

XRoads Solutions Group, LLC
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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
<i>Debtors.</i>	§	
	§	(Jointly Administered)

FEE APPLICATION COVER SHEET

Name of Applicant:	XRoads Solutions Group, LLC
Authorized to Provide Professional Services to:	Official Committee of Unsecured Creditors
Date of Retention:	January 20, 2005, <i>nunc pro tunc</i> to November 9, 2004
2nd Interim Period:	
Period for which 100% compensation and reimbursement is sought:	March 1, 2005 through June 30, 2005
Amount of 100% compensation sought as actual, reasonable and necessary:	\$ 534,936.25
Amount of 100% expense reimbursement sought as actual, reasonable and necessary:	<u>\$ 93,346.04</u>
Total Amount Requested for 2 nd Interim:	\$ 628,282.29
Total of Fees and Expenses paid to date:	<u>(\$ 307,455.66)</u>
Total Balance Due for 2nd Interim Period:	\$ 320,826.63

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

**SECOND 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 MARCH 1, 2005 THROUGH JUNE 30, 2005**

XRoads Solutions Group, LLC ("XRoads"), financial advisors for Official Committee of Unsecured Creditors (the "Committee"), submits its second 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 March 1, 2005 through June 30, 2005 (the "Application Period"). This is XRoads' Second 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 BACKGROUND

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”).

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 practitioners 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 A 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 March, April, May and June, 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 March 1, 2005 through June 30, 2005, and seeks allowance of fees for services rendered in the amount of \$400,000.00, and reimbursement of expenses in the amount of \$93,346.04 for a total of \$493,346.04 during the Application Period. Additionally, XRoads seeks allowance of fees in excess of \$125,000 per month approved by the Committee in the amount of \$134,936.25 during this Application Period.² Attached hereto as Exhibit B is a summary schedule for the excess fees requested.

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 March, April, May and June, 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 March, April and May, 2005. XRoads has received a total of \$307,455.66, reflecting \$240,000 in fees and \$67,455.66 in expenses. It is anticipated that XRoads will receive payment of a portion of the June, 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.

² Pursuant to the Engagement Letter, attached as Exhibit B to 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 Committee, in its sole discretion, can approve XRoad's excess fees. Should XRoads not receive Committee approval of the excess fees, a Supplemental Application will be filed.

17. XRoads seeks approval of the fees and expenses incurred during the Application

Period in the amounts as summarized in the following table:

	Fees at Standard Hourly Rates	Monthly Flat Fee	Expenses	Total	Payments 80% Fees – 100% Exp	Monthly Excess Fees (greater than \$125,000)
March, 2005	\$208,718.75	\$100,000.00	\$26,496.21	\$126,496.21	(\$106,496.21)	\$ 83,718.75
April, 2005	\$ 96,370.00	\$100,000.00	\$22,605.45	\$122,605.45	(\$102,605.45)	\$ 0.00
May, 2005	\$ 89,031.25	\$100,000.00	\$18,354.00	\$118,354.00	(\$ 98,354.00)	\$ 0.00
June, 2005	\$176,217.50	\$100,000.00	\$25,890.38	\$125,890.38	(\$ 0.00)	\$ 51,217.50
Totals	\$570,337.50	\$400,000.00	\$93,346.04	\$493,346.04	(\$307,455.66)	\$134,936.25

18. XRoads monthly detailed description of time spent and services rendered by each professional in each of the major projects 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

19. 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.

20. XRoads professionals expended a total of 1,938.80 hours, as set forth in the following chart:

Matter/Category	Total Hours	Total Fees
Analysis Network/Products	19.50	6,352.50
Asset Sale	158.50	55,040.00
Business Analysis/Operations/Cost Review	93.50	31,466.00
Business Plan Assessment	243.70	73,275.00
Case Administration	27.70	10,135.00
Claims	20.00	6,865.00
Court Hearing Attendance	10.80	4,140.00
DIP Financing/DIP Budget	80.60	25,200.00
Fee Application	83.90	24,445.00
KERP Review	19.10	7,275.00
MLM/IR Contract Rejection Assessment	6.50	2,437.50
Meetings with Debtor Counsel	48.80	17,235.00
Meetings with UCC/Committee Counsel	57.50	20,912.50
Potential Causes of Action	36.90	12,227.50
Prep/Pres UCC Reports	331.40	100,492.50
Substantive Consol Analysis	47.60	15,132.50
Travel	302.40	47,535.00
Valuation	350.40	110,197.50
Total Fees at Standard Hourly Rates	1,938.80	570,337.50
Monthly Flat Fee of \$100,000 (billed)		\$400,000.00
Fees in excess of \$125,000 per month approved by the Committee		\$134,936.25

21. 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.

22. 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.

23. 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 as detailed in 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

24. 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. Participated in meetings and discussions with the Debtors' management regarding the number of Access Service Requests necessary under a switchless or business as usual network scenario;
- b. Performed due diligence, including, sensitivity analysis, evaluation and comparison of the restructuring Harvest, Growth and Harvest Remix business plans presented by the Debtors, including the network "switchless", Business as Usual ("BAU") and the "hybrid" network models as they may impact or migrate the network architecture, LATAs, network routing, network capacity and switches;
- c. Performed due diligence, including, sensitivity analysis, evaluation and comparison of the product assumptions in the Harvest, Growth and Harvest Remix business plans and analysis of the sensitivities of the assumptions, such as ARPU, line costs, attrition and markets;

- d. 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 network models and assumptions regarding the telecommunications network architecture, as detailed above, infrastructure and the products and services provided to their customers;
 - e. 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 for SBC-Ameritec and SWBT, renewals or assumptions;
 - 3) NOC outsourcing contract execution;
 - 4) Proposed new service contracts; and
 - 5) New or expanded product plan viability.
 - f. Evaluated the risks associated with launching competitive pre-paid wireless products based on comparable industry information;
 - 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; and
 - i. Researched the current status of ILEC notices and state commission actions regarding the implementation of the FCC UNE-P rules.
25. XRoads dedicated a total of 19.50 hours to this matter.

B. Asset Sale

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

- a. Prepared a working capital adjustment trending based on the proposed working capital structure relative to the VarTec asset sale;
- b. Reviewed the language of the XO/Allegiance, Platinum Equity, YAK, Leucadia Asset Purchase Agreement ("APA") and Management Service Agreement;
- c. Reviewed the Canadian share purchase agreement, bidding procedures and related exhibits;
- d. Evaluated the transitional considerations associated with regulatory and industry licenses and certifications and their impact on the timing of the sale process;
- e. Reviewed and researched potential purchasers;
- f. Conducted status meetings and conference calls with HLHZ to discuss the sales process, bidding procedures and preliminary view of value;
- g. Reviewed VarTec asset sale matters as they relate to a stay in Chapter 11 plan;
- h. Reviewed the sale motion and bidding procedures to ensure a robust auction process; and
- i. Prepared various status reports related to the sales process for counsel and the Committee.

27. XRoads also spent significant time analyzing information for certain sale alternatives of the Debtors' assets.

28. XRoads dedicated a total of 158.50 hours to this matter.

C. Business Analysis/Operations

29. 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. Reviewed September 2004 – May 2005 Red Book financial information and current operating results;
- b. Prepared analysis of prepaid line costs, chargebacks and setoffs;
- c. Monitored the Debtors' financial performance (income statement, balance sheet and cash flows) as compared to the Harvest Plan;
- d. Reviewed accounts receivable and accounts payable aging reports;
- e. Reviewed the financial impact relative to local customer transitioning issues associated with UNE-P / TELRIC pricing as well as other considerations associated with the interim commercial agreements versus executing the commercial agreements with the ILECs;
- f. Analyzed revenue and gross margin analysis by business segment;
- g. Evaluated the 2004 audited financial statements;
- h. Reviewed the Debtors' motion for authority to terminate ESOP and its' financial impact for the Committee;

- i. Created cost/benefit analysis associated with rejection or accepting Oracle settlement offer;
 - j. Reviewed the financial metrics of the various business segments related to ARPU, MOUs, customer attrition and churn rates;
 - k. Researched the damages, assignments and deposit terms in Verizon, BellSouth and SBC's commercial agreements to assess the terms and potential liabilities which could be imposed under these agreements;
 - l. Reviewed key provisions of the Telecom Act as they relate to VarTec's agreements with the ILECs;
 - m. Prepared a status chart of state PUC actions related to the FCC's new rules on availability of UNEs, effective March 11, 2005; and
 - n. Reviewed the new wireless product initiatives proposed by the Debtor.
30. XRoads dedicated a total of 93.50 hours to this matter.

D. Business Plan Assessment

31. During this period, the Debtors presented their Harvest, Growth and Harvest Remix Business Plans, ("the Plans"). Each plan included monthly financial projections for 2005-2007. XRoads prepared an assessment and preliminary valuation (see valuation discussion below) of the Harvest, Harvest Remix, and the Growth Plan.

32. The analysis performed related to the Plans included the following:
- a. Reviewed the underlying assumptions of the three year projections (income statements, balance sheets, and cash flows);
 - b. Analyzed the key metrics and trending 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. Assessed issues and risks for the Plans;
- e. Analyzed the impact of the new commercial agreements related to UNE-P pricing including identifying various options available to the Debtors;
 - 1. Reviewed costs associated with entering the new commercial agreements (deposits, cure costs, administrative claims related to transfers or termination);
 - 1. Assessed the transferability and termination issues associated with the new commercial agreements.
 - 1. Analyzed the financial implications to the Harvest Plan assuming the contracts are not executed.
- f. Reviewed the various network models (switchless, hybrid, and business as usual) as well as the ASR capacity assumptions, while assessing the financial impact of all three alternatives;
- g. Created a debt schedule assuming a stay in Chapter 11 plan;
- h. Updated the Harvest Plan Remix model with actuals through April 2005 and reforecasted the income statement, balance sheet and cash flows based on updated information;
- i. Reviewed the new product initiatives relative to the Growth Plan (pre and post paid wireless);
- j. Evaluated the considerations surrounding an acquisition or transfer of control to assess the Debtor's liquidation and sale scenario;

- k. Integrated the 4 separate models (income statement, balance sheet and cash flow, SG&A and network models) into one working model in order to perform sensitivity analysis; and
 - l. Performed multiple sensitivity analyses to the underlying assumptions of the Plans in order to determine which would maximize the value to the estate.
33. XRoads dedicated a total of 243.70 hours to this matter.

E. Case Administration

34. 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. Coordinated and followed up on various information requests made to the Debtors, Alvarez and Marsal (“A&M”), and HLHZ;
 - b. Prepared and reviewed the First Interim Fee Application;
 - c. Addressed confidentiality issues;
 - d. Analyzed the professional fee estimates of XRoads and the Debtors’ advisors;
 - e. Conducted internal planning conferences amongst XRoads team members; and
 - f. Identified critical motions for review and follow up from court dockets as well as filings related to network and product contract rejections.
35. XRoads dedicated a total of 27.70 hours to this matter.

F. Claims

36. The most significant tasks performed by XRoads related to the issue of the Independent Representatives (“IR”) Contract rejection motion and the initial proposed claims settlement to the IR Committee. XRoads reviewed the IR settlement classes and stratification of data.

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

- a. Reviewed the IR claim settlement proposal for various claim amounts and stratification levels;
- b. Reviewed the BellSouth litigation motion and stipulation;
- c. Reviewed Paymentech chargeback information received from A&M; and
- d. Reviewed the MLM issues regarding the IR Committee Counterproposal dated March 22, 2005.

38. XRoads dedicated a total of 20.00 hours to this matter.

G. Court Hearing Attendance

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

- l XRoads fee application hearing (4/13/05);
- l The sale of the Canadian Operations hearing (5/05/05); and
- l VarTec’s sale bidding procedure hearings (6/27/05, 6/28/05).

40. XRoads dedicated a total of 10.80 hours to this matter.

H. DIP Financing/DIP Budget

41. The Debtors produced approximately seven different revisions of the post-petition financing budgets, (“DIP Budget”) that required review and vetting before approval. XRoads

reviewed the assumptions in each budget version with the Debtors' representatives and their financial advisors. The versions of the DIP Budgets along with the date they were received from A&M are listed below:

- Version V7f (3/15/05);
- Version V8f DRAFT (3/21/05);
- Version V9f (4/06/05);
- Version V11f (5/25/05);
- Version V12f (6/03/05);
- Version V10f (6/09/05); and
- Version V13f (6/29/05).

42. 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 Committee. XRoads prepared summary reports and related information for discussion and review with Committee members and counsel.

43. XRoads had multiple conversations with Debtor's management and A&M relative to the RTFC sweep activity relative to the change in policy on or around May 15, 2005 with respect to the timing and process by which the RTFC sweeps the collateral account. XRoads reviewed the control agreement of the DIP Order to determine the basis for the change in policy and attempted to quantify the impact this policy change would have on the Debtor's liquidity.

44. XRoads dedicated 80.60 hours to this matter.

I. Fee Application

45. 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 March 2005 through and including June 2005 and the preparation of the First Interim Fee Application. Additionally, the hours reflected include senior level review for appropriateness and accuracy.

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

47. XRoads dedicated 83.90 hours to this matter.

J. KERP Review

48. XRoads reviewed the Debtors Key Employee Retention and Severance Plan (“KERP”) and assisted the Committee in negotiating milestones to the amended and modified KERP. XRoads was involved in negotiations with the Debtors and FTI on behalf of the Sub-Committee to formulate a KERP that would ultimately be supported by the Committee.

49. XRoads dedicated 19.10 hours to this matter.

K. MLM/IR Contract Rejection Assessment

50. XRoads provided input relative to the IR contract rejection settlement proposal.

51. XRoads dedicated 6.50 hours to this matter.

L. Meetings with Debtor Counsel

52. 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, as listed below:

- Meeting with the Debtor, A&M, and the Debtor’s counsel on 3/01/05 to discuss issues with executing the UNE-P commercial agreements with the ILECs;
- Meeting with the Debtor, A&M, HLHZ, FTI and the Debtor’s and the UCC’s counsel on 3/08/05 to discuss issues with executing the UNE-P commercial agreements with the ILECs;

- Meeting with A&M on 3/10/05 to discuss credit card chargebacks, line costs, setoffs, and DIP related items;
- Meeting with the Debtor, A&M, HLHZ, FTI and the Debtor's and the UCC's counsel on 3/16/05 to discuss the sales process, the Harvest Remix Plan, setoffs, KERP, and ILEC contracts;
- Meeting with Debtor's Management and A&M on 4/20/05 regarding the Harvest Remix Plan, the proposed severance language and the sales process;
- Meeting with A&M on 4/21/05 to discuss the Harvest Remix Plan and the preliminary valuation of that Plan; and
- Meeting with Debtors' Management and A&M on 6/01/05 regarding the Harvest Remix Plan and the sales process.

53. XRoads dedicated 48.80 hours to this matter.

M. Meetings with UCC/Committee Counsel

54. 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. Below is a list of the in-person meetings:

- Meeting with UCC's counsel on 3/08/05 relative to the status of the new commercial agreements with the ILECs;
- Meeting with UCC's counsel on 3/15/05 to discuss the Harvest Remix Plan and preliminary valuation;

- Meeting with the UCC and their counsel on 3/22/05 regarding the Harvest Remix, Growth Plan, KERP, IR settlement negotiations and the DIP Budget;
- Meeting with UCC's counsel on 5/18/05 to discuss valuation and sales efforts; and
- Meeting with the UCC and their counsel on 6/16/05 to discuss the Harvest Remix Plan assessment, sales process, preliminary valuation, and DIP Budget.

55. XRoads dedicated 57.50 hours to this matter.

N. Potential Causes of Action

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

- a. Reviewed the payments to independent representatives 90 days prior to filing as well as the Excelebration bonus payments;
- b. Analyzed the telecom industry Universal Service Funds ("USF") tax credits and prepared a memo to counsel relative to the USF requirements, reporting, and payment mechanisms as they relate to VarTec; and
- c. Reviewed the billing and collection agreements for the various VarTec legal entities and their setoff/withholding issues.

57. XRoads dedicated 36.90 hours to this matter.

O. Preparation/Presentation UCC Reports

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

- a. **Harvest Plan Overview and Preliminary Valuation (3/18/05)** – This report was issued in order to analyze the Harvest Plan and provide a preliminary valuation of the related financials. This report was critical in determining the underlying assumptions of the Plan as well as assessing the

risks and sensitivities to the financial projections in order to determine a preliminary range of recovery to compare to a potential sale scenario. This report also served to quantify the business decision relative to not signing commercial agreements.

- b. **DIP Budget Status Report as of 3/31/05** – This summary report covered the revised DIP Budget version 8f and the budget to actual variance analysis.
- c. **DIP Budget Status Report as of 4/11/05** – This summary report covered the revised DIP Budget version 9f, the bridge between the version 8f and 9f, and the budget to actual variance analysis.
- d. **US & Canadian - Sale Process Update as of 5/05/05** – This report covered the US and Canadian sales process, outlining the interested parties and a timeline for the sale of the US assets as well as the details of the Canadian auction.
- e. **Status Report (5/12/05)** – This summary status report was prepared to provide the Committee with an update on the following topics:
 - | Financial and Operating Performance for Q1 05;
 - | DIP Budget to Actual Variance Analysis;
 - | Distribution of Proceeds from the Canadian Asset Sale; and
 - | XRoads Short-Term Focus.
- f. **Status Report (6/03/05)** – This summary status report was prepared to provide the Committee with an update on the following topics:
 - | Financial and Operating Performance for April 2005 YTD;
 - | DIP Budget to Actual Variance Analysis;
 - | Revised DIP Budget Version 11f; and
 - | XRoads Short-Term Focus.

- g. **Supplemental Status Report (6/06/05)** – This supplemental summary status report was prepared to provide the Committee with an update on the revised DIP Budget version 12f.
- h. **Harvest Plan Remix Overview and Revised Valuation (6/15/05)** – This detailed report provided an overview of the Debtors’ Harvest Plan Remix plan and related financials as well as XRoads sensitivities to various underlying assumptions of the operating cash flow. The report also included the Debtors’ and XRoads valuation of the Harvest Plan Remix, inclusive of discounted cash flows; VTS Retail sale proceeds and a liquidation analysis assuming a Chapter 11 orderly wind down. This report was essential in determining a range of recovery to compare to a sale scenario.
- i. **DIP Budget Status Report (6/16/05)** – This summary status report was prepared to provide the Committee with an update on the DIP Budget to actual variance analysis, an overview of the recent change in the set aside policy of the RTFC, as well as the Revised DIP Budget Version 12f.
- j. **DIP Budget Status Report (6/30/05)** – This summary status report was prepared to provide the Committee with an update on the DIP Budget to actual variance analysis, an overview of the recent change in the set aside policy of the RTFC, as well as the Revised DIP Budget Version 13f.

59. XRoads dedicated 331.40 hours to this matter.

P. Substantial Consol Analysis

60. XRoads reviewed information and issues related to substantive consolidation including:

- a. Conducting an inventory and review of documents available regarding intercompany transactions and subsidiary-specific financial information;
- b. Reviewing and analyzing inter-company transaction information;

- c. Preparation of an information request list detailing inter-company and subsidiary-specific financial information;
- d. Assessing pre-petition line of credit advances to determine funding related to specific subsidiaries;
- e. Assessing VarTec legal entity specific information to address substantive consolidation issues; and
- f. Reviewing inter-company and investment in subsidiary balances to assess subsidiary activity.

61. XRoads dedicated a total of 47.60 hours to this matter.

Q. Travel

62. XRoads 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 302.40 hours to this matter.

R. Valuation

64. As part of the XRoads' analysis of the Harvest Plan, Growth Plan and Harvest Plan Remix ("the Plans"), XRoads prepared preliminary valuations of each using the discounted cash flow approach, a valuation of VTS Retail as a stand alone, and a liquidation analysis. Specific analysis performed included:

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

- a. Reviewed assumptions applied in the Plans' projected income statements, balance sheets and statement of cash flows;

- b. Updated the Plans' forecast with actuals through May 2005 and revised the underlying assumptions based on historical trending;
- c. Identified errors and omissions in the Plans' projected income statements, balance sheets and projected cash flows;
- d. Performed multiple sensitivity analyses of the Debtor's Plans particularly as it relates to the decisions not to sign the Commercial Agreements or alter the network as well as various key metric assumptions relating to attrition, ARPU, minutes of use and bad debt expense;
- e. Prepared alternative cash flow models in order to determine when the operating activities should cease (EBITDA negative) and when to convert to a orderly wind down, liquidating the remaining assets on the balance sheet;
- f. Developed an estimated weighted average cost of capital.
 - l Reviewed comparable publicly-traded telecommunications companies;
 - l Reviewed historical stock market returns;
 - l Calculate VarTec's estimated cost of debt; and
 - l Reviewed required rates of return for private equity investors.
- e. Performed a valuation of VTS Retail as a stand alone based on the market approach;
- f. Calculated observed market multiples for comparable telecommunications companies; and
- 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; and
- h. Discussed the reconciliation value of various assets.

65. XRoads dedicated 350.40 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 \$93,346.04.

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 \$35,521.10 on behalf of the Committee.
- b. Ground: XRoads incurred the sum of \$11,292.88 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 \$32,168.73 on behalf of the Committee.
- d. Meals: XRoads incurred the sum of \$11,542.47 in meal charges while traveling to and from and working at company offices, attending various constituent meetings, traveling out of town, attending court hearings and other bankruptcy-related activities. To the extent greater, XRoads has taken a voluntary reduction on all meals to \$15 per person per breakfast, \$25 per person per lunch and \$50 per person per dinner.
- e. Telephone/Internet: XRoads incurred the sum of \$911.00 in telephone and internet charges related to this case.
- f. Federal Express: XRoads incurred the sum of \$13.28 in federal express charges directly related to this case.
- g. Photocopy Charges: XRoads incurred the sum of \$453.34 in photocopy charges directly related to this case.
- h. Supplies: XRoads incurred the sum of \$1,443.24 in supply charges for reports, Harvest Plan Overview and Preliminary Valuation (3/18/05) and

Harvest Plan Remix Overview and Revised Valuation (615/05), 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 portions 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 March 1, 2005 through and including June 30, 2005, (ii) allowing and awarding XRoads \$400,000.00 as compensation for services rendered for the Second Application Period, \$93,346.04 as reimbursement for client charges accumulated by XRoads in connection with those services, plus \$134,936.25 in excess fees of \$125,000 per month for the Second Application Period for a total of \$628,282.29, (iii) authorizing the Debtors to pay XRoads the difference between what is currently owed and has been paid; \$320,826.63 [\$628,282.29 minus \$307,455.66]; (iv) granting XRoads any such other and further relief as is just and proper.

Dated: July 29, 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 July 29, 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 May 11, 2005*) *with Exhibits A, B, and C.*

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/s/ Rachel P. Ragni

_____ Rachel P. Ragni

EXHIBIT A

Summary of Hourly Rates for Professionals

XRoads Solutions Group, LLC
VarTec Telecom, Inc.
Recap of Hours
Through the Period March 1, 2005 to June 30, 2005

Name	Rate	Hours	Travel Rate	Travel Hours	Total
Tittle, John	450.00	52.80	225.00	0.00	23,760.00
Maib, Keith	450.00	2.50	225.00	0.00	1,125.00
O'Neill, Pamela	450.00	26.30	225.00	0.00	11,835.00
Peress, David	450.00	7.30	225.00	0.00	3,285.00
Lentini, Florence	375.00	433.80	187.50	78.10	177,318.75
Ballou, Michael	325.00	88.50	162.50	12.00	30,712.50
Gailey, Joyce	325.00	200.50	162.50	54.00	73,937.50
Haas, John	325.00	11.80	162.50	0.00	3,835.00
Dussinger, Michael	275.00	647.90	137.50	142.30	197,738.75
Engel, Joseph	225.00	16.40	112.50	0.00	3,690.00
Benick, David	325.00	80.00	162.50	16.00	28,600.00
Zernial, Zanette	275.00	24.40	137.50	0.00	6,710.00
Smith, Kelly	225.00	21.90	112.50	0.00	4,927.50
Cain, John M.	150.00	3.00	75.00	0.00	450.00
Cooper, Carla	125.00	19.30	62.50	0.00	2,412.50
		1,636.40		302.40	570,337.50

Total Fees at Standard Hourly Rates	<u>570,337.50</u>
Monthly Flat Fee Charges Due	<u>\$ 400,000.00</u>
Monthly Excess Fees Over \$125,000 (March 2005 through June 2005)	<u>134,936.25</u>
Total Fees Due for 2nd Interim Period	<u>534,936.25</u>

EXHIBIT A

EXHIBIT B

Summary Schedule of Excess Fees

VarTec Telecom
Schedule for Excess Fees - 2nd Interim Period

March 1, 2005 to March 31, 2005

Name	Discounted Hrly Rate	Hours	Travel Rate	Travel Hours	Total	Fees in Excess of \$125,000
Tittle, John	450	21	225		9,315	
Maib, K.	450	3	225		1,125	
O'Neill, Pamela	450	18	225		8,235	
Lentini, Florence	375	170	188	14	66,375	
Ballou, Michael	325	82	163	12	28,568	
Gailey, Joyce	325	101	163	32	38,058	
Haas, John	325	12	163		3,835	
Dussinger, Michael	275	161	138	22	47,341	
Smith, Kelly	225	15	113		3,420	
Engel, Joseph	225	3	113		585	
Cooper, Carla	125	15	63		1,863	
Totals		600		80	208,719	83,719

April 1, 2005 to April 30, 2005

Name	Discounted Hrly Rate	Hours	Travel Rate	Travel Hours	Total	Fees in Excess of \$125,000
Tittle, John	450	3	225		1,440	
Lentini, Florence	375	57	188	28	26,700	
Ballou, Michael	325	7	163		2,145	
Gailey, Joyce	325	10	163		3,218	
Dussinger, Michael	275	197	138	60	62,343	
Cooper, Carla	125	4	63		525	
Totals		278		87	96,370	0

May 1, 2005 to May 31, 2005

Name	Discounted Hrly Rate	Hours	Travel Rate	Travel Hours	Total	Fees in Excess of \$125,000
Tittle, John	450	12	225		5,220	
Lentini, Florence	375	72	188	24	31,219	
Gailey, Joyce	325	21	163		6,793	
Benick, David	325	10	163		3,088	
Dussinger, Michael	275	129	138	41	41,003	
Smith, Kelly	225	4	113		788	
Engel, Joseph	225	2	113		473	
Cain, John	150	3	75		450	
Totals		251		64	89,031	0

June 1, 2005 to June 30, 2005

Name	Discounted Hrly Rate	Hours	Travel Rate	Travel Hours	Total	Fees in Excess of \$125,000
Peress, David	450	7	225		3,285	
Tittle, John	450	17	225		7,785	
O'Neill, Pamela	450	8	225		3,600	
Lentini, Florence	375	135	188	13	53,025	
Gailey, Joyce	325	69	163	22	25,870	
Benick, David	325	71	163	16	25,513	
Dussinger, Michael	275	161	138	20	47,053	
Zernial, Zanette	275	24	138		6,710	
Smith, Kelly	225	3	113		720	
Engel, Joseph	225	12	113		2,633	
Cooper, Carla	125	0	63		25	
Totals		507		71	176,218	51,218
Grand Totals		1,636		302	570,338	134,936

**Totals By Interim
Period**

Through the Period March 1, 2005 to June 30, 2005

Name	Rate	Hours	Travel Rate	Travel Hours	Total	Fees in Excess of \$125,000
Peress, David	450	7	225		3,285	
Maib, K.	450	3	225		1,125	
O'Neill, Pamela	450	26	225		11,835	
Tittle, John	450	53	225		23,760	
Lentini, Florence	375	433	188	78	177,319	
Ballou, Michael	325	89	163	12	30,713	
Gailey, Joyce	325	201	163	54	73,938	
Benick, David	325	82	163	16	29,283	
Haas, John	325	12	163		3,835	
Dussinger, Michael	275	648	138	142	197,739	
Zernial, Zanette	275	24	138		6,710	
Smith, Kelly	225	22	113		4,928	
Engel, Joseph	225	16	113		3,690	
Cain, John	150	3	75		450	
Cooper, Carla	125	19	63		2,413	
Grand Totals		1,636		302	570,338	134,936

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]