

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**ORDER PURSUANT TO SECTION 105(a)
OF THE BANKRUPTCY CODE AUTHORIZING PAYMENT
OF PREPETITION CLAIMS OF CRITICAL VENDORS**

Upon the motion, dated May 14, 2003 (the “Motion”), of Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the “Debtors”), for an order, pursuant to section 105(a) of title 11 of the United States Code (the “Bankruptcy Code”), authorizing the Debtors’ payment, in the ordinary course, and in the Debtors’ sole discretion and business judgment, of the prepetition fixed, liquidated, and undisputed claims (the “Critical Vendor Claims”) of certain vendors critical to the Debtors’ business operations (the “Critical Vendors”), in the same manner as in effect prior to the commencement of the Debtors’ chapter 11 cases, as more fully set forth in the Motion; and the Court having jurisdiction to consider and determine the Motion as a core proceeding pursuant to 28 U.S.C. §§ 157 and 1334; and for the reason upon the record of hearing on the motion, appearing that the relief requested in the Motion is necessary and in the best interests of the Debtors and their estates and creditors; and due and proper notice of the Motion having been provided, and it appearing that no other or further notice need be provided; and after due deliberation and sufficient cause appearing therefor, it is

ORDERED that the Motion is granted; and it is further

ORDERED that, pursuant to section 105(a) of the Bankruptcy Code, the Debtors are authorized, but not directed, to pay prepetition amounts owed to Critical Vendor, as such Vendors were described on the record at the hearing on the motion, in the Debtors sole discretion and in accordance with the terms of such obligations; provided, however, that as a condition to payment hereunder, such Critical Vendors agree to supply goods and services to the Debtors during the pendency of these cases on customary trade terms; and provided further, that the aggregate of such payments pursuant to this Order shall not exceed \$4,000,000; and it is further

ORDERED that the Debtors are authorized to make payments, in their discretion, to Critical Vendors from available funds on the conditions ~~that~~ (i) such a claim is paid in cash or via wire transfer, (ii) by accepting payment, the Critical Vendor agrees to maintain or reinstate customary trade terms during the pendency of these chapter 11 cases, (iii) the Critical Vendor releases, waives and otherwise relinquishes any prepetition claims such Critical Vendor might have relating to the products and services for which it is receiving payment, and (iv) the Debtors mail a copy of the Order to each Critical Vendor to which any payment permitted hereunder is made; and it is further

ORDERED that, a Critical Vendor's acceptance of payment is deemed to be acceptance of the terms of the Order and effects a release, waiver and relinquishment of all prepetition claims held by such Critical Vendor relating to the products and services for which payment is being made, and, if the Critical Vendor, thereafter, does not provide the Debtors with customary trade term during the pendency of these cases, then any payments of prepetition claims made after the Commencement Date may be deemed to be unauthorized postpetition transfers and therefore recoverable by the Debtors in these chapter 11 cases; and it is further

ORDERED that the Debtors are authorized to obtain written verification of trade terms to be supplied by the Critical Vendors before issuing payment hereunder; and it is further

ORDERED that the Debtors' banks are authorized and directed to pay all prepetition checks issued to the Critical Vendors, and fund transfers requested by the Debtors, in respect to prepetition checks and funds transfers initiated by the Debtors to the Critical Vendors to the extent sufficient funds are on deposit; and it is further

ORDERED that the Debtors are authorized to issue new postpetition checks or effect new fund transfers on account of checks previously sent to the Critical Vendors to replace any prepetition checks or fund transfer requests that may be dishonored or voided and to reimburse the Critical Vendors for any fees and costs incurred by them in connection with a dishonored or voided check or funds transfer; and it is further

ORDERED that, nothing in this Order nor any action taken by the Debtors in furtherance of the implementation thereof shall be deemed an approval of the assumption or rejection of any executory contract pursuant to section 365 of the Bankruptcy Code; and it is further

ORDERED that the Debtors shall periodically report to the Prepetition Lenders and the Official Creditors' Committee regarding the Debtors' compliance with this Order; and it is further

ORDERED that notice of the Motion as provided therein shall be deemed good and sufficient notice of such Motion.

Dated: New York, New York
May 15, 2003

/s/Robert D. Drain
UNITED STATES BANKRUPTCY JUDGE