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FINANCIAL ADVISORS FOR THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

In re:	§	
	§	
VARTEC TELECOM, INC, ***et al.,***	§	**Case No. 04-81694-SAF**
	§	**Chapter 11**
Debtors.	§	
	§	

FEE APPLICATION COVER SHEET

SUMMARY:

Name of Applicant:	XRoads Solutions Group, LLC
Authorized to Provide Professional Services to:	Official Committee of Unsecured Creditors
Date of Retention:	January 20, 2005 *nunc pro tunc* to November 9, 2004
1st Interim Period: Period for which 100% compensation and reimbursement is sought:	November 9, 2004 through February 28, 2005
Amount of 100% compensation sought as actual, reasonable and necessary:	$ 400,000.00
Amount of 100% expense reimbursement sought as actual, reasonable and necessary:	$ 99,909.52
Total Amount Requested for 1st Interim:	**$ 499,909.52**
Total of Fees and Expenses paid to date:	($ 204,764.63)
Total Balance Due for 1st Interim Period:	**$295,144.89**

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VARTEC TELECOM, INC, ***et al.,***	§	**Case No. 04-81694-SAF**
	§	**Chapter 11**
Debtors.	§	
	§	**(Jointly Administered)**

FIRST INTERIM APPLICATION FOR ALLOWANCE OF FEES AND REIMBURSEMENT OF EXPENSES OF XROADS SOLUTIONS GROUP, LLC FINANCIAL ADVISORS FOR THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS FOR THE PERIOD NOVEMBER 9, 2004 THROUGH FEBRUARY 28, 2005

XRoads Solutions Group, LLC ("XRoads"), financial advisors for Official Committee of Unsecured Creditors (the "Committee"), submits its first interim application (the "Application") seeking interim allowance and payment of compensation and reimbursement of expenses under 11 U.S.C. §§ 330 and 331 for the period from November 9, 2004 through February 28, 2005 (the "Application Period"). This is XRoads first Interim Fee Application. In support thereof, XRoads respectfully represent as follows:

I. JURISDICTION

1. This Court has jurisdiction over this Application pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The relief requested in this Application is authorized under 11 U.S.C. §§ 105 and 331.

II. PROCEDURAL BACKROUND

2. On November 1, 2004, (the "Petition Date"), the above-referenced debtors and debtors in possession (collectively "the Debtors")[1] filed its voluntary petition for relief under Chapter 11 of the title 11 of the United States Code (the "Bankruptcy Code") in this Court.

3. Since the Petition Date, the Debtors have continued to operate its business and manage its assets as debtor in possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code.

4. On November 8, 2004, (the "Committee Formation Date"), the United States Trustee appointed an Official Committee of Unsecured Creditors in this case.

5. On November 8, 2004, the Committee appointed Carrington, Coleman, Sloman & Blumenthal, L.L.P., ("CCSB") as its counsel.

6. On November 9, 2004, the Committee selected XRoads as its financial advisor.

III. RETENTION OF XROADS

7. On December 1, 2004, the Debtors filed the Application for Employment and Retention of XRoads Solutions Group, LLC as Financial Advisors for the Official Committee of Unsecured Creditors pursuant to 11 U.S.C. § 1103(a) (the "Employment Application").

8. On January 20, 2005, this Court entered the Final Order Authorizing the Application to Employ XRoads Solutions Group, LLC as Financial Advisors for the Official Committee of Unsecured Creditors (the "Employment Order"). A copy of the Employment Order is attached hereto as Exhibit A.

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[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 Resource Services, Inc., VarTec Solutions, Inc., VarTec Telecom Holding Company, VarTec Telecom International Holding Company, and VarTec of Virginia, Inc.

9. XRoads is a nationally recognized financial advisory, corporate restructuring and turnaround management firm with five offices nationally and more than 80 professionals. XRoads provides financial restructuring transaction advisory, valuation, corporate finance, turnaround management, operations improvement and litigation analysis. XRoads corporate restructuring professionals are highly experienced senior practioners that specialize in creating and regaining value for under-performing and troubled companies.

10. XRoads has served as a financial advisor in some of the largest and most complex restructuring matters, including serving as the financial advisor to the creditors' committees in the chapter 11 proceeding of *Edwards Theatres Circuit, Inc., Excite@Home, Hale-Halsell, Network Access Solutions, NII Holdings, Inc., Purity, Inc., and Reliance Group Holdings, Inc.*

IV. FEE PROCEDURES AND MONTHLY FEE STATEMENTS

11. On November 4, 2004, this Court entered its Order, Under 11 U.S.C. §§105(a) and 331, Establishing Procedures for Interim Compensation and Reimbursement of Expenses for Professionals (the "Fee Procedure Order").

12. XRoads professionals who have rendered services on behalf of the Committee, along with their applicable billing rate, total hours billed and corresponding fees charged therefore, are set forth on the chart attached hereto as Exhibit B and incorporated herein by reference for all purposes.

13. The terms of XRoads' engagement with the Committee are set forth in the Engagement Letter filed on December 1, 2004. Pursuant to the Engagement letter, as compensation for its services, XRoads will charge a flat monthly rate in the amount of $100,000 (the "Monthly Fee").

14. In addition, XRoads may request additional fees for the engagement based upon the criteria set out in the following sentence. If the XRoads monthly fees were computed as if the

work delivered was based upon XRoads' standard hourly rates (rather than a flat fee) and, based upon such computation, XRoads' monthly fee exceeds $125,000, then in the Committee's sole discretion it may recommend additional fees for such month be paid to XRoads for all or part of the fee that is in excess of $125,000. XRoads has charged a monthly flat fee of $100,000 for the months of November, December, 2004, January and February, 2005. XRoads will request fees in excess of the $125,000 based on the sole discretion and approval of the Committee in this Interim Application.

15. This Application covers the time period November 9, 2004 through February 28, 2005, and seeks allowance of fees for services rendered in the amount of $400,000.00, and reimbursement of expenses in the amount of $99,909.52 for a total of $499,909.52 during the Application Period. XRoads reserves its right to seek amendment of this application to request fees in excess of $125,000 per month in the amount of $281,458.00 once it has Committee approval.

16. Pursuant to the Fee Procedure Order, XRoads has submitted monthly fee statements to the applicable parties for the Application Period. No objections were tendered to the monthly fee statements for November, December, 2004 and January, 2005. In addition, XRoads has been paid monthly by the Debtors in amounts equal to eighty percent (80%) of the requested fees and one hundred percent (100%) of its requested expenses for the months of November and December. XRoads has received a total of $204,764.63, reflecting $160,000 in fees and $44,764.63 in expenses. It is anticipated that XRoads will receive payment of a portion of the January and February, 2005 fees and expenses pursuant to the Fee Procedure Order prior to the hearing on this Application. All payments received will be identified and credited before the hearing.

17. XRoads seeks approval of the fees and expenses incurred during the Application Period in the amounts as summarized in the following table:

	Fees	Expenses	Total	Payments 80% Fees – 100% Exp	Monthly Excess Fees (greater than $125,000)
November, 2004	$100,000.00	$20,410.02	$120,410.02	($100,410.02)	$ 0.00
December, 2004	$100,000.00	$24,354.61	$124,354.61	($104,354.61)	$ 50,694.00
January, 2005	$100,000.00	$26,425.29	$126,425.29		$ 53,058.00
February, 2005	$100,000.00	$28,719.60	$128,719.60		$177,706.00
Totals	$400,000.00	$99,909.52	$499,909.52	($204,764.63)	$281,458.00
Amount Due once Committee approves monthly Excess Fees					**$576,602.89**

18. XRoads seeks approval of the fees and expenses incurred during the Application Period. XRoads also will seek payment for the excess fees that it incurred as soon as it receives Committee approval on the payment of the fees.

19. XRoads monthly detailed description of time spent and services rendered by each professional in each of the major issue areas in which XRoads has performed services, (the "Detailed Statements") are available as Exhibit C. The Detailed Statements contains monthly detailed itemization of the services performed by members of XRoads on behalf of the Committee during the Applicable Period. This detailed itemization complies with this Court's Local Rules, in that each activity has a separate detailed description of the activity, including the subject matter of the activity and time allotment. XRoads has also attached a Certificate of Completion in order to comply with the Local Rules. A copy of the Detailed Statements are not attached but will be provided upon parties by written request sent to Carrington, Coleman, Sloman & Blumenthal, L.L.P., Attn: Kathy Miller, Paralegal, 200 Crescent Court, Suite 1500, Dallas Texas, 75201.

V. SUMMARY OF FINANCIAL ADVISORY SERVICES RENDERED

20. In connection with the issues presented in this complex Chapter 11 case, XRoads played an important role in providing financial advisory services to the Committee during the Application Period.

21. XRoads professionals expended a total of 2,616.20 hours, as set forth in the following chart:

Matter/Category	Total Hours	Total Fees
Analysis Network/Products	71.90	23,432.50
Asset Sale	42.00	15,630.00
Business Analysis/Operations/Cost Review	145.30	47,960.00
Business Plan Assessment	303.30	96,710.00
Case Administration	41.30	14,750.00
Claims	45.50	15,162.50
Court Hearing Attendance	43.70	16,957.50
DIP Financing/DIP Budget	172.50	53,717.50
Fee Application	31.40	9,870.00
KERP Review	42.10	13,995.00
MLM/IR Contract Rejection Assessment	384.90	124,590.00
Meetings with Debtor Counsel	62.00	21,122.50
Meetings with UCC/Committee Counsel	116.30	42,680.00
Potential Causes of Action	56.80	18,595.00
Prep/Pres UCC Reports	239.90	75,580.00
Travel	489.80	80,116.25
Valuation	327.50	99,160.00
Total Fees at Standard Hourly Rates	2616.20	770,028.75
Monthly Flat Fee of $100,000 (billed)		**$400,000.00**
Fees in excess of $125,000 per month that will be requested upon Committee approval		$281,458.00

22. XRoads maintains detailed time records in the ordinary course of its business. These time records are prepared contemporaneously with the rendering of services to a client. These time records set forth the person performing the services, the date the services are rendered,

a detailed description of the services, and the length of time spent delivering those services. XRoads has recorded time in this case in increments of 1/10th of an hour.

23. XRoads respectfully submits that the professional services that it rendered on behalf of the Committee were necessary and have directly contributed to the effective administration of these cases.

24. The following summary of services rendered during the Application Period is not intended to be a detailed description of the work performed, as those day-to-day services and the time expended in performing such services are more fully available by requesting Exhibit C. Rather, it is merely an attempt to highlight certain of those areas in which services were rendered to the Debtors, as well as to identify some of the issues that XRoads was required to address.

A. Analysis Network/Products

25. XRoads analyzed the Debtors' network architecture and products and performed specific tasks and services related to understanding and assessing the Debtors' network and product offerings including:

a. Meetings with the Debtors' executives and staff to gain knowledge of the telecommunications network architecture (how the network is provisioned and the requirements to support it), which includes identification of access/LATAs served, network termination call routing algorithms, network capacity and service contracts, the number, type and location of switches in the network, the current software release status of switches and the costs of upgrades;

b. Meetings with Debtors' executives and staff to gain knowledge of the telecommunications products and services provided to the end user customers, including services, scope, markets, ARPU, etc.;

c. Performed due diligence, including, sensitivity analysis, evaluation and comparison of the restructuring Harvest and Growth business plans presented by the Debtors, including the network "switchless", Business as Usual ("BAU") and the "hybrid" models as they may impact or migrate the network architecture, LATAs, network routing, network capacity and switches;

d. Performed due diligence, including, sensitivity analysis, evaluation and comparison of the product assumptions in the Harvest and Growth business plans and analysis of the sensitivities of the assumptions, such as ARPU, line costs, attrition and markets;

e. Participated in meetings with the Debtors (SVP of Network Engineering, VP of Marketing, VP of Finance and their staff) to refine the understanding of the models and assumptions regarding the telecommunications network architecture, as detailed above, and infrastructure and the products and services provided to their customers;

f. Evaluated and assessed issues for counsel that arose during the bankruptcy proceedings as they related to the network and products, including:

1) The network and product requirements for ongoing support/maintenance staffing.

2) Proposed contract rejections.

3) Proposed new service contracts.

4) New or expanded product plan viability.

g. Prepared various reports related to the network, product and business plan evaluations and analyses including performing sensitivity analyses, addressing issues, risks and other observations.

h. Conducted consultative meetings and provided other analytical support to counsel regarding the industry considerations surrounding telecommunications networks and products.

26. XRoads dedicated a total of 71.90 hours to this matter.

B. Asset Sale

27. During the Application the Debtors conducted a Section 363 asset sale of the European Operations. XRoads monitored the status of the sale process as conducted by the Debtors financial advisors, Houlihan, Lokey, Howard & Zukin, ("HLHZ"). Services rendered in support of the sale process included:

a. Reviewed the financials of the European Operations and Information Memorandum.

b. Reviewed and researched potential purchasers.

c. Conducted status meetings and conference calls with HLHZ to discuss the sales process, bidding procedures and preliminary view of value.

d. Participated in telephonic conferences calls with CRO of VarTec Europe regarding European operations and assessed the impact associated with the Independent Representative attrition.

e. Prepared and followed up on various information requests to VarTec Europe including inter-company information.

f. Conducted a review of buyers list and offered potential additions.

g. Reviewed VarTec Europe cash flows and addressed short term liquidity issues.

h. Reviewed the sale motion and bidding procedures to ensure a robust auction process.

28. XRoads also spent significant time analyzing information for certain sale alternatives of the Debtors' assets. The details of these transactions are subject to a confidentiality agreement and XRoads cannot disclose the details of the tasks it performed.

29. XRoads dedicated a total of 42.00 hours to this matter.

C. Business Analysis/Operations

30. XRoads conducted an analysis of the business and operations of VarTec and its related business segments in order to form an initial assessment of the company's business operations and its restructuring prospects. This analysis included a review of industry, financial and operational issues as well as addressing specific business issues that arose or as directed by counsel. Key areas of focus were:

a. Review of historical financial information and historical trending;

b. Review of September 2004 – January 2005 Red Book financial information and current operating results;

c. Monitoring the Debtors' progress related to revenues and expenses.

d. Review of accounts receivable aging reports as it related to Excel and VarTec and other business segments;

e. Revenue and gross margin analysis by business segment;

f. Analysis of industry and recent trends;

g. Review of financial metrics of the various business segments related to ARPU, MOUs, customer attrition and churn rates;

h. Review of general and administrative expenses and allocations between Debtors' business segments;

i. Assessment of revenue and cost allocation issues between Excel and VarTec;

j. Review of Billing Concepts contracts and ILEC billing and collections agreements;

k. Review of executory contracts related to Excel and VarTec;

l. Assessment of contracts rejection issues related to the decommissioning of the Cleveland switch;

m. Review the adequate assurance stipulation and ILEC carrier pre-petition PAR withholdings;

n. Review of ILEC and carrier set off notices;

o. Review the Debtor's assumptions related to the closing of the Reno call center;

p. Review issues related to executing the new commercial agreements for UNE-P pricing with the ILECs; and

q. Preparation of and follow up of various information requests to the Debtors.

31. XRoads dedicated a total of 109.70 hours to this matter.

D. Business Plan Assessment

32. During this period, the Debtors presented their Harvest and Growth Business Plans. Both plans included monthly financial projections for 2005-2007. XRoads prepared its assessment and preliminary valuation (see valuation discussion below) of the Harvest Business Plan and initiated its assessment of the Growth Plan.

33. The analysis performed related to the Harvest Plan included the following:

a. Reviewed the underlying assumptions of the three year projections;

b. Analyzed the key metrics by business segment (ARPU, MOUs, customer churn and attrition rates, etc.);

c. Reviewed the cost reduction assumptions related to variable costs, fixed costs, SG&A, bad debt expense, customer service support, UNE-P line costs capital expenditures, non-recurring network and bubble costs;

d. Reviewed three years of projected income statements, balance sheets and statement of cash flows;

e. Review EBITDA and EBITDAR trending;

f. Assess issues and risks for the Harvest Plan;

g. Analyzed the impact of the new commercial agreements related to UNE-P pricing including identifying various options available to the Debtors;

- Reviewed costs associated with entering the new commercial agreements (deposits, cure costs, administrative claims related to transfers or termination);
- Assessing the transferability and termination issues associated with the new commercial agreements.
- Analyzing the pricing options and implications to the Harvest Plan if the contracts are not executed.

h. Reviewed an EBITDA sensitivity analysis and made adjustments for various assumption changes; and

i. Analyzed the risks and issues associated with the Harvest Plan.

34. XRoads dedicated a total of 303.30 hours to this matter.

E. Case Administration

35. Case administrative activities conducted by XRoads during this time period were necessary to ensure overall project coordination, proper staffing and allocation of resources, internal work paper preparation and documentation. Key tasks performed in this category included:

a. Negotiated and discussed the XRoads engagement letter with counsel and the co-chairs of the Committee;

b. Prepared the application and affidavit to employ XRoads as financial advisors to the committee;

c. Coordinated and followed up on various information requests made to the Debtors or their HLHZ.

d. Reviewed and executed the Debtors' confidentiality agreement;

e. Reviewed and executed the Protective Order related to the RTFC document production;

f. Analyzed the professional fee estimates of XRoads and the Debtors' advisors;

g. Conducted internal planning conferences amongst XRoads team members;

h. Identified critical motions for review and follow up from court dockets and filings;

i. Reviewed the Joint Stipulation of the Official Committee of Unsecured Creditors and Official Committee of Excel IRs regarding case administration procedures;

j. Reviewed XRoads' retention matters and case administrative issues; and

k. Conducted meetings with RTFC's financial advisors to discuss case strategy as it relates to mutual interests.

36. XRoads dedicated a total of 41.30 hours to this matter.

F. Claims

37. The most significant claims related tasks performed by XRoads during the first fee application related to the issue of the Independent Representatives ("IR") Contract rejection motion. As part of this process, XRoads met with the Debtors to understand the IR Multi-Level Marketing ("MLM") EmpowIR Access database (commission and bonus tracking system) to facilitate an understanding of the claims that may arise against the Debtors pursuant to the rejection of the IR contracts. As part of this process, the Debtors had prepared an initial proposed claims settlement to the IR Committee. XRoads reviewed the Access database files that quantified the claims by category including: Class A – 10 Day Rescission Period Claims, Class B – Recruiting Commissions, Class C – Usage Commissions, Class D – Contract Rejection Claims/Future Usage Commissions; and Class E – Pro-Rata Refund of Initiation & Renewal Fees Paid within One Year.

38. XRoads also focused on a number of other claims related issues that arose during this period:

a. Reviewed issues and prepared summary schedules for counsel related to ILEC set off letters and PARs withholdings;

b. Reviewed set off notices and related objections;

c. Reviewed issues associated with the Teleglobe claim and discussed with counsel; and

d. Reviewed RTFC pre-petition payment schedules and related loan activity and transactions.

39. XRoads dedicated a total of 45.30 hours to this matter.

G. Court Hearing Attendance

40. XRoads prepared for and attended various court hearings at the request of counsel to the Committee. The court hearings included:

- The interim and final DIP hearings (12/2/04, 1/15/05)
- The IR contract rejection hearings (12/2/04, 2/9/05, 2/15/05)
- The KERP hearings (1/7/05)

41. XRoads also prepared for and attended the Section 341(a) hearings on 12/14/04 and 1/27/05. Preparation for these hearings related to reviewing the Debtors' statements of financial affairs, schedules of assets and liabilities and monthly operating reports in order to question the Debtor regarding its business affairs, transfers to insiders, related party transactions and legal entity structure.

42. XRoads dedicated a total of 43.70 hours to this matter.

H. DIP Financing/DIP Budget

43. The Debtors produced approximately nine different post-petition financing budgets, ("DIP Budgets") that needed review and vetting before the final DIP Budget hearing. XRoads reviewed and vetted the assumptions in each budget version with the Debtors' representatives and their financial advisors.

44. XRoads monitored the Debtors liquidity on a daily and weekly basis. XRoads reviewed actuals to budgeted amounts and discussed variances with the Debtors in order to report to the Creditors' Committee. XRoads prepared summary reports and related information for discussion and review with Committee members and counsel.

45. XRoads had to respond quickly to amendments that the secured lender, Rural Telephone Finance Cooperative ("RTFC") was seeking on the final DIP Budget.

46. XRoads dedicated 172.50 hours to this matter.

I. Fee Application

47. XRoads prepared a monthly billing summary in order to comply with the Fee Procedures Order. Time spent under this matter included developing the monthly statements for the months of November 2004 through and including February 2005. Additionally, the hours reflected include senior level review and edit for appropriateness and accuracy.

48. XRoads estimates that it took approximately 50 hours to prepare this Application and will seek payment of these fees at the next interim application.

49. XRoads dedicated 31.40 hours to this matter.

J. KERP Review

50. XRoads reviewed the Debtors Key Employee Retention and Severance Plan ("KERP") and assisted the Committee in negotiating the KERP. XRoads was involved in extensive negotiations with the Debtors on behalf of the Sub-Committee to formulate a KERP that would ultimately be supported by the Committee. This activity included drafting a term sheet with the key components that ultimately resulted in an approved Court order that was satisfactory to the Committee.

51. XRoads dedicated 42.10 hours to this matter.

K. MLM/IR Contract Rejection Assessment

52. XRoads analyzed the Debtors' business decision to reject the IR contracts. This entailed preparing a report as to XRoads view of the business decision. In addition, XRoads was involved in supporting the Debtors' business decision at the February 9 and 15, 2005 court hearings. This included providing testimony to support the reasons for the Debtors decision. In addition, XRoads was involved in analyzing and reviewing the Debtors' IR rejection claims settlement proposal. As part of this review, XRoads spent time with Debtors' representative to

understand the EmpowIR database and received downloads of IR claim information (on 2 CD in excess of 150 megabytes). XRoads analyzed the Debtors' claim estimates and claim categories to facilitate the settlement negotiation process between the Debtors and the IR Committee.

53. XRoads dedicated 384.90 hours to this matter.

L. Meetings with Debtor Counsel

54. XRoads conducted various meetings and conference calls with the Debtors, their financial advisors and Debtors' counsel to discuss both financial and operational issues related to the Debtors affairs as outlined herein.

55. XRoads dedicated 62.00 hours to this matter.

M. Meetings with UCC/Committee Counsel

56. XRoads conducted various meetings and conference calls with the Committee and Committee counsel to discuss the Debtors' financial and operational issues as detailed herein. These meetings included regularly scheduled status conference calls with the Committee. At these meetings XRoads would provide the Committee with XRoad's assessment of various financial matters and would answer the Committee's questions.

57. XRoads dedicated 116.30 hours to this matter.

N. Potential Causes of Action

58. At the request of counsel to the Committee XRoads reviewed and analyzed various financial information related to potential causes of action as follows:

a. Analyzed the financial statements of the Debtors to identify activity by legal entity.

b. Reviewed the schedule of assets and liabilities to identify assets by legal entity.

c. Prepared a list of information requests related to substantive consolidation issues.

d. Compared financial statement information to the statement of assets and liabilities.

e. Reviewed the billing and collection agreements as it relates to the various VarTec legal entities.

f. Analyzed accounts receivable and accounts payable aging reports to identify trending over time.

g. Reviewed the RTFC loan and transaction activities over various points in time.

h. Reviewed the valuation ranges of the Debtors over various points in time.

59. XRoads dedicated 56.80 hours to this matter.

O. Preparation/Presentation UCC Reports

60. XRoads prepared a number of summary reports for the Unsecured Creditors' Committee. These reports included:

a. **MLM IR Contract Rejection Summary Report** (12/10/04) – This summary report was issued in order to analyze and quantify the impact of the Debtors' contract rejection decision on the Excel business segment. It was critical for XRoads to analyze the decision and formulate a view. This view was also requested from counsel in order to formulate an opinion as to the decision that the Committee would make to support or reject the Debtors' actions.

b. **Status Report as of 12/12/04** – This summary report covered the DIP Budget, the budget to actual variance analysis, XRoads short term focus and a calendar of key events.

c. **Initial Business Assessment Summary Report** (12/21/04) – The preparation of this summary report was specifically requested by the Co-Chairs and counsel to be utilized for discussion at the first major in-person Committee meeting on December 21, 2004 at the offices of Carrington Coleman. The summary initial business assessment report provided background information on the company and XRoads preliminary views on the direction of the case. It was a key report utilized to prepare the Committee prior to the Debtors' presentation at that same meeting.

d. **Status Report as of 1/11/04** – This summary report covered the DIP Budget, the budget to actual variance analysis, XRoads short term focus and a calendar of key events.

e. **Status Report** (2/1/05) – This summary status report was prepared to provide the Committee with an update on the following topics:

- IR Contract Rejection Claims/Settlement Proposal
- Business Plan and Sales Process Update
- Harvest Plan Summary Overview
- DIP Budget to Actual Variance Analysis
- XRoads Short-Term Focus
- Calendar of Events

61. XRoads dedicated 239.90 hours to this matter.

P. Travel

62. Crossroads has charged the Debtors for travel time spent by its personnel in working on these client related matters. Travel time is computed from the time the individual leaves the location from which he or she departs until arrival at the designated work location, and is billed at one-half the rate charged by XRoads for each specified personnel, in compliance with the Local Rules.

63. XRoads dedicated 489.80 hours to this matter.

Q. Valuation

64. During the month of February, as part of the Harvest and Growth Plan analysis XRoads prepared a preliminary valuation of the Harvest Plan using the discounted cash flow approach as well as a liquidation analysis. Specific analysis performed included:

(1) **Operating Cash Flow Analysis:**

a. Reviewed assumptions applied in the Harvest Plan projected income statements, balance sheets and statement of cash flows.

b. Identified errors and omissions in the Harvest Plan projected income statements, balance sheets and projected cash flows.

c. Prepared an alternative Harvest Plan cash flow model which assumes that operating activities conclude in June 2006.

d. Developed an estimated weighted average cost of capital.

- Reviewed comparable publicly-traded telecommunications companies.
- Reviewed historical stock market returns.
- Calculate VarTec's estimated cost of debt.
- Reviewed required rates of return for private equity investors.

e. Updated cash flow projections for new information including changes in bad debt expense and operating margins.

f. Calculated observed market multiples for comparable telecommunications companies.

g. Calculated observed transaction multiples for comparable telecommunications companies.

(1) **Liquidation Analysis:**

a. Analyzed telecommunications equipment pricing trends to estimate liquidation values.

b. Developed replacement costs for telecommunications equipment to estimate liquidation values.

c. Conducted market research to estimate used telecommunication equipment liquidation values.

d. Conducted market research for vehicles, and office furniture and fixtures to estimate liquidation value.

e. Analyzed telecommunication industry trends to estimate functional obsolescence of fixed assets.

f. Researched telecommunication equipment for current and future technologies to estimate functional obsolescence of fixed assets.

g. Discussed cost estimates for switching equipment and switch sites with VarTec representatives to estimate liquidation value.

h. Discussed the reconciliation value of various assets.

65. XRoads dedicated 327.50 hours to this matter.

VI. REIMBURSEMENT OF EXPENSES

66. Exhibit C sets forth, among other things, a monthly listing of actual and necessary expenses incurred by XRoads during the Application Period, including faxing, scanning, postage, delivery service charges, and photocopying expenses. The total expense for which approval for reimbursement is sought in this fee application is $99,909.52.

67. The following is a brief cost summary as to the different types of expenses the XRoads is seeking reimbursement for:

a. Airfare: All of XRoads professionals flew coach fare and booked flights in advance, whenever necessary and possible, to reduce costs. In this case, XRoads incurred airfare charges of $50,495.99 on behalf of the Committee.

b. Ground: XRoads incurred the sum of $12,616.96 in ground transportation charges including car rentals, gas, taxi, mileage, parking and tolls.

c. Lodging: Whenever possible, XRoads professionals utilized the corporate hotel rates, which was substantially less than the standard nightly rate. XRoads incurred hotel charges of $27,398.32 on behalf of the Committee.

d. Meals: XRoads incurred the sum of $8,128.82 in meal charges while traveling to and from and working at company offices, attending various constituent meetings, attending court hearings and other bankruptcy-related activities.

e. Telephone: XRoads incurred the sum of $1,119.33 in telephone charges related to this case.

f. Federal Express: XRoads incurred the sum of $104.48 in federal express charges directly related to this case.

g. Photocopy Charges: XRoads incurred the sum of $45.62 in photocopy charges directly related to this case.

68. XRoads maintains the following policies with respect to Expenses:

a. No amortization of the cost of any investment, equipment, or capital outlay is included in the expenses.

b. XRoads uses FedEx or similar express mail delivery only for emergency or exigent circumstances (i.e., when next-day response from the recipient was necessary) and when less costly than other available alternatives in light of the time constraints involved.

c. In-house photocopying by XRoads is charged at $.15 per page. To the extent practicable, XRoads generally uses and will continue to use less expensive, outside copying services.

d. All expenses for which XRoads seeks reimbursement are of the kind, and at the least expensive rate, XRoads customarily charges nonbankruptcy/insolvency clients.

e. All amounts paid to third party providers of goods and services are billed by XRoads at actual cost, without enhancements for handling or other administrative charges.

f. No portion of the expenses represent secretarial time, secretarial overtime, word processing time, charges for after-hour and/or weekend air conditioning and other utilities, cost of meals or transportation provided to professionals and staff who work late or on weekends or other office overhead.

g. Any and all automotive travel expenses are billed in accordance with the amount allowed by the Internal Revenue Service pursuant to IRC §274(d) and the current applicable I.R.B. Announcement

VII. STANDARDS FOR ALLOWANCE OF FEES AND EXPENSES

69. In support of its Application, XRoads would demonstrate that the factors to be considered by the Court for services performed in connection with XRoads representation of the Committee herein, as provided in the Bankruptcy Code and developed by case law, support XRoads request for compensation of the fees and expenses incurred herein.

VIII. APPLICATION OF LEGAL STANDARDS

70. XRoads does not seek an enhancement of customary rates as set forth in Exhibit C of this Application.

a. Time and Labor Required. Exhibit C to this Application lists, in detail, all of the work performed for which compensation is sought. The date the services were rendered, the individual performing such services, a description of the services and the time expended. XRoads believes that the detail of Exhibit C shows that its request for compensation is reasonable. All of the services specified in Exhibit C were necessary for XRoads as financial advisors for the Committee to perform its statutory duties and fulfill its fiduciary obligations.

b. Novelty and Difficulty of the Questions Presented. XRoads represents and would demonstrate to this Court that its role as financial advisors for the Committee in these cases has involved significant sophistication and expertise.

c. Skill Requisite to Perform the Services Properly. Due to the nature of the financial and operating issues presented in these cases, a relatively high degree of skill was required by XRoads in its representation of the Committee. XRoads experience and expertise facilitated and expedited the results achieved in these cases, without incurring the extra time and expense that would have otherwise resulted had less experienced financial advisors handled these matters. Admittedly, the criterion of "the skill requisite to perform the services properly" is a subjective standard. XRoads submits that the paramount factor that the Court should consider in applying this standard, however, is whether the results achieved by XRoads were beneficial to the Debtors' estates. XRoads believes that the answer to such a query justifies the allowance of fees and costs requested in this application.

d. Preclusion of Other Employment. The time demands of general representation of the Committee in this proceeding did not result in disruption in other employment engagements undertaken by XRoads.

e. Customary Fee. XRoads represents and would demonstrate that the hourly rates charged by XRoads for the services performed herein are competitive and customary for the degree of skill and expertise required in the performance of similar services rendered by other experienced financial advisors in bankruptcy matters and in the Northern District of Texas.

f. Whether the Fee is Fixed or Contingent. Pursuant to Sections 330 and 331 of the Bankruptcy Code, all fees sought by professionals employed under Section 327 of the Code are contingent pending final approval by this Court,

and are subject to adjustment dependent upon the services rendered and the results obtained.

g. Time Limitations. The time expended by XRoads was concentrated over a relatively short period of time based upon the quickness by which these cases progressed. This time limitation resulted in prompt, responsive and efficient performance on the part of the professionals at XRoads.

h. Amounts Involved and Results Obtained. The single most important factor this Court should consider when determining XRoads allowance in these proceedings is the value of XRoads services as measured by the results obtained. XRoads would show that the work it performed in these bankruptcy cases was beneficial to the Debtors.

i. The Experience, Reputation and Ability of XRoads. The professionals who provided services on behalf of XRoads in this case are thoroughly experienced in all matters of bankruptcy, insolvency, and reorganization. The ability of the XRoads professionals who have assisted the Committee should be determined by this Court in measuring the results obtained.

j. The Nature and Length of the Professional Relationship with the Client. XRoads has been employed by the Committee since the Court's entry of its Employment Order, effective November 9, 2004. In connection with these Reorganization Cases, XRoads has been rendering services continuously to the Committee since November 9, 2004 and continuing through the Application Period, as necessary and appropriate.

IX. ALLOWANCE OF COMPENSATION

71. The general areas of focus in this stage of the case as described earlier in this Application are certainly not exhaustive of the variety or number of issues and problems encountered in connection with its advisory services herein. These are significant Chapter 11 cases with many complex issues. XRoads has been asked to advise the Committee throughout these cases on time-consuming and difficult tasks. Many of the issues have arisen under exigent circumstances and have required XRoads to dedicate significant resources exclusively to these cases.

72. XRoads represents and would demonstrate that the fees and expenses requested herein are not excessive and are, in its opinion, fair and reasonable in connection with the services provided by XRoads on behalf of the Committee. The rates charged by XRoads are competitive and customary for the degree of skill and expertise necessary for cases of this type and are consistent with, or below, rates charged by other financial advisors with similar experience in the Northern District of Texas.

73. No agreement of understanding exists between XRoads and any other person for the sharing of any compensation to be received for professional services rendered or to be rendered in connection with these cases.

74. No prior application has been made in this or in any other Court for the relief requested herein for the Application Period

75. XRoads would show that the work it has performed during the Applicable Period has been beneficial as set forth above and in the schedules attached hereto. Taking into consideration the time and labor spent, the nature and extent of the representation and the nature of these proceedings, XRoads believes the allowance prayed for herein is reasonable and just.

X. CONCLUSION

76. The services rendered by XRoads were necessary and appropriate to the Debtors. The amount of compensation sought by XRoads is consistent with the factors enumerated in 11 U.S.C. § 330, in that the amount sought is reasonable compensation for actual, necessary services rendered by XRoads, taking into account all relevant factors, including time spent on such services, the complexity, importance and nature of the problem, the issue or task addressed, and the customary compensation charged by comparably skilled practitioners in cases other than those under title 11 of the United States Code. Moreover, the terms and conditions under which XRoads was retained do not appear to be improvident in light of the development of these cases thus far.

WHEREFORE, XRoads respectfully requests that this Court enter an order (i) granting this Application for interim compensation and reimbursement of expenses for the period from November 9, 2004 through and including February 28, 2005, (ii) allowing and awarding XRoads $400,000.00 as compensation for services rendered for the First Application Period, plus $99,909.52 as reimbursement for client charges accumulated by XRoads in connection with those services, (iii) authorizing the Debtors to pay XRoads the difference between what is currently owed and has been paid; $295,144.89 [$499,909.52 minus $204,764.63]; (iv) XRoads reserves the right to seek excess fees in the amount of $281,458.00 as soon as the Committee approves the additional fees and (5) granting XRoads any such other and further relief as is just and proper.

Dated: March 21, 2005

Respectfully Submitted,

XROADS SOLUTIONS GROUP, LLC

/s/ Florence V. Lentini
Florence V. Lentini – Managing Director

CERTIFICATE OF COMPLIANCE

I, Florence V. Lentini, hereby certify that I have read this Application and to the best of my information, knowledge and belief, formed after reasonable inquiry, the compensation and expense reimbursement sought is in conformity with the Northern District's Guidelines for Compensation and Reimbursement of Professionals; and the compensation and expense reimbursement requested are billed at rates, in accordance with practices, no less favorable than those customarily employed by XRoads, and generally accepted by XRoads' clients.

/s/ Florence V. Lentini

CERTIFICATE OF SERVICE

The undersigned does hereby certify that, on March 21, 2005, a true and correct copy of the foregoing document has been served, via hand delivery, or Federal Express on the parties listed below *with Exhibits*, and via ECF electronic mail and/or regular mail, postage prepaid to all parties on the Master Service List (*as of February 11, 2005*) *with Exhibits A, and B.*

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/s/ Rachel P. Ragni
Rachel P. Ragni

U.S. BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
ENTERED
TAWANA C. MARSHALL, CLERK
THE DATE OF ENTRY IS
ON THE COURT'S DOCKET

The following constitutes the order of the Court.

Signed January 20, 2005.

United States Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

In re:	§	**Case No. 04-81694-SAF**
VARTEC TELECOM, INC., et al	§	**Chapter 11**
	§	
Debtors.	§	

FINAL ORDER PURSUANT TO SECTION 1103 OF THE BANKRUPTCY CODE AUTHORIZING THE EMPLOYMENT OF XROADS SOLUTION GROUP, L.L.C. AS FINANCIAL ADVISORS FOR THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

Came on for consideration the Application for Interim and Final Approval of the Employment of XRoads Solutions Group, L.L.C as Financial Advisors for the Official Committee of Unsecured Creditors Effective as of November 9, 2004 (the "Application"). The Court finds that it has jurisdiction to consider this Application pursuant to 28 U.S.C. §§ 157 and 1334. The Court further finds that this is a core proceeding pursuant to 28 U.S.C. § 157. After reviewing the Declaration of Keith A. Maib, a principal with XRoads Solutions Group, L.L.C., ("XRoads") in support of the Application (the "Maib Declaration"), the Court finds that: (i) the proposed employment of XRoads as financial advisors to the Official Committee of Unsecured

EXHIBIT A

Creditors (the "Committee") is necessary and in the best interests of the bankruptcy estate and the Committee; (ii) XRoads represents no interest adverse to the Debtors or their estates that would disqualify it from employment and is "disinterested" as that term is defined in Bankruptcy Code § 101(14). The Court further finds that the Application should be GRANTED. It is therefore

ORDERED that the Application is granted on a final basis (the "Final Order"); and it is further

ORDERED that the retention of XRoads as financial advisors for the Committee is hereby GRANTED on a final basis pursuant to 11 U.S.C. § 1103 for the purposes set forth in the Application and the Maib Declaration, effective as of November 9, 2004, and it is further

ORDERED that XRoads will be compensated in accordance with the procedures set forth in sections 330 and 331 of the Bankruptcy Code and such Bankruptcy Rules as may then be applicable, from time to time, the Amended Order Establishing Procedure for Monthly and Interim Compensation and Reimbursement of Expenses for Case Professionals and such other procedures as may be fixed by order of this Court; and it is further

ORDERED that this Final Order shall be effective from November 9, 2004, through and including the date of the final hearing on the Application; and it is further

ORDERED that to the extent of any conflict between the terms and conditions of the Application and the Final Order, the terms of this Final Order shall govern.

END OF ORDER # #

Submitted by:

Stephen A. Goodwin
Peter Tierney
Jennifer Salisbury
Jonathan Covin
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Attorneys for the Official Committee of Unsecured Creditors

XRoads Solutions Group, LLC
VarTec Telecom, Inc.
Recap of Hours
Through the Period November 9, 2004 to February 28, 2005

Name	Rate	Hours	Travel Rate	Travel Hours	Total
Maib, K.	450.00	91.00	225.00	28.50	47,362.50
Simon, Dennis	450.00	0.10	225.00	0.00	45.00
O'Neill, Pamela	450.00	2.90	225.00	0.00	1,305.00
Tittle, John	450.00	0.50	225.00	0.00	225.00
Lentini, Florence	375.00	489.30	187.50	123.50	206,643.75
Ballou, Michael	325.00	112.30	162.50	10.40	38,187.50
Shah, Ashesh	325.00	183.00	162.50	48.00	67,275.00
Shukla, Ashish	325.00	128.20	162.50	27.00	46,052.50
Gailey, Joyce	325.00	280.20	162.50	70.60	102,537.50
Keener, Sarah	325.00	77.70	162.50	8.00	26,552.50
Benick, David	325.00	20.30	162.50	0.00	6,597.50
Haas, John	325.00	88.00	162.50	0.00	28,600.00
Dussinger, Michael	275.00	560.90	137.50	173.80	178,145.00
Smith, Kelly	225.00	76.00	112.50	0.00	17,100.00
Engel, Joseph	225.00	2.50	112.50	0.00	562.50
Arldt, Amy	225.00	11.00	112.50	0.00	2,475.00
Cain, John	150.00	2.00	75.00	0.00	300.00
Jackson, Nicole	125.00	0.50	62.50	0.00	62.50
		2,126.40		489.80	

Total Fees at Standard Hourly Rates	770,028.75
Monthly Flat Fee Charges Billed (November 2004 through February, 2005)	**400,000.00**
Monthly Exess Fees Over $125,000 (November 2004 through February 2005)	281,458.00
Total Fees Due for 1st Interim Period	681,458.00

EXHIBIT B

EXHIBIT C

Detailed Time and Expense Records By Month

[Detail is available upon written request from Kathy Miller, Paralegal, Carrington, Coleman, Sloman & Blumenthal, L.L.P., 200 Crescent Court, Suite 1500, Dallas, Texas 75201]