

**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)**

**ORDER (I) APPROVING THE SALE FREE AND  
CLEAR OF ALL LIENS, CLAIMS AND ENCUMBRANCES  
TO THE SUCCESSFUL BIDDER, (II) AUTHORIZING THE  
ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY  
CONTRACTS AND UNEXPIRED LEASES, AND (III) GRANTING RELATED RELIEF**

Upon the motion, dated December 18, 2003 (the "Motion"), of Allegiance Telecom, Inc. ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, together with Allegiance, the "Debtors"), for an order (i) approving the sale to XO Communications, Inc. or its designee (the "Successful Bidder" or "Buyer"), pursuant to and in accordance with a certain Asset Purchase Agreement<sup>1</sup> by and among certain of the Debtors and Buyer, a copy of which is attached hereto as Exhibit A (the "Purchase Agreement"), of either (a) substantially all of the assets of Allegiance and Allegiance Telecom Company Worldwide ("ATCW") and all of the stock of the direct and indirect reorganized subsidiaries of ATCW, excluding the stock of Shared Technologies (collectively, the "Subsidiary Sellers"), which shall be effectuated through a plan of reorganization, or (b) alternatively, at the election of either of the parties as provided in and subject to the terms of the Purchase Agreement, substantially all of the assets of Allegiance, ATCW, and the Subsidiary Sellers (in either instance ((a) or (b)) above, collectively, the "Sale Assets"); free and clear of all liens, claims,

<sup>1</sup> Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Purchase Agreement.

encumbrances and interests, and certain taxes; (ii) authorizing the assumption and assignment of certain executory contracts and unexpired leases; and (iii) granting certain related relief; and the Court having entered an order (the “Bidding Procedures Order”) on January 15, 2004 approving the Bidding Procedures (as defined therein), which is Docket No. 867; and the Court having held a hearing on February 19, 2004 to approve the relief requested in the Motion (the “Sale Hearing”); and it appearing that notice of the Sale Hearing has been provided to (i) the Office of the United States Trustee; (ii) the attorneys for Prepetition Lenders (as defined in the Motion); (iii) the attorneys for the Creditors’ Committee (as defined in the Motion); (iv) all nondebtor contracting and lease parties identified on Schedule 4.20 and 4.21 of the Disclosure Schedules; (v) all parties that provide telecom services to the Debtors pursuant to tariffs; (vi) all parties who have made written expressions of interest in acquiring the Sale Assets or the Business within two (2) months prior to the date of the Motion; (vii) all known persons holding Interests (as defined herein); (viii) the Securities and Exchange Commission; (ix) all taxing authorities that have jurisdiction over the Sale Assets; (x) all Governmental Entities having jurisdiction over the Sale Assets with respect to Environmental Laws; (xi) the attorneys general of all states in which the Sale Assets are located; (xii) the Federal Communications Commission and applicable state public utility and other applicable regulatory commissions; and (xiii) all other parties that had filed a notice of appearance and demand for service of papers in these bankruptcy cases under Rule 2002 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) as of the date of the Motion; and it appearing that notice of the Sale Hearing was published in the national editions of The New York Times and The Wall Street Journal on January 28, 2004; and it appearing that such notice constitutes good and sufficient notice of the Motion and Sale Hearing and that no other or further notice need be provided; and upon the Motion and the record of the

Sale Hearing and all other proceedings had before the Court; and all objections to the Motion having been resolved, expunged or overruled; and it appearing that an order approving the transaction(s) contemplated in the Purchase Agreement (collectively, the "Sale Transaction") is in the best interests of the Debtors and all parties in interest; and it appearing that the Court has jurisdiction over this matter; and the Court having overruled all remaining objections to the Motion for the reasons set forth at the Sale Hearing; and upon the record of the Sale Hearing; and after due deliberation and sufficient cause appearing therefor,

**IT IS HEREBY FOUND AND DETERMINED THAT:**

A. This Court has jurisdiction over the Motion under 28 U.S.C. §§ 157 and 1334, and this matter is a core proceeding under 28 U.S.C. § 157(b)(2)(A). Venue of these cases and the Motion in this Court is proper under 28 U.S.C. §§ 1408 and 1409.

B. The statutory predicates for the relief sought in the Motion are sections 105(a), 363(b), (f), (m), and (n) of the United States Bankruptcy Code (the "Bankruptcy Code") and Bankruptcy Rules 2002, 6004, 6006, and 9014.

C. Proper, timely, adequate, and sufficient notice of the Motion and the Sale Transaction has been provided in accordance with sections 105(a) and 363 of the Bankruptcy Code and Bankruptcy Rules 2002, 2002(i), 6004, and 9014, in compliance with the Order Establishing Notice Procedures, dated May 15, 2003, and in compliance with the Bidding Procedures Order. Such notice is good and sufficient, and appropriate under the particular circumstances, and no other or further notice of the Motion or the Sale Hearing is or shall be required.

D. As demonstrated by the pleadings and affidavit of publication filed in connection herewith, as well as the testimony at the Sale Hearing, the Debtors have marketed the

Sale Assets and conducted the sale process in compliance with the Bidding Procedures Order and have completed a full, fair and complete auction process.

E. No consents or approvals, other than those expressly set forth in and required by the Purchase Agreement or expressly set forth herein, are required for the Debtors or Buyer to consummate the Sale Transaction.

F. Approval of the Purchase Agreement and consummation of the Sale Transaction at this time are in the best interests of the Debtors, their creditors and their estates.

G. The Debtors have demonstrated both (i) good, sufficient and sound business purpose and justification, and (ii) compelling circumstances for approval of the Sale Transaction pursuant to section 363(b) of the Bankruptcy Code and in connection with a plan of reorganization.

H. A reasonable opportunity to object or be heard with respect to the Motion and the relief requested therein has been afforded to all interested persons and entities.

I. The Purchase Agreement was negotiated, proposed and entered into by the Debtors and Buyer in good faith, without collusion, and from arm's-length bargaining positions. Neither the Debtors nor Buyer have engaged in any conduct that would cause or permit the Purchase Agreement to be avoided under section 363(n) of the Bankruptcy Code. Buyer is not an "insider" of any of the Debtors, as that term is defined in section 101 of the Bankruptcy Code.

J. Buyer was the winning bidder for the Sale Assets at the Debtors' auction conducted on February 12 and 13, 2004. Buyer is a good faith purchaser under section 363(m) of the Bankruptcy Code and, as such, is entitled to all of the protections afforded thereby. Both Sellers and Buyer will be acting in good faith within the meaning of section 363(m) of the Bankruptcy Code in closing the Sale Transaction at all times.

K. The Purchase Agreement was not entered into for the purpose of hindering, delaying or defrauding creditors under the Bankruptcy Code and under the laws of the United States, any state, territory, possession or the District of Columbia.

L. The Purchase Price for the Sale Assets pursuant to the Purchase Agreement (i) is fair and reasonable, (ii) is the highest and best offer for the Sale Assets, and (iii) constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, and the District of Columbia.

M. The transfer of the Sale Assets to Buyer will be a legal, valid, and effective transfer of the Sale Assets, and will vest Buyer with all rights, title and interest in and to the Sale Assets free and clear of all Interests (other than Permitted Liens of the type set forth in clause (iii) of the definition thereof contained in the Purchase Agreement), which have, or could have, been asserted by the Debtors or their creditors or any other person.

N. The Debtors have demonstrated compelling and sound business justifications for authorizing and approving the process (the "Early Funding Process") established under the Purchase Agreement, the Operating Agreement (as defined below) and related documents, pursuant to which, on the date (the "Early Funding Date") that the events in paragraph N(i) through N(v) have occurred (even before all State PUC Consents have been obtained as required by applicable law), Buyer shall pay the Purchase Price, as may be adjusted in accordance with the Purchase Agreement, into escrow, pursuant to the Purchase Price Escrow Agreement, and manage and control the Acquired Assets until Closing, at which time the Purchase Price shall be released from escrow and the Sale Transaction shall be consummated in accordance with the Purchase Agreement: (i) the receipt by the parties of FCC Consent; (ii) the expiration or earlier termination of the applicable waiting period under the HSR Act in respect of

the Sale Transaction and any other transactions contemplated by the Purchase Agreement; (iii) the satisfaction or waiver of the conditions to Closing set forth in the Purchase Agreement, except for the conditions contained in Section 7.4(a) of the Purchase Agreement (relating to the Bankruptcy Plan); (iv) the satisfaction or waiver of the conditions contained in Section 8.3 of the Purchase Agreement that, in the event of an Early Closing Election, (x) the Closing pursuant thereto shall not occur sooner than the later of thirty-five (35) days after the Sale Order Approval Date or twenty (20) Business Days after the delivery of either such elections, (y) Sellers shall serve a notice to assume or to assume and assign the Assumed Contracts on all non-debtor parties to the Assumed Contracts at least twenty (20) days prior to the Closing, and (z) the Closing shall occur no sooner than twenty (20) Business Days after the delivery of the notices required under Section 8.3 of the Purchase Agreement in respect of Additional Assumed Contracts; and (v) execution and delivery by the Debtors and Buyer of an Operating Agreement substantially in the form annexed to the Purchase Agreement (the "Operating Agreement"). Such compelling and sound business justifications for the Early Funding Process include greater certainty for the Debtors that Closing will occur and a potential reduction of certain expenses that otherwise may have been borne by the Debtors' estates during the period commencing on the Early Funding Date and ending on the Closing Date.

O. The Debtors have demonstrated a compelling and sound business justification for authorizing the payment of the Liquidated Damages (as defined below) to the Buyer under the circumstances, timing and procedures set forth in the Purchase Agreement. The Liquidated Damages are not a penalty but, rather, a reasonable estimate of the damages to be suffered by Buyer in the event the transactions contemplated by the Purchase Agreement are not consummated under the circumstances set forth therein.

P. The Liquidated Damages were a material inducement for, and express condition of, Buyer's willingness to enter into the Purchase Agreement, and Buyer was unwilling to commit to hold open its offer to acquire the Sale Assets, pending Closing, and to consummate the other transactions under the terms of the Purchase Agreement unless it was assured of the right to payment of the Liquidated Damages.

Q. Solely for purposes of section 1145 of the Bankruptcy Code, Buyer is a successor of the Debtors and has acquired substantially all of the assets of the Debtors.

**NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:**

1. The Motion is granted.
2. All objections to the Motion or the relief requested therein that have not been withdrawn, waived or settled, and all reservations of rights included therein, are hereby overruled on the merits.

Approval of the Purchase Agreement

3. The Purchase Agreement and all of the terms and conditions thereof are hereby approved.
4. Pursuant to section 363(b) of the Bankruptcy Code, the Debtors and Buyer are authorized and directed to consummate the Sale Transaction, pursuant to and in accordance with the terms and conditions of the Purchase Agreement.
5. The Debtors are authorized and directed to execute and deliver, and empowered to perform under, consummate and implement the Purchase Agreement, together with all additional instruments and documents that may be reasonably necessary or desirable to implement the Purchase Agreement, and to take all further actions as may be reasonably

requested by Buyer as may be necessary or appropriate to the performance of the obligations as contemplated by the Purchase Agreement.

6. The Debtors have completed a full, fair and complete auction process.

Transfer of the Sale Assets

7. Pursuant to sections 105(a), 363(b) and 363(f) of the Bankruptcy Code, the transfer of the Sale Assets, including all of the stock of the reorganized Subsidiary Sellers as provided in and in accordance with the Purchase Agreement (if no Early Closing Election is made), any limited liability company (“LLC”) membership interests and any Equipment or other Acquired Assets of Debtors that may be transferred to such LLC prior to the Closing, to Buyer on the later of (i) the Closing, or (ii) the date(s) of applicable State PUC Consent or FCC Consent, shall vest in Buyer (or such LLC as the case may be with respect to Equipment or other Acquired Assets) all rights, title, and interest in and to the Sale Assets and shall be, free and clear of all liens or encumbrances on, interests in, claims against, and set-off, recoupment, and other rights as to, of any type or nature whatsoever (“Interests”) (other than Permitted Liens of the type set forth in clause (iii) of the definition thereof contained in the Purchase Agreement), which have, or could have, been asserted by the Debtors or their creditors or other persons, including the Bank of New York, as Indenture Trustee, in connection with the Debtors’ chapter 11 cases, if any, with all such Interests of any kind or nature whatsoever to attach to the net proceeds that the Debtors ultimately realize from the Sale Transaction contemplated herein in the order of their priority, with the same validity, force and effect which they now have as against the Sale Assets, subject to any claims and defenses the Debtors may possess with respect thereto; provided, however, if such transfer of the Sale Assets is effectuated through a plan of reorganization, such



transfer shall be authorized pursuant to such plan in accordance with section 1123(a)(5) of the Bankruptcy Code.

8. Whether or not an Early Closing Election is made, Buyer shall have no liability or responsibility for any liability or other obligation of the Debtors arising under or related to the Sale Assets other than as expressly set forth in the Purchase Agreement and in no event shall Buyer have any liability or responsibility for any Excluded Liabilities (including any unrecorded liabilities of the Debtors). Without limiting the effect or scope of the foregoing, the transfer of the Sale Assets (including, without limitation, stock in the reorganized Subsidiary Sellers) from the Debtors to Buyer does not and will not subject Buyer or its affiliates, successors or assigns or their respective properties (including the Sale Assets) to any liability for claims (as that term is defined in section 101(5) of the Bankruptcy Code) against the Debtors or the Sale Assets by reason of such transfer under the laws of the United States or any state, territory or possession thereof applicable to such transactions. Neither Buyer nor its affiliates, successors or assigns shall be deemed, as a result of actions taken in connection with the purchase of the Sale Assets: (i) to be a successor to the Debtors (except for purposes of section 1145 of the Bankruptcy Code), or (ii) to be a continuation or substantial continuation of the Debtors or any enterprise of the Debtors. Neither Buyer nor its affiliates, successors or assigns is acquiring or assuming (except as expressly set forth in the Purchase Agreement) any liability, warranty or other obligation of the Debtors, including, without limitation, any tax incurred but unpaid by the Debtors prior to the date of the Closing, including, but not limited to, any tax, any fine or any penalty relating to a tax, or any addition to a tax, whether or not previously assessed, fixed or audited, whether or not paid, and whether or not contested before and adjudicated by a judicial or administrative tribunal of competent jurisdiction.

9. The process set forth in the Purchase Agreement, the Operating Agreements, the Transition Plan and other related documents for obtaining all approvals, consents (including assignments of any permits and rights of way), certificates, waivers and other authorizations required to be obtained from, or filings or other notices required to be made with or to, any Governmental Entities having jurisdiction over any of the Sale Assets in order to consummate the transactions contemplated by the Purchase Agreement and the other related transaction documents and the transfer of such Sale Assets, including the Non-Transferred Assets, to Buyer upon the receipt of such approvals (the “Regulatory Transition Process”) is hereby approved and authorized pursuant to sections 105, 363 and 365 of the Bankruptcy Code.

10. The Early Funding Process, including, without limitation, Buyer’s (a) right to manage the Acquired Assets pursuant to the Operating Agreement in connection therewith and in accordance with the Purchase Agreement, subject to the supervision of the Debtors, (b) assumption of all liabilities relating to the Acquired Assets incurred from and after the Early Funding Date and (c) exclusive right to receive and retain all the benefits from the Acquired Assets and businesses relating thereto from and after the Early Funding Date, is hereby approved and authorized pursuant to sections 105, 363 and 365 of the Bankruptcy Code.

11. The Sale Assets shall not include any of the equipment owned by Wells Fargo Leasing Vendor Services Corp., which equipment was previously leased to the Debtors under equipment finance leases 4246178, 42461486, 42461474, 42455081, 42457102, 42455047, 42455131, and 42461460, said equipment being eight (8) Canon 5000 S copy machines and eight (8) Canon 5000 S finishers; provided, however, that this paragraph shall not prohibit the assumption and/or assignment to the Buyer of the Debtors’ interest in such equipment finance leases.

Assumption and Assignment of Assumed Contracts to Buyer

12. Pursuant to sections 105(a) and 365 of the Bankruptcy Code, (a) on the later of (i) the Closing, or (ii) the applicable State PUC Consent or FCC Consent, or (b) in the event of an Early Closing Election, the Debtors' assumption of the Assumed Contracts and the Debtors' assignment to Buyer of the Assumed Contracts to which Allegiance and/or ATCW are a party and, if an Early Closing Election is made, all other Assumed Contracts and Buyer's assumption on the terms and conditions set forth in the Purchase Agreement of the Assumed Contracts assigned to Buyer, are hereby approved and authorized; provided that the requirements of section 365 of the Bankruptcy Code are satisfied as set forth in the Debtors' Notice of Intent to Assume or to Assume and Assign (as defined below). Buyer, the Debtors and counsel to the Creditors Committee shall keep confidential the schedule of Executory Contracts as set forth in Section 3.5(d) of the Purchase Agreement (such schedule shall not be provided to the individual members of the Creditors Committee but may be provided to the advisors for the Creditors Committee).

13. Subject to (a) the later of (i) the Closing, or (ii) the applicable State PUC Consent or FCC Consent, or (b) an Early Closing Election, the Debtors are hereby authorized and directed in accordance with sections 105(a), 363, and 365 of the Bankruptcy Code to (x) assume and (subject to the terms and conditions of the Purchase Agreement) assign to Buyer the Assumed Contracts to which Allegiance and/or ATCW are a party and if an Early Closing Election is made, all other Assumed Contracts, free and clear of all Interests of any kind or nature whatsoever (other than Permitted Liens of the type set forth in clause (iii) of the definition thereof contained in the Purchase Agreement); provided, however, that the assignment shall not affect the rights of the non-debtor contract parties under the Assumed Contracts, and (y) execute

and deliver to Buyer such documents or other instruments as may be necessary to assign and transfer the Assumed Contracts to Buyer.

14. Pursuant to the procedures set forth in and subject to Sections 3.5, 6.3 and 8.3 of the Purchase Agreement, the Assumed Contracts shall be, in the case of Assumed Contracts to which any of the Subsidiary Sellers are a party, assumed and, in the case of the Assumed Contracts to which Allegiance and/or ATCW are a party, or to which the Subsidiary Sellers are parties and an Early Closing Election is made, assumed and assigned to, and remain in full force and effect for the benefit of, Buyer in accordance with their respective terms, notwithstanding any provision in any of the Assumed Contracts (including those of the type described in sections 365(b)(2) and (f) of the Bankruptcy Code) that prohibits, restricts or conditions such assignment or transfer and, pursuant to section 365(k) of the Bankruptcy Code, the Debtors shall be relieved from any further liability with respect to the Assumed Contracts after such assumption and assignment to Buyer for matters arising after assignment and except as otherwise provided in any order or stipulation regarding assumption.

15. All defaults or other obligations of the Debtors under the Assumed Contracts (without giving effect to any acceleration clauses or any default provisions of the kind specified in section 365(b)(2) of the Bankruptcy Code or other defaults as to which cure or performance may be excused by the Bankruptcy Code or other applicable law) shall be promptly cured by the Debtors or Buyer as set forth in the Purchase Agreement as provided in section 365(b)(1) of the Bankruptcy Code, and the cure amounts with respect to the Assumed Contracts will be those amounts (the "Cure Amounts") established in accordance with the procedures set forth in the Bidding Procedures Order and Exhibit 2 thereto (as modified below).

16. With the exception of the Cure Amounts, except as otherwise set forth herein, each nondebtor party to an Assumed Contract hereby will be forever barred, estopped and permanently enjoined from asserting against the Debtors or Buyer, or the property of any of them, any default existing under the Assumed Contracts as of the later of (a) the Closing, or (b) the applicable State PUC Consent or FCC Consent; or, against Buyer, any counterclaim, defense or other claim or Interest under the Assumed Contracts asserted or assertable against the Debtors or their estates. All parties that provide telecommunications services pursuant to a tariff related to any of the Sale Assets are hereby directed to continue providing such services to the Debtors; provided, however, that with respect to any such party that is providing such telecommunications services pursuant to a stipulation with the Debtors pursuant to section 366 of the Bankruptcy Code, then such stipulation shall govern the provision of such services.

17. If the Debtors receive an objection to the cure amounts (the “Cure Amount Objection”) set forth in the Notice of Intent to Assume or to Assume and Assign, they shall attempt to resolve such disputed cure amounts with the party asserting the objection. If a consensual resolution of the Cure Amount Objection cannot be reached, the Debtors or Buyer, as provided in the Purchase Agreement, will (a) pay in full the undisputed portion of such Cure Amount on or before the applicable date of assumption and (b) segregate the disputed portion of such cure amount (the “Segregated Amounts”) pending the resolution of the Cure Amount Objection by this Court or by mutual agreement of the parties. In light of these procedures, the fact that any Cure Amount Objection is not resolved shall not prevent, delay or otherwise impair the assumption and assignment of any Assumed Contracts, and the objectors’ only recourse after the relevant date of assumption or the assumption and assignment, as the case may be, shall be to the applicable Segregated Amounts.

18. Notwithstanding anything to the contrary contained in the Bidding Procedures Order, including, without limitation, Exhibit 2 thereof, the Debtors, in consultation with the Creditors Committee, shall modify the Contract Assignment Notice (as defined in the Bidding Procedures Order) in a manner satisfactory in form and substance to Buyer and in accordance with the Bankruptcy Rules before the Contract Assignment Notice is served as required under the Bidding Procedures Order, to provide notice of (a) the assumption of all Assumed Contracts by the Debtors, (b) the assignment to Buyer of the Assumed Contracts to which Allegiance and/or ATCW are party, and (c) in the event of an Early Closing Election, the assignment to Buyer of all Assumed Contracts (such Contract Assignment Notice, as so modified, is referred to herein as the “Notice of Intent to Assume or to Assume and Assign”). The Cure Procedures (as defined in the Bidding Procedures Order) are hereby amended to reflect the foregoing modifications.

19. The Debtors retain the exclusive right to negotiate and settle claims with any Incumbent Local Exchange Carriers (collectively, the “ILECs”); provided, however, that the Debtors shall not take any action that adversely affects in any material respect relationships to be continued or otherwise enjoyed between any of Buyer and/or the reorganized Subsidiary Sellers, on the one hand, and any of the ILECs, on the other hand, without Buyer’s prior written consent, which consent shall not be unreasonably withheld. Buyer and the Creditors Committee shall have the right to participate in the Debtors’ negotiation and settlement discussions with the ILECs and shall have standing to participate in any disputes before the Bankruptcy Court regarding ILEC and non-ILEC Cure Amounts. The Debtors shall keep Buyer and the Creditors Committee timely informed of the progress of such discussions. Any treatment of ILEC charges under the Bankruptcy Plan, or otherwise, shall be reasonably acceptable to Buyer.

20. Notwithstanding any of the foregoing, or anything else to the contrary contained in this Order, the Purchase Agreement or any documents executed therewith, nothing in this Order, the Purchase Agreement or any documents executed therewith shall be deemed to affect the rights of any ILECs, as to any executory contracts or unexpired leases, to object, respond, or otherwise be heard with respect to (without limitation) (a) the determination of whether any services or facilities are provided pursuant to an executory contract or unexpired lease, including without limitation whether any services or facilities provided to the Debtors by or subject to tariffs are provided under an executory contract, (b) the assumption and assignment of any such executory contract or unexpired lease to the Buyer, (c) the sufficiency, timing, terms and provision of any proposed adequate assurance of prompt cure of all defaults and future performance by the Buyer and/or the Debtors, and (d) the amount and timing of any cure and payments proposed by the Debtors (including without limitation whether the Debtors can satisfy their obligation to cure any defaults in whole or in part by setting off against alleged debts of such non-debtor contract counter-parties). Nothing in this Order, the Purchase Agreement or any documents executed therewith shall be a determination that any of the requirements for the assumption and assignment of any executory contract or unexpired lease of the ILECs have been satisfied and nothing in this Order, the Purchase Agreement and any documents executed therewith shall obligate any ILEC to provide any services to the Buyer following the closing. All rights of the ILECs and the Debtors, with regards to the matters relating to executory contracts or unexpired leases, are hereby fully reserved.

#### Liquidated Damages

21. Pursuant to section 363(b) of the Bankruptcy Code and because damage suffered by Buyer in the event of any such termination would be impossible to calculate and the

Liquidated Damages constitute a reasonable estimate of such damages, the Debtors are required to pay to Buyer as liquidated damages and not as a penalty (i) the Expense Reimbursement (which shall not exceed \$10 million) plus (ii) \$30 million (clauses (i) and (ii) together, the “Liquidated Damages”) immediately in the event that: (x) the Purchase Agreement is terminated pursuant to Sections 8.1(b), (c), or (d) of the Purchase Agreement following the Sale Order Approval Date, or (y) Buyer elects to terminate the Purchase Agreement pursuant to Section 8.1(e) of the Purchase Agreement or not to close, in each case because the condition set forth in Section 7.2(a) of the Purchase Agreement has not been satisfied, as a result of a Sellers’ Intentional Breach following the Sale Order Approval Date. In the event Buyer terminates the Purchase Agreement pursuant to Section 8.1(e) of the Purchase Agreement or elects not to close, in each case because the condition set forth in Section 7.2(a) of the Purchase Agreement has not been satisfied as a result of some reason other than a Sellers’ Intentional Breach, the Debtors shall pay immediately to Buyer the Expense Reimbursement (which shall not exceed \$5 million).

22. In accordance with the terms of the Purchase Agreement, (a) at any time after the date hereof and prior to Closing, the Debtors, after consultation with the Creditors Committee, shall and (b) in the event the Debtors fail to comply with the timeline set forth in Exhibit J or at anytime after June 30, 2004 and prior to Closing, Buyer shall have the right to deliver a notice (the “Early Closing Election Notice”) of its irrevocable election of early closing and promptly close on the Sale Transactions (the “Early Closing Election”); provided, however, that the Closing pursuant thereto shall not occur sooner than twenty (20) Business Days after the delivery of the Early Closing Election Notice. In the event that the Debtors’ exclusive periods to file and solicit a plan of reorganization under section 1121 of the Bankruptcy Code are terminated, the Creditors Committee shall be permitted to petition the Court on limited notice to



require the Early Closing Election. The Debtors are authorized and directed to pay the Liquidated Damages to Buyer, as required under and pursuant to the Purchase Agreement, without further order of the Court and the Liquidated Damages shall (a) receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code, and (b) Buyer's right to the Liquidated Damages and the superpriority administrative claim status of such claims shall survive rejection or breach of the Purchase Agreement, and/or conversion or dismissal of these chapter 11 cases and shall be unaffected thereby; provided, however, that the Liquidated Damages shall not prime the Liens held by the Sellers' senior secured lenders and any such amounts payable shall be subordinated to the carve out for professionals fees and fees under 28 U.S.C. § 1930 as provided in the Bankruptcy Court's order(s) authorizing the Debtors to use cash collateral entered in these cases.

#### Additional Provisions

23. Pursuant to section 364(c)(1) of the Bankruptcy Code, (a) the obligation of the Debtors to pay any adjustments to the Purchase Price, including interest with respect thereto, and (b) any amounts that may be owed to Buyer pursuant to, or for the Debtors' breach of, any of the Operating Agreements and the Operating Agreement shall receive superpriority administrative claim status and shall have priority over any and all administrative expenses of the kinds specified in sections 503(b), 506(c), 507(a), or 507(b) of the Bankruptcy Code; provided, however, that any such amounts payable shall be subordinate to the carve out for professional fees and fees under 28 U.S.C. § 1930 as provided in the Bankruptcy Court's order(s) authorizing the Debtors to use cash collateral entered in these cases.

24. Any amounts payable by the Debtors pursuant to the Purchase Agreement or any of the documents delivered by the Debtors pursuant to or in connection with the Purchase Agreement shall (a) constitute administrative priority expenses of the Debtors' estates pursuant to sections 503(b) and 507(a)(1) of the Bankruptcy Code, except as otherwise specifically provided in the Purchase Agreement or herein, (b) be paid by the Debtors at the time and in the manner provided in the Purchase Agreement without further order of this Court, and (c) not be discharged, modified or otherwise affected by confirmation of any plan of reorganization of any of the Debtors or conversion or dismissal of these chapter 11 cases.

25. 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.

26. 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 the Debtors (against Level 3) 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 Level 3 or of the Debtors (against Level 3) in connection with the INSPA, related contested matters and adversary proceedings, or otherwise. Subject to the express provisions provided in this paragraph and paragraph 25 herein, the preliminary objection filed by Level 3 is withdrawn with prejudice. Nothing in paragraphs 25 or

26 of this Order shall impair the Buyer's purchase of the Sale Assets free and clear of all Interests.

27. On the date of the Closing, each of the Debtors' creditors is authorized and directed to execute such documents and take all other actions as may be necessary to release its Interests in the Sale Assets, if any, as such Interests may have been recorded or may otherwise exist.

28. All Liens and other Interests held by the Debtors' senior secured lenders on the Non-Transferred Assets and all other Liens and other Interests shall be released at the Closing to the extent such Liens and other Interests relate to the Sale Assets and Buyer shall be granted a first priority, perfected Lien as security for all of the Debtors' obligations to Buyer pursuant to the Operating Agreement(s) on all Non-Transferred Assets pending FCC Consent and State PUC Consent, as applicable.

29. Regardless of whether the Debtors' creditors execute the releases set forth in the above paragraphs, this Order (a) shall be effective as a determination that, on the date of the Closing, all Interests of any kind or nature whatsoever existing with respect to the Debtors to the extent such Interests relate to the Sale Assets prior to the Closing have been unconditionally released, discharged and terminated, and that the conveyances described herein have been effected and (b) shall be binding upon and shall govern the acts of all entities including, without limitation, all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal, state and local officials, and all other persons and entities who may be required by operation of law, the duties of their office, or contract, to accept, file, register or

otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any of the Sale Assets.

30. Except as provided hereafter, each and every federal, state and local governmental agency or department is hereby directed to accept for filing and/or recording and approve as necessary any and all documents and instruments necessary and appropriate to consummate the transactions contemplated by the Purchase Agreement; provided, however, that nothing herein is intended to preempt any rights of the FCC to review and act upon applications filed by the parties for approval of the Sale Transaction pursuant to Section 214 of the Communications Act, or applicable FCC rules.

31. If any person or entity that has filed financing statements, mortgages, mechanic's liens, *lis pendens* or other documents or agreements evidencing Interests with respect to the Debtors or the Sale Assets shall not have delivered to the Debtors prior to the date of the Closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all Interests which the person or entity has with respect to the Debtors or the Sale Assets or otherwise, then (a) the Debtors are hereby authorized to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to the Sale Assets, and (b) Buyer is hereby authorized to file, register, or otherwise record a certified copy of this Order, which, once filed, registered, or otherwise recorded, shall constitute conclusive evidence of the release of all Interests in the Sale Assets of any kind or nature whatsoever.

32. 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, 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 includes real estate, personal property and any other assets.

33. In the event of an Early Closing Election, the Debtors will deposit an amount equal to the amount of the potential stamp taxes or similar taxes into a segregated account and either (a) litigate the applicability of the stamp taxes or similar taxes with the relevant taxing authorities or (b) await the decision of the United States District Court for the Southern District of New York in In re Bethlehem Steel Corporation, Case No. 01-15288 (BRL) regarding the applicability of stamp taxes or similar taxes in the event of an asset sale.

34. 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 exist on the collateral. The amounts in the segregated account shall constitute adequate protection for the sale of the collateral purportedly subject to the Local Texas Tax Authorities' lien, but shall not constitute a limit on the amount that such Authorities 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 the right of any party in interest to assert defenses or object to any 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.

35. All entities who presently are in possession of some or all of the Sale Assets are hereby directed to surrender possession of the Sale Assets to the Debtors at the Closing.

36. The Debtors are hereafter not permitted to cause their Representatives to initiate contact with, solicit, or encourage submission of, and are not permitted to consider or accept, any inquiries, proposals or offers by, any Person in connection with any inquiry, proposal, offer, sale or other disposition related to any or all of the Acquired Assets (including, without limitation, a Competing Transaction) and adherence to this paragraph 36 shall not constitute a breach of any fiduciary or other obligations or duties to the estates or any other person or entity whatsoever (regardless of whether in other contexts such person would be entitled to exercise a so-called “fiduciary out”).

37. This Court retains jurisdiction to enforce and implement the terms and provisions of the Purchase Agreement (including the breach of the Purchase Agreement as provided in Section 9.12 thereof), all amendments thereto, any waivers and consents thereunder, and of each of the agreements executed in connection therewith in all respects.

38. The Sale Transaction is undertaken by Buyer in good faith, as that term is used in section 363(m) of the Bankruptcy Code. Accordingly, the reversal or modification on appeal of the authorization provided herein to consummate the transaction(s) contemplated herein shall not affect the validity of the sale of the Sale Assets to Buyer, unless such authorization is duly stayed pending such appeal. Buyer is a purchaser in good faith of the Sale Assets, and is entitled to all of the protections afforded by section 363(m) of the Bankruptcy Code.

39. The Purchase Agreement and the transactions and instruments contemplated hereby shall be specifically performed and enforceable against and binding upon, and not subject to rejection or avoidance by, the Debtors, and their respective affiliates, successors, and assigns, or any chapter 7 or chapter 11 trustee of the Debtors and their estates.

40. The Purchase Agreement and the transactions and instruments contemplated hereby shall be specifically performable and enforceable against and binding upon, and not subject to rejection or avoidance by, the Debtors or any chapter 7 or chapter 11 trustee of the Debtors and their estates.

41. The failure specifically to include any particular provision of the Purchase Agreement in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court that the Purchase Agreement be authorized and approved in its entirety.

42. The Purchase Agreement and any related agreements, documents or other instruments may, with the consent of the Creditors Committee, which shall not be unreasonably withheld, be modified, amended or supplemented by the parties thereto, in a writing signed by both parties, and in accordance with the terms thereof, without further order of the Court; provided that such modification, amendment or supplement is not material.

43. Notwithstanding the provisions of Bankruptcy Rules 6004(g) and 6006(d), there is no stay pursuant to Bankruptcy Rule 6004(g) and this Order shall be effective and enforceable immediately upon entry.

Dated: New York, New York  
February 20, 2004

/s/ ROBERT D. DRAIN  
UNITED STATES BANKRUPTCY JUDGE

