

Daniel C. Stewart, SBT #19206500
William L. Wallander, SBT #20780750
Holly J. Warrington, SBT #24037671
VINSON & ELKINS L.L.P.
Trammell Crow Center
2001 Ross Avenue, Suite 3700
Dallas, Texas 75201-2975
Tel: 214.661.7299
Fax: 214.220.7716
VarTec@velaw.com

ATTORNEYS FOR THE DEBTORS

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

IN RE:	§	
	§	
VARTEC TELECOM, INC., et al.,	§	CASE NO. 04-81694-HDH-11
	§	
DEBTORS.	§	(Chapter 11)
	§	(Jointly Administered)

**NOTICE OF EXTENSION/AMENDMENT OF
BUDGET AND PARTICIPATION AGREEMENT**

On January 12, 2005, the Court entered its Final Order Authorizing Post-Petition Financing, Granting Senior Liens and Priority Administrative Expense Status, Authorizing Use of Cash Collateral and Modifying the Automatic Stay [Docket No. 450] (the "Final DIP Financing Order").¹ Paragraph 30 of the Final DIP Financing Order provides, "The Budget may be extended beyond the period currently contemplated by filing a notice of same with this Court, provided that the Debtors, Committee and RTFC have agreed to the terms of same." *Final Order* at 28.

On July 29, 2005, the Court entered its Order (A) Approving the Sale Free and Clear of All Liens, Claims, Rights, Interests and Encumbrances to Comtel Investments

¹ Capitalized terms not defined herein shall have the meaning given to them in the Final Order.

LLC and (B) Granting Related Relief (Substantially All of the Debtors' Remaining Assets) [Docket No. 1663] (the "Comtel Sale Order"). Paragraph 17 of the Comtel Sale Order provides,

RTFC and Buyer have indicated that Buyer will purchase a 100% participation (the "Participation") in the existing debtor in possession financing previously approved by this Court (the "DIP Financing"). Future advances under the Participation shall be used solely for Business Expenses (as defined in the Agreement). Buyer and RTFC agree that, so long as the RTFC interest in the DIP Financing has been satisfied through the Participation, (i) only a default in payment shall be a default under the DIP Financing, (ii) Debtors will be entitled to written notice of any default under the DIP Financing and five business days opportunity to cure same, and (iii) Debtors shall be entitled to seek additional relief from this Court as may be appropriate on an expedited basis. RTFC, Buyer and the Debtors further agree that within 30 days after the purchase of the Participation, unless extended in writing by the Buyer, Debtors and the RTFC (the "Participation Period"), the Buyer and the Debtors intend to enter into a replacement debtor in possession financing facility as contemplated in the Agreement. The expiration of the Participation Period shall not entitle Buyer to pursue rights and remedies against the Debtors and the Debtors may seek such relief from this Court in the event of same to effectuate the debtor in possession financing facility as contemplated in the Agreement.

As contemplated in the Comtel Sale Order, effective as of August 1, 2005, the RTFC and Comtel Telcom Assets LP ("Comtel Telcom") executed that certain Participation Agreement (the "Participation Agreement")² under which Comtel Telcom agreed to purchase a 100% participation in the past and future loans made under DIPFA (the "Loans").

The Participation Agreement further provides,

It is anticipated that the Buyer will enter into a replacement debtor in possession financing facility with the Borrower which will refinance the Loans in full (the "New DIP Facility"). If (i) the New DIP Facility is not consummated by August 31, 2005, unless extended in writing by the Seller, the Buyer and the Borrower, or (ii) the Buyer fails to perform any of

² The Debtors executed an Acknowledgement and Consent in connection with the Participation Agreement.

CERTIFICATE OF SERVICE

This is to certify that on September 2, 2005, a copy of the foregoing document was served by the Electronic Case Filing System for the United States Bankruptcy Court for the Northern District of Texas. A separate certificate of service shall be filed with respect to those parties on the Clerk's list who do not receive electronic e-mail service.

/s/ Holly J. Warrington

One of Counsel

1007007_1.DOC