its direct and indirect subsidiaries, including the capital stock owned by ATCW in each of its Debtor subsidiaries. As of the Commencement Date, there were 27 Prepetition Lenders under the Prepetition Credit Agreement.

Events Leading to Chapter 11 Filing

20. The distressed economic environment in the United States that followed the economic boom of the late 1990s has had a global and adverse impact on the telecommunications industry. In the late 1990s, in an effort to finance operations and build their networks, telecommunications companies borrowed significant amounts of money from lenders and the public through the issuance of debt. The resulting significant indebtedness incurred by

telecommunications companies, combined with poor economic conditions required many companies, including the Debtors, to focus on reducing their debt either through out of court restructurings or the chapter 11 process.

21. Many of Debtors' existing and potential customers have experienced their own financial difficulties, thereby decreasing customer demand for existing and new services. The financial difficulties of the Debtors' customers has led to non-payment, partial payment, or slow payment of bills for services provided by the Debtors. The financial instability of other companies in the telecommunications industry has adversely affected the willingness of potential customers to move their telecommunications services to the Debtors. In addition, certain of the Debtors' suppliers have requested deposits, letters of credit, or other types of security. Moreover, telecommunications carriers that owe reciprocal and/or intercarrier compensation to the Debtors have either refused to pay or failed to pay in a timely manner for the services provided by the Debtors.

22. As a consequence of the foregoing, the Debtors' business operations were adversely impacted and, due to revenue trends and continuing negative EBITDA, the Debtors determined that their current level of indebtedness needed to be significantly reduced. Thus, in order to maximize the long-term wealth generating capacity of their business operations, the Debtors, among other things, (a) established a special restructuring committee of the Board of Directors of Allegiance Telecom, Inc., (b) retained restructuring advisors, and (c) commenced extensive negotiations with their senior lenders and bondholders, as detailed below.

Negotiations with the Prepetition Lenders and the Ad Hoc Committee of Bondholders

23. The Debtors, in the exercise of their sound business judgment - and in recognition of the distressed economic environment and the need for the Debtors' businesses to focus on profitability instead of high revenue growth - determined that a meaningful de-

leveraging of their capital structure was crucial for the preservation and maximization of the value of their businesses. In that regard, the Debtors, in conjunction with their financial advisors and the Board of Directors of Allegiance Telecom, Inc., commenced the process of determining the appropriate capital structure for their business operations. After determining the appropriate capital structure, the Debtors commenced negotiations with the Prepetition Lenders and the Ad Hoc Committee (as defined below) to effectuate a restructuring transaction.

24. In October of 2002, Allegiance began negotiations with its Prepetition Lenders regarding a potential restructuring of its long-term debt. On November 27, 2003, Allegiance and its Prepetition Lenders entered into that certain First Amendment to the Prepetition Credit Agreement (the "Amendment"). Pursuant to the Amendment, the Debtors obtained a moratorium on their financial covenants through April 30, 2003. In exchange for the Amendment, Allegiance agreed, among other things, (a) that an event of default would occur on April 30, 2003 unless it reduced its long term debt to a level not to exceed $645 million, and (b) to repay $15 million to the Prepetition Lenders on account of debt owed under the Prepetition Credit Agreement. During the latter part of 2002 and to meet covenants under the Amendment, the Debtors significantly lowered their capital expenditures, reduced headcount, substantially decreased growth, eliminated less profitable products and services, and continued to optimize their existing network assets.

25. After entering into the Amendment, the Debtors commenced negotiations with the Prepetition Lenders to consummate a permanent restructuring. In connection with the negotiations regarding the permanent restructuring, the Debtors commenced negotiations with an *ad hoc* committee of noteholders, which is comprised of certain holders of the Senior Notes and the Senior Discount Notes (the "Ad Hoc Committee").

26. The Debtors, the Prepetition Lenders and the Ad Hoc Committee were not able to reach an agreement concerning the permanent restructuring prior to the April 30 deadline. On April 29, 2003, in order to avoid the occurrence of certain events of default under the Prepetition Credit Agreement, the Debtors and the Prepetition Lenders entered into a forbearance agreement (the "Forbearance Agreement"), which expires on May 15, 2003. The Forbearance Agreement provided for, among other things, a pay down of $5 Million of principal owed under the Prepetition Credit Agreement.

27. After entering into the Forbearance Agreement, the Debtors continued their negotiations with the Prepetition Lenders and the Ad Hoc Committee. However, the parties were unable to reach an agreement prior to the expiration of the term of the Forbearance Agreement. Consequently, the Debtors, in the exercise of their prudent business judgment, determined that it was in the best interests of all of their stakeholders and for the maximization of the value of their businesses to commence these chapter 11 cases and consummate a restructuring of their indebtedness under the auspices of this Court.

Relief Requested

28. By this Motion, the Debtors seek entry of an order authorizing the Debtors to (a) maintain existing bank accounts, (b) continue to use their existing checks and business forms, (c) continue to use their existing cash management system and (d) invest funds using the Debtors' existing investment guidelines.

The Debtors Should Be Granted Authority
To Maintain Their Existing Bank Accounts

29. The United States Trustee for the Southern District of New York (the "U.S. Trustee") has established "Operating Guidelines and Financial Reporting Requirements Required in All Cases Under Chapter 11, and cases with operating business under Chapters 7

and 13 of the Bankruptcy Code" (the "U.S. Trustee Guidelines") for debtors in possession. The U.S. Trustee Guidelines, upon the commencement of a chapter 11 case, mandate a debtor in possession to open new bank accounts and close all existing accounts. These requirements are designed to (a) provide a clear line of demarcation between prepetition and postpetition claims and payments and (b) protect against the inadvertent payment of prepetition claims by preventing the banks from honoring checks drawn before the Commencement Date.

30. Prior to the Commencement Date, the Debtors, in the ordinary course of business, maintained approximately thirty-two (32) bank accounts, each of which is listed on Exhibit "A" to this Motion (collectively, the "Bank Accounts"). All of the Bank Accounts, whether located within or outside the Southern District of New York, are held at financially stable banking institutions with FDIC insurance and other appropriate government guaranteed deposit protection insurance.

31. The Debtors seek a waiver of the requirement that the Bank Accounts be closed and that new postpetition bank accounts be opened.[1] If enforced in these chapter 11 cases, this requirement would cause enormous disruption to the Debtors' businesses and would impair the Debtors' efforts to reorganize.

32. The Debtors also seek a waiver of the U.S. Trustee's requirement that all Bank Accounts be at the banks on the U.S. Trustee's approved bank list (the "Approved Banks"). While the majority of the Debtors' banks are Approved Banks, one Bank Account is at Comerica Bank, which is not an Approved Bank. The Bank Account at Comerica Bank is FDIC-insured and the daily balance in this Bank Account rarely exceeds $50,000. The Debtors believe

[1] The Debtors are currently in the process of transferring certain Bank Accounts from Bank of America to JPMorgan Chase Bank. The Debtors anticipate to complete this transfer by June 2003.

that closing this Bank Account would be time consuming and would divert the Debtors' efforts from operating their businesses and focusing on their restructuring efforts.

33. Maintaining the Bank Accounts, however, would greatly facilitate the Debtors' "seamless transition" to postpetition operations. To avoid delays in paying debts incurred postpetition and to ensure a smooth transition into chapter 11, the Debtors should be permitted to continue to maintain the Bank Accounts and, if necessary, open new accounts and close existing accounts in the normal course of business operations. Otherwise, transferring funds to new postpetition bank accounts will be tremendously disruptive and time consuming.

34. In other chapter 11 cases, this Court has recognized that strict enforcement of the requirement that a debtor in possession close its bank accounts does not serve the rehabilitative process of chapter 11. Accordingly, this Court has waived such requirements and replaced them with similar alternative procedures. See, e.g., In re WorldCom, Inc., Ch. 11 Case No. 02-13533 (AJG) (Bankr. S.D.N.Y. July 22, 2002); In re Adelphia Communications Corp., Ch. 11 Case No. 02-41729 (REG) (Bankr. S.D.N.Y. June 26, 2002); In re Global Crossing Ltd., Ch. 11 Case No. 02-40187 (REG) (Bankr. S.D.N.Y. Jan. 28, 2002); In re Enron Corp., Ch. 11 Case No. 01-16034 (AJG) (Bankr. S.D.N.Y. Dec. 3, 2001); In re Teligent, Inc., Ch. 11 Case No. 01-12974 (SMB) (Bankr. S.D.N.Y. June 13, 2001); In re Indesco Int'l, Inc., Ch. 11 Case No. 00-15452 (REG) (Bankr. S.D.N.Y. Jan. 9, 2001); In re CWT Specialty Stores, Inc., Ch. 11 Case No. 00-B-10758 (JHG) (Bankr. S.D.N.Y. Feb. 28, 2000).

35. Accordingly, the Debtors request that this Court waive the strict enforcement of bank account closing requirements and approve alternative procedures that provide the same protection. The Debtors request the Bank Accounts or other bank accounts opened by the Debtors postpetition be deemed debtor in possession accounts and the Debtors be

authorized to maintain and continue using these accounts in the same manner and with the same account numbers, styles and document forms as those employed during the prepetition period.

The Debtors Should be Granted Authority
to Use Existing Business Forms and Checks

36. For the foregoing reasons, and in order to minimize expenses to their estates, the Debtors also request that they be authorized to continue to use all correspondence, business forms (including, but not limited to, letterheads, purchase orders, invoices and customer contracts), and checks existing immediately prior to the Commencement Date, without reference to the Debtors' status as "debtors in possession."[2]

37. Parties doing business with the Debtors undoubtedly will be aware of their status as debtors in possession as a result of the size and notoriety of these chapter 11 cases, the press releases issued by the Debtors and general press coverage, and publication notice contemplated for these chapter 11 cases.

38. In addition, a requirement that the Debtors change their business forms would be expensive and burdensome to the Debtors' estates and extremely disruptive to the Debtors' business operations without any corresponding benefit.

39. For these reasons, the Debtors request that they be authorized to use existing checks, correspondence and business forms without being required to place the designation "debtor in possession" on each check or business form.

[2] As soon as practicable after the Commencement Date, the Debtors will manually imprint the legend "debtor in possession" on existing checks. In addition, if the existing check stock is depleted, then the Debtors will obtain new check stock reflecting their status as debtors in possession.

Continuing the Debtors' Integrated Cash Management
is in the Best Interests of the Debtors' Estates and Creditors

Description of the Existing Cash Management System

40. Prior to the Commencement Date, and in the ordinary course of business, the Debtors used their cash management system, which is similar to cash management systems utilized by other major corporate enterprises, to collect, transfer and disburse funds generated throughout the Debtors' operations, and to record such collections, transfers, and disbursements as they were made. The Debtors' cash management system consists of the Bank Accounts and the Investment Accounts (as defined below) located at multiple banking institutions. The movement of funds through the Debtors' cash management system is described in more detail below and is illustrated by a chart annexed hereto as Exhibit "B":

A. OPERATING ACCOUNTS:

Cash Collection and Concentration:

- Concentration Accounts. The focal point of the Debtors' cash management system is two general operating accounts (collectively, the "Concentration Accounts") maintained in the name of Allegiance Telecom Service Corporation at Bank of America and at JPMorgan Chase Bank. All funds received by the Debtors in the ordinary course of their business, primarily through wire transfers and lockbox receipts, flow through the Concentration Accounts. The Concentration Accounts are used to fund the Disbursement Accounts as set forth below. To the extent that cash collections are not sufficient to fund daily cash needs, the Debtors fund any additional cash needs from their Investment Accounts, as described below.

- Lockbox Accounts. The Debtors maintain four "lockbox" relationships (the "Lockbox Accounts") with Bank of America, Fleet National Bank, Comerica Bank and Electronic Data Systems Corporation ("EDS").[3] Funds received by the Debtors in connection with their accounts receivables are deposited into the Lockbox Accounts.

[3] In the beginning of 2003, the Debtors began the implementation of a new retail lockbox service provided by EDS. The Debtors anticipate that EDS will begin providing services in May 2003 and deposit funds into an operating Bank Account at JPMorgan Chase Bank.

Disbursements. The Debtors maintain ten Bank Accounts to make disbursements in the ordinary course of their business.

- Disbursement Accounts.[4] The Debtors maintain five Bank Accounts at Bank of America and JPMorgan Chase Bank, as their disbursement accounts for accounts payable (the "Disbursement Accounts"). The Disbursement Accounts also include wire/ACH accounts. The Disbursement Accounts are zero balance accounts and are funded daily as needed from the Concentration Accounts.

- Payroll Accounts. The Debtors issue checks for salary and wage payments, medical/dental claims payments and flexible spending account payments from the following Bank Accounts (collectively, the "Payroll Accounts"):

  - One Payroll Account at JPMorgan Chase Bank and one Payroll Account at Bank of America, which are in the name of Allegiance Telecom Service Corporation and are used for salary and wage payments.

  - Two medical/dental claims Payroll Accounts in the name of Allegiance Telecom, Inc. at Citibank used for benefit plan claims funding to CIGNA.

  - A "flex plan" Payroll Account at Bank of America in the name of Allegiance Telecom Service Corporation for flexible benefit payments.

B. INVESTMENT ACCOUNTS:

In addition to the operating Bank Accounts described above, the Debtors maintain the following four investment accounts (the "Investment Accounts"):

- One Investment Account at Bank of America in the name of Allegiance Telecom, Inc., which is used for investments in an overnight treasury fund.

- Two Investment Accounts at JPMorgan Chase Bank in the name of Allegiance Telecom Company Worldwide, which are used for investments in U.S. Government money market funds.

[4] As set forth in fn. 1, the Debtors are in the process of transferring certain Bank Accounts to JPMorgan Chase Bank. Therefore, some of the Disbursement Accounts will be maintained by the Debtors only during the transition period.

- One Investment Account at Morgan Stanley & Co. in the name of Allegiance Telecom Company Worldwide, which is used for investments in U.S. Government securities and money market funds.[5]

Need to Continue Cash Management System

41. The Debtors seek authority to continue utilizing their current integrated cash management system as described above. It is critical for the Debtors to continue to be able to consolidate their cash management and centrally coordinate funds transfers to efficiently and effectively operate their large, complex business operations. Disrupting these cash management procedures would severely impair the Debtors' ability to (a) preserve and enhance their respective going concern values and (b) reorganize successfully during these chapter 11 cases. It is essential, therefore, that the Debtors be permitted to continue to use their current cash management system.

42. The Debtors have utilized their cash management system as described herein for approximately two years as a mainstay of their ordinary, usual and essential business practices. The cash management system is similar in form to those commonly employed by corporate enterprises comparable to the Debtors in size and complexity. Large, complex multiple-entity businesses tend to use such systems because of the numerous benefits they provide, including the ability to (a) tightly track and control all corporate funds enabling near-continuous status reports on the location and amount of all such funds, (b) invest idle cash, (c) ensure cash availability and (d) reduce administrative expenses by facilitating the ease of account recordkeeping, movement of funds, and the development of timely and accurate account balance, process, and presentment information. These controls are particularly important here,

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[5] Prior to the Commencement Date, the Debtors made an investment in a commercial paper of a utility company, the current value of which is approximately $9 million and provides a return of approximately 7% to 8%, which they intend to maintain as long as the rate of return remains profitable. The Debtors do not intend to make any additional investments in commercial paper through this or any other Investment Account after the Commencement Date.

given the significant amount of cash that flows through the Debtors' integrated cash management system on a daily basis.

43. In addition, given the corporate and financial structure of the Debtors, it would be difficult for the Debtors to establish an entirely new system of accounts and a new cash management system for each separate legal entity. For example, if the Debtors were required to open separate accounts as debtors in possession and rearrange their cash management system, it would necessitate opening numerous new cash accounts for collections and disbursements. The delays that would result from opening new accounts, revising cash management procedures and instructing customers to redirect payments would negatively impact the Debtors' ability to operate their businesses while pursuing these arrangements and unnecessarily distract the Debtors' attention away from their reorganization efforts. Thus, under the circumstances, maintaining the Debtors' cash management system is both essential and in the best interests of their respective estates and creditors.[6] Furthermore, preserving the "business as usual" atmosphere and avoiding the unnecessary distractions that would inevitably be associated with any substantial disruption in the Debtors' cash management system obviously will facilitate the Debtors' reorganization efforts.

44. If the Debtors are not permitted to continue to utilize their integrated cash management system in its current form, their operations would be severely, and perhaps, irreparably, impaired. Accordingly, the Court should authorize the Debtors' continued use of their existing cash management system.

45. The continued use of cash management systems employed in the ordinary course of a debtor's prepetition business has also been approved as a routine matter in other

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[6] The Debtors will continue to maintain strict records with respect to all transfers of cash, so that transactions can be readily ascertained, traced, and recorded properly on applicable intercompany accounts.

cases in this District. See, e.g., In re WorldCom, Inc., Ch. 11 Case No. 02-13533 (AJG) (Bankr. S.D.N.Y. July 22, 2002); In re Adelphia Communications Corp., Ch. 11 Case No. 02-41729 (REG) (Bankr. S.D.N.Y. June 26, 2002); In re Global Crossing Ltd., Ch. 11 Case No. 02-40187 (REG) (Bankr. S.D.N.Y. Jan. 28, 2002); In re Enron Corp., Ch. 11 Case No. 01-16034 (AJG) (Bankr. S.D.N.Y. Dec. 3, 2001); In re Teligent, Inc., Ch. 11 Case No. 01-12974 (SMB) (Bankr. S.D.N.Y. June 13, 2001); In re Indesco Int'l, Inc., Ch. 11 Case No. 00-15452 (REG) (Bankr. S.D.N.Y. Jan. 9, 2001); In re CWT Specialty Stores, Inc., Ch. 11 Case No. 00-B-10758 (JHG) (Bankr. S.D.N.Y. Feb. 28, 2000).

46. It is critical to the orderly operation of the Debtors' businesses and the preservation of value of those businesses that the Debtors continue to utilize their existing cash management system without disruption. Accordingly, it is appropriate and entirely consistent with sections 105(a), 1107 and 1108 of the Bankruptcy Code for the Court to approve the Debtors' integrated cash management system in its current form.

The Debtors Should Be Authorized
To Continue Using Their Current Investment Practices

47. Among the assets of the Debtors' chapter 11 estates are cash and cash equivalents (the "Funds") generated by the daily operations of the business. To maximize the value of the Debtors' estates, it is desirable to maintain the Funds in income producing investments to the fullest extent possible. Prior to the Commencement Date, in accordance with the investment guidelines (the "Investment Guidelines") for their excess funds, the Debtors invested the Funds on a daily basis through the Investment Accounts maintained at Bank of America, JPMorgan Chase Bank and Morgan Stanley & Co. A summary of the Investment Guidelines is annexed hereto as Exhibit "C." The Debtors anticipate that, on average,

approximately $175 million will be invested in accordance with these Investment Guidelines on a daily basis.

48. Section 345(a) of the Bankruptcy Code authorizes a debtor in possession to deposit or invest an estate's money (including cash) so as to yield the maximum reasonable net return on such money, taking into account the safety of such deposit or investment. While section 345(b) of the Bankruptcy Code generally requires, with respect to investments other than those "insured or guaranteed by the United States or by a department, agency or instrumentality of the United States or backed by the full faith and credit of the United States," the estate must require a bond in favor of the United States secured by the undertaking of a court-approved corporate surety, the Court may dispense with this limitation "for cause."

49. The Debtors submit that to the extent the Investment Guidelines exceed the scope of investments covered by section 345(a) of the Bankruptcy Code, cause exists for the Court to allow the Debtors to continue investing their cash in accordance with the Investment Guidelines. The Debtors submit that the Investment Guidelines provide sufficient protection for their cash and that it would be in their estates' and creditors' best interests for the Debtors to follow the Investment Guidelines.

50. The Debtors obtain a greater yield by investing funds in accordance with Investment Guidelines than they would if through government securities, which the Debtors believe will result in greater returns for the Debtors' estates over time with little or no additional investment risk. The Debtors also believe that, as long as investments are restricted in accordance with the Investment Guidelines, the protections afforded creditors are equal to or exceed the protection afforded by a corporate surety.

51. Bankruptcy courts in this District have previously granted the relief similar to the relief requested by the Debtors with respect to the continued use of their

Investment Guidelines. See, e.g., In re WorldCom, Inc., Ch. 11 Case No. 02-13533 (AJG) (Bankr. S.D.N.Y. July 22, 2002); In re Adelphia Communications Corp., Ch. 11 Case No. 02-41729 (REG) (Bankr. S.D.N.Y. June 26, 2002); In re Global Crossing Ltd., Ch. 11 Case No. 02-40187 (REG) (Bankr. S.D.N.Y. Jan. 28, 2002).

Waiver of Memorandum of Law

52. 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 Rule for the Southern District of New York.

Notice

53. Notice of this Motion has been provided to: (a) the Office of the United States Trustee for the Southern District of New York; (b) attorneys for the Prepetition Lenders; and (c) attorneys for the Ad Hoc Committee. In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is required.

No Prior Request

54. 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, (a) authorizing the Debtors to (i) maintain existing bank accounts, (ii) continue to use their existing checks, correspondence and business forms, (iii) continue to use their existing cash management system and (iv) invest Funds using the Debtors' existing Investment Guidelines and (b) granting such other and further relief as the Court deems proper and just.

Dated: New York, New York
May 14, 2003

Respectfully submitted,

/s/ Matthew A. Cantor

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