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SPECIAL COUNSEL TO THE DEBTORS

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

IN RE: §
§ **CASE NO. 04-81694-SAF-11**
§
VARTEC TELECOM, INC., et al., § **(Chapter 11)**
§ **(Jointly Administered)**
§
DEBTORS. § **Objections Due: April 11, 2005**

**FIRST INTERIM FEE APPLICATION OF HUGHES & LUCE, L.L.P., SPECIAL
COUNSEL TO THE DEBTORS, FOR ALLOWANCE OF COMPENSATION
FOR SERVICES AND REIMBURSEMENT OF EXPENSES**

SUMMARY

NAME OF APPLICANT:	HUGHES & LUCE, LLP
ROLE IN CASE:	Special Counsel to the Debtors
1. Fees requested	\$424,171.50
2. Expenses requested	\$2,419.74
Total Fees and Expenses Requested:	\$426,591.24
Amount Paid through March 21, 2005:	\$112,989.91
Net Payment Amount Requested:	\$313,601.33
APPLICATION PERIOD:	November 1, 2004 — February 28, 2005
TOTAL BLENDED HOURLY RATE:	\$270.10 (including paraprofessionals) \$286.88 (excluding paraprofessionals)

**FIRST INTERIM FEE APPLICATION OF HUGHES & LUCE, L.L.P., SPECIAL
COUNSEL TO THE DEBTORS, FOR ALLOWANCE OF COMPENSATION
FOR SERVICES AND REIMBURSEMENT OF EXPENSES**

Hughes & Luce, L.L.P. (“H&L”), special counsel to the Debtors in the above-referenced jointly administered cases (“VarTec” or the “Debtors”),¹ submits its First Interim Fee Application for Allowance of Compensation for Services and Reimbursement of Expenses (the “Application”) pursuant to §§ 330 and 331 of title 11 of the United States Code (the “Bankruptcy Code”), Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), and the November 4, 2004 Order Establishing Procedure for Monthly and Interim Compensation and Reimbursement of Expenses for Case Professionals (the “Procedures Order”). In support thereof, H&L respectfully represents as follows:

JURISDICTION

1. The Court has jurisdiction over this Application pursuant to 28 U.S.C. § 1334. This Application presents a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A) and (O). The Court has the authority to grant the requested relief pursuant to §§ 330 and 331 of the Bankruptcy Code and Bankruptcy Rule 2016.

SUMMARY OF RELIEF REQUESTED

2. H&L requests an order granting final allowance and approval of \$424,171.50 in professional fees and \$2,419.74 in reimbursement for actual and necessary expenses incurred between November 1, 2004 and February 28, 2005 (the “Compensation Period”). Because H&L has already received payment from the Debtors in the amount of \$112,989.91 for services

¹ The Debtors include VarTec Telecom, Inc., Excel Communications Marketing, Inc., Excel Management Service, Inc., Excel Products, Inc. Excel Telecommunications, Inc., Excel Telecommunications of Virginia, Inc., Excel Teleservices, Inc., Excelcom, Inc., Telco Communications Group, Inc., Telco Network Services, Inc., VarTec Business Trust, VarTec Properties, Inc., VarTec Resources Services, Inc., VarTec Solutions, Inc., VarTec Telecom Holding Company, VarTec Telecom International Holding Company, and VarTec Telecom of Virginia, Inc.

rendered during the Compensation Period, H&L also requests an order granting a net payment, on an interim basis, in the amount of \$313,601.33.

3. This is H&L's first request for interim compensation; no other request for compensation has been filed with the Court.

OVERVIEW AND BACKGROUND FACTS

4. On November 1, 2004 (the "Petition Date"), the Debtors filed their voluntary petitions for relief under chapter 11 of the Bankruptcy Code. The Debtors are operating and managing their businesses as debtors-in-possession pursuant to 11 U.S.C. §§ 1107(a) and 1108. No trustee or examiner has been appointed in the Debtors' chapter 11 cases. On November 2, 2004, the Court signed the Order Granting Complex Chapter 11 Bankruptcy Case Treatment.

5. On November 8, 2004, the Office of the United States Trustee ("UST") appointed the statutory committee of unsecured creditors in the Debtors' cases (the "UCC"). On December 8, 2004, and at the direction of the Court, the UST appointed the Official Committee of Excel Independent Representatives (the "IRC").

6. As more fully described in the Application to Employ H&L as Special Counsel and the accompanying Affidavit of Craig W. Budner (the "H&L Employment Application"), prior to the Petition Date the Debtors had retained H&L to provide advice and representation in multiple and varied matters. These matters included, among other matters, the representation of the Debtors in the bankruptcy cases of Teleglobe and Lightyear, and various litigation matters regarding Excel independent representatives. Pursuant to the Final Order Approving the Employment of H&L as Special Counsel dated November 22, 2004, the Court authorized the Debtors to employ H&L *nunc pro tunc* as of the Petition Date with respect to those matters set forth in the H&L Employment Application.

I. VARTEC AND ITS BUSINESS

7. VarTec Telecom, Inc., a Texas corporation, along with its sixteen direct and indirect domestic subsidiaries, each of which is a Debtor, along with its four remaining non-debtor direct and indirect foreign subsidiaries (collectively, the “VarTec Entities”), is among the largest privately held companies providing telecommunications services in North America and Europe. The VarTec Entities, founded in DeSoto, Texas in February 1989, with current employees totaling over 1,100 in the aggregate (including approximately 800 in the Dallas metroplex), sell a full range of telecommunication products and services to customers. In 2003, the VarTec Entities had revenues of approximately \$1,260,000,000, and anticipate 2004 revenue in the approximate amount of \$900,000,000. As of the Petition Date, VarTec’s revenues were derived primarily from three sale distribution channels: (a) Direct Marketing; (b) Commercial Services; and (c) Multi-Level Marketing.

8. The Direct Marketing channel, managed by VarTec and certain of its subsidiaries, offers telecommunications services to small business and residential consumers, including local and long distance telephone services, wireless telephone services, and internet access. VarTec pioneered the “10-10 dial-around” long distance market by offering customers the opportunity to access VarTec’s discounted long distance services on a call-by-call basis by dialing “10-10” then a three-digit unique carrier access code. Under the “dial-around” model, a customer’s long distance usage is billed on her local phone service provider’s invoice, the local phone service provider collects the billed amounts, and the local phone service provider remits those collected amounts to VarTec.

9. While experiencing tremendous success with the “dial-around” model, VarTec began to offer other telecommunication services, including local and traditional long distance telephone services, wireless telephone service, and internet access, directly to small business and

residential customers. VarTec is licensed to provide local and long distance telephone services in all fifty states, and markets its products and services through, among other means, direct mail and magazine insert campaigns composed of several hundred million items to persons in a targeted market each year. VarTec also uses outbound telemarketing for targeted campaigns to attract new customers of existing products and to offer new and/or additional products to existing customers.

10. The Commercial Services channel, managed by VarTec Solutions, Inc. (f/k/a eMeritus Communications, Inc.) and certain of its subsidiaries (collectively, “VarTec Solutions”), provides customized voice, data, and internet services to commercial and wholesale carrier customers throughout the U.S. VarTec Solutions’ voice product offerings include switched and dedicated access, domestic and international toll-free service, calling cards, audio conferencing, and other specialized products. In addition, VarTec Solutions offers high-capacity data services that provide access to frame relay and IP networks. For carrier customers, VarTec Solutions offers the ability to co-locate their equipment inside carrier-class facilities, saving the cost and complications involved with building their own facilities.

11. Through the Multi-Level Marketing channel, which was managed by Excelcom, Inc. and certain of its subsidiaries (collectively, “Excel”), Excel offered telecommunications products and services to small business and residential consumers similar to those offered by VarTec to its customers. Excel, which was acquired by VarTec in 2002, had an international network of over 106,000 independent representatives (collectively, the “IRs”) who marketed Excel’s products and services to small business and residential consumers and recruited new IRs to market such products and services. Each IR received commissions and bonuses based on, among other things, the success of the IRs recruited and a portion of the success of their recruits

(referred to as a “downline”), the usage of Excel products and services by customers of the IR, and a portion of their downline. On March 1, 2005, the Court entered its Order [Docket 1026] authorizing the rejection of the Debtors’ executory contracts and each of the IRs.

II. SECURED DEBT

12. VarTec is a borrower, and the other Debtors (except VarTec Telecom of Virginia, Inc. and Excel Telecommunications of Virginia, Inc.) are guarantors under that certain First Amended and Restated Credit Agreement (the “Pre-Petition Loan Agreement”) with the Rural Telephone Finance Cooperative (the “RTFC”), pursuant to which the existing secured indebtedness owing to the RTFC was restructured in the form of a secured term loan and a secured line of credit to the Debtor.² The secured line of credit is in the form of a revolving credit facility, for the working capital, credit, and liquidity needed by the Debtor to conduct general business operations. As of the Petition Date, the total outstanding obligation to the RTFC consists of (a) a term loan of approximately \$154,000,000 and (b) a revolving line of credit with a total commitment of \$70,000,000.

H&L’S ROLE AS SPECIAL COUNSEL IN THE DEBTORS’ BANKRUPTCY CASES

13. H&L has provided the Debtors with legal services and advice, as described in greater detail in the summary of invoices, attached as Exhibit “A” hereto, which provides a monthly summary, by project, for each of the matters for which H&L rendered services during the Compensation Period.³

² The capital stock of VarTec Telecom of Virginia, Inc. and Excel Telecommunications of Virginia, Inc. was pledged to the Rural Telephone Finance Cooperative under transactions completed in conjunction with the Credit Agreement.

³ In accordance with the Procedures Order and General Order No. 00-7 (Standing Order Concerning Guidelines for Compensation and Expense Reimbursement of Professionals), H&L maintains detailed records of the legal services and expenses it has provided for the Debtors. H&L has provided these detailed time records to the Debtors and, consistent with the Procedures Order, has provided summaries, similar to those attached as Exhibit A, hereto, of the time records and expenses to the UST, the UCC, and the RTFC. However, H&L’s detailed time

14. As stated in the H&L Employment Application, the professional services H&L was retained to render on behalf of the Debtors include but are not limited to:

- (a) Representation of the Debtors in connection with the bankruptcy proceedings of Teleglobe Communications Corporation, et al. in the United States Bankruptcy Court for the District of Delaware, in Teleglobe Inc., *et al.*'s related Canadian insolvency proceedings; and in related arbitration proceedings between the Debtors and Teleglobe Communications Corporation and Teleglobe Inc.;
- (b) Representation of the Debtors in connection with the bankruptcy proceedings of Lightyear Holdings, Inc. et al., pending in the United States Bankruptcy Court for the Western District of Kentucky;
- (c) Representation of the Debtors in connection with litigation filed against BCE, Inc., BCE Ventures and William D. Anderson, currently pending in the United States District Court for the District of Columbia;
- (d) Representation of the Debtors in connection with two litigation matters filed by Stephen R. Smith and pending in the 216th Judicial District Court, Kerr County, Texas and in the United States District Court for the Western District of Texas;
- (e) Representation of the Debtors in connection with litigation filed by Lisa Main, pending in the United States District Court for the Western District of Texas;
- (f) Representation of the Debtors in connection with various pending or threatened disputes with numerous independent representatives of the Debtors;
- (g) Representation of the Debtors in connection with various general matters; and
- (h) Preparing all applications, motions, notices, answers, orders, reports, and other legal papers necessary for the representation of the Debtors in these matters and the Debtors' bankruptcy proceedings.

records currently reflect confidential and privileged work product about the course of H&L's representation of the Debtors in numerous litigation matters, including strategy related to these matters. Some of these matters directly involve members of the UCC (i.e., Teleglobe). If the opposing parties were allowed access to this type of critical information, they would be provided with a significant and unfair tactical advantage over the Debtors. Therefore, H&L is providing summaries of the time entries (along with detailed reports of expenses), which maintains the confidentiality of the privileged information. Contemporaneously with this Application, H&L is filing its Motion to Seal Time Records Relating to Special Litigation Counsel's Fee Applications, pursuant to which H&L is requesting that its actual fee statements be filed with the Court under seal.

INTERIM COMPENSATION REQUESTED

15. By this Application and in accordance with §331 of the Bankruptcy Code, H&L requests its first interim allowance of compensation in the amount of \$426,591.24, representing \$424,171.50 in professional fees and \$2,419.74 in actual and necessary expenses incurred during the Compensation Period. H&L has not previously sought compensation for any fees and expenses incurred since the Petition Date.

16. The amounts sought in this Application were computed using H&L’s hourly billing rates in effect during the Compensation Period for an aggregate of 1,570.40 hours.⁴ For the Compensation Period, the average billing rate was \$270.10 per hour. The following chart presents a cumulative summary of the amounts H&L is requesting for each month of the Compensation Period:

	Fees Requested	Expenses Requested	Total Request
November	\$61,402.50	\$23.77	\$61,426.27
December	\$78,252.00	\$1,332.04	\$79,584.04
January	\$151,871.00	\$578.78	\$152,449.78
February	\$132,646.00	\$485.15	\$133,131.15
INTERIM SUBTOTAL	\$424,171.50	\$2,419.74	\$426,591.24

17. No agreement or understanding exists between H&L and any other person, other than partners of the firm, for the sharing of compensation to be received for services rendered in this case.

18. H&L submits that this Application complies in all material respects with relevant provisions of the Bankruptcy Code, the Bankruptcy Rules, and the guidelines adopted by

⁴ At the commencement of H&L’s representation of the Debtors on some of the matters included in this Application, the Debtors and H&L agreed on a negotiated, reduced billable rate. These rates were applied to certain matters (primarily matters regarding disputes with IRs) prior to the Petition Date, and are carried through the Compensation Period. Hence, a “range” of fees (i.e., an associate rate of \$195 for certain matters and \$205 for others) is used to compute the actual amounts charged on the invoices, and is reflected in the attached summary exhibits.

General Order No. 00-7 of the Bankruptcy Court for the Northern District of Texas, except as noted in this Application.

19. The amount of compensation sought in this Application is derived from H&L's monthly billing statement reports for the Compensation Period. H&L subjected each of the billing statements to careful review and scrutiny to ensure that charges and fees are accurate, appropriate and reflect amounts incurred on behalf of the Debtors only. As a result, certain charges have been removed or reduced in amount.

20. H&L submits that the services it has provided were necessary to the successful and prompt administration of the Debtors' chapter 11 cases, were necessary and beneficial to the Debtors at the time at which such services were rendered, and were performed without unnecessary duplication of effort or expense. H&L requests compensation for a reasonable and appropriate amount of time expended in performing its services commensurate with the complexity, importance, and nature of the problems, issues and tasks involved. This reasonable time expenditure by H&L is detailed in the summary charts and schedules attached hereto as Exhibit "B."

21. Craig W. Budner is the partner principally responsible for the rendition of professional services to the Debtors. In addition, Beth W. Bivans, a partner; Thomas W. Paxton, Andrew B. Russell, Ashley C. Vaught, Bradley D. Coburn, and Jay L. Krystinik, associates; and Trish Brim, a paralegal, expended considerable time on matters for the Debtors. H&L staffed the various matters with a core group of professionals to ensure efficiency and minimization of costs.

22. H&L's charges for professional services rendered in this case were billed in accordance with H&L's existing billing procedures. The rates H&L charges for the services

rendered by its professionals and paraprofessionals in these chapter 11 cases are the same rates H&L charges for professional and paraprofessional services rendered in comparable non-bankruptcy related matters and are reasonable based on the customary compensation charged by comparably skilled practitioners in comparable non-bankruptcy cases in the Texas legal market.

ACTUAL AND NECESSARY EXPENSES

23. The summary charts in Exhibit “C” contain a breakdown of the actual and necessary expenses incurred by H&L in connection with its representation of the Debtors for the Compensation Period.⁵ As set forth in Exhibit “C,” H&L seeks reimbursement of actual and necessary expenses incurred in the aggregate amount of \$2,419.74.

24. In connection with these expenses, H&L represents that copying is charged at \$0.10 per page, computer research is charged at the provider’s cost, facsimiles are not charged, and telephone charges include long distance charges (incurred from a location other than H&L) and cellular phone charges, but do not include long distance charges incurred from H&L’s offices. The basis for these charges is H&L’s calculation of the actual costs of these expenses, and no mark-ups or additions are added on to the actual costs.

PROJECT BILLING

25. In an effort to maximize efficiency, H&L assigned a different matter to each distinct work area for timekeeping purposes. The following is a listing of the various billing matters that had been established prior to the Petition Date and were carried through the Compensation Period, and a brief description of the services provided for each matter:

⁵ Early in the Compensation Period, some expenses were billed by subject matter, rather than to the separate matter number for expenses. H&L’s accounting software does not allow changes to invoices made in prior billing years. For purposes of this Application, H&L has accumulated all expenses (including those billed by subject matter and those billed under the separate expenses number) in Exhibit “D.”

A. Askew/Lawn/McGinn

26. H&L spent 2.70 hours, for which \$796.50 in professional fees is requested.

Generally, the tasks performed on this matter included (i) monitoring and analyzing the case and files; and (ii) conferring with VarTec regarding case status and strategic options.

B. Bankruptcy — Special Counsel

27. H&L spent 399.60 hours, for which \$122,884.50 in professional fees is requested.

Generally, the tasks performed on this matter included (i) monitoring the Debtors' chapter 11 cases and analyzing matters relevant to pending litigation matters and IR disputes; (ii) reporting to VarTec regarding the impact on ongoing litigation and the effect on the bankruptcy cases; (iii) providing general advice related to bankruptcy, operations, IR matters, and litigation issues at the request of the Debtors; (iv) reviewing documents and analyzing issues related to IRC and IR issues; (v) participating in meetings and strategy sessions regarding IR matters and related litigation issues at the request of the Debtors; and (vi) preparing for and attending hearings for which the Debtors requested H&L's attendance, including hearings related to IR matters and related issues. During the Compensation Period, H&L spent no time on the preparation of fee applications, but did spend time preparing monthly statements to the Debtors, the UST, the Committee, and the RTFC pursuant to the Procedures Order. The time spent preparing this Application and defending it against any objections will be reflected and charged in future fee applications.

C. BCE

28. H&L spent 718.40 hours performing services, for which \$164,631.50 in professional fees is requested. Generally, the tasks performed on this matter included: (i) preparing for discovery in the matter, including reviewing and organizing case documents and preparing document collection and task lists; (ii) preparing for and conducting witness

interviews; (iii) performing research on discovery issues; (iv) maintaining and updating document databases; (v) preparing correspondence to the Court regarding developments in the case and potential impacts on discovery and pending motions; (vi) analysis of discovery requests in related matters and their impact on the case; and (vii) participation in meetings and telephone conferences regarding strategy issues impacting the case.

D. General

29. H&L spent 3.70 hours performing services, for which \$1,147.00 in professional fees is requested. Generally, the tasks performed relating to this matter included (i) reviewing pleadings and consulting with Debtors' counsel regarding a newly-filed litigation matter; and (ii) obtaining general advice regarding pending IR litigation.

E. Lightyear

30. H&L spent 1.70 hours performing services, for which \$459.00 in professional fees is requested. Generally, the tasks performed relating to this matter included (i) monitoring the bankruptcy proceedings; (ii) reviewing pleadings; and (iii) reporting on matters of interest to the Debtors.

F. Lisa Main

31. H&L spent 6.50 hours performing services related to this matter, for which \$2,088.50 in professional fees is requested. Generally, the tasks performed included (i) monitoring the case; (ii) reviewing pleadings and correspondence; and (iii) reporting relevant issues to the Debtors.

G. Steve Smith

32. H&L spent 18.10 hours performing services related to this matter, for which \$5,735.00 in professional fees is requested. Generally, the tasks performed included (i) monitoring the cases; (ii) reviewing pleadings; (iii) conferring on discovery issues, including

analyzing and responding to discovery requests and related discovery issues; and (iv) providing status reports to the Debtors.

H. Teleglobe

33. H&L spent 409.20 hours performing services, for which \$123,735.50 in professional fees is requested. Generally, the tasks performed included (i) monitoring the U.S. bankruptcy and CCAA insolvency cases; (ii) reviewing pleadings and preparing documents filed in those proceedings; (iii) preparing and reviewing documents regarding claims objections, employee retention matters, tax issues, document requests, and the Plan Confirmation Hearing; (iv) analyzing proposed settlement with Teleglobe and Teleglobe's Plan of Reorganization; and (v) reporting on relevant matters to VarTec.

I. Teleglobe Arbitration

34. H&L spent 7.90 hours performing services, for which \$1,828.50 in professional fees is requested. Generally, the tasks performed included (i) analysis of issues related to the arbitration, as well as the impact of the bankruptcy proceeding; and (ii) reporting on matters relevant to the Debtors.

J. WorldCom

35. H&L spent 2.60 hours, for which \$865.50 in professional fees is requested. The tasks performed included (i) reviewing correspondence and documents regarding issues related to VarTec's proofs of claim in the WorldCom bankruptcy proceedings; and (ii) updating the Debtors on related matters.

FIRST COLONIAL CORPORATION OF AMERICA FACTORS

36. The relevant factors used in assessing the reasonableness of professional fees to be awarded in a bankruptcy case in this District are set out in *First Colonial Corporation of*

America, 544 F.2d 1291, 1298-1299 (5th Cir. 1977). Each of the twelve factors identified in *First Colonial* are discussed below.

1. The Time and Labor Required

37. H&L devoted a significant amount of time to representing the Debtors on the various matters identified above. Specifically, H&L devoted significant time and resources to assisting the Debtors in their bankruptcy cases regarding IR issues, including issues presented by the IRC. H&L had significant, pre-petition experience with the IR issues that were presented in the course of the Debtors' bankruptcy cases, including institutional knowledge of the Excel entities and the IR contracts. Also, H&L expended considerable time and effort in representing the Debtors on the BCE and Teleglobe matters, both of which emanated from the sale of the Excel entities to VarTec. The causes of action against BCE are significant assets of the Debtors' estates.

38. Each of these activities was required to adequately represent the Debtors in these matters. The time expended by H&L was commensurate with the size, complexity, and nature of the matters, the legal issues involved, and the assets at stake. In an effort to keep costs at a minimum, H&L utilized professionals with lower hourly rates whenever possible, without sacrificing the quality of the services rendered.

2. The Novelty and Difficulty of the Questions Involved

39. In the various matters for which H&L represents the Debtors, several issues arose that presented novel and difficult questions. For instance, H&L assisted the Debtors in discovery and other aspects of the Debtors' dispute with the IRC and IRs regarding the Debtors' motion to reject the IR's agreements. In addition, several complex issues arose with respect to H&L's representation of the Debtors' in the Teleglobe bankruptcy proceedings in the U.S. and Canada, including but not limited to the evaluation of the Debtors' joint liquidating plans, the treatment of

VarTec's claims in those proceedings, and the protection of VarTec's rights in those proceedings. With respect to BCE, significant time was expended regarding complex discovery and other issues related to the Debtors' causes of action against BCE. H&L spent significant time in the Compensation Period researching and resolving these and other novel and difficult issues.

3. The Skill Requisite to Perform the Legal Service Properly and Experience, Reputation, and Ability of the Attorney

40. The experience of H&L's attorneys is critical to H&L's ability to adequately represent the Debtors in these varied matters. H&L utilized — almost exclusively — attorneys and paraprofessionals that were intimately familiar with the Debtors and the various matters that arose prior to the Debtors' bankruptcy cases. H&L used its attorneys and paraprofessionals effectively and efficiently to meet the requirements of the tasks assigned and provide valuable advice and assistance to the Debtors for each of the pending matters.

4. The Preclusion of Other Employment Due to Acceptance of the Case

41. H&L was not precluded from other employment due to acceptance of the Debtors' representation; however, due to the demands of the matters on which H&L assisted the Debtors, H&L was prohibited from performing compensable services for other clients during the Compensation Period.

5. The Customary Fee, Whether the Fee is Fixed or Contingent, and Awards in Similar Cases

42. The fees and expenses charged by H&L reflect standard, customary, fixed billing rates charged by H&L to its usual and regular corporate legal clients.⁶ These rates are consistent with, if not lower than, the rates charged by other similarly situated firms with professionals of

⁶ As referenced above, H&L applied a negotiated, reduced rate on certain matters that commenced pre-petition that were carried through the Compensation Period. Thus, some of the rates sought in this Application are lower than the standard, customary rates charged by H&L.

comparable skill, expertise, and reputation that practice or are employed in bankruptcy courts in this District. H&L's fees are not contingent on anything other than Bankruptcy Court approval pursuant to the Bankruptcy Code.

6. Time Limitations Imposed by the Client or Other Circumstances

43. Due to the rapid pace of the Debtors' bankruptcy filing and the matters that were currently outstanding prior to the Petition Date, H&L faced significant time limitations at certain stages of the matters throughout the Compensation Period. In addition, certain actions taken in the Teleglobe and BCE cases required quick turnarounds and required H&L's immediate attention.

7. The Amount Involved and the Results Obtained

44. The aggregate amount of fees charged by H&L is commensurate with the size of the matters for which H&L provided assistance to the Debtors during the Compensation Period, based on the volume of business conducted by the Debtors and the size and complexity of the matters involved.

8. The Undesirability of the Case

45. H&L does not contend that the case was undesirable.

9. The Nature and Length of the Professional Relationship With the Client

46. H&L had a significant, pre-petition relationship with the Debtors. H&L first represented the Debtors nearly ten years ago on various matters. As the Court is aware, the bulk of H&L's current representation of the Debtors concerned pre-bankruptcy litigation, bankruptcy, and other representations, many of which originated in early 2002 or prior. The work performed by H&L has been significant and substantial for the last several years, as discussed in the H&L Employment Application.

10. Justification for Certain Expenses

47. H&L is not requesting reimbursement or compensation for any fees or expenses other than those allowed under the local guidelines adopted by General Order 00-7. In fact, some of the expenses allowed by General Order 00-7 are not being sought by H&L or are being sought at rates below those allowable pursuant to the General Order.

CONCLUSION

WHEREFORE, H&L respectfully requests that the Court (i) grant its first interim motion for allowance of compensation and reimbursement of expenses, (ii) enter an order allowing \$426,591.24 for the Compensation Period, representing \$424,171.50 as compensation for professional services rendered and \$2,419.74 as reimbursement for actual and necessary expenses incurred; (iii) authorize payment in the amount of \$313,601.33, representing the unpaid amounts sought in this Application; and (iii) grant H&L such other and further relief to which it is entitled.

Dated: March 21, 2005.

Respectfully submitted,

HUGHES & LUCE, L.L.P.

/s/ Craig W. Budner

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**SPECIAL COUNSEL TO THE
DEBTORS**

CERTIFICATE OF SERVICE

I certify that a true and correct copy of the First Interim Fee Application for Allowance of Compensation for Services and Reimbursement of Expenses was served on those receiving electronic notices on this 21st day of March, 2005.

 /s/ Craig W. Budner
Craig W. Budner

**CERTIFICATION OF COMPLIANCE WITH GUIDELINES FOR
COMPENSATION AND EXPENSE REIMBURSEMENT OF PROFESSIONALS**

I certify that (a) I have read the First Interim Fee Application for Allowance of Compensation for Services and Reimbursement of Expenses, (b) to the best of my knowledge, information, and belief, formed after reasonable inquiry, the compensation and expense reimbursement sought is in conformity with this Court’s Guidelines for Compensation and Expense Reimbursement of Professionals (except as specifically noted in the Application), and (c) the compensation and expense reimbursement requested are billed at rates, in accordance with practices, no less favorable than those customarily employed by this firm and generally accepted by this firm’s clients.

 /s/ Craig W. Budner
Craig W. Budner