

EXHIBIT A

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**APPLICATION OF THE DEBTORS FOR ENTRY OF
AN ORDER PURSUANT TO SECTIONS 105(a), 327, 328, 330
AND 363(c) OF THE BANKRUPTCY CODE AUTHORIZING
EMPLOYMENT OF PROFESSIONALS UTILIZED IN THE
ORDINARY COURSE OF THE DEBTORS' BUSINESSES**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

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

Introduction

1. On the date hereof (the "Commencement Date"), the Debtors each commenced with this Court a voluntary case under chapter 11 of title 11, United States Code (the "Bankruptcy Code"). The Debtors are authorized to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. Simultaneously with the filing of their petitions and this Application, the Debtors requested an

order for the joint administration of their chapter 11 cases pursuant to Federal Rule of Bankruptcy Procedure 1015(b) (the “Bankruptcy Rules”).

Jurisdiction

2. The Court has subject matter jurisdiction to consider and determine this Application pursuant to 28 U.S.C. § 1334. This is a core proceeding within the meaning of 28 U.S.C. § 157(b). Venue is proper before this court pursuant to 28 U.S.C. §§ 1408 and 1409.

An Overview of Allegiance’s Business

3. Allegiance is a facilities-based national local exchange carrier that provides integrated telecommunications products and services to small and medium-sized business customers, large businesses (*i.e.*, national customers with multiple locations), governmental entities, wholesale customers and other institutional users. Allegiance offers its customers a variety of services, including:

- local and long distance voice services, including basic telephone services and advanced calling features;
- broadband and other Internet and data services, including high-speed Internet access, wide area network interconnection, domain name registration, web hosting, email and colocation services;
- integrated local long distance/Internet access offerings, which provide customers with integrated voice and Internet access over a single broadband line;
- wholesale services to other regional and national service providers, including equipment colocation, managed modem ports and Internet protocol traffic aggregation; and
- customer premise equipment sales and maintenance services.

4. Allegiance serves more than 100,000 business customers in 36 markets. Allegiance employs approximately 3,560 people, of which approximately 97 employees are covered by collective bargaining agreements.

5. As of the Commencement Date, the Debtors have approximately \$245 million of cash. As of December 31, 2002, the Debtors' consolidated books and records reflected assets totaling approximately \$1.441 billion and liabilities totaling approximately \$1.397 billion. For the three months ending December 31, 2002, the Debtors, on a consolidated basis, reported revenues of approximately \$204.91 million, EBITDA (i.e., earnings before interest, taxes, depreciation, amortization, non-cash deferred compensation expense and non-cash goodwill impairment charges) of approximately negative \$34 million and net losses of approximately \$120 million.

**Allegiance is Critical to Promoting Sustainable
Competition in the Local Telecommunication Marketplace**

The Telecommunications Act of 1996

6. In February of 1996, Congress enacted the Telecommunications Act of 1996 (the "Telecom Act"), with the stated purpose of:

promot[ing] competition and reduc[ing] regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies.

H.R. REP No. 104-204(I), 104th Cong. 1st Sess. 1995 (July 24, 1995), reprinted in 1996

U.S.C.C.A.N. 10, **10. In that regard, the Telecom Act required Incumbent Local Exchange Carriers, including the Regional Bell Operating Companies ("ILECs") – i.e., existing telecommunications monopolies – to allow newly created Competitive Local Exchange Carriers ("CLECs") to (a) interconnect with the ILECs, (b) access portions of the ILEC network and (c) collocate their equipment in ILEC facilities all at forward-looking cost based rates. In addition, CLECs were permitted to purchase ILEC services at wholesale prices and resell them to customers at retail prices.

7. The enactment of the Telecom Act spurred entrepreneurs to start hundreds of new businesses to compete in the local telecommunications marketplace. During the late 1990s,

investors recognized the growth opportunity inherent in the opening of a competitive local telecommunications marketplace and invested billions of dollars in equity and debt capital into a multitude of telecommunications companies primed to provide competing services to American consumers.

8. Funded with significant amounts of investment capital, two types of CLECs emerged. The first type of CLECs were “resellers”. Specifically, “reseller” CLECs purchased telecommunications services from ILECs at a discount and resold the services to customers at a higher price. Thus, these CLECs simply offered consumers the same services supplied by ILECs - generally at lower prices. To be successful with this low margin business model, “reseller” CLECs invested their capital in sales and marketing efforts designed to acquire a substantial customer-base and attendant market-share in a relatively short period of time and ahead of their many competitors. However, because resellers were providing the identical services as the ILECs (with no differentiation) and were attempting to build a large market share in a highly competitive market, this business model was flawed and many in the telecommunications industry believe that the “resale” business will fail.

9. The second type of CLECs were “facilities-based” CLECs. These CLECs invested significant sums of money to build their own proprietary infrastructure and network in order to effectively compete with the ILECs. Specifically, facilities-based CLECs combined elements of an ILEC’s network with their own to provide consumers with true differentiated services. As Michael Powell stated in his partial dissent to the FCC’s 2003 Triennial Review:

Facilities-based competition means a competitor can offer real differentiated service to consumers Facilities-based competitors own more of their own network and control more of their costs, thereby offering consumers real potential for lower prices. Facilities-based competitors offer greater rewards for the economy – buying more equipment from other suppliers . . . and creating more jobs. . . . And,

facilities providers create vital redundant networks that can serve own nation if other facilities are damaged by those hostile to our way of life.

F.C.C., 2003 Triennial Review - Open Meeting, Separate Statement of Chairman Michael R. Powell, dissenting in part (February 20, 2003) (transcript available at www.fcc.gov/wcb/cpd/triennial_review/). Allegiance is such a facilities-based CLEC with a nationwide network and a facility-based business strategy.

The Allegiance Nationwide Network – Servicing 36 Metropolitan Areas

10. In 1997, a management team of industry veterans launched Allegiance and focused on building a reliable nationwide network based on proven technologies, a nationwide direct sales force primarily focused on the small to medium sized business enterprise and information processing systems to support its operations. Allegiance was one of the first major local exchange carriers to open markets utilizing the “smart build” strategy. This strategy allowed a more rapid ramp-up in operations than the traditional competitive local exchange model in which extensive networks were built, including fiber networks, prior to the generation of significant revenues. In contrast, Allegiance’s initial network build-out simply required (a) deploying digital switching platforms with local and long distance capability and (b) leasing transport facilities from the incumbent local exchange carriers and other competitive local exchange carriers to connect its switches with its transmission equipment colocated in the incumbent local exchange carrier’s central offices. Once traffic volume justified further “success-based” investment, Allegiance leased dark fiber or built specific network segments. This strategy offered two major economic benefits. First, it enabled Allegiance to enter new markets with alacrity and reduce up-front capital requirements for entering individual markets prior to revenue generation. Second, in contrast to the traditional competitive local exchange carriers that generally built their networks in highly concentrated downtown areas due to the high

cost of constructing fiber networks, Allegiance's business model enabled it to provide services to customers in downtown areas as well as the more geographically dispersed, less competitive areas of its targeted markets.

11. Allegiance's initial business plan proposed entering into 24 of the largest metropolitan areas in the United States. Subsequently, management expanded its business plan to (a) increase the total number of target markets to 36, (b) increase its service area, i.e., its colocation "footprint" in its original 24 markets, and (c) acquire long-term rights to use dark fiber rings to replace network elements leased by the Debtors from the incumbent local exchange carriers.

12. In addition to internal growth, Allegiance's business plan included growth through strategic acquisitions. For example, in December 2001, Allegiance acquired certain assets of Intermedia Business Internet (the "Intermedia Acquisition"). The Intermedia Acquisition enabled Allegiance to (a) become a Tier 1 Internet access provider, (b) provide large quantities of data transmitted at high-speeds over the Internet to and from a customer's premises, (c) efficiently exchange traffic with other Internet backbone providers giving Allegiance greater control over its Internet access, and (d) leverage its local service presence to provide additional services to its target market. In June 2003, Allegiance acquired certain assets of Shared Technologies (the "Shared Technologies Acquisition"). The Shared Technologies Acquisition (a) added customer premises equipment sales, installation and maintenance to Allegiance's portfolio of integrated products and services, (b) strategically enhanced Allegiance's target market of small to medium size business enterprises, and (c) allowed Allegiance to provide a complete communications solution to business customers.

13. As of the date hereof, Allegiance provides its telecommunications services in major metropolitan areas across the United States, including the following 36 markets: Atlanta,

Austin, Baltimore, Boston, Chicago, Cleveland, Dallas, Denver, Detroit, Fort Lauderdale, Fort Worth, Houston, Long Island, Los Angeles, Miami, Minneapolis/St. Paul, New York City, Northern New Jersey, Oakland, Ontario/Riverside, CA, Orange County, Philadelphia, Phoenix, Pittsburgh, Portland, Sacramento, St. Louis, San Antonio, San Diego, San Francisco, San Jose, Seattle, Tampa, Washington, D.C., West Palm Beach/Boca Raton and White Plains. Allegiance is colocated in 849 central offices and has a Tier 1 Internet backbone.

The FCC Recognizes the Importance of Allegiance

14. Federal policy recognizes the importance of facilities-based CLECs and Allegiance is the model. In that regard, the Federal Communications Commission (the “FCC”) recently published its latest rules for local competition in the *FCC Triennial Review*. In reviewing these rules, a Kaufman Bros. Equity Research Report, dated March 4, 2003, stated that “*Allegiance is the blueprint for local competition proposed by the FCC.*” In addition, Kevin J. Martin, Commissioner of the FCC has noted:

Allegiance has focused on building a business that adheres to the letter of the Telecom Act while leveraging the entrepreneurial spirit of the law, as well. Today, Allegiance stands as a model of what Congress intended in 1996, and what we hope to achieve in the years ahead – new entrants that have the opportunity to continue to invest in infrastructure, bring innovation and offer new service offerings to consumers in local markets that are open to fair and robust competition.

Kevin J. Martin, Commissioner, F.C.C., Address to the Telecommunications Law Conference and the Texas Chapter of the Federal Communications Bar Association (March 7, 2002) (transcript available at www.fcc.gov/Speeches/Martin/2002/spkjm203.html).

15. Thus, it is clear that Allegiance, by focusing on an intelligent – well thought out business model – building its own network and offering its consumers innovative services, is an integral player in the telecommunications marketplace and a model for the nation’s policy of promoting sustainable facilities-based competition in the local telecommunications arena. With

an appropriate capital structure and a reduction in unnecessary costs, Allegiance believes it will be one of the most successful telecommunications companies in the United States.

Capital Structure of the Debtors

Capital Stock

16. Allegiance Telecom, Inc. has two classes of authorized stock: (a) 750,000,000 shares of common stock, with par value of \$0.01 per share and (b) 1,000,000 shares of preferred stock, with par value of \$0.01 per share. As of December 31, 2002, Allegiance Telecom, Inc. had (i) 124,830,110 shares of common stock issued and outstanding, with 295 registered holders and at least 20,000 beneficial owners, and (ii) no shares of preferred stock outstanding. Allegiance Telecom, Inc.'s common stock is publicly traded on the Nasdaq National Market under the symbol "ALGX."

17. Allegiance Telecom, Inc. owns 100% of the capital stock of Allegiance Telecom Company Worldwide ("ATCW"), and ATCW directly or indirectly owns 100% of the capital stock of each of the other Debtors.

Prepetition Notes

18. In 1998, Allegiance Telecom, Inc. issued two series of notes: (i) 11 3/4% Senior Discount Notes with a face value of \$445 million, due on February 15, 2008 (the "Senior Discount Notes") and (ii) 12 7/8% Senior Notes with a face value of \$205 million, due on May 15, 2008 (the "Senior Notes"). The Senior Discount Notes were issued under that certain Indenture, dated as of February 3, 1998, between Allegiance Telecom, Inc. and The Bank of New York, as Indenture Trustee. The Senior Notes were issued under that certain Indenture, dated as of July 7, 1998, between Allegiance Telecom, Inc. and The Bank of New York, as Indenture Trustee. Neither the Senior Discount Notes nor the Senior Notes are secured by any assets of the Debtors or guaranteed by any of the Debtors.

Prepetition Credit Agreement

19. Prior to the Commencement Date, ATCW entered into that certain Credit and Guaranty Agreement, dated as of February 15, 2000, as amended as of November 27, 2002 (the “Prepetition Credit Agreement”), among ATCW, as borrower; all of the other Debtors, as guarantors; Goldman Sachs Credit Partners L.P. (“Goldman Sachs”), as syndication agent and sole lead arranger; General Electric Capital Corporation (“GECC”) (as successor to Toronto Dominion (Texas), Inc.), as administrative agent, BankBoston, N.A. (“BankBoston”) and Morgan Stanley Senior Funding, Inc. (“Morgan Stanley”), as co-documentation agents; Goldman Sachs, GECC, BankBoston, Morgan Stanley, certain managing agents, and lenders party thereto from time to time (collectively, the “Prepetition Lenders”). As of the Commencement Date, the amount outstanding under the Prepetition Credit Agreement was approximately \$465.3 million. The Debtors have pledged substantially all of their assets as collateral under the Prepetition Credit Agreement, including (a) the capital stock of ATCW and (b) substantially all of the assets of ATCW and its direct and indirect subsidiaries, including the capital stock owned by ATCW in each of its Debtor subsidiaries. As of the Commencement Date, there were 27 Prepetition Lenders under the Prepetition Credit Agreement.

Events Leading to Chapter 11 Filing

20. The distressed economic environment in the United States that followed the economic boom of the late 1990s has had a global and adverse impact on the telecommunications industry. In the late 1990s, in an effort to finance operations and build their networks, telecommunications companies borrowed significant amounts of money from lenders and the public through the issuance of debt. The resulting significant indebtedness incurred by telecommunications companies, combined with poor economic conditions required many

companies, including the Debtors, to focus on reducing their debt either through out of court restructurings or the chapter 11 process.

21. Many of Debtors' existing and potential customers have experienced their own financial difficulties, thereby decreasing customer demand for existing and new services. The financial difficulties of the Debtors' customers has led to non-payment, partial payment, or slow payment of bills for services provided by the Debtors. The financial instability of other companies in the telecommunications industry has adversely affected the willingness of potential customers to move their telecommunications services to the Debtors. In addition, certain of the Debtors' suppliers have requested deposits, letters of credit, or other types of security. Moreover, telecommunications carriers that owe reciprocal and/or intercarrier compensation to the Debtors have either refused to pay or failed to pay in a timely manner for the services provided by the Debtors.

22. As a consequence of the foregoing, the Debtors' business operations were adversely impacted and, due to revenue trends and continuing negative EBITDA, the Debtors determined that their current level of indebtedness needed to be significantly reduced. Thus, in order to maximize the long-term wealth generating capacity of their business operations, the Debtors, among other things, (a) established a special restructuring committee of the Board of Directors of Allegiance Telecom, Inc., (b) retained restructuring advisors, and (c) commenced extensive negotiations with their senior lenders and bondholders, as detailed below.

Negotiations with the Prepetition Lenders and the Ad Hoc Committee of Bondholders

23. The Debtors, in the exercise of their sound business judgment - and in recognition of the distressed economic environment and the need for the Debtors' businesses to focus on profitability instead of high revenue growth - determined that a meaningful deleveraging of their capital structure was crucial for the preservation and maximization of the

value of their businesses. In that regard, the Debtors, in conjunction with their financial advisors and the Board of Directors of Allegiance Telecom, Inc., commenced the process of determining the appropriate capital structure for their business operations. After determining the appropriate capital structure, the Debtors commenced negotiations with the Prepetition Lenders and the Ad Hoc Committee (as defined below) to effectuate a restructuring transaction.

24. In October of 2002, Allegiance began negotiations with its Prepetition Lenders regarding a potential restructuring of its long-term debt. On November 27, 2003, Allegiance and its Prepetition Lenders entered into that certain First Amendment to the Prepetition Credit Agreement (the “Amendment”). Pursuant to the Amendment, the Debtors obtained a moratorium on their financial covenants through April 30, 2003. In exchange for the Amendment, Allegiance agreed, among other things, (a) that an event of default would occur on April 30, 2003 unless it reduced its long term debt to a level not to exceed \$645 million, and (b) to repay \$15 million to the Prepetition Lenders on account of debt owed under the Prepetition Credit Agreement. During the latter part of 2002 and to meet covenants under the Amendment, the Debtors significantly lowered their capital expenditures, reduced headcount, substantially decreased growth, eliminated less profitable products and services, and continued to optimize their existing network assets.

25. After entering into the Amendment, the Debtors commenced negotiations with the Prepetition Lenders to consummate a permanent restructuring. In connection with the negotiations regarding the permanent restructuring, the Debtors commenced negotiations with an *ad hoc* committee of noteholders, which is comprised of certain holders of the Senior Notes and the Senior Discount Notes (the “Ad Hoc Committee”).

26. The Debtors, the Prepetition Lenders and the Ad Hoc Committee were not able to reach an agreement concerning the permanent restructuring prior to the April 30 deadline. On April 29, 2003, in order to avoid the occurrence of certain events of default under the Prepetition Credit Agreement, the Debtors and the Prepetition Lenders entered into a forbearance agreement (the "Forbearance Agreement"), which expires on May 15, 2003. The Forbearance Agreement provided for, among other things, a pay down of \$5 million of principal owed under the Prepetition Credit Agreement.

27. After entering into the Forbearance Agreement, the Debtors continued their negotiations with the Prepetition Lenders and the Ad Hoc Committee. However, the parties were unable to reach an agreement prior to the expiration of the term of the Forbearance Agreement. Consequently, the Debtors, in the exercise of their prudent business judgment, determined that it was in the best interests of all of their stakeholders and for the maximization of the value of their businesses to commence these chapter 11 cases and consummate a restructuring of their indebtedness under the auspices of this Court.

Relief Requested

28. The Debtors request the entry of an order, pursuant to sections 105(a), 327, 328, 330 and 363 of the Bankruptcy Code, approving the retention of professionals, listed on Exhibit "A" annexed hereto, utilized by the Debtors in the ordinary course of business (each an "Ordinary Course Professional" and, collectively, the "Ordinary Course Professionals") without the submission of separate employment applications, affidavits and the issuance of separate retention orders for each individual professional firm.

29. The Debtors propose that each law firm retained as an Ordinary Course Professional file an affidavit with the Court pursuant to section 327(e) of the Bankruptcy Code, within the later of (a) thirty (30) days of entry of the order granting this Application and (b) the

engagement of such law firm by the Debtors in these chapter 11 cases, setting forth that such law firm does not represent or hold any interest adverse to the Debtors or their respective estates in respect of the matters in which such law firm is engaged.

30. Pursuant to sections 105(a) and 330 of the Bankruptcy Code, the Debtors also request the entry of an order authorizing them to pay to each Ordinary Course Professional, on an interim basis, and without an application to the Court by such professional, 100% of fees and disbursements incurred. Such payments would be made following the submission to and approval by the Debtors of appropriate invoices setting forth in reasonable detail the nature of the services rendered and disbursements actually incurred; provided, however, that subject to further order of the Court, if any Ordinary Course Professional's fees and disbursements exceed (a) a total of \$30,000 per month or (b) \$500,000 in the aggregate in the Debtors' chapter 11 cases, then the payments to such professional for such excess amounts shall be subject to the prior approval of the Court in accordance with sections 330 and 331 of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), the Local Bankruptcy Rules for the Southern District of New York (the "Local Bankruptcy Rules"), orders of this Court, and the Fee Guidelines promulgated by the Executive Office of the United States Trustee (the "Fee Guidelines").

31. In addition to attorneys, the Debtors employ certain professionals that provide the Debtors with tax consulting, benefits consulting and other similar services.

32. Section 363(c)(1) of the Bankruptcy Code provides in relevant part that:

[A debtor in possession] may enter into transactions, including the sale or lease of property of the estate, in the ordinary course of business, without notice or a hearing, and may use property of the estate in the ordinary course of business without notice or a hearing.

11 U.S.C. 363(c)(1).

33. Accordingly, the Debtors believe that they do not need Court approval to employ or compensate non-attorney professionals that render services to the Debtors in the ordinary course of their businesses. Nonetheless, out of an abundance of caution, and to provide certainty to such non-attorney professionals, the Debtors seek authorization to include such professionals on the list of the Ordinary Course Professionals, annexed hereto as Exhibit “A.”

34. The Debtors reserve their right to supplement the list of the Ordinary Course Professionals from time to time as necessary. In such event, the Debtors propose to file a supplemental list with this Court and serve it on (a) the United States Trustee for the Southern District of New York (the “U.S. Trustee”), (b) the attorneys for the Prepetition Lenders, and (c) attorneys for a statutory creditors’ committee, when and if appointed. The Debtors further propose that if no objections are filed to such supplemental list within ten (10) days after service thereof, then such list would be deemed approved and added to Exhibit “A” hereto without the necessity of a hearing before this Court.

35. All professionals engaged by the Debtors in connection with the prosecution of these chapter 11 cases will be retained by the Debtors pursuant to separate retention applications in accordance with section 327(a) of the Bankruptcy Code. Such professionals shall be compensated in accordance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, the Fee Guidelines or otherwise directed by order of this Court.

**Employment of Ordinary Course
Professionals Should Be Authorized**

36. The Debtors desire to continue to employ the Ordinary Course Professionals to render many of the services to their estates similar to those services rendered prior to the Commencement Date. Prior to the Commencement Date, the amount of aggregate annual

compensation paid by the Debtors to the Ordinary Course Professionals on an annual basis was approximately \$4 million, out of which \$1.8 million was paid to the Ordinary Course Professionals providing regulatory legal advice and consulting services.

37. These Ordinary Course Professionals render a wide range of services for the Debtors that impact the Debtors' day-to-day operations. It is essential that the employment of the Ordinary Course Professionals, many of whom are already familiar with the Debtors' operations and business affairs, continue on an ongoing and uninterrupted basis to avoid disruption of the Debtors' day-to-day business operations. The Debtors submit that the proposed employment of the Ordinary Course Professionals and the payment of monthly compensation on the basis set forth above is in the best interest of their estates and their creditors. The relief requested will save the Debtors' estates the substantial expense associated with applying separately for the employment of each professional. Further, the requested relief will avoid the incurrence of additional fees pertaining to preparing and prosecuting interim fee applications together with the review process by other parties in interest. Likewise, the procedure outlined above will relieve the Court and the U.S. Trustee of the burden of reviewing numerous fee applications involving relatively small amounts of fees and expenses.

Waiver of Memorandum of Law

38. 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 Application pursuant to Local Bankruptcy Rule 9013-1(b).

Notice

39. Notice of this Application has been provided to: (a) the U.S. Trustee; (b) attorneys for the Prepetition Lenders; and (c) attorneys for the Ad Hoc Committee. In light of

the nature of the relief requested herein, the Debtors submit that no other or further notice is required.

No Prior Request

40. No prior application for the relief requested herein has been made to this or any other Court.

WHEREFORE, the Debtors respectfully request that the Court grant the Application in its entirety and grant the Debtors such other and further relief as it deems just and proper.

Dated: New York, New York
May 14, 2003

Respectfully submitted,

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EXHIBIT A

LIST OF ORDINARY COURSE PROFESSIONALS

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BROWNSTEIN, HYATT & FARBER, P.C. 410 Seventeenth Street 22nd Floor Denver, CO 80202-4437	Real Estate
BULLIVANT HOUSER BAILEY PC Clay Creps 300 Pioneer Tower 888 S.W. Fifth Avenue, Suite 300 Portland, OR 97204-2089 (503) 228-6351 (503) 499-4644 Pamela H. Salgado 2300 Westlake Office Tower 1601 Fifth Ave. Seattle, WA 98101-1618 (206)292-8930 (206) 386-5130 (fax)	Employment, Litigation
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SCIBELLI AND WHITELEY, LLP Brian E. Whiteley 189 State Street 6th Floor Old City Hall Boston, MA 02109 (617) 227-5725	Litigation
SCOTT, DOUGLASS & MCCONNICO, LLP Mark Eidman 600 Congress Avenue 15th Floor Austin, TX 78701-3234 (512) 495-6300	Tax
SEYFARTH SHAW Burton X. Rosenberg David J. Rowland Laura C. Fisher 55 E. Monroe Street Suite 4200 Chicago, IL 60603-5803 (312) 269-8817	Employment and Litigation
SEYFARTH SHAW John Murray 1545 Peachtree St. N.E. Suite 700 One Peachtree Pointe Atlanta, GA 30309-2401 (404) 892-6412	Employment and Litigation
SEYFARTH SHAW Robert Tollen Chris Pirrone 101 California Street Suite 2900 San Francisco, CA 94111-5858 (415) 544-1024 or (415) 397-2823	Employment and Litigation

Law Firm Contact Information	Legal Services
SEYFARTH SHAW Susan J. Cohen 815 Connecticut Avenue, N.W. Suite 500 Washington, DC 20006-4004 (202) 463-2400	Employment and Litigation
SMITH, MAJCHER & MUDGE, L.L.P. Dineen J. Majcher 816 Congress Avenue, Suite 1270 Austin, Texas 78701 (512) 322-9044 (512) 322-9020 (facsimile)	Regulatory
SWIDLER BERLIN SHEREFF FRIEDMAN, LLP Andrew D. Lipman Michael Lichtenstein Matthew A. Pater 3000 K Street, NW Washington, DC 20007-5116 (202) 424-7500	Regulatory and Intellectual Property
WILLKIE FARR & GALLAGHER Three Lafayette Centre 1155 21st Street, N.W. Washington, DC 20036-3384	Regulatory
WILSON, ELSER, MOSKOWITZ, EDELMAN & DICKER LLP Adam Bialek Julie Leonard 150 E. 42nd Street New York, NY 10017-5639 (212) 490-3000	Litigation

Consultants

Consultants Contact Information	Consulting Services
BIDDLE CONSULTING GROUP, INC. Patrick Nooren 1321 Howe Avenue Suite 250 Sacramento, CA 95825-3365 (916) 563-6219	Affirmative Action Consultant
CORMAC GROUP Patrick Williams 1900 M Street, N.W. Suite 720 Washington, DC 20036	Regulatory Consultant
DANIEL J. EDELMAN, INC. dba Edelman Public Relations 200 E. Randolph Drive Chicago, IL 60601	Public Relations Consultant
DAVID B. PARMENTOR & ASSOCIATES, INC. David Parmentor Labor Relations Management Consultants 2655 Oakley Park Road, Suite 101 Walled Lake, MI 48390	Union Consultant
DELOITTE & TOUCHE LLP David Black Property Tax Services 5550 LBJ Freeway Suite 700 Dallas, TX 75240	Property Tax Review
WATSON WYATT Michael Busby 191 N. Wacker Drive Suite 2100 Chicago, IL 60606 (312) 525-2300	Benefits Consultant

EXHIBIT B

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**FINAL ORDER PURSUANT TO SECTIONS 105(a), 327, 328, 330
AND 363(c) OF THE BANKRUPTCY CODE AUTHORIZING EMPLOYMENT
OF PROFESSIONALS UTILIZED IN THE ORDINARY COURSE OF BUSINESS**

Upon the application (the "Application"), dated May 14, 2003, of Allegiance Telecom, Inc. and its direct and indirect subsidiaries (collectively, the "Debtors"), for entry of an order, pursuant to sections 105(a), 327, 328, 330 and 363(c) of the Bankruptcy Code,¹ approving the Debtors retention of certain Ordinary Course Professionals and the implementation of certain procedures for monthly compensation of such Ordinary Course Professionals, as more fully set forth in the Application; and a hearing to consider the Application having been held on May 15, 2003; and an order approving the Application on an interim basis having been entered on May 15, 2003 (the "Interim Order"); and in accordance with the Interim Order, the Debtors having filed with the Court two supplemental lists of Ordinary Course Professionals, dated May 30, 2003 and June 4, 2003, respectively (the "Supplemental Lists"); and a hearing to consider the Application on a final basis having been held on June 13, 2003; and the Court having jurisdiction to consider and determine the Application as a core proceeding in accordance with 28 U.S.C. §§ 157 and 1334; and it appearing that the relief requested in the Application is necessary and in the best interests of the Debtors, their estates and their creditors; and due notice of the

¹ Unless otherwise defined, all capitalized terms herein shall have the meaning ascribed to them in the Application.

Application having been given and it appearing that no other or further notice need be given; and sufficient cause appearing therefore; it is

ORDERED that the Application is granted; and it is further

ORDERED that the Debtors' retention and payment, at their election, of the Ordinary Course Professionals listed on Exhibit "A" to the Application and the Supplemental Lists, without the need to file individual retention or interim or final fee applications for each Ordinary Course Professional, except as set forth below, is approved; and it is further

ORDERED that each law firm retained as an Ordinary Course Professional retained shall file with the Court in accordance with General Order M-242 (which can be found at www.nysb.uscourts.gov), within the later of (a) thirty (30) days of entry of the Interim Order, and (b) the date of the law firm's engagement by the Debtors in these chapter 11 cases, an affidavit pursuant to section 327(e) of the Bankruptcy Code setting forth that such law firm does not represent or hold any interest adverse to the Debtors or to their respective estates in respect of the matters on which such law firm is retained; and it is further

ORDERED that the Debtors are hereby authorized to supplement the list of the Ordinary Course Professionals from time to time, if additional Ordinary Course Professionals are to be employed; *provided, however*, that the Debtors shall file such supplemental list with the Court and serve it on (a) the U.S. Trustee, (b) the attorneys for the Prepetition Lenders, and (c) the attorneys for the statutory creditors' committee, on the earlier of (i) the last day of each month, and (ii) within two (2) business days of the Debtors' employment of five (5) Ordinary Course Professionals within the same month, if applicable; and it is further

ORDERED that if no objections are filed to such supplemental list within ten (10) days after service thereof, the same shall be deemed approved by this Court and all

professionals listed thereon shall be deemed to be Ordinary Course Professionals within the purview of this Order without the necessity of a hearing; and it is further

ORDERED that the Debtors are hereby authorized, but not required, to make periodic payments for postpetition compensation and reimbursement of postpetition expenses to each of the Ordinary Course Professionals in the manner customarily made by the Debtors prior to the commencement of these chapter 11 cases in the full amount billed by any such Ordinary Course Professional, upon receipt therefrom of reasonably detailed invoices indicating the nature of the professional services rendered and the disbursements actually incurred, and calculated in accordance with such professional's standard billing practices (without prejudice to the Debtors' rights to dispute any such invoices); *provided, however*, that subject to further order of the Court, if any Ordinary Course Professional's fees and disbursements exceed (a) a total of \$30,000 per month or (b) \$500,000 in the aggregate in the Debtors' chapter 11 cases, then the payment to such Ordinary Course Professional for such excess amounts shall be subject to the prior approval of this Court in accordance with sections 330 and 331 of the Bankruptcy Code, the Bankruptcy Rules, the Local Bankruptcy Rules, orders of this Court and the Fee Guidelines; and it is further

ORDERED that on or before the last day of each month, the Debtors shall serve upon the attorneys of the statutory creditors' committee, on a confidential basis, a statement of the aggregate amounts paid in the preceding month as compensation for services rendered and as reimbursement of expenses incurred by each Ordinary Course Professional; and it is further

ORDERED that this Order shall not apply to any professional retained by the Debtors pursuant to a separate order of this Court; and it is further

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

Dated: New York, New York
June 13, 2003

/s/Robert D. Drain
United States Bankruptcy Judge

EXHIBIT C

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

**ORDER PURSUANT SECTIONS 105(a) AND 331 OF THE
BANKRUPTCY CODE ESTABLISHING PROCEDURES FOR MONTHLY
COMPENSATION AND REIMBURSEMENT OF EXPENSES FOR PROFESSIONALS**

Upon the motion (the "Motion"), dated May 14, 2003, of Allegiance Telecom, Inc. and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors"), requesting entry of an order, pursuant to section 105(a) and 331 of the Bankruptcy Code,¹ establishing procedures for interim compensation and reimbursement of expenses of professionals retained by order of this Court, 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 it appearing that the relief requested by the Motion is in the best interests of the Debtors, their creditors, and all parties in interest; and it appearing that due and proper notice of the Motion has been given; and after due deliberation and sufficient cause appearing therefor; it is

ORDERED that the Motion is granted; and it is further

ORDERED that, except as may otherwise be provided in Court orders authorizing the retention of specific Professionals, all Professionals in these cases may seek monthly compensation in accordance with following procedures:

¹ Unless otherwise defined, all capitalized terms herein shall have the meaning ascribed to them in the Motion.

- (a) On or before the **twentieth (20th)** day of each month following the month for which compensation is sought, each Professional seeking compensation will serve a monthly statement, by hand or overnight delivery, on: (i) Allegiance Telecom, Inc., 9201 N. Central Expressway Dallas, TX 75231, Attn: Mark Stachiw; (ii) Kirkland & Ellis, 153 East 53rd Street, New York, New York 10022, Attn: Jonathan S. Henes; (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 10004, Attn: Carolyn S. Schwartz; (iv) Paul Hastings Janofsky & Walker LLP, 600 Peachtree Street, N.E., Atlanta, Georgia 30308, Attn: Jesse H. Austin, III, Esq; and (v) Akin, Gump, Strauss, Hauer & Feld, LLP, 590 Madison Avenue, New York, New York 10022, Attn: Ira S. Dizengoff (collectively, the "Notice Parties");
- (b) The monthly statement need not be filed with the Court and a courtesy copy need not be delivered to the presiding bankruptcy judge's chambers because this Order is not intended to alter the fee application requirements outlined in sections 330 and 331 of the Bankruptcy Code and because Professionals are still required to serve and file interim and final applications for approval of fees and expenses in accordance with the relevant provisions of the Bankruptcy Code, the Bankruptcy Rules and the Local Bankruptcy Rules;
- (c) For those Professionals who bill based on time, each monthly fee statement must contain a list of the individuals and their respective titles (e.g., attorney, accountant, or paralegal) who provided services during the statement period, their respective billing rates, the aggregate hours spent by each individual, a reasonably detailed breakdown of the disbursements incurred (no Professional should seek reimbursement of an expense which would otherwise not be allowed pursuant to the Court's Administrative Orders dated June 24, 1991 and April 21, 1995 for the U.S. Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. § 330 dated January 30, 1996), and contemporaneously maintained time entries for each individual in increments of tenths (1/10) of an hour;
- (d) Each person receiving a statement will have fifteen (15) days after its receipt to review it and, in the event that he or she has an objection to the compensation or reimbursement sought in a particular statement, he or she shall, by no later than the thirty-fifth (35th) day following the month for which compensation is sought, serve upon the Professional whose statement is objected to, and the Notice Parties, a written "Notice of Objection to Fee Statement" setting forth the nature of the objection and the amount of fees or expenses at issue;
- (e) At the expiration of the thirty-five (35) day period, the Debtors shall promptly pay eighty percent (80%) of the undisputed fees and one hundred percent (100%) of the undisputed expenses identified in each monthly statement to which no objection has been served in accordance with paragraph (d);
- (f) If the Debtors receive an objection to a particular fee statement, they shall withhold payment on that portion of the fee statement to which the objection is

directed and promptly pay the remainder of the fees and disbursements in the percentages set forth in paragraph (e);

- (g) Similarly, if the parties to an objection are able to resolve their dispute following the service of Notice of Objection to Fee Statement and if the party whose statement was objected to serves on the Notice Parties a statement indicating that the objection is withdrawn and describing in detail the terms of the resolution, then the Debtors shall promptly pay, in accordance with paragraph (e), that portion of the fees statement which is no longer subject to an objection;
- (h) All objections that are not resolved by the parties, shall be preserved and presented to the Court at the next interim or final fee application hearing to be held by the Court (see sub-paragraph (j) below);
- (i) The service of an objection in accordance with paragraph (d) shall not prejudice the objecting party's right to object to any fee application made to the Court in accordance with the Bankruptcy Code on any ground whether raised in the objection or not. Furthermore, the decision by any party not to object to a fee statement shall not be a waiver of any kind or prejudice that party's right to object to any fee application subsequently made to the Court in accordance with the Bankruptcy Code;
- (j) Approximately every 120 days, but no more than every 150 days, each of the Professionals shall serve and file with the Court, in accordance with General Order M-242 (which can be found at www.nysb.uscourts.gov), an application for interim or final Court approval and allowance, pursuant to sections 330 and 331 of the Bankruptcy Code (as the case may be), of the compensation and reimbursement of expenses requested;
- (k) Any Professional who fails to file an application seeking approval of compensation and expenses previously paid under this Order when due shall (i) be ineligible to receive further monthly payments of fees or expenses as provided herein until further order of the Court, and (ii) may be required to disgorge any fees paid since retention or the last fee application, whichever is later;
- (l) The pendency of an application or a Court order that payment of compensation or reimbursement of expenses was improper as to a particular statement shall not disqualify a Professional from the future payment of compensation or reimbursement of expenses as set forth above, unless otherwise ordered by the Court;
- (m) Neither the payment of, nor the failure to pay, in whole or in part, monthly compensation and reimbursement as provided herein, shall have any effect on the Court's interim or final allowance of compensation and reimbursement of any Professional;
- (n) Attorney for the Committee may, in accordance with the foregoing procedure for monthly compensation and reimbursement of Professionals, collect and submit

statements of expenses, with supporting vouchers, from members of the Committee he or she represents; provided, however, that such Committee attorneys ensure that these reimbursement requests comply with this Court's Administrative Orders dated June 24, 1991 and April 21, 1995.

and it is further

ORDERED that all time periods set forth in this Order shall be calculated in accordance with Bankruptcy Rule 9006(a).

Dated: New York, New York
June 13, 2003

/s/Robert D. Drain
United States Bankruptcy Judge

EXHIBIT D

LAW OFFICES
**SCOTT, DOUGLASS
 & McCONNICO, L.L.P.**

A REGISTERED LIMITED LIABILITY PARTNERSHIP

ONE AMERICAN CENTER
 600 CONGRESS AVENUE, 15TH FLOOR
 AUSTIN, TEXAS 78701-2589
 TELEPHONE (512) 495-6300
 FAX (512) 474-0731
 WWW.SCOTTDUG.COM

*BOARD CERTIFIED-CIVIL TRIAL LAW
 *BOARD CERTIFIED-PERSONAL INJURY TRIAL LAW
 *BOARD CERTIFIED-LABOR & EMPLOYMENT LAW
 *BOARD CERTIFIED-DR. GAS & MINERAL LAW
 *BOARD CERTIFIED-CIVIL APPELLATE LAW
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CASEY L. DOBSON
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 MARK W. EIDMAN
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 R. ERIC HAGENSWOLD
 JEFFREY G. HENRY
 SAM JOHNSON
 J. WOODFIN JONES
 DAVID JUNKIN
 JENNIFER KNAUTH

MAY LANGENBERG⁷
 RICHARD P. MARSHALL, JR.⁸
 CARROLL MARTIN⁹
 STEVE McCONNICO¹⁰
 O. DAVIN MCGINNIS
 ELIZABETH N. MILLER¹¹
 CURTIS J. OSTERLOM
 GREG PIERCE
 PHYLLIS POLLARD¹²
 NATALIE B. SCOTT
 WALLACE H. SCOTT, JR.

STEVE SELBY
 JENNIFER P. SELLING
 QUENTIN (DOUG) SIGEL
 JOHN C. SOULE¹³
 JULIE A. SPRINGER¹⁴
 JANE M. N. WEDGEC¹⁵
 H. PHILIP WHITWORTH, JR.¹⁶
 SARA M. WILDER
 STEVEN J. WINGARD
 OF COUNSEL
 MARTIN L. ALLDAY¹⁷

WHITNEY'S DIRECT
 DIAL NUMBER

September 10, 2001

VIA FACSIMILE: (469) 259-9252

Randall Olson
 Director of Tax
 Allegiance Telecom, Inc.
 9201 Central Expressway
 Room 58103
 Dallas, Texas 75231

Re: Texas Sales Tax Refund Claims

Dear Randy,

It would be our pleasure to represent Allegiance in filing and appealing refund claims relating to equipment purchased from Texas vendors and then shipped out of state. This legal representation is limited to this matter, unless it is altered by our mutual agreement. As we discussed, we believe the issues are challenging but feel Allegiance will have good arguments to make. I have modified our fee proposal below to reflect the request to have a sharing of risk.

Our fees for this representation will be a fixed fee plus a percentage of all taxes and interest recovered from the State as follows:

1. A fixed fee of \$125,000.00 due upon execution of this engagement letter.
2. In addition to the fixed fee, 15% of the total tax, penalty and interest recovered.

Mr. Randall Olson
September 10, 2001
Page 2

Any contingent amounts would be due and payable within fifteen (15) days of the receipt by Allegiance of any refund by the State. Allegiance will be responsible for expenses, which we will bill monthly. Expenses in these cases are minimal and would include such things as phone charges, deposition fees and occasional plane trips to Dallas. Any major expenses would be approved by you in advance. We will be responsible for any expenses incurred prior to today's date.

In the event we have a dispute arising out of this Agreement, both parties agree to devote time and effort to resolve such dispute. If the parties are unsuccessful in resolving the dispute, the parties agree to submit this matter to mediation, involving a trained mediator as a neutral third party, with the expense of mediation split equally.

We have obligations to each other to disclose all relevant facts concerning our actions in connection with the above matter. Each of us expect the other to cooperate with each other regarding the handling of the above matter. All information conveyed to me concerning your matter is confidential and Allegiance will be consulted regarding disclosure of information to third parties.

If this meets with your approval, please sign below and fax a copy back to me. We are looking forward to filing the claim and vigorously pursuing it.

Cordially,



Mark W. Eidman

MW/rk

Accepted:

ALLEGIANCE TELECOM, INC.

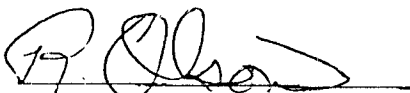
By 
Its Director - Tapes
Date 9/18/01

EXHIBIT E



COMPTROLLER OF PUBLIC ACCOUNTS

P.O. BOX 13528
AUSTIN, TX 78711-3528

August 13, 2003

Randall Olson
Director - Taxes
Allegiance Telecom Service Corporation
1950 N. Stemmons Frwy Ste 3026
Dallas, Tx 75207

RE: Taxpayer Number: 17527367779

Dear Mr. Olson:

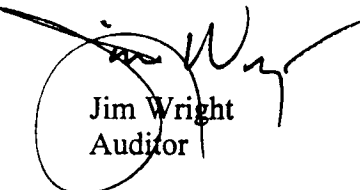
Our review of your State and Local Sales and Use Tax refund request is complete. The refund covered the period January 1, 1998 through July 31, 2001 and resulted in tax credit due. We will issue you a refund check after we apply any outstanding liabilities you may have with state agencies.

The original refund request has been decreased due to missing or inadequate documentation, or sales tax correctly assessed on purchases.

Credits were allowed for taxes paid to vendors in error.

The results of this refund should not be taken as approval of your tax reporting system. Law changes and new rulings might result in different findings in the future and you will be responsible for any taxes found owing and due.

If you have any questions please contact me in the Dallas West Audit Office at 972/488-8726. Thank you for your cooperation during the refund verification.



Jim Wright
Auditor

cc: Mr. Mark Eidman
Scott, Douglass & McConnico, L.L.P.
600 Congress Avenue, Suite 1500
Austin, TX 78701-2589

EXHIBIT F



State Comptroller of Public Accounts

102758918

AUGUST 21, 2003

TREASURY WARRANT NO.
102758918

082003

0 902

17527367779 T26

PAY FIVE MILLION THIRTY FOUR THOUSAND FOUR HUNDRED FIFTY ONE
DOLLARS AND 21/100

\$5,034,451.21

TO THE
ORDER
OF

ALLEGIANCE TELECOM SERVICE CORPORATION
1950 N STEMMONS FWY STE 3026
DALLAS, TX 75207-3107
VOID AFTER
08/31/2005

⑈ 114900164⑈

⑈ 102758918⑈

THE STATE OF TEXAS PAYMENT INFORMATION

INVOICE NO.	INV. DATE	INVOICE DESCRIPTION	DOC. NO.	INVOICE AMOUNT
CREDIT INTERES		STATE SALES TAX	9DA00826	\$489,181.26
REFUND		STATE SALES TAX	9DA00826	\$4,545,269.95

FOR ADDITIONAL INFORMATION ON NON-CONFIDENTIAL PAYMENTS
VISIT: WWW.WINDOW.STATE.TX.US/COMPTROL/SAN/PAYMENT/PAYTOC.HTML
OR CALL THE COMPTROLLER'S AUTOMATED PAYMENT INQUIRY SYSTEM
TOLL FREE 1-877-309-3775 OR IN AUSTIN, TX 1-512-475-4869
IDENTIFICATION NO: 17527367779 MAIL CODE: T26
PAYEE NAME: ALLEGIANCE TELECOM SERVICE CORPORATION

PAYING AGENCY: COMPTROLLER - FISCAL

PAYING AGENCY PHONE NO: 512-463-4561

PAYING AGENCY NO: 902

WARRANT NO: 102758918

ISSUE DATE: 08/20/2003

WARRANT TOTAL: \$5,034,451.21

No. 102758918 — NOT NEGOTIABLE —

Detach here before depositing →

EXHIBIT G

ALLEGIANCE TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
05/15/03	CJO	Telephone conference with auditor re documents; Review email from Randy Olson;	1.1	240	264.00
05/15/03	MWE	Conference re missing documents and potential impact on refund claim;	1.1	450	495.00
05/15/03	RL	Work on analysis of temporary storage issue;	0.5	335	167.50
05/17/03	CJO	Draft email to auditor re status of document production;	0.1	240	24.00
05/17/03	MWE	Conference re auditor requests for information; Conference with Comptroller re same	1.5	450	675.00
		Telephone conference with Comptroller; Review email from Randy Olson re same;			
		Review email from Randy Olson re affidavit requirements; Draft email to bankruptcy			
		counsel re same; Telephone conference with bankruptcy counsel re same; Prepare			
		affidavit; Review notice of bankruptcy filing and forward copy to Comptroller's			
05/20/03	CJO	bankruptcy section; Draft brief letter to Comptroller re same;	4.4	240	1,056.00
05/20/03	CJO	Telephone conference with Randy Olson re status of refund claim;	0.3	240	72.00
05/20/03	MWE	Review impact of bankruptcy; Review motions for filing in bankruptcy;	2.2	450	990.00
05/21/03	CJO	Review emails from Randy Olson re negotiations with Comptroller;	0.1	240	24.00
		Review bankruptcy pleadings; Edit Ordinary Course Affidavit; Telephone conference			
05/22/03	CJO	with bankruptcy counsel re contingent fee agreement;	0.5	240	120.00
05/23/03	CJO	Telephone conference with bankruptcy counsel;	0.3	240	72.00
05/24/03	CJO	Conference re refund claim; Detailed review of shipping documentation;	9.8	240	2,352.00
		In-depth conference re refund claim and steps needed to obtain approval; Review			
05/24/03	MWE	various vendor invoices;	10.1	450	4,545.00
05/26/03	CJO	Review document from auditor; Draft response; Conference with M. Eidman;	2.5	240	600.00
05/26/03	MWE	Conference with C. Osterloh re refund claim and status of shipping documents;	2.1	450	945.00
05/27/03	CJO	Telephone conference with bankruptcy counsel re Ordinary Course affidavit;	0.2	240	48.00
		Conference with C. Osterloh re bankruptcy and potential impact on refund claim;			
		Conference with Comptroller re whether bankruptcy filing would impair Comptroller's			
05/27/03	MWE	ability to issue refund warrant to Allegiance;	1.1	450	495.00
05/28/03	CJO	Telephone conference with bankruptcy counsel re contingent fee agreement;	0.3	240	72.00
05/30/03	CJO	Work on obtaining Bankruptcy Court approval; Research additional records needed;	2.0	240	480.00
06/03/03	MWE	Continue document review; Conference with Audit Headquarters re refund claim;	1.3	450	585.00
06/04/03	CJO	Review documents; Update schedules for review by auditor;	8.1	240	1,944.00
06/04/03	MWE	Review New York invoices and supporting documentation;	4.1	450	1,845.00
		Review various 1998 invoices and search for shipper information for shipments to			
06/05/03	CJO	Indiana, Massachusetts and Georgia;	2.9	240	696.00
		Conference with Audit Headquarters re refund claim and outstanding documents;			
06/05/03	MWE	Review 1998 New York invoices;	3.7	450	1,665.00

ALLEGIANCE TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
06/06/03	CJO	Review 1999 invoices; Analyze shipper invoices;	1.4	240	336.00
06/06/03	MWE	Continue review of 1998 and 1999 invoices;	2.1	450	945.00
06/09/03	CJO	Review additional invoices for 1999; Research colo card issue; Follow-up telephone conference with bankruptcy counsel re impact of bankruptcy;	2.8	240	672.00
06/09/03	MWE	Conference re document review;	1.1	450	495.00
06/10/03	CJO	Telephone conference with bankruptcy counsel re affidavit; Work on colo cards; Conferences re same; Work on schedules for submission to auditor;	1.2	240	288.00
06/10/03	MWE	Extensive review of colo card issue; Analyze potential means to extrapolate data re bulk shipments to transfer agent;	5.1	450	2,295.00
06/11/03	MWE	Document review in support of claim; Review various California invoices;	7.4	450	3,330.00
06/12/03	CJO	Review California and New York invoices;	3.1	240	744.00
06/13/03	CJO	Review Missouri invoices and 1998 and 1999 records;	2.4	240	576.00
06/14/03	CJO	Work on schedules for submission to auditor; Identify areas for best sample projection of refund amount;	11.3	240	2,712.00
06/14/03	MWE	Continue analysis of colo cards; Review invoices from 1999 for Maryland, Pennsylvania and Michigan; Conference with C. Osterloh re same;	10.1	450	4,545.00
06/25/03	CJO	Detailed review of Rider 11; Various telephone conferences with Thomas Ratliff re refund claims and ways to protect Allegiance's refund claim; Draft various emails re same; Analyze ways to overturn Rider 11;	5.5	240	1,320.00
06/25/03	RL	Work on procedural issues to resolve appropriations limit on refund;	0.4	335	134.00
06/27/03	MWE	Conference with Audit Division re Rider 11 and impact on refund claim;	2.5	450	1,125.00
06/30/03	MWE	Multiple conferences re impact of Rider 11; Work to implement change to Rider 11; Conferences with State re impact on Allegiance claim; Conferences with numerous lobbyists re efforts to overturn legislation;	10.3	450	4,635.00
07/02/03	MWE	Continue working towards overturn of Rider in coming special session; Numerous meetings re same;	10.4	450	4,680.00
07/05/03	CJO	Work on lawsuit to overturn Rider 11; Research various constitutional arguments;	11.1	240	2,664.00
07/05/03	MWE	Work with various consultants and lobbyists to seek overturn of Rider 11; Review litigation alternatives if Rider 11 is not reversed in special session; Review case law supporting argument seeking overturn;	12.4	450	5,580.00
07/06/03	CJO	Continue work on suit to overturn Rider 11; Extensive research in support of constitutional arguments;	9.4	240	2,256.00
07/06/03	MWE	Research constitutional arguments; Review case law supporting suit to overturn Rider; Work on draft of lawsuit;	10.7	450	4,815.00
07/07/03	CJO	Continue to assist efforts to overturn Rider 11; Various meetings with lobbyists re same; Work on motion; Research venue issues;	8.4	240	2,016.00

ALLEGIANCE TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
07/07/03	MWE	Conferences re Rider 11 with State and other representatives working on issue;	4.4	450	1,980.00
07/08/03	CJO	Work on items sampled for 1998 and 1999; Conferences with client re same;	5.5	240	1,320.00
07/08/03	MWE	Work on Rider 11 issues; Analyze updated schedules supporting refund claim;	3.6	450	1,620.00
07/09/03	CJO	Conferences with State;	1.7	240	408.00
07/09/03	MWE	Continue review of sample items and supporting documents;	1.1	450	495.00
07/10/03	CJO	Work on sample items; Conference re Rider 11;			
07/10/03	MWE	Telephone conference with Thomas Ratliff re 250,000 cap and potential impact on Allegiance's refund claim; Telephone conference with Randy Olson re same; Continue work on constitutionality of refund claim;	4.5	240	1,080.00
07/11/03	CJO	Work on refund claim; Conference with Randy Olson;	1.5	450	675.00
07/11/03	CJO	Telephone conference with bankruptcy expert; Continue work on refund claim; Analyze schedules and supporting documentation;	4.4	240	1,056.00
07/12/03	CJO	Continue review of supporting invoices; Draft new schedule for sampled items; Work up excel spreadsheets;	8.9	240	2,136.00
07/12/03	MWE	Work on sample items for schedules; Detailed review of Alcatel invoices and DSC Corporation; Analyze for support of exemptions; Review invoices for 1998-2000; Conferences re Rider 11;	8.4	450	3,780.00
07/13/03	CJO	Review Alcatel, DSC and Lucent purchases to include in new spreadsheet; Work on sampled items;	8.4	240	2,016.00
07/13/03	MWE	Conferences re Rider 11; Review new spreadsheets; Conferences re same;	4.9	450	2,205.00
07/14/03	CJO	Review schedules; Compute potential interest; Review sales tax rates applied in 2001 and potential payment of sales tax in other states; Various telephone conferences with Randy; Conference with paralegal;	10.4	240	2,496.00
07/14/03	MWE	Continue invoice review; Analyze purchases from Walker, Sabredata and Lucent;	1.5	450	675.00
07/14/03	SC	Conferences re same; Conference with paralegal;	0.5	75	37.50
07/15/03	CJO	Conference with M. Eidman and C. Osterloh re shipping invoices; Meeting with client re same;	8.5	240	2,040.00
07/15/03	SC	Continue work on refund claim; Exchange emails with auditor;			
07/16/03	CJO	Conference with C. Osterloh re background of case; Review spreadsheets reflecting invoice and shipping information to be discussed with client; Arrange for meeting with client;	2.4	75	180.00
07/16/03	SC	Work on 2000/2001 items; Review shipper invoices and look up supporting items;	3.4	240	816.00
07/17/03	CJO	Review sample set of purchases to be discussed with client during 7/18 meeting; Create notebook of spreadsheet and other documents needed for meeting;	5.5	75	412.50
07/17/03	CJO	Continue work on sample items from 2000 and 2001; Review Alcatel invoices; Exchange emails with client;	3.8	240	912.00

ALLEGiance TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
07/17/03	MWE	Review status of work and refund claim; Conferences re same;	1.4	450	630.00
07/18/03	SC	Travel to and from Dallas for meeting with client and review documents re shipping invoices; Review each invoice provided by client to determine documentation still required for audit;	10.4	75	780.00
07/19/03	CJO	Detailed review of colo card information received; Prepare schedule from information from Allegiance; Pull any supporting invoices;	8.1	240	1,944.00
07/19/03	MWE	Conference re colo cards; Review colo card schedules;	2.1	450	945.00
07/21/03	CJO	Detailed review of invoices and shipping documents; Assemble documents supporting sampled items;	10.6	240	2,544.00
07/21/03	MWE	Several conferences re refund; Review issues on earlier years; Analyze number of missing documents and percentage of invoices found in 1999; Review documents supporting sampled items;	4.1	450	1,845.00
07/21/03	SC	Conference with M. Eidman and C. Osterloh re meeting in Dallas with client; Discuss methods for obtaining documentation with C. Osterloh; Telephone call to L. Wilde to request additional shipping information; Perform internet search for various shippers and contact information;	4.5	75	337.50
07/22/03	CJO	Review documents; Telephone conference with Allegiance personnel re same;	4.8	240	1,152.00
07/22/03	MWE	Work on refund issues; Conference with Keith Womack in Dallas West Audit Office re resolution before September 1st; Review newly obtained information from Alcatel and applied solutions for sample 2000 items; Review and verify Pegasus information and various way bills;	8.8	450	3,960.00
07/23/03	CJO	Work on colo card issues; Research allowance for sample on colo cards; Review supporting statutory and administrative precedent; Draft brief memo re same;	2.1	240	504.00
07/23/03	MWE	Analyze memo re sample allowance for refunds; Conference re Rider 11;	2.9	450	1,305.00
07/24/03	CJO	Conference re Rider 11; Continue review of shipping documents; Contact various third parties supporting sampled items; Multiple telephone conferences with various vendors; Conference re Rider 11; Analyze new schedule supporting sample items; Work on missing invoices;	2.4	240	576.00
07/24/03	MWE	Continue work with vendors supporting sample items; Numerous telephone conferences with vendors; Fax requests and review responses;	3.4	450	1,530.00
07/25/03	CJO	Additional analysis of temporary storage exemption as applied to colo cards; Review potential percentage allocation; Telephone conference with Dallas West Audit Office; Review new information received from vendors - incorporate into notebooks;	3.1	240	744.00
07/25/03	MWE	Conference re status;	2.5	450	1,125.00
07/26/03	CJO		2.2	240	528.00

ALLEGIANCE TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
07/26/03	MWE	Conference re schedules; Work on Rider 11 issues; Conferences with State re application of Rider 11 to existing claims filed before June 22, 2003, effective date of Rider 11;	4.1	450	1,845.00
07/27/03	CJO	Continue review of invoices and shipping documents; Edit responsive schedules;	2.1	240	504.00
07/28/03	CJO	Continue work on schedules and preparation for meeting with auditor; In-depth conference re meeting with auditor; Review all available documentation with M. Eidman and brief him on status of all schedules and sampled items;	6.7	240	1,608.00
07/28/03	MWE	Prepare for meeting in Dallas; Conference with Keith Womack; Detailed review of various Pegasus waybills for years 2000 and 2001	4.4	450	1,980.00
07/28/03	PP	Cross-reference project for Curtis Osterloh;	1.0	65	65.00
07/29/03	CF	Conference with Curtis Osterloh; Review documents;	0.3	350	105.00
07/29/03	CJO	Prepare for meeting with auditor on 7/29/03; Telephone conference with auditor re documents; Telephone conference with bankruptcy counsel re refund;	2.9	240	696.00
07/29/03	MWE	Prepare for and attend meeting with auditor in Dallas; Conference with Otis Fields - Firecor of Audit Division;	12.5	450	5,625.00
07/30/03	MWE	Meeting with Keith Womack re percentage of agreed refund claim; Review and discuss Sunrise and Walker invoices and justification for allowance;	1.2	450	540.00
07/30/03	PP	Organize notebooks of financial records for Curtis Osterloh;	2.5	65	162.50
07/30/03	SC	Conference with C. Osterloh re obtaining documentation for invoices; Review notebook of invoices lacking documentation; Draft email to L. Wilde re shipping invoices and obtaining further documentation for purchases of items shipped in Texas;	1.3	75	97.50
07/31/03	CJO	Various telephone conferences with auditor; Review documents; Telephone conference with Randy re status; Continue search for shipping documents; Review correspondence from IRS;	4.1	240	984.00
07/31/03	MWE	Numerous conference re sample item review; Detailed discussion re allowance; Review impact of allowance of 70% refund claim; Analyze interest computation; Review newly obtained supporting documents; Conference re same;	8.2	450	3,690.00
07/31/03	SC	Conference with C. Osterloh re status of documentation search; Telephone conference with L. Wilde re questions listed in email from previous day; Review spreadsheet sent by L. Wilde;	0.9	75	67.50
07/31/03	SC	Review electronic correspondence re refund status - mark for subfiling;	0.3	75	22.50
08/01/03	CJO	Continue to work on documentation assembly and produce to auditor; Numerous conferences with staff; Multiple telephone conferences with auditor and with Allegiance staff;	4.1	240	984.00
08/01/03	MWE	Continue to work on refund claim; Analyze updated schedules;	4.7	450	2,115.00

ALLEGIANCE TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
08/01/03	MWE	Work on refund claim - compile new spreadsheets;	3.6	450	1,620.00
08/01/03	MWE	Assemble new refund spreadsheets;	2.1	450	945.00
08/01/03	SC	Continue reviewing spreadsheet sent by L. Wilde; Follow-up discussion with L. Wilde re third-party shipping information; Send invoices to graphics to create duplicate notebook for L. Wilde; Review spreadsheets of invoices to determine which invoices relate to interstate shipments, third-party shipments, and interim destination shipments;	0.7	75	52.50
08/04/03	JS	Draft letter re invoices still needing documentation to Alliance; Prepare documents to FedEx;	0.8	30	24.00
08/04/03	MWE	Several conferences re refund; Conference with Keith Womack re potential settlement of issues;	1.5	450	675.00
08/04/03	SC	Review notebook created for L. Wilde; Email M. Boler re shipping documentation;	0.5	75	37.50
08/05/03	CJO	Review schedules; Conference re same; Draft email to Randy re amended refund claim; Draft email to Allegiance re shipping document; Various meetings re additional documentation;	6.5	240	1,560.00
08/05/03	MWE	Review schedules; Compare refund for each of four years; Conference with Keith Womack in Dallas West Audit Office;	1.2	450	540.00
08/05/03	SC	Review email from M. Boler re capability of researching shipping through accounting system; Email L. Wilde re working with M. Boler to research items shipping to client; Create notebook of invoices lacking shipping documentation - organize by vendor; Continue researching contact information for shippers; Discuss status of research with C. Osterloh; Review email from C. Osterloh re continued research efforts;	3.8	75	285.00
08/06/03	CJO	Continue to work on documents; Telephone conference with auditor; Obtain agreement to push 2001 acceptance ratio to 92%; Numerous conferences with staff re same;	4.3	240	1,032.00
08/06/03	MWE	Numerous conferences re refund; Review additional documents; Conference with Keith Womack; Conference with Otis Fields; Conference with client; Extensive negotiations with State re percentage error rate to be used for missing invoices in earlier years of refund claim;	6.6	450	2,970.00
08/06/03	SC	Continue searching for shipping documentation; Edit invoice spreadsheet; Exchange emails with L. Wilde and M. Boler inquiring about notations on invoices and locations of switches;	4.3	75	322.50
08/07/03	CJO	Telephone conference with bankruptcy counsel re payment of refund proceeds; Draft summary of Rider 11; Forward copy to Randy Olson;	1.1	240	264.00

ALLEGIANCE TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
08/07/03	KS	Office conference with S. Cohen re attempting to find out final destination for materials purchased by Allegiance; Telephone conferences with employees of Starbright re additional information on products purchased; Fax invoices to Starbright; Internet research on Edgewater Cartage, a third-party shipping company;	1.5	100	150.00
08/07/03	MWE	Conference with Keith Womack; Review refund schedules for 1998, 1999, 2000, 2001; Review color card issue; Review Rider 11; Conference with Randy re same;	4.8	450	2,160.00
08/07/03	SC	Continue research of shipping documentation; Search internet for accurate shipper contact information; Attempt to track shipments with tracking numbers; Contact various shippers to inquire about particular shipments; Contact vendors to inquire about records; Discuss information needed with representatives of Sunbelt, McCollisters, and Brightstar; Fax documentation to Sunbelt and McCollisters; Review invoices for references to out-of-state destinations; Compile invoices referencing out-of-state destinations for C. Osterloh to deliver to auditor; Exchange emails with L. Wilde and M. Boler with questions;	7.4	75	555.00
08/08/03	CJO	Review 3rd party documents;	0.8	240	192.00
08/08/03	MWE	Conference with State re refund claim;	1.1	450	495.00
08/08/03	PP	Create and edit spreadsheets for Mark Eidman;	5.0	65	325.00
08/08/03	RL	Work on local tax issues;	4.7	335	1,574.50
08/08/03	SC	Continue search for shipping documentation; Exchange emails with L. Wilde and M. Boler re purchase orders; Discuss potential settlement with M. Eidman; Begin researching tax breakdown by state, city, and metropolitan transit authority; Discuss same with M. Eidman, R. Langenberg and P. Phan; Compile all invoices sent by client;	6.3	75	472.50
08/09/03	MWE	Review new spreadsheets incorporating new documents;	2.2	450	990.00
08/09/03	PP	Create and edit spreadsheets for Mark Eidman;	3.5	65	227.50
08/10/03	PP	Create and edit spreadsheets for Mark Eidman;	3.0	65	195.00
08/11/03	CJO	Work on refund amounts; Determine existence of missing invoices; Conferences re payment of funds;	5.5	240	1,320.00
08/11/03	MWE	Numerous conferences with Keith Womack and Otis Fields re settlement; Conference with Jim Wright in Dallas West Audit Office; Review local tax schedules from Randy Olson; Conference with Jim Wright re same;	4.8	450	2,160.00
08/11/03	PP	Create and edit spreadsheets for Mark Eidman;	7.5	65	487.50
08/11/03	RL	Work on refund calculations;	3.7	335	1,239.50
08/11/03	SC	Exchange emails with M. Eidman and R. Langenberg re breakdown of taxes; Discuss documentation for invoices with R. Langenberg;	0.2	75	15.00

ALLEGIANCE TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
08/12/03	CF	Conference with Curtis Osterloh and Mark Eidman re refund and impact of Rider 11;	0.6	350	210.00
08/12/03	CJO	Continue work towards securing refund; Various telephone conferences with bankruptcy counsel; Conferences re payment of funds;	4.1	240	984.00
08/12/03	MWE	Conference with Keith Womack; Meeting with Otis Fields; Review schedules re potential settlement;	2.2	450	990.00
08/12/03	RL	Work on spreadsheet issues;	2.5	335	837.50
08/13/03	CF	Conference with counsel; Review docket sheets; Conference with C. Osterloh;	2.5	350	875.00
08/13/03	CJO	Various telephone conferences with bankruptcy counsel re approval of settlement; Draft updated Power of Attorney; Telephone conference with auditor; Verify refund amounts; Draft email to Randy re status; Review Lucent refund and impact of \$250,000 cap pursuant to Rider 11;	4.4	240	1,056.00
08/13/03	SB	Compile documents as per C. Fuller; Use pacer to obtain docket and verify hearing settings;	0.8	100	80.00
08/14/03	CJO	Continue work on securing refund from State; Various conferences re same;	1.2	240	288.00
08/14/03	MWE	Work on refund with Comptroller's Office; Conferences with Attorney General's Office re application of Rider 11 and whether a refund limitation can be imposed by an appropriations rider;	6.0	450	2,700.00
08/15/03	CF	Review email; Conference with Curtis Osterloh re payment of refund;	0.8	350	280.00
08/15/03	CJO	Various telephone conferences re payment of refund claim; Work on Power of Attorney; Numerous conferences re same; Draft email to Randy re status; Various telephone conferences with Randy re same; Review reply email;	4.1	240	984.00
08/15/03	MWE	Conferences with State and client re status of refund; Review latest refund schedule;	2.8	450	1,260.00
08/18/03	CJO	Continue working with bankruptcy counsel to secure payment; Various telephone conferences re same;	2.1	240	504.00
08/18/03	MWE	Negotiations with State; Discuss impact of bankruptcy; Obtain Comptroller agreement to waive offset for current assessment against Allegiance Telecom of Texas; Detailed review of Allegiance Texas audit and potential impact; Research option to offset;	4.8	450	2,160.00
08/19/03	CF	Conference with Curtis Osterloh; Conference with Debtor's counsel; Review draft letter;	0.5	350	175.00
08/19/03	CJO	Continue working on securing refund; Telephone conference with Comptroller's Office re same; Assemble and review documents for submission to debtor's counsel; Various conferences re same;	4.1	240	984.00

ALLEGIANCE TELECOM
Schedule of Fees
From May 15, 2003 - August 21, 2003

Date	ATT	Description	Hours	Rate	Amount
08/19/03	MWE	Review refund schedules; Conference with State; Conference with Randy Olson; Outline offset potential; Continue negotiations with State to obtain full payment without offset;	2.8	450	1,260.00
08/19/03	SC	Review electronic correspondence and memos; Mark same for subfiling;	0.3	75	22.50
08/20/03	CF	Review letter; Email to Curtis Osterloh;	0.3	350	105.00
08/20/03	CJO	Multiple telephone conferences with Comptroller's processing staff re issuance of check; Work on Power of Attorney to allow SD&M to pick up state warrant before Rider 11 deadline;	2.1	240	504.00
08/20/03	MWE	Various conferences re bankruptcy; Meetings with Comptroller re issuance of refund; Obtain agreement to issue;	2.3	450	1,035.00
08/21/03	CJO	Conference with Randy Olson re check issuance;	0.3	240	72.00
08/21/03	MWE	Conferences with Comptroller; Confirm issuance of check;	1.1	450	495.00
		GRAND TOTAL:	569.1		\$175,022.00

MWE - Mark Eidman	234.9	450	105,705.00
CJO - Curtis Osterloh	242.5	240	58,200.00
CF - Chris Fuller	5.0	350	1,750.00
RL - Ray Langenberg	11.8	335	3,953.00
PP - Phuc Phan	22.5	65	1,462.50
SC - Susanna Cohen	49.3	75	3,697.50
SB - Stephanie Byrnes	0.8	100	80.00
KS - Kelly Semlear	1.5	100	150.00
JS - Jen Schor	0.8	30	24.00
	<u>569.1</u>		<u>175,022.00</u>

Attorneys:

Name of Professional Person¹	Position	Year Admitted	Department	Rate	Hours	Fees
Eidman, Mark	Partner	1974	Tax	\$395.00	22.5 ²	8,887.50
				\$450.00	122.2 ²	54,990.00
				\$450.00	234.9	105,705.00
Langenberg, Ray	Partner	1982	Tax / Litigation	\$300.00	7.5 ²	2,250.00
				\$335.00	2.2 ²	737.00
				\$335.00	11.8	3,953.00
Fuller, Chris	Partner	1985	Bankruptcy / Litigation	\$350.00	5.0	1,750.00
Osterloh, Curtis	Partner	1997	Tax / Litigation	\$200.00	23.2 ²	4,640.00
				\$225.00	92.1 ²	20,722.50
				\$240.00	34.0 ²	8,160.00
				\$240.00	242.5	58,200.00
Total					797.9	269,995.00

Paraprofessionals:

Name of Professional Person²	Position	Years in position	Department	Rate	Hours	Fees
Semlear, Kelly	Legal Asst.	2 years	Litigation	\$100.00	1.5	150.00
Bragan, Jennifer	Legal Asst.	1 Year	Litigation	\$100.00	10.0 ²	1,000.00
Byrnes, Stephanie	Legal Asst.	<1 year	Litigation	\$100.00	.8	80.00
Cohen, Susanna	Legal Asst.	<1 year	Litigation	\$75.00	49.3	3,697.50
Douglass, Tom	Legal Asst.	10 years	Tax	\$85.00	5.0 ²	425.00
Phan, Phuc	Case Clerk / Legal Asst.	2 years	Tax / Litigation	\$35.00	25.0 ²	875.00
				\$65.00	22.5	1,462.50
Graham, Sarah	Case Clerk	<1 year	Litigation	\$35.00	10.0 ²	350.00
Schor, Jennifer	Litigation Assistant	<1 year	Litigation	\$30.00	.8	24.00
Total					124.9	8,064.00
Grand Total for Attorneys and Paraprofessionals					922.8	278,059.00

² Professionals / Paraprofessionals with multiple rates listed reflect customary rate increases during the period services were provided.

² Estimate of Pre-Petition work.

EXHIBIT H

Budget Rider on Tax Refunds
House Bill 1, 78th Regular Session
Fiscal Programs - Comptroller of Public Accounts
Page I-37

- 11. Appropriation of Tax Refunds.** As much of the respective taxes, fees, and charges, including penalties or other financial transactions administered or collected by the Comptroller as may be necessary is hereby appropriated and set aside to pay refunds, interest, and any costs and attorney fees awarded in court cases, as provided by law, subject to the following limitations and conditions:
- a. Unless another law, or section of this Act, provides a period within which a particular refund claim must be made, funds appropriated herein may not be used to pay a refund claim made under this section after four years from the latest date on which the amount collected or received by the State was due, if the amount was required to be paid on or before a particular date. If the amount was not required to be paid on or before a particular date, a refund claim may not be made after four years from the date the amount was collected or received. A person who fails to make a refund claim within the period provided by law, or this provision, shall not be eligible to receive payment of a refund under this provision.
 - b. As a specific limitation to the amount of refunds paid from funds appropriated in this Act during the 2004–05 biennium, the Comptroller shall not approve claims or issue warrants for refunds in excess of the amount of revenue estimated to be available from the tax, fee, or other revenue source during the biennium according to the Biennial Revenue Estimate of the Comptroller of Public Accounts used for certification of this Act. Any claim or portion of a claim which is in excess of the limitation established by this subsection "b" shall be presented to the next legislature for a specific appropriation in order for payment to be made. The limitation established by this subsection "b" shall not apply to any taxes or fees paid under protest.
 - c. None of the funds appropriated by this provision may be expended to pay a refund claim, a final judgement (sic), or a settlement, including any statutory interest thereon or any costs and attorney fees awarded by court order, that is in excess of \$250,000. Any claim that is in excess of the limitation established by this subsection "c" shall be presented to the legislature for a specific appropriation in order for payment to be made.

- d. None of the funds appropriated by this provision may be expended to pay a refund claim, a final judgment, or a settlement, including any statutory interest thereon or any costs and attorney fees awarded by court order, that would cause the aggregate amount paid to, or on behalf of, an individual or entity pursuant to this provision during the biennium beginning September 1, 2003, to exceed \$250,000. Any claim that is in excess of the limitation established by this subsection "d" shall be presented to the legislature for a specific appropriation in order for payment to be made.
- e. The limitations established by subsection "c" and subsection "d" do not apply to a payment made:
 - (1) on a final judgment in those cases where the judgment order of the trial court was entered prior to the effective date of this Act,
 - (2) on a settlement agreement executed prior to the effective date of this Act, or
 - (3) on a Comptroller's final decision issued prior to the effective date of this Act.
- f. For purposes of this provision, "final judgment" means a judgment rendered in a federal court or a court in this state for which an appeal or rehearing, or application therefore (sic), is not pending and for which the time limitations for appeal or rehearing have expired. For the purposes of this provision, a Comptroller's final decision means a decision of the Comptroller which is administratively final and for which limitations has expired for seeking rehearing or filing a lawsuit in court. For the purposes of this provision, a "settlement agreement" must be in writing and signed by the necessary parties. A settlement agreement shall be deemed to be "executed" on the date upon which the last signature of a necessary party is affixed thereon.
- g. The payment of a settlement or final judgment may be made only with a complete release from any and all related claims and causes against the State, and in the case of a judgment, the payment may be made only in full satisfaction of that judgment.
- h. Subsection "c" and subsection "d" shall not apply to a refund granted pursuant to an informal review under Section 111.1042 of the Tax Code, if that refund claim is filed with the Comptroller no later than 120 days after the original due date of the report for the period for which the refund is claimed.
- i. This provision shall not apply to refunds of unclaimed property made pursuant to Title 6 of the Property Code.

- j. Except pursuant to this provision, none of the funds appropriated by this Act may be expended to pay a refund of any tax, fee, penalty, charge, or other assessment collected or administered by the Comptroller or to pay a judgment, settlement, or administrative hearing decision, including any statutory interest thereon or any costs and attorney fees awarded by court order, relating to a refund of any tax, fee, penalty, charge or other assessment collected or administered by the Comptroller.