

# **EXHIBIT A**

## SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release dated as of July 15, 2003 (the "**Settlement Agreement**") is by and among Bayerische Hypo-und Vereinsbank AG ("HVB"), Bank Austria Creditanstalt Corporate Finance, Inc. ("BACA"; HVB and BACA collectively, the "Banks"), and the Debtors (as defined below).

### BACKGROUND

The Banks and the Debtors are parties, along with certain other Lenders and the Agent, to a Credit and Guaranty Agreement, dated as of February 15, 2000, as amended, supplemented or modified from time to time (the "Prepetition Credit Agreement").

Pursuant to a Funding Notice (as defined in the Prepetition Credit Agreement), dated June 20, 2002 (the "2002 Funding Notice"), the Borrower (as defined in the Prepetition Credit Agreement) requested an advance by the Lenders (as defined in the Prepetition Credit Agreement) of the remaining portion of the then unfunded Revolving Loan Commitments (as defined in the Prepetition Credit Agreement).

The Banks declined to fund their respective pro rata share of such unfunded Revolving Loan Commitments.

The Banks' refusal to fund their respective pro rata share of the 2002 Funding Notice resulted in a dispute between the Banks, on the one hand, and the Debtors, on the other hand, relating to the Banks' respective obligation under the Prepetition Credit Agreement to honor the 2002 Funding Notice (the "Funding Dispute").

The Prepetition Credit Agreement was amended pursuant to the First Amendment dated as of November 27, 2002 (the "First Amendment"), which was executed by the Debtors and the Requisite Lenders (as defined in the Prepetition Credit Agreement), but not the Banks.

Pursuant to Section 7(j) of the First Amendment, the Borrower delivered a written declaration to the Banks, dated January 16, 2003, stating that each of the Banks was a "Defaulting Lender" under Section 2.20 of the Credit Agreement (such declaration being referred to herein as the "Defaulting Lender Declaration").

Pursuant to Section 7(i) of the First Amendment, the Borrower made a voluntary principal prepayment of \$15,000,000 to the Agent, who distributed the proceeds of such prepayment to those Lenders who funded their respective pro rata shares of the Revolving Loan Commitments pursuant to the 2002 Funding Notice (the "Funding Lenders").

The Borrower made a further voluntary principal prepayment of \$5,000,000 to the Agent, who distributed the proceeds of such prepayment to the Funding Lenders, pursuant to the terms of a Forbearance Agreement, dated April 29, 2003, executed by the Debtors and the Requisite Lenders, but not the Banks (such \$15,000,000 and \$5,000,000 prepayments being collectively the "Funding Lender Prepayments").

On May 14, 2003, Allegiance Telecom, Inc., and its direct and indirect subsidiaries, commenced cases under Title 11 of the United States Code (the "Bankruptcy Code") before the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), Case No. 03-13057 (RDD) (the "Bankruptcy Case") and the Debtors retained possession of their assets and continue to operate their businesses as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

The Debtors and the Banks have determined that it is in the best interests of all of the parties hereto to resolve the Funding Dispute amicably and finally in order that all parties to the Prepetition Credit Agreement can focus on completing the restructuring of the Debtors as effectively as possible.

NOW THEREFORE, in consideration of the above premises and the promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to settle the Funding Dispute, subject to approval of this settlement by the Bankruptcy Court as provided in Section 5.10 herein, pursuant to the following terms and conditions:

**Section 1. Definitions.**

1.01 The following terms used herein, including the preamble, recitals, annexes hereto, shall have the following meanings:

"Amended Final Order" means the Final Order Authorizing Use of Cash Collateral by Consent entered by the Bankruptcy Court on or about June 26, 2003.

"Bankruptcy Court Approval" means an order issued by the Bankruptcy Court in form and substance satisfactory to all of the parties hereto approving the terms of this Settlement Agreement.

"Bank Prepayment Amount" means, in the case of HVB, a prepayment by the Borrower of the Loans by HVB in the principal amount of \$665,188.50 and, in the case of BACA, a prepayment by the Borrower of the Loans by BACA in the principal amount of \$620,842.60, such amounts being prepayments of 4.43459% of the principal amount of fully funded Loans of \$15,000,000 and \$14,000,000 by HVB and BACA, respectively, being a prepayment in the same percentage amount as the percentage of the Funding Lender Loans prepaid by the Funding Lender Prepayments.

"Debtors" means the Borrower, Allegiance Telecom, Inc., and each of the subsidiaries signatory hereto.

"Funding Amount" means, in the case of HVB, \$4,500,000, and, in the case of BACA, \$4,200,000, each Bank's respective unfunded portion of its Revolving Loan Commitment.

"Interim Order" means the Emergency Order Authorizing Use of Cash Collateral by Consent entered by the Bankruptcy Court on May 15, 2003.

"Net Funding Obligation" means, in the case of HVB, \$3,834,811.50, and, in the case of BACA, \$3,579,157.40, being each Bank's respective Funding Amount less such Bank's Bank Prepayment Amount.

- 1.02 All capitalized terms used herein but not defined herein shall have the same meaning as ascribed to them in the Prepetition Credit Agreement.

**Section 2. Resolution of Funding Dispute.**

- 2.01 The Parties hereto agree to settle finally and unconditionally the Funding Dispute and all matters related thereto pursuant to the terms and conditions set forth herein.
- 2.02 Within two (2) business days following Bankruptcy Court Approval, each of the Banks agrees to advance and deliver directly to the Borrower, which advance will be treated by the Agent for the benefit of the Borrower as provided in the Prepetition Credit Agreement as a Loan, an amount equal to its respective Net Funding Obligation as full and complete satisfaction of all of its payment and funding obligations herein and under the Prepetition Credit Agreement.
- 2.03 Subject only to receipt of Bankruptcy Court Approval and receipt by the Borrower of the Net Funding Obligation from each of the Banks as provided in Section 2.02:
- (a) Each of the Debtors hereby declares that each of the Banks is a Lender in good standing and in full compliance with all of the terms of the Prepetition Credit Agreement and all other Credit Documents and that each of the Banks and each of their respective successors and assigns is entitled to exercise all of the rights and privileges of a Lender in good standing under the Prepetition Credit Agreement and all other Credit Documents to which the Banks or either of them are a party;
  - (b) The Borrower hereby rescinds in its entirety the Defaulting Lender Declaration as it may relate to the Banks or either of them and shall deliver to the Agent with a copy to the Banks within one business day of the issuance of Bankruptcy Court Approval a notice in substantially the form set forth in Annex A hereto, which notice shall become effective upon receipt by the Borrower of the Net Funding Obligation from the Banks; and
  - (c) Each of the Debtors agrees immediately to cease and desist from, and to use its reasonable efforts to prohibit any other party to the Prepetition Credit Agreement from, referring to or treating either of the Banks, or any subsequent assignee or transferee thereof, as a Defaulting Lender.
- 2.04 Upon receipt by the Borrower from the Banks of the amount equal to their Net Funding Obligation, the Debtors shall retain the funds as Cash Collateral (as this term is defined in

the Amended Final Order) and use such Cash Collateral only in accordance with the terms of the Amended Final Order.

Section 3. Releases.

- 3.01 Subject to the effectiveness of this Settlement Agreement as provided in Section 5.10, each of the Debtors hereby releases, acquits and forever discharges each of the Banks, the Banks' affiliates, and their respective directors, officers, employees, subsidiaries, shareholders, agents, representatives, attorneys, successors and assigns (collectively, the "Bank Released Parties"), from any and all actions, causes of action, suits, claims for sums of money, contracts, controversies, agreements, costs, attorneys' fees, expenses, damages, judgments and demands whatsoever in law or in equity, known or unknown, which any Debtor has or may have against any Bank Released Party arising out of, under or in connection with the Prepetition Credit Agreement through the date of issuance of the Bankruptcy Court Approval, including the Banks' respective prior refusals to advance their respective Funding Payment Amount or any other matter relating to the Funding Dispute.
- 3.02 Subject to the effectiveness of this Settlement Agreement as provided in Section 5.10, each of the Banks, hereby releases, acquits and forever discharges each of the Debtors, and their respective directors, officers, employees, subsidiaries, shareholders, agents, representatives, attorneys, successors and assigns (collectively, the "Allegiance Released Parties"), from any and all actions, causes of action, suits, claims for sums of money, contracts, controversies, agreements, costs, attorneys' fees, expenses, damages, judgments and demands whatsoever in law or in equity, known or unknown, which either Bank has or may have against any Allegiance Released Party arising out of, under or in connection with the Defaulting Lender Declaration through the date of issuance of the Bankruptcy Court Approval.

Section 4. Representations and Warranties.

- 4.01 Each of the Debtors makes the following representations and warranties:
- (a) None of the Debtors has paid or distributed any amount to the Agent or the Funding Lenders between June 30, 2002 and the date hereof except (i) the Funding Lender Prepayments, (ii) interest due under the Prepetition Credit Agreement paid to the Agent for further distribution to all of the Lenders pro rata to their respective Loans then outstanding and (iii) periodic adequate protection payments authorized under the Interim Order and the Amended Final Order paid to the Agent for further distribution to all of the Lenders pro rata to their respective Loans then outstanding in amounts equal to the interest payments due and owing under the Prepetition Credit Agreement and other amounts authorized under the Interim Order and the Amended Final Order to be paid the Agent; and
  - (b) None of the Debtors has incurred or suffered any damage or harm, of whatever nature, caused by, in connection with, or arising from, directly or indirectly, the decisions of the Banks not to fund pursuant to the 2002 Funding Notice, the lack of

funding by the Banks or any other action taken or not taken by the Banks in connection with their decisions not to fund.

4.02 Each Bank makes the following representations and warranties:

- (a) Such Bank has all requisite power and corporate authority to enter into this Settlement Agreement, and to consummate the transactions contemplated hereby;
- (b) The execution, delivery and performance by such Bank of this Settlement Agreement, and the consummation of the transactions contemplated hereby have been authorized by all necessary corporate action; and
- (c) This Agreement constitutes a valid obligation of such Bank and its affiliates, enforceable against such Bank and its affiliates in accordance with its terms.

Section 5. Miscellaneous.

- 5.01 No Admission. By entering into this Settlement Agreement, no party hereto intends to make, nor shall they be deemed to have made, any admission of any kind except as specifically set forth herein.
- 5.02 Entire Agreement. This Settlement Agreement constitutes the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein, and there are no restrictions, promises, representations, warranties, covenants, conditions or undertakings with respect to the subject matter hereof, other than those expressly set forth or referred to herein. This Settlement Agreement supersedes all prior agreements and understandings between the parties hereto with respect to the subject matter hereof. This Settlement Agreement constitutes the entire understanding of the parties concerning its subject matter and may not be modified, altered, supplemented, or discharged except by a writing signed by all of the parties. No representations or promises except those set forth herein have been made to induce any party to enter into this Settlement Agreement.
- 5.03 Successors and Assigns. This Settlement Agreement shall be binding on each of the parties hereto and on their respective successors and assigns.
- 5.04 Representations and Warranties. The representations and warranties set forth herein shall survive indefinitely following the execution of this Settlement Agreement and the consummation of the transactions contemplated hereby.
- 5.05 Governing Law. This Settlement Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the principles and conflicts of law thereof.
- 5.06 Notices. All notices and other communications in connection with this Settlement Agreement shall be made in accordance with Section 10.1 of the Prepetition Credit Agreement.

- 5.07 Counterparts. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
- 5.08 Specific Performance. The parties hereby agree that in addition to any other remedy to which the Banks may be entitled at law or in equity, the Banks shall be entitled to compel specific performance of this Settlement Agreement in any action instituted in any court of the United States.
- 5.09 Severability. The invalidity, illegality or unenforceability of one or more of the provisions of this Settlement Agreement in any jurisdiction shall not affect the validity, legality or enforceability of this Settlement Agreement, including any such provision, in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder shall be enforceable to the fullest extent permitted by law.
- 5.10 Effectiveness. This Settlement Agreement, including the releases contained herein, shall become effective immediately upon issuance of the Bankruptcy Court Approval.

IN WITNESS WHEREOF, the parties hereto have caused this Settlement Agreement to be duly executed and delivered by their duly authorized officers as of the day and year first above written.

**ALLEGIANCE TELECOM COMPANY  
WORLDWIDE,  
as Debtor-in-Possession**

By: Thomas M. Lord  
Name: Tom Lord  
Title: Chief Financial Officer, Executive Vice President of Corporate Development

**ALLEGIANCE TELECOM, INC.,  
as Debtor-in-Possession**

By: Thomas M. Lord  
Name: Tom Lord  
Title: Chief Financial Officer, Executive Vice President of Corporate Development

**ADGRAFIX CORPORATION  
ALGX BUSINESS INTERNET, INC.  
ALLEGIANCE INTERNET, INC.  
ALLEGIANCE TELECOM INTERNATIONAL, INC.  
ALLEGIANCE TELECOM OF ARIZONA, INC.  
ALLEGIANCE TELECOM OF CALIFORNIA, INC.  
ALLEGIANCE TELECOM OF COLORADO, INC.**

ALLEGIANCE TELECOM OF FLORIDA, INC.  
ALLEGIANCE TELECOM OF GEORGIA, INC.  
ALLEGIANCE TELECOM OF ILLINOIS, INC.  
ALLEGIANCE TELECOM OF INDIANA, INC.  
ALLEGIANCE TELECOM OF MARYLAND, INC.  
ALLEGIANCE TELECOM OF MASSACHUSETTS, INC.  
ALLEGIANCE TELECOM OF MICHIGAN, INC.  
ALLEGIANCE TELECOM OF MINNESOTA, INC.  
ALLEGIANCE TELECOM OF MISSOURI, INC.  
ALLEGIANCE TELECOM OF NEVADA, INC.  
ALLEGIANCE TELECOM OF NEW JERSEY, INC.  
ALLEGIANCE TELECOM OF NEW YORK, INC.  
ALLEGIANCE TELECOM OF NORTH CAROLINA, INC.  
ALLEGIANCE TELECOM OF OHIO, INC.  
ALLEGIANCE TELECOM OF OKLAHOMA, INC.  
ALLEGIANCE TELECOM OF OREGON, INC.  
ALLEGIANCE TELECOM OF PENNSYLVANIA, INC.  
ALLEGIANCE TELECOM OF TEXAS, INC.  
ALLEGIANCE TELECOM OF THE DISTRICT OF COLUMBIA, INC.  
ALLEGIANCE TELECOM OF VIRGINIA, INC.  
ALLEGIANCE TELECOM OF WASHINGTON, INC.  
ALLEGIANCE TELECOM OF WISCONSIN, INC.  
ALLEGIANCE TELECOM PURCHASING COMPANY  
ALLEGIANCE TELECOM SERVICE CORPORATION  
COAST TO COAST TELECOMMUNICATIONS, INC.  
HOSTING.COM, INC.  
INTERACCESS TELECOMMUNICATIONS CO.  
JUMP.NET, INC.  
SHARED TECHNOLOGIES ALLEGIANCE, INC.  
VIRTUALIS SYSTEMS, INC.,  
each as Debtor-in-Possession

By: Thomas M. Lord  
Name: Tom Lord  
Title: Chief Financial Officer, Executive Vice President of Corporate Development



**BAYERISCHE HYPO-UND VEREINSBANK AG  
NEW YORK BRANCH**

By: Kimberly Sausa  
Name: Kimberly Sausa  
Title: Assoc. Director

By: Peter Halter  
Name: PETER HALTER  
Title: DIRECTOR

**BANK AUSTRIA CREDITANSTALT CORPORATE FINANCE, INC.**

By: Kimberly Sausa  
Name: Kimberly Sausa  
Title: Assoc. Director

By: Peter Halter  
Name: PETER HALTER  
Title: DIRECTOR

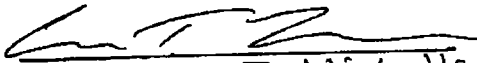
The undersigned, in its capacity as Administrative Agent, and for itself as a Lender, under the Prepetition Credit Agreement, hereby acknowledges and agrees to the terms and conditions of the foregoing Settlement Agreement. Furthermore, subject only to receipt of Bankruptcy Court Approval and receipt by the Borrower of the Net Funding Obligation from each of the Banks as provided in Section 2.02 above, the Administrative Agent agrees: (i) that each of the Banks is a Lender in good standing and in full compliance with all of the terms of the Prepetition Credit Agreement and all other Credit Documents and that each of the Banks and each of their respective successors and assigns is entitled to exercise all of the rights and privileges of a Lender in good standing under the Prepetition Credit Agreement and all other Credit Documents to which the Banks or either of them are a party; (ii) immediately to cease and desist from, and to use its reasonable efforts to prohibit any other party to the Prepetition Credit Agreement from, referring to or treating either of the Banks, or any subsequent assignee or transferee thereof, as a Defaulting Lender; and (iii) to take all reasonable steps to help effect full and unconditional

Att Bill Campbell

implementation of, all of the terms and conditions set forth in the foregoing Settlement Agreement.

Dated: July 15, 2003

GENERAL ELECTRIC CAPITAL CORPORATION,  
As Administrative Agent and as a Lender

By:   
Name: Christopher T. Nicholls  
Title: Senior Vice President

**Annex A**  
**to the Settlement Agreement dated July 15, 2003**

[Borrower's letterhead]

[July \_\_, 2003]

Christopher Nicholls  
GE Structured Finance, Inc.  
120 Long Ridge Road  
Stamford, CT 06927

**Re: Credit and Guaranty Agreement, dated as of February 15, 2000 (the "Prepetition Credit Agreement"), by and among ALLEGIANCE TELECOM, INC. (the "Company"), ALLEGIANCE TELECOM COMPANY WORLDWIDE (the "Borrower"), the Guarantors, the Lenders and the Administrative Agent from time to time party thereto, and others.**

Dear Chris:

We refer to the Revolving Loan Commitments of Bayerische Hypo-und Vereinsbank AG ("HVB") and Bank Austria Creditanstalt Corporate Finance, Inc. ("BACA") under the Prepetition Credit Agreement. All capitalized terms used herein but not defined shall have the same meaning ascribed to them in the Prepetition Credit Agreement and the Settlement Agreement referenced below.

Please be advised that effective the date hereof we have finally and permanently settled all outstanding disputes among the Company, the Borrower and the Guarantors (collectively, the "Debtors") and HVB and BACA (collectively, the "Banks") pursuant to a Settlement Agreement dated July 15, 2003. The Settlement Agreement has been approved by the United States Bankruptcy Court for the Southern District of New York. Copies of the Bankruptcy Court's order and the Settlement Agreement are attached for your reference.

Pursuant to the Settlement Agreement, (i) each of the Banks has agreed to fund its respective Net Funding Obligation as defined in the Settlement Agreement; and (ii) the Debtors, on one hand, and the Banks, on the other hand, have executed mutual releases for the benefit of the other relevant parties thereof as set forth in the Settlement Agreement.

We refer to the First Amendment to the Prepetition Credit Agreement dated as of November 27, 2002 (the "First Amendment") and, in particular, Section 7(j) thereof, and the Borrower's written declaration to the Banks dated January 16, 2003 that each of the Banks is a "Defaulting Lender" under Section 2.20 of the Prepetition Credit Agreement (such declaration being referred to herein as the "Defaulting Lender Declaration").

Effective upon the Borrower's receipt of the Net Funding Obligation, the Borrower rescinds in its entirety the Defaulting Lender Declaration as it may relate to either of the Banks. Each of the Debtors declares that neither of the Banks is a Defaulting Lender and hereby revokes any statement, declaration, notice or other communication (whether written or oral) whatsoever to the effect that either of the Banks is a Defaulting Lender. Each of the Debtors declares that the Banks are and their respective successors and assigns shall be considered Lenders in good standing under the Prepetition Credit Agreement as relates to any matter occurring on or before the date hereof and shall be entitled to exercise any and all rights of the Lenders set forth in the Prepetition Credit Agreement and all other Credit Documents to which the Banks or either of them are a party.

The Banks and their respective successors and assigns shall be entitled to receive their respective pro rata portion of all amounts paid to the Lenders under the Prepetition Credit Agreement or any other Credit Document, whether of interest, principal, fees or any other amount and whether a scheduled payment or a mandatory or voluntary prepayment or other distribution.

Very truly yours,

**ALLEGIANCE TELECOM COMPANY  
WORLDWIDE,  
as Debtor-in-Possession**

By: \_\_\_\_\_  
Name:  
Title:

Acknowledged and Agreed on July \_\_, 2003

**ALLEGIANCE TELECOM, INC.  
ADGRAFIX CORPORATION  
ALGX BUSINESS INTERNET, INC.  
ALLEGIANCE INTERNET, INC.  
ALLEGIANCE TELECOM INTERNATIONAL, INC.  
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ALLEGIANCE TELECOM OF MASSACHUSETTS, INC.**

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JUMP.NET, INC.  
SHARED TECHNOLOGIES ALLEGIANCE, INC.  
VIRTUALIS SYSTEMS, INC.,  
each as Debtor-in-Possession**

By: \_\_\_\_\_

Name:

Title: