UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

ORDER, PURSUANT TO SECTIONS 105(a), 363(b)(1) AND 365 OF THE BANKRUPTCY CODE, APPROVING AND AUTHORIZING KEY MIDDLE MANAGEMENT EMPLOYEE RETENTION PROGRAM

Upon 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, pursuant to sections 105(a), 363(b)(1) and 365 of the Bankruptcy Code,[1] approving and authorizing a key employee retention program, including both prepetition and postpetition payments thereunder (the "Retention Program") and assumption of certain retention agreements, as amended (each, the "Retention Agreement"); and the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334; and due and proper notice of the Motion having been given, and it appearing that no other or further notice need be provided; and a hearing to consider the Motion, as it relates to the Priority Key Employees, having been held on August 19, 2003; and an order approving the Motion as it relates only to the Priority Key Employees having been entered on August 22, 2003; and the Court having determined that the Retention Program, as it relates to all Key Employees, other than the Debtors' ten (10) executives (the "Senior Executives") and the

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

Vice President of Business Planning of Allegiance Telecom, Inc. (the "VP of Business Planning," and, the Key Employees other than the Priority Key Employees, the Senior Executives and the VP of Business Planning, "Middle Management"), represents a sound exercise of the Debtors' business judgment and is necessary and in the best interests of the Debtors' estates, creditors and other parties; and after due deliberation and sufficient cause appearing therefor, it is

ORDERED that the Motion is granted as it relates to the relief requested only with respect to Middle Management; and it is further

ORDERED that nothing in this Order approves, assumes, prejudges, or relates to any arrangement or contract with any of the Senior Executives or the VP of Business Planning; and it is further

ORDERED that the Retention Program, only as it relates to Middle Management, is authorized and approved and the Debtors are authorized to take all actions necessary to fully implement and carry out the Retention Program only as it relates to Middle Management; and it is further

ORDERED that to the extent there are any Retention Agreements, with the Middle Management, each such Retention Agreement is assumed, pursuant to section 365(a) of the Bankruptcy Code; and it is further

ORDERED that by this Order the relief requested in the Motion shall be granted only with respect to the Middle Management that are employed by the Debtors as of the date of the Motion; and it is further

ORDERED that any obligations of the Debtors under or in connection with the Retention Program, as it relates to Middle Management shall be deemed allowed administrative expense claims under section 503(b)(1)(A) of the Bankruptcy Code; and it is further

ORDERED that the hearing to consider the Motion as it relates to the Senior Executives and the VP of Business Planning shall be held on September 25, 2003, at 2:00 p.m., prevailing Eastern Time, before the Hon. Robert D. Drain, United States Bankruptcy Court, in Room 610 of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004-1408.

Dated: New York, New York
September 4, 2003

/s/Robert D. Drain
UNITED STATES BANKRUPTCY JUDGE