

UNITED STATES BANKRUPTCY COURT
 SOUTHERN DISTRICT OF NEW YORK

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 In re: : Chapter 11
 :
 ALLEGIANCE TELECOM, INC., et al., : Case No. 03-13057 (RDD)
 :
 Debtors. : (Jointly Administered)
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**STIPULATION AND ORDER, PURSUANT TO SECTIONS 105(a) AND 363
 OF THE BANKRUPTCY CODE, AUTHORIZING THE PAYMENT
 OF YEAR-END BONUSES TO CERTAIN OF THE DEBTORS’ EMPLOYEES**

The above captioned debtors and debtors in possession (collectively, the “Debtors”), General Electric Capital Corporation, the administrative agent for the Debtors’ pre-petition lenders (the “Agent”), Qwest Communications International Inc. (“Qwest”) and the Official Committee of Unsecured Creditors of Allegiance Telecom, Inc., et al. (the “Committee”), by and through their respective counsel, hereby enter into this stipulation and order (the “Stipulation and Order”) on January 30, 2004, subject to the approval of the United States Bankruptcy Court for the Southern District of New York.

WHEREAS on May 14, 2003 (the “Commencement Date”), each of the Debtors filed with this Court a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”);

WHEREAS since the Commencement Date, the Debtors have continued in possession of their property and have continued to operate and manage their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code;

WHEREAS on December 24, 2003, the Debtors filed the Motion of the Debtors, Pursuant to Sections 105(a) and 363 of the Bankruptcy Code, for an Order Authorizing the Payment of Year-End Bonuses (the “Year-End Bonuses”) to Certain of the Debtors’ Employees (the “Motion”);¹

WHEREAS due and proper notice of the Motion has been given;

WHEREAS the Court has jurisdiction to consider the Motion and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334;

WHEREAS the Committee advised the Debtors of numerous objections that the Committee had to the relief requested in the Motion;

WHEREAS the Committee and the Debtors have agreed to settle the dispute between and among them in respect of the relief requested in the Motion and the payment of the Year-End Bonuses on the terms set forth in this Stipulation and Order to avoid the risk, uncertainty and expense associated with a litigation on the merits of the Motion;

WHEREAS the Agent does not oppose the terms of this Stipulation and Order;
and

WHEREAS Qwest does not oppose the terms of this Stipulation and Order.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby stipulate and agree, and the Court hereby orders and, to the extent applicable, finds and determines as follows:

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

1. Upon the approval of this Stipulation and Order by the Court, but not before such approval has been granted, the Debtors shall be authorized, but not required, to pay the Year-End Bonuses. The Year-End Bonuses may be paid solely in accordance with, and subject to, the following, provided, however, that such payments shall not be subject to disgorgement in accordance with section 549 of the Bankruptcy Code or otherwise, except that (a) any and all such payments to the Executives (as defined below) shall be subject to the terms of paragraph 1d. hereof, and (b) to the extent that it is determined that a Year-End Bonus has been paid to an employee that engaged in an act that would have resulted in such employee's termination "for cause,"² then any such payment may be subject to disgorgement:

a. All employees who have previously been determined to be eligible for a Year-End Bonus in an amount that in the aggregate does not exceed \$4,500.00 shall be eligible to receive the full amount of their Year-End Bonus at the time of entry of this Stipulation and Order provided that such employees are employed by the Debtors at the time of entry of this Stipulation and Order. To the extent that an employee is not employed by the Debtors at the time of entry of this Stipulation and Order, such employee shall not receive any amounts in respect of his or her Year-End Bonus.

b. Each employee who has previously been determined to be eligible for a Year-End Bonus in an amount that in the aggregate exceeds \$4,500.00 (collectively, the "Senior Employees") shall be eligible to receive 50% of his or her Year-End Bonus amount at the time of entry of this Stipulation and Order, provided that such employee is employed by the Debtors at the time of entry of this Stipulation and Order. To the extent an employee is not employed by the Debtors at the time of entry of this Stipulation and

² For purposes of this Stipulation and Order, "cause" shall mean: gross, fraudulent or felony misconduct in connection with such employee's employment with the Debtors.

Order, such employee shall not receive any amounts in respect of his or her Year-End Bonus.

c. Each Senior Employee shall be eligible to receive the remaining 50% of his or her Year-End Bonus amount upon the closing of a sale of substantially all of the Debtors' assets (the "Sale"), provided, however, that if the Sale shall not have closed by March 19, 2004, the payment schedule of the Year-End Bonuses to the Senior Employees shall be modified as follows: (i) each Senior Employee shall be eligible to receive 25% of his or her remaining Year-End Bonus amount on March 19, 2004, and (ii) the final 25% of his or her Year-End Bonus amount on the earlier of the closing of the Sale or April 16, 2004. If a Senior Employee is not employed by the Debtors on any applicable payment date, as described above, other than as a result of a reduction in force that eliminates such Senior Employee's position with the Debtors, after consultation with the Committee, such Senior Employee shall not receive any amounts due in respect of the Year-End Bonus following the date on which such Senior Employee is no longer employed.

d. To the extent that any of: Royce Holland, Dan Yost, Mark Tresnowski, Kevin Joseph, Tom Lord, or John Dumbleton (collectively, the "Executives") voluntarily resigns such Executive's employment with the Debtors or is terminated for cause at any time prior to the closing of the Sale, such Executive will reimburse (by affirmative payment or set-off by the Debtors) the Debtors for any portion of the Year-End Bonus amount received prior to such Executive's last date of employment by the Debtors, and shall forfeit the right to receive any further payment on account of such Executive's Year-End Bonus.

e. Other than the payment of the 2003 Year-End Bonuses in accordance with the terms of this Stipulation and Order, no employee of the Debtors shall be entitled to receive any compensation from the Debtors or their estates other than ordinary course: (a) salary, (b) medical and dental insurance coverage, (c) life and disability insurance coverage, (d) health, welfare and pension benefits on behalf of union employees under collective bargaining agreements, (e) severance benefits consistent with the Debtors established severance program as in effect prior to the Commencement Date, and (f) employee recognition,³ employee tuition reimbursement, 401(k) plans and, to the extent consistent with historical practices prior to the Commencement Date, membership and professional dues, and such dues shall not exceed \$10,000 in the aggregate, annually.

2. This Court shall retain jurisdiction to resolve any issues arising out of or related to the implementation of this Stipulation and Order

Dated: New York, New York
January 30, 2004

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³ Employee recognition awards are awards given to recognize outstanding performance by individual employees no more often than once a quarter. Each award is for less than \$400.00, and no more than 20 of these awards are given in any quarter.

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Counsel to Qwest

SO ORDERED:

Honorable Robert D. Drain
United States Bankruptcy Judge