

ALLEGIANCE TELECOM, INC. SALE MOTION OBJECTIONS

<u>OBJECTION¹</u>	<u>DOCKET NUMBER</u>	<u>RESOLUTION</u>
1. State of Washington Objection to Section 1146(c) Exemption for Proposed Sale	805	<p>Resolved: Revised Sale Order to include the following language:</p> <p>Pursuant to sections 105(a) and 1146(c) of the Bankruptcy Code, the transfer of the Sale Assets, to the extent such transfer is authorized by a confirmed chapter 11 plan in these cases, shall not be subject to taxation under any federal, state, local, municipal or other law imposing or purporting to impose a stamp tax or similar tax on any of the Debtors' transfers or conveyances of the Sale Assets, which include real estate, personal property and any other assets.</p> <p>In the event the Debtors or Buyer exercise the Early Closing Election in accordance with the Purchase Agreement, the Debtors will deposit an amount equal to the amount of the potential stamp taxes or similar taxes into a segregated account and either (i) litigate the applicability of the stamp taxes or similar taxes with the relevant taxing authorities or (ii) await the decision of the United States District Court for the Southern District of New York in <u>In re Bethlehem Steel Corporation</u>, Case No. 01-15288 (BRL) regarding the applicability of stamp taxes or similar taxes in the event of an asset sale (the "1146(c) Language").</p>
2. Limited Objection to Debtors' Sale and Bidding Motion filed by the City and County of Denver	820	Resolved: Revised Sale Order to include the 1146(c) Language.

¹ The Debtors will respond to the objections filed by Verizon Communications Inc., Bell South Telecommunications, Inc., AT&T Corp. and AboveNet, Inc. in a separate reply filed contemporaneously herewith.

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3. Partial Objection of State of Illinois	922	Resolved: Revised sale order to include the 1146(c) Language.
4. Objection (Statement) by Multnomah County, Oregon	848	Resolved: Multnomah County, Oregon acknowledges that the Sale Order provides that valid liens will attach to the sale proceeds.
5. Fairfax County, Virginia	847	Resolved: Fairfax County, Virginia acknowledges that the Sale Order provides that valid liens will attach to the sale proceeds.
6. Palm Beach County Tax Collector's Objection to Sale of Assets of Debtor	944	Resolved: Palm Beach County has withdrawn the Objection. The Debtors agree that Palm Beach County has an allowed secured claim in the amount of \$23,487.13.

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7. Local Texas Tax Authorities' Objection to Debtors' Sale Motion	956	<p>Resolved: Revised Sale Order to include the following language:</p> <p>As soon as practicable after the Closing, the Debtors shall reserve \$1,500,000 of the proceeds from the Sale Transaction in a segregated account pending a determination of the claims of the Local Texas Tax Authorities (as defined in the Local Texas Tax Authorities' Objection to the Motion). The liens of the Local Texas Tax Authorities shall attach to the proceeds in the same validity, amount and priority as and to the extent they currently exist on the collateral. The amounts in the segregated account shall constitute adequate protection for the sale of the Local Texas Tax Authorities' collateral, but shall not constitute a limit on the amount they are ultimately entitled to recover on their claims as ultimately allowed, nor shall it constitute an admission of liability by the Debtors with respect to the Local Texas Tax Authorities' claims, the existence of any liens, or otherwise. Further, nothing herein shall prejudice to the Debtors' right to assert defenses or object to claims or liens of the Local Texas Tax Authorities. No distribution shall be made from the segregated account absent consent of the Debtors, the Creditors Committee and the Local Texas Tax Authorities, or by order of the Court.</p>
8. Limited Objection to Debtor's Motion for an Order Approving the Sale of Debtor's Assets and Approving Debtor's Asset Purchase Agreement filed by Wells Fargo Leasing Vendor Services Corporation	826	Resolved: Added language to the Sale Order making it clear that the sale assets shall not include any of the equipment owned by creditor Wells Fargo Leasing Vendor Services Corp., which equipment was previously leased to the Debtor under equipment finance leases.

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9. Objection by Creditor Oracle Corporation to Debtors' Sale and Bidding Procedures Motion	827	Resolved: Oracle withdrawing objection, with a reservation of right to object to any action by the Debtors to assume and/or assign licenses between Oracle and any of the Debtors.
10. Reservation of Rights by Lucent Technologies, Inc. with Respect to Debtors' Sale Motion	938	The Debtors acknowledge that Lucent reserves its right to assume and/or assign any licenses or agreements between Lucent and any of the Debtors.
11. Preliminary Objection of Level 3 Communications to Debtors' Sale and Bidding Procedures Motion	907	<p>Resolved: Added the following language to the Sale Order:</p> <p>Nothing herein approves any schedule, term sheet, master services agreement, or any other document agreement, or instrument whatsoever that relates to that certain Integrated Network Solution Purchase Agreement between Level 3 Communications, LLC ("Level 3"), as successor to Genuity Solutions, Inc., and Allegiance Telecom Company Worldwide, originally dated July 24, 2000 (as amended, the "INSPA"), including, without limitation, the assumption, assumption and assignment, rejection, termination, transfer and/or servicing of the INSPA. The INSPA is an Excluded Asset.</p> <p>Nothing herein in any way prejudices, waives, limits, reduces, prejudices, impairs, or impacts in any way the rights and claims of either Level 3 or Allegiance in connection with the INSPA, related contested matters, and adversary proceedings or otherwise. Nothing in this Order shall constitute res judicata or collateral estoppel in connection with any issue, claim, right or remedy of either Level 3 or Allegiance in connection with the INSPA, related contested matters and adversary proceedings, or otherwise. Subject to the express provisions set forth above, the preliminary objection filed by Level 3 to the Sale Motion is withdrawn with prejudice.</p>

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<p>12. Objection by SBC Telecommunications, Inc. to Debtors' Sale Motion</p>	<p>941</p>	<p>The objection should be overruled.</p> <p>First, as set forth in the Statement and as will be proffered at the Sale Hearing, the Debtors submit that, based on consultation with Greenhill and advisors for the Senior Lenders and the Creditors Committee, the Successful Bid is the highest and best bid for the Sale Assets. In making this determination, the Debtors, in consultation with the Creditors Committee and the Senior Lenders, analyzed (subject to confidentiality agreements) the respective lists of contracts and leases to be assumed by the Debtors and assigned (in connection with the Purchase Agreement) to either Qwest or XO, as applicable, to determine the impact of such value on the Qwest Bid and the XO Bid, respectively.</p> <p>Second, pursuant to the Sale Order, the approval of the Assumed Contracts (as defined in the Sale Order) is subject to section 365 of the Bankruptcy Code. In that regard, in accordance with the Sale Order and the Bidding Procedures Order, the Debtors shall serve the Contract Assignment Notice (as defined in the Sale Order) on all Contract Parties (as defined in the Bidding Procedures Order), which provides such Contract Party an opportunity to object on any ground. Moreover, the procedures set forth in the Sale Order and the Bidding Procedures Order provide Contract Parties with appropriate notice and an opportunity to be heard.</p>

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<p>13. General Electric Capital Corporation's Limited Objection to Debtors' Sale Motion</p>	<p>947</p>	<p>The objection should be overruled. While reducing the outstanding indebtedness owed to the Senior Lenders would reduce the amount of interest paid by the Debtors, the Bank of New York, as Indenture Trustee (the "Indenture Trustee"), under the Debtors' prepetition bond indentures, on behalf of the bondholders, asserts a security interest in the cash proceeds of the sale. In that regard, on January 12, 2004, the Indenture Trustee filed a proof of claim asserting a secured claim against the Debtors' estates in the amount of \$676,050,190.97 (the "Indenture Trustee Claim"). In addition, upon information and belief, the Creditors Committee has raised issues concerning its potential challenges to the senior lenders secured claims. Consequently, at this point in time, the Debtors do not perceive a legitimate basis to pay down any of the claims of the Senior Lenders.</p> <p>The Debtors are in the initial stages of the claims reconciliation process and have not made a final determination regarding their view on the validity or viability of the Indenture Trustee Claim or the Committee's potential objections. The Debtors are in the process of negotiating a plan of reorganization with their key creditor constituencies and will attempt to resolve all of these issues in the context of a global settlement.</p>