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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**AFFIDAVIT OF JONATHAN S. HENES, ESQ.
PURSUANT TO RULE 9077-1 OF THE LOCAL BANKRUPTCY
RULES FOR THE SOUTHERN DISTRICT OF NEW YORK**

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

JONATHAN S. HENES, being duly sworn, deposes and says:

1. I am an attorney at law admitted to practice before this Court and a member of the firm of Kirkland & Ellis LLP, attorneys for the above-captioned debtors and debtors in possession in connection with these chapter 11 cases.

2. I submit this affidavit based on personal knowledge, except where otherwise indicated, in support of the motion, dated August 11, 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 shortening the period for notice and a hearing to consider the Debtors' motion, seeking entry of an order, pursuant 105(a), 363(b)(1) and 365 of

the Bankruptcy Code, approving and authorizing a key employee retention program (the "KERP Motion"), as it relates to the relief requested therein with respect to the Priority Key Employees.[1]

3. Bankruptcy Rules 2002(a)(2) and 9006(c)(l) and Local Bankruptcy Rule 9006-1 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. The Debtors request the entry of an order shortening the period for the notice of and hearing on the KERP Motion for the reason set forth below.

4. 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.

5. 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 Prepetition Lenders), the Debtors seek approval in the KERP Motion.

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[1] Unless otherwise defined herein, capitalized terms shall have the meanings ascribed to them in the Motion.

6. 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.

7. 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 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.

8. 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.

9. 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.

10. 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.

11. Based on the foregoing, the Debtors and their estates may be prejudiced unless the 20-day notice period prescribed for hearings to authorize a proposed use, sale or lease of property of the estate other than in the ordinary course of business pursuant to Bankruptcy Rule 2002(a)(2) is shortened. Accordingly, the Debtors submit that good and sufficient cause exists for this Court to enter an order shortening the prescribed notice period so that the hearing on the KERP Motion, as it relates to the relief requested with respect to the Priority Key Employees, may proceed on an expedited basis. For that reason, the Debtors request that (a) a hearing to consider the KERP Motion be scheduled for August 19, 2003, at 10:00 a.m., prevailing Eastern Time, and (b) the deadline for the service and filing of objections to the KERP Motion, as it relates to the relief requested with respect to the Priority Key Employees be set for August 16, 2003, at 4:00 p.m., prevailing Eastern Time. The Debtors submit that the notice provisions set forth in the proposed order annexed to the Motion constitute good and sufficient notice of the KERP Motion, the relief requested therein as it relates to the Priority Key Employees and the proceedings to be held thereon.

12. No previous request for the relief sought in the Motion has been made to this or any other court.

/s/ Jonathan S. Henes
Jonathan S. Henes

Subscribed and sworn to before me
this 11 day of August , 2003.

/s/ Nathanael F. Meyers
Nathanael F. Meyers
Notary Public, State of New York
No. 01ME5057476
Qualified in New York County
Commission Expires March 25, 2006