

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

In re

Allegiance Telecom, Inc., et al.,

Debtors.

**Chapter 11
Case No. 03-13057 (RDD)
(Jointly Administered)**

**NOTICE OF AUCTION AND HEARING TO CONSIDER APPROVAL
OF THE SALE OF CERTAIN ASSETS OF THE DEBTORS**

NOTICE IS HEREBY GIVEN, as follows:

1. By order dated January 15, 2004 (the “Bidding Procedures Order”), the Court authorized Allegiance Telecom, Inc. (“Allegiance”) and its direct and indirect subsidiaries, as debtors and debtors-in-possession (collectively, the “Debtors”), among other things, to conduct an action (the “Auction”) of substantially all of the assets of the Debtors (the “Sale Assets”) as provided in the agreement (the “Purchase Agreement”) executed on December 18, 2003 between the Debtors and Qwest Communications, Inc. (the “Buyer”) at Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022, on February 12, 2004 at 9:00 a.m. (prevailing Eastern Time). The successful bidder at the Auction will agree to purchase the assets to be acquired, free and clear of all liabilities, obligations, claims, liens, and encumbrances on the same terms and conditions as those set forth in the Purchase Agreement.

2. The Auction shall be conducted on the following terms and conditions:

<u>PROVISION</u>	<u>DESCRIPTION</u>
<i>The Stalking Horse Bid</i>	Under the terms of the Purchase Agreement, the Buyer has agreed to purchase the Sale Assets for approximately \$390 million, plus Assumed Liabilities (the “Stalking Horse Bid”), subject to the terms of the Purchase Agreement.
<i>Due Diligence</i>	Each potential bidder (a “Potential Bidder”) must deliver (unless previously delivered) to (i) the attorneys for the Debtors, c/o Jonathan S. Henes, Esq., Kirkland & Ellis LLP, Citigroup Center, 153 East 53 rd Street, New York, NY 10022-4611 (“Kirkland”); (ii) the financial advisors for the Debtors, Michael A. Kramer, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022, (ii) the attorneys for the agent for the prepetition lenders (the “Bank Agent”), Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), and (iii) the attorneys for the statutory committee of unsecured creditors (the “Creditors’ Committee”), Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), the following documents (the “Preliminary Bid

PROVISION	DESCRIPTION
	<p>Documents”) in order to participate in the bidding process:</p> <ul style="list-style-type: none"> a. an executed confidentiality agreement in form and substance satisfactory to the Debtors; and b. preliminary proof by the Potential Bidder of its financial capacity to close a proposed transaction, the adequacy of which the Debtors and their advisors will determine, after consultation with the Bank Agent and the Creditors’ Committee. <p>Within two (2) business days after a Potential Bidder delivers the Preliminary Bid Documents, the Debtors, after consultation with the Creditors’ Committee and the Bank Agent, shall determine, and shall notify the Potential Bidder, whether the Potential Bidder has submitted acceptable Preliminary Bid Documents so that such Potential Bidder may conduct due diligence with respect to the assets sought to be acquired. Only those Potential Bidders that have submitted acceptable Preliminary Bid Documents may submit bids.</p>
Bids	<p>Bids must (a) be in writing; (b) with respect to the Sale Assets, at a minimum, exceed the Stalking Horse Bid by \$21 million; (c) satisfy the Bid Requirements; and (d) be received by (i) the attorneys for the Debtors, (ii) the financial advisors for the Debtors, (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.) (the “U.S. Trustee”), (iv) the attorneys for the Bank Agent, and (v) the attorneys for the Creditors’ Committee, so as to be actually received no later than 5:00 p.m. (prevailing Eastern Time) on February 9, 2004 (the “Bid Deadline”). Such bids shall be deemed “Qualified Bids” and those parties submitting such Qualified Bids shall be “Qualified Bidders.”</p> <p>A Qualified Bid may be for (i) the Sale Assets, (ii) the Sale Assets plus any or all of the Excluded Assets (as defined in the Purchase Agreement), or (iii) individual components of the Sale Assets or Excluded Assets, specifically including the Shared Technology Fairchild business, the managed modem port business, and the Shared Hosting business.</p> <p>Parties that do not submit a Qualified Bid by the Bid Deadline will not be permitted to participate at the Auction.</p>
Bid Requirements	<p>Parties who wish to obtain the requirements for Qualified Bids (the “Bid Requirements”) should contact Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022, Telephone: (212) 446-4800 (Attn: Michael J. Frishberg, Esq.).</p>

3. The Bidding Procedures Order further provides that the hearing to consider the approval of the Purchase Agreement and the sale of the Sale Assets will be held following the Auction on February 19, 2004 at 10:00 a.m. (EST), before the Honorable Robert D. Drain, United States Bankruptcy Judge, 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.

4. Objections, if any, to the sale of the Sale Assets, shall be in writing, shall conform to the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court for the Southern District of New York, shall set forth the name of the objectant, the nature and amount of any claims or interests held or asserted against the Debtors' estates or properties, the basis for the objection and the specific grounds therefor, and shall be served upon (i) the attorneys for the Debtors, (ii) the financial advisors for the Debtors, (iii) the U.S. Trustee, (iv) the attorneys for the Bank Agent, and (v) the attorneys for the Creditors' Committee, and (vi) the attorneys for the Buyer, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Paul M. Basta, Esq.), so as to be actually received no later than February 17, 2004 at 4:00 p.m. (EST).

5. All requests for information concerning the sale of the Sale Assets should be directed by written request to (i) Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022, Facsimile: (212) 446-4900 (Attn: Jonathan S. Henes, Esq.) or (ii) Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022 (Attn: Michael A. Kramer).

Dated: New York, New York
_____, 2004

KIRKLAND & ELLIS LLP
Citigroup Center
153 East 53rd Street
New York, New York 10022-4675
Telephone: (212) 446-4800
Facsimile: (212) 446-4900

Attorneys for Debtors and Debtors in Possession