

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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| <b>In re</b>                             | : | <b>Chapter 11 Case No.</b>  |
|  | : | <b>03-13057 (RDD)</b>       |
| <b>ALLEGIANCE TELECOM, INC., et al.,</b> | : |                             |
|  | : | <b>Jointly Administered</b> |
| <b>Debtors.</b>                          | : |                             |

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**ORDER ON DEBTORS' MOTION PURSUANT TO SECTIONS 363 AND 364 OF  
THE BANKRUPTCY CODE FOR AUTHORIZATION TO OBTAIN  
LETTERS OF CREDIT AND ENTER INTO BONDING ARRANGEMENTS**

Upon the motion dated September 15, 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 363 and 364 of title 11, United States Code (the "Bankruptcy Code") (i) authorizing the Debtors to enter into agreements with banking institutions to obtain postpetition credit in the form of the Letters of Credit,<sup>1</sup> (ii) approving the priming of the liens of the Prepetition Lenders in favor of such financial institutions and/or Sureties in an amount not to exceed the aggregate of \$10,000,000, in connection with the posting of collateral for the Letters of Credit and/or Bonding Arrangements, (iii) authorizing the Debtors to enter into the Bonding Arrangements, including the Surety Indemnification Agreements, and (iv) authorizing the Debtors to (a) pay fees and costs and (b) issue collateral, including Cash Collateral, in an amount not to exceed an aggregate of \$10,000,000, in connection with the Letters of Credit and Bonding Arrangements, as more fully set forth in the Motion; and the Court having jurisdiction to consider and determine the Motion

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<sup>1</sup> Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion.

as a core proceeding in accordance with 28 U.S.C. §§ 157 and 1334; and it appearing that the relief requested by the Motion is based upon the Debtors' reasonable business judgment and is necessary and in the best interests of the Debtors, their estates, and their creditors; and due notice of the Motion having been provided, and it appearing that no other or further notice is necessary; and sufficient cause appearing therefor, it is

ORDERED that the Motion is granted; and it is further

ORDERED that, pursuant to sections 363 and 364 of the Bankruptcy Code, the Debtors are authorized to enter into agreements with banking institutions to obtain postpetition credit in the form of the Letters of Credit; and it is further

ORDERED that, pursuant to section 363(b) of the Bankruptcy Code, the Debtors are authorized to enter into the Bonding Arrangements with the Sureties, including the Surety Indemnification Agreements; and it is further

ORDERED that, pursuant to section 364(d)(1) of the Bankruptcy Code, the priming of the liens of the Prepetition Lenders in favor of financial institutions issuing the Letters of Credit and/or Sureties in an amount not to exceed the aggregate of \$10,000,000, in connection with the posting of collateral for the Letters of Credit and Bonding Arrangements is approved; and it is further

ORDERED that, the Debtors are authorized to (a) pay fees and costs and (b) issue collateral, including Cash Collateral, in an amount not to exceed an aggregate of \$10,000,000, in connection with the Letters of Credit and Bonding Arrangements; and it further

ORDERED that the Debtors are authorized to execute and deliver all instruments and documents and take such other action as may be necessary or appropriate to implement and effectuate the transactions contemplated by this Order; and it is further

ORDERED that this Court shall retain jurisdiction over the parties to enforce the terms of the Letters of Credit and the Bonding Arrangements and to determine disputes thereunder; and it is further

ORDERED that the requirement under rule 9013-1(b) of the Local Bankruptcy Rules for the Southern District of New York for the filing of a separate memorandum of law is waived.

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UNITED STATES BANKRUPTCY JUDGE

Dated: New York, New York  
October \_\_, 2003