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In re

Allegiance Telecom, Inc., et al.,

Debtors.

Chapter 11
Case No. 02-130507 (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. On December 18, 2003, Allegiance Telecom, Inc. ("Allegiance") and its direct and indirect subsidiaries, as debtors and debtors-in-possession (collectively, the "Debtors") filed a motion (the "Motion") with the United States Bankruptcy Court for the Southern District of New York for orders (i) establishing bidding procedures and certain protections (the "Bidding Procedures") payable to the Buyer¹ including a break-up fee and expense reimbursement; (ii) approving the form and manner of notice related to the sale of the Sale Assets; (iii) setting a hearing date (the "Sale Hearing") to consider approval of the sale of substantially all of the assets of the Debtors as provided in the Purchase Agreement (the "Sale Assets"); (iv) authorizing the procedures for assumption and assignment of certain executory contracts and unexpired leases in connection with the sale of the Sale Assets (the "Sale Transaction"); and (v) granting certain related relief. 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 entered into between the Debtors and the Buyer.

2. By order dated January 15, 2004 (the "Bidding Procedures Order"), the Court authorized the Debtors, among other things, to conduct an Auction of the Sale Assets 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).

3. The Auction shall be conducted on the following terms and conditions of the Bidding Procedures:

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¹ Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Motion or that certain purchase agreement between Allegiance and Qwest Communications International Inc. dated December 18, 2003 (the "Purchase Agreement"), as applicable, and as modified by this Bidding Procedures Order (as defined below), as applicable.

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PROVISION	DESCRIPTION
<i>The Stalking Horse Bid</i>	<p>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.</p> <p>Under the terms of the Purchase Agreement, beginning on the date the Bidding Procedures Order is entered by the Court and continuing until the conclusion of the Auction, the Debtors are entitled to, among other things, solicit and negotiate Competing Transactions.</p>
<i>Due Diligence</i>	<p>Each potential bidder (a "Potential Bidder") must deliver (unless previously delivered) to (i) the Debtors, c/o Jonathan S. Henes, Esq., Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, NY 10022-4611 and 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 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>

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<i>Bid Deadline</i>	<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 set forth herein and (d) be received by (i) the attorneys for the Debtors, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the financial advisors for the Debtors, Greenhill & Co., LLC, 300 Park Avenue, 23rd Floor, New York, New York 10022 (Attn: Michael A. Kramer), (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iv) the attorneys for the Bank Agent, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), and (v) the attorneys for the Creditors' Committee, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), 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." No later than one (1) Business Day after the Debtors receive such Qualified Bids, the Debtors shall provide copies of such bids to Buyer and any other Qualified Bidder, provided, that Buyer and any such Qualified Bidder shall keep the Qualified Bids confidential pursuant to an executed confidentiality agreement and shall not contact or communicate with any Qualified Bidder with respect to any such bids or discuss the Qualified Bids with any party, except as required by law.</p> <p>Parties that do not submit a Qualified Bid by the Bid Deadline will not be permitted to participate at the Auction.</p>
<i>Bid Requirements</i>	<p>Qualified Bids must meet the following requirements (the "Bid Requirements"):</p> <p>a. Each Qualified Bid for the Sale Assets must be on the same or better terms and conditions as those terms set forth in the Purchase Agreement and the documents set forth as exhibits thereto. A Qualified Bid may be for (i) the Sale Assets, (ii) the Sale Assets plus any or all of the Excluded Assets, 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; provided, however, that if the Court approves the sale of any Sale Asset to a bidder other than Buyer, the Break-Up Fee and Expense Reimbursement will be payable in accordance with the terms of this Order. A</p>

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	<p>Qualified Bidder may, but is not required to, include an offer to enter into the Master Services Agreement referenced in Section 6.26 of the Purchase Agreement.</p> <p>b. Each Qualified Bid must constitute a good faith, bona fide offer to acquire assets of the Debtors.</p> <p>c. Each Qualified Bid shall not be conditioned on obtaining any of the following: financing, shareholder approval, environmental contingencies, and/or the outcome of due diligence by the bidder.</p> <p>d. Except with respect to Buyer in accordance with Paragraph 8 of the Bidding Procedures Order hereof, each Qualified Bid must remain irrevocable until the Closing.</p> <p>e. As a condition to making a Qualified Bid, any competing bidder must provide the Debtors, the Bank Agent and the Creditors' Committee, on or before the Bid Deadline, with sufficient and adequate information to demonstrate, to the satisfaction of the Debtors (after consultation with the Bank Agent and the Creditors' Committee), that such competing bidder (i) has the financial wherewithal and ability to consummate the acquisition of the assets to be acquired, and (ii) can provide all nondebtor contracting parties to the Assumed Contracts with adequate assurance of future performance as contemplated by section 365 of the Bankruptcy Code.</p> <p>f. In order for a bid to constitute a Qualified Bid, any bidder for all or substantially all of the Sale Assets shall submit a deposit equal to \$30 million and any bidder for less than all of the Sale Assets or for any Excluded Asset shall submit a deposit equal to 10% of such bid (each, a "Good Faith Deposit"). On the date such bid is submitted, the bidder shall deliver the Good Faith Deposit in immediately available funds by wire transfer to an account or accounts designated by the Debtors or by the delivery of alternative credit support that is in an amount no less than the Good Faith Deposit and is reasonably acceptable to the Debtors after consultation with the Bank Agent and the Creditors' Committee on the date such bid is submitted.</p>
<i>Auction and Overbids</i>	If no Qualified Bid is received by the Bid Deadline, the Auction will not occur and the Debtors shall promptly pursue entry of an order by the Court authorizing the Sale to the Buyer.

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	<p>If the Debtors receive a Qualified Bid by the Bid Deadline, in addition to the Stalking Horse Bid, the Debtors shall conduct an auction (the "Auction") with respect to the (i) the Sale Assets, (ii) the Sale Assets plus any or all of the Excluded Assets, or (iii) individual components of the Sale Assets or Excluded Assets that are sought to be acquired by a Qualified Bidder. The Auction shall commence at 9:00 a.m. (prevailing Eastern Time) on February 12, 2004, at the offices of Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York 10022-4611, or such later time or other place as the Debtors shall notify all Qualified Bidders who have submitted Qualified Bids. The Auction may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Auction. No further notice of any such continuance will be required to be provided to any party.</p> <p>Initial over-bids for all or substantially all of the Sale Assets shall be \$21 million.</p> <p>The subsequent bid increments at the Auction shall be \$5 million, provided, however, that the Debtors reserve the right to modify subsequent bid increments based on the context of the Auction after consultation with the Bank Agent and Creditors' Committee.</p> <p>At the Auction, the Buyer shall have the right to bid all or part of the Break-Up Fee (as defined herein) and the Expense Reimbursement (as defined herein).</p>
<p><i>Assumed Contracts</i></p>	<p>As set forth in Section 3.5(d) of the Purchase Agreement, Buyer and Sellers agree to keep confidential and not disclose to anyone the Assumed Contracts except to (i) the Bank Agent and the Creditors' Committee and (ii) any party otherwise required by law; provided, that, with respect to clause (i), (a) the Bank Agent and the Creditors' Committee shall keep such information confidential and shall not disclose such information absent further order of this Court and Buyer shall be entitled to seek enforcement of this provision and (b) the Bank Agent and the Creditors' Committee may use such information for the purpose of evaluating bids.</p> <p>In order for a bid to constitute a Qualified Bid, any bidder must provide to the Debtors a list of leases and executory contracts that such bidder plans to assume. The Debtors agree to keep confidential and not disclose to anyone such list except to (i) the Bank Agent and the Creditors' Committee and (ii) any party otherwise required by law provided, that, with respect to clause (i), (y) the Bank Agent and the Creditors' Committee shall keep such information confidential and</p>

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	<p>shall not disclose such information absent further order of this Court and (z) the Bank Agent and the Creditors' Committee may use such information for the purpose of evaluating bids.</p> <p>The Debtors, after consultation with the Creditors' Committee and the Bank Agent, shall consult with each Qualified Bidder and Buyer regarding the calculation of cure amounts and rejection damage claims related to Buyer's bid and the other Qualified Bidders.</p>
<i>Winning Bid</i>	<p>Upon conclusion of the Auction, the Debtors, in the exercise of their business judgment and after consulting with their advisors, the Bank Agent and the Creditors' Committee, shall identify the highest and best offer (the "Winning Bid") (the bidder having submitted a Winning Bid is the "Successful Bidder").</p>
<i>Sale Approval Hearing</i>	<p>The Sale Approval Hearing is presently scheduled to take place on February 19, 2004 at 10:00 a.m. (prevailing Eastern Time), before the Hon. 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. The Sale Approval Hearing may be continued to a later date by the Debtors, with the reasonable consent of the Buyer, by making an announcement at the Sale Approval Hearing; <u>provided</u>, that any such continuance shall not be later than the deadline set forth in Exhibit J of the Purchase Agreement. No further notice of any such continuance will be required to be provided to any party. At the Sale Approval Hearing, the Debtors shall present to the Bankruptcy Court for approval the Winning Bid.</p>
<i>Return of Good Faith Deposit</i>	<p>The Good Faith Deposit of the Successful Bidder shall be credited to the price paid for the Sale Assets, the Excluded Assets and/or any component of the Sale Assets, whichever the case may be. The Good Faith Deposit of any unsuccessful bidders will be returned within fifteen (15) days after consummation of the sale to the Successful Bidder of the asset(s) such Good Faith Deposit relates to or upon permanent withdrawal by the Debtors of the proposed sale of such assets. The deposit of the Buyer, if not chosen as the Winning Bid, shall be returned in accordance with the Purchase Agreement.</p>
<i>Second Highest and Best Bid</i>	<p>If for any reason the entity that makes the highest and best bid fails to consummate the purchase of the Sale Assets, the Excluded Assets, and/or any of the Sale Assets within the time permitted, the bidder with the second highest and best bid for any such assets will automatically be deemed to have submitted the highest and best bid and, to the extent the Debtors elect, after consultation with the Bank Agent and the Creditors' Committee, the Debtors and such bidder</p>

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	shall consummate the sale as soon as is commercially reasonable, but only after Bankruptcy Court approval of such sale. The Debtors shall provide ten (10) days notice of the sale to the second highest bidder or such greater length of notice as required to implement the assumption and assignment of executory contracts and unexpired leases. If such failure to consummate the sale to the entity that made the highest and best bid is the result of a breach by such entity, such entity's Good Faith Deposit shall be forfeited to the Debtors and the Debtors and the Creditors' Committee specifically reserve the right to seek damages from such entity; provided, however, that the disposition of the Good Faith Deposit of Buyer shall be governed by the Purchase Agreement.
<i>Reservation of Rights</i>	The Debtors reserve the right to reject any (other than the Buyer's offer pursuant to the Purchase Agreement) Qualified Bid (as defined below) if the Debtors, after consultation with the Bank Agent and the Creditors' Committee, determine that such Qualified Bid is (i) inadequate or insufficient; (ii) not in conformity with the requirements of the Bankruptcy Code, any related rules or the terms set forth herein; or (iii) contrary to the best interests of the Debtors and their estates.
<i>Break-Up Fee and Expense Reimbursement</i>	In the event, among others set forth in the Purchase Agreement and as set forth below, that the Bankruptcy Court enters an order approving the sale of any Sale Asset to a party other than Buyer, the Debtors shall pay to Buyer (i) a break-up fee in the amount of \$8 million (the "Break-Up Fee") and (ii) a reimbursement of Buyer's actual, reasonable, and documented expenses in connection with the transaction contemplated in the Purchase Agreement, not to exceed \$5 million (the "Expense Reimbursement").

4. The Bidding Procedures Order further provides that the Sale Hearing 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.

5. At the Sale Hearing, the Debtors shall request that the Court enter an order, among other things, approving the Purchase Agreement and the Sale Transaction and providing that the transfer of the Sale Assets be exempt under section 1146(c) of the Bankruptcy Code from any stamp tax or similar tax.

6. At the Sale Hearing, the Court may enter such orders as it deems appropriate under applicable law and as required by the circumstances and equities of these cases. Objections, if any, to the relief requested in the Motion, other than the relief granted in the Bidding Procedures Order, 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, Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Matthew A. Cantor, Esq. and Jonathan S. Henes, Esq.), (ii) the Office of the United States Trustee, 33 Whitehall Street, 21st Floor, New York, New York 1004 (Attn: Pamela J. Lustrin, Esq.), (iii) the attorneys for the agent for the Debtors' prepetition lenders, Paul, Hastings, Janofsky & Walker LLP, 600 Peachtree Street, N.E., 24th Floor, Atlanta, Georgia 30308 (Attn: Jesse Austin, III, Esq.), (iv) the attorneys for the statutory committee of unsecured creditors, Akin Gump Strauss Hauer Feld LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira S. Dizengoff, Esq.), and (v) 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).

7. A copy of the Purchase Agreement is annexed as Exhibit A to the Motion. All requests for information concerning the sale of the Sale Assets should be directed by written request to Kirkland & Ellis LLP, 153 East 53rd Street, New York, New York 10022 (Attn: Jonathan S. Henes, Esq.).

Dated: New York, New York
January 16, 2003

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