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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**EX PARTE MOTION OF THE DEBTORS FOR AN ORDER
SHORTENING NOTICE, PURSUANT TO RULES 2002(a)
AND 9006(c) OF THE FEDERAL RULES OF BANKRUPTCY
PROCEDURE, WITH RESPECT TO A HEARING ON MOTION OF
THE DEBTORS, PURSUANT TO SECTIONS 105(a), 363(b)(1) AND
365 OF THE BANKRUPTCY CODE, FOR AN ORDER APPROVING
AND AUTHORIZING KEY EMPLOYEE RETENTION PROGRAM**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

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

Introduction

1. On May 14, 2003, the Debtors each commenced with this Court a voluntary case under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). The Debtors are authorized to operate their business and manage their properties as debtors in possession pursuant to sections 1107(a) 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 pursuant to 28 U.S.C. § 157(b). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

Summary of Relief Requested

4. Subsequent to the Court considering the relief requested herein (and to the extent such relief is granted), the Debtors intend to file a motion (the "KERP Motion"), seeking entry of an order, pursuant to sections 105(a), 363(b)(1) and 365 of the Bankruptcy Code, approving and authorizing a key employee retention program (the "Retention Program").

5. By this Motion, the Debtors request entry of an order, pursuant to Bankruptcy Rules 2002(a)(2) and 9006(c)(1), shortening the notice required to be provided with respect to the KERP Motion, as it relates to the relief requested with respect to Priority Key Employees (as defined in the KERP Motion). The Priority Key

Employees include the following groups of employees: employees of Shared Technologies Allegiance, Inc. (“Shared Technologies”), Shared Technologies’ management and the Debtors’ employees whose retention payments are within the range of 8% to 15% of their base salary.

**Cause Exists to Shorten the Notice
Period with Respect to the KERP Motion**

6. The Debtors request that the Court shorten the twenty-day notice period required under Bankruptcy Rule 2002(a)(2) to allow the hearing on the KERP Motion, as it relates to approval of the Retention Program with respect to the Priority Key Employees, to take place on August 19, 2003, at 10:00 a.m., prevailing Eastern Time. Consistent therewith, the Debtors request that the Court set August 16, 2003, at 4:00 p.m., prevailing Eastern Time, as the deadline for the service and filing of objections to the KERP Motion as it relates to approval of the Retention Program with respect to the Priority Key Employees.

7. Bankruptcy Rules 2002(a)(2) and 9006(c)(1) authorize the Court, for cause shown, to reduce the notice period required for a hearing to authorize a proposed use, sale or lease of property of the estate other than in the ordinary course of business. See Fed. R. Bankr. P. 2002(a)(2); 9006(c)(1). The Debtors submit there is ample cause to reduce the notice period.

8. As set forth in more detail in the KERP Motion, prior to the Commencement Date, partly due to the precipitous decline in the value of Allegiance’s common stock and certain attributes of the Debtors’ compensation program, the Debtors began to experience employee attrition among certain of their talented senior executive

employees. Specifically, in 2002, four members of the senior management team terminated their employment with the Debtors. Moreover, a number of key executives and other employees were being pursued actively by other employers. As a consequence, the Debtors became concerned that other talented employees might terminate their employment to pursue opportunities elsewhere.

9. As a result, in the first quarter of 2003, after consulting with the Debtors' compensation and benefits consultants and the Debtors' financial advisors and expending significant effort and performing a substantial review of pertinent information, the compensation committee of Allegiance's board of directors (the "Compensation Committee") formulated and approved the 2003 key employee retention plan (the "2003 Retention Program"), of which, with certain amendments (some of which are based on comments received from the Debtors' prepetition lenders (the "Prepetition Lenders")), the Debtors seek approval in the KERP Motion.

10. The financial expectations of the Debtors' employees have been frustrated as stock options and other equity compensation granted to the employees have lost value as a consequence of the deterioration of the telecommunications industry in general and the precipitous decline of the common stock of Allegiance. In addition, over the last three years, the Debtors have significantly reduced - and, in 2002, eliminated - cash bonuses to the Debtors' employees. Finally, *none of the Debtors' employees* has an employment agreement that provides for guaranteed severance, salary, bonus or other perquisites other than under the Retention Program. As a result of the foregoing, many of the Debtors' employees have not received competitive levels of total compensation in recent years.

11. The uncertainty surrounding the Debtors' restructuring efforts and chapter 11 cases has substantially increased the Debtors' voluntary employee attrition rate. Despite the implementation of the 2003 Retention Program, the Debtors' voluntary attrition rate has nearly doubled in terms of the number of the Debtors' total employees, in comparing the voluntary attrition rate in June 2003 to that in December 2002. In addition, the voluntary attrition rate for certain categories of the Key Employees (as defined in the KERP Motion) for the *two* months of May and June 2003 were equal to the voluntary attrition rates for such categories of employees for the *seven* months prior to May 2003. Importantly, many Key Employees are seriously seeking employment elsewhere in light of the uncertainty of the Debtors' chapter 11 cases and the approval of the Retention Program. In that regard, Key Employees have stated that they will no longer "believe in the company" if the Debtors cannot deliver on their promises regarding the Retention Program.

12. Additionally, in connection with the Debtors' restructuring efforts, over the last nine months, the Debtors have reduced their employee headcount by approximately 26.6%. Specifically, the Debtors have reduced their workforce from 4,198 employees on September 30, 2002 to 3,082 on July 31, 2003. As a result, the Debtors' remaining employees, and especially the Priority Key Employees, are concerned with the security of their own employment with the Debtors. These reductions in the workforce have immensely affected employee morale which has adversely affected the Debtors' business. Since the Commencement Date, Priority Key Employees have consistently asked the Debtors' management about the status of the Retention Program and expressed

their concerns about the potential loss of or change in the compensation provided for in the Retention Program.

13. The Debtors are seeking approval of the KERP Motion on an expedited basis *only* with respect to the Priority Key Employees. The aggregate cost of approval of the Retention Program with respect to the Priority Key Employees is approximately \$993,000. The Retention Program contemplates payments to certain Key Employees on September 8, 2003. The Debtors believe that it is critical to inform the Priority Key Employees that their retention payments have been approved as soon as practicable. Accordingly, in order to focus the attention of the Priority Key Employees on the Debtors' business operations, increase employee morale and avoid resignations of the Priority Key Employees, which would have adverse and potentially disastrous effects on the Debtors' business operations and these chapter 11 cases, the Debtors seek an expedited hearing to approve the KERP Motion as it relates to the Priority Key Employees. The Debtors also believe that approval of the Retention Program with respect to Priority Key Employees on an expedited basis will boost the morale of the remaining Key Employees with respect to which the hearing on the KERP Motion will be scheduled on regular notice at a later date.

14. In addition, Kirkland & Ellis LLP, as attorneys for the Debtors, consulted with a representative of the U.S. Trustee's Office, the attorneys for the Prepetition Lenders and the attorneys for the Creditors Committee regarding the relief requested herein. *All* of the aforementioned parties have consented to such relief.

15. The Debtors submit that notice by overnight mail, or where appropriate, by hand delivery, provided on the date hereof, to (i) the U.S. Trustee, (ii)

attorneys for the Creditors Committee, (iii) attorneys for the Prepetition Lenders and (iv) each person or entity on the Master Service List maintained in these chapter 11 cases will constitute good and sufficient notice of the relief requested in the KERP Motion as it relates to the Priority Key Employees.

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 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. Pursuant to Bankruptcy Rule 9006(c)(1), the Court may shorten time without notice.

18. No previous request for the relief sought herein has been made by the Debtors to this or any other court.

WHEREFORE the Debtors respectfully request that the Court enter an order, substantially in the form annexed hereto, shortening the notice period with respect to a hearing on the KERP Motion, as it relates to the Priority Key Employees, and providing the Debtors with such other and further relief as is just and proper.

Dated: New York, New York
August 11, 2003

Respectfully submitted,

/s/ Jonathan S. Henes

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