

ADAM L. DUNAYER
Houlihan Lokey Howard & Zukin Capital
200 Crescent Court, Suite 1900
Dallas, Texas 75201-7843
Telephone: 214-220-8470

Investment Banker to the Debtors

**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

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

**THIRD AND FINAL APPLICATION FOR ALLOWANCE OF FEES
AND REIMBURSEMENT OF EXPENSES OF HOULIHAN LOKEY
HOWARD & ZUKIN CAPITAL AS INVESTMENT BANKER
TO THE DEBTORS FOR THE PERIOD
DECEMBER 8, 2004 THROUGH AUGUST 18, 2005**

Name of Applicant: Houlihan Lokey Howard & Zukin Capital
("Houlihan Lokey")

Authorized to Provide
Professional Services as: Investment Bankers to the Debtors

Retention Date: December 8, 2004

Period for which
Compensation is Sought: December 8, 2004 – August 18, 2005
(the "Application Period")

Total amount of fees and
expenses approval sought for: \$3,003,839.15

Amount of unpaid fees and
expenses approval sought for: \$296,794.51

Houlihan Lokey is not seeking any compensation for the preparation of this Application.

This is an: _____interim _____X_____final application

By this Application, Houlihan Lokey moves this Court for an Order approving final compensation for professional services rendered in the total amount of \$2,908,977.09 which is comprised of (a) interim compensation for the first interim period (December 8, 2004 through March 7, 2005) of \$533,000.00; (b) interim compensation for the second interim period (March 8, 2005 through June 7, 2005) of \$449,250.00; and (c) compensation for the June 8, 2005 through August 18, 2005 period in the amount of \$1,926,727.09. Monthly Fees are \$100,000.00 per month and were offset by fifty percent (50%) pursuant to the terms of the Compensation Order. Included in the amounts above, Houlihan Lokey is entitled to the following: (a) Sale Fee of \$383,000.00 for the Europe Sale; (b) Sale Fee for the Canadian Sale of \$299,250.00; (c) Sale Fee for the Mexico Sale of \$78,560.42; (d) Sale Fee for the U.S. Operations Sale of \$1,731,500.00 and (e) the reimbursement of actual and necessary expenses of \$94,862.06. Total compensation and expense reimbursement being requested for this Application Period is \$3,003,839.15 of which \$296,794.51 remains unpaid. This Application is supported by the Certification of Adam L. Dunayer, which is annexed hereto as Exhibit A. In support of this Application, Houlihan Lokey states as follows:

BACKGROUND

1. On November 1, 2004 (the "Petition Date"), the Debtors each filed a voluntary petition for relief (collectively, the "Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Northern District of Texas (the "Bankruptcy Court"). Pursuant to sections 1007(a) and 1108 of the Bankruptcy Code, the Debtors continue to operate their businesses and manage their properties and assets as debtors in possession.

JURISDICTION AND PROCEDURAL BACKGROUND

2. This Court has jurisdiction over these proceedings under 28 U.S.C. §§157 and 1334. This is a core proceeding under 28 U.S.C. §157(b)(2)(A).

3. Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

TERMS AND CONDITIONS OF COMPENSATION OF HOULIHAN LOKEY

4. On November 19, 2004, the Debtors filed an Application To Approve Employment of Houlihan Lokey Howard & Zukin Capital as Investment Banker For The Debtors (the “Retention Application”) [Docket No. 227]. Pursuant to §§ 327 and 328(a) of the United States Bankruptcy Code and Rules 2014 of the Bankruptcy Rules of Procedure, on November 22, 2004, the Court entered an Interim Order Approving Application to Employ [Docket No. 272] and on December 16, 2004, the Court entered the Final Order Approving Application to Employ [Docket No. 568] (collectively, the “Retention Order”). A copy of the Final Retention Order is annexed hereto as Exhibit B. The anniversary date of the Houlihan Lokey Engagement Agreement is on the 8th day of each month.

5. The terms and conditions of Houlihan Lokey's engagement in these cases, which were embodied in the Retention Application and approved by the Court, are based upon Houlihan Lokey's Engagement Letter with the Debtors of November 1, 2004 (the "Engagement Letter"), a copy of which is annexed hereto as Exhibit C. Pursuant to the Engagement Letter, as compensation for services provided to the Debtors, Houlihan Lokey is entitled to receive from the Debtors' bankruptcy estates (the "Estates"):

- (a) A Monthly Fee of \$100,000 (Fifty percent (50%) of all monthly fees received will be credited against the Transaction Fees (as defined in the Engagement Letter));
- (b) Upon the closing or consummation of a Sale Transaction (as described in the Engagement Letter), the Debtors agree to pay Houlihan Lokey a cash fee ("Sale Fee") as more clearly defined in the Engagement Letter);
- (c) Additionally, Houlihan Lokey's compensation will include other fees including the Restructuring and Financing Fees, as set forth in the Engagement Letter; and
- (d) The reimbursement of reasonable out-of-pocket expenses incurred in connection with its services under the Engagement Letter.

6. As detailed in the Retention Application, the terms of the Retention Agreement were comparable to the terms of Houlihan Lokey and other financial advisors and investment bankers agreed-upon in similar engagements, both in, and outside of bankruptcy. Moreover, these terms, including the payment of monthly retainer fees, were not only similar to those routinely approved by the courts within this District, but were expressly contemplated by the Bankruptcy Code.

7. Subject to Bankruptcy Court approval, Houlihan Lokey seeks payment for compensation, plus reimbursement of actual and necessary expenses incurred by Houlihan Lokey during the Application Period.

8. By this Application, Houlihan Lokey moves this Court for an Order

ADAM L. DUNAYER
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Investment Banker to the Debtors

**UNITED STATES BANKRUPTCY COURT
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In re:	:	Chapter 11
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**THIRD AND FINAL APPLICATION FOR ALLOWANCE OF FEES
AND REIMBURSEMENT OF EXPENSES OF HOULIHAN LOKEY
HOWARD & ZUKIN CAPITAL AS INVESTMENT BANKER
TO THE DEBTORS FOR THE PERIOD
DECEMBER 8, 2004 THROUGH AUGUST 18, 2005**

Houlihan Lokey Howard & Zukin Capital (“Houlihan Lokey”), as investment banker to the debtors and debtors-in-possession (collectively, the "Debtors") hereby submits its third and final application for compensation and reimbursement of expenses (the “Application”) pursuant to 11 U.S.C. §§ 327 and 328(a), Bankruptcy Rule of Procedure 2014, the Local Rules and Orders of the Bankruptcy Court for the Northern District of Texas and the Amended Order Establishing Procedures for Monthly and Interim Compensation and Reimbursement of Expenses for Case Professionals [Docket No. 118] (the “Compensation Order”) dated November 5, 2004. Houlihan Lokey’s Application seeks compensation for investment banking services performed and expenses incurred during the period commencing December 8, 2004 through August 18, 2005 (the “Application Period”).

approving final compensation in the total amount of \$3,003,839.15 which is comprised of (a) Monthly Fees of \$416,666.67 (Monthly Fees are \$100,000.00 per month and were offset by fifty percent (50%) pursuant to the terms of the Compensation Order), (b) Sale Fee of \$383,000.00 for the Europe Sale; (c) Sale Fee for the Canadian Sale of \$299,250.00; (d) Sale Fee for the Mexico Sale of \$78,560.42; (e) Sale Fee for the U.S. Operations Sale of \$1,731,500.00 and (f) the reimbursement of actual and necessary expenses of \$94,862.06. Total compensation and expense reimbursement being requested for this Application Period is \$3,003,839.15 of which \$296,794.51 remains unpaid.

Summary of Services Provided by Houlihan Lokey

9. Houlihan Lokey is a nationally recognized investment banking and financial advisory firm with nine offices worldwide and with more than 300 professionals. Houlihan Lokey's Financial Restructuring Group, which has worked on this engagement, has a staff of over 100 professionals dedicated to financial restructuring engagements. In this area, Houlihan Lokey has provided financial advice, valuation analyses and investment banking services to debtors, bondholder groups, secured and unsecured creditors, acquirors, employee stock ownership plans, equity holders and other parties involved with financially distressed companies, both in and outside of bankruptcy.

10. During the Application Period, although a number of other professionals worked on this engagement, the following professionals in Houlihan Lokey's Dallas and Los Angeles offices have performed substantial services to the Debtors in these cases:

Irwin N. Gold	-	Senior Managing Director
Adam L. Dunayer	-	Director
Christopher A. Wilson	-	Director
Matthew D. Gates	-	Vice President
Brett A. Lowrey	-	Vice President
Michael H. Boone	-	Associate
J. Benjamin Baldwin	-	Analyst
Bellamy Suhendra	-	Analyst
Benjamin C. Williams	-	Analyst

Biographies of these individuals are annexed hereto as Exhibit D.

11. During the Application Period, Houlihan Lokey's work on behalf of the Debtors involved, but was not limited to:

(a) Strategic Discussions, Planning and Review. Houlihan Lokey assisted the Company and its other advisors in the contemplation of various strategic issues and alternatives. Some of the major strategic discussions, planning and review activities, included the following: the sale of the Company's operations in Europe, Canada, Mexico, and the U.S. Houlihan Lokey professionals routinely met with Company management as well as the Company's other professionals in order to plan and discuss general tactics related to the case.

(b) Europe Sale Process. Houlihan Lokey conducted a full marketing process to sell the stock of VarTec Europe ("VTE"), which involved the following:

1. Negotiating the terms of a stock purchase agreement to serve as a stalking horse bid for VTE;
2. Reviewed and analyzed VTE's financial condition, operations, competitive environment, business plans, historical and projected financial results;

3. Developed a strategy to compress a full marketing process for VTE into an approximately 30 day time period;
4. Developed a list of and contacted approximately 65 potential acquirers of VTE;
5. Facilitated and conducted numerous meetings and site visits with potential acquirers at VTE's offices in Northampton, England, which included facilitating management presentations and due diligence;
6. Established a data room containing relevant documentation and information necessary for the due diligence investigations by potential acquirers;
7. Prepared a comprehensive information memorandum on the VTE business to provide critical Company and industry information and investment rationale to interested acquirers. The information memorandum was provided to approximately 20 potential acquirers.
8. Worked with approximately five potential acquirers on a regular basis to assist with their due diligence investigations of VTE;
9. Structured and negotiated a stalking horse contract with a bidder;
10. Solicited and evaluated two additional Stock Purchase Agreements from qualified bidders; and
11. Conducted an auction between the stalking horse bidder and two additional qualified bidders, which increased transaction proceeds to the Debtors from \$5.5 million (net of a \$500,000 holdback) to \$10.9 million (net of a \$200,000 break-up fee paid to the stalking horse bidder).

(c) Canada and Mexico Sale Processes. Houlihan Lokey conducted a marketing process to sell the stock of the Canadian operations, Excel Telecommunications (Canada) Inc. and VarTec Telecom Canada, Inc. (“Excel Canada”), which involved the following:

1. Reviewed and analyzed Excel Canada’s financial condition, operations, competitive environment, business plans, historical and projected financial results;
2. Arranged and coordinated management presentations and on-site due diligence meetings for interested parties;
3. Compiled materials containing relevant documentation and information necessary for the due diligence investigations by potential acquirers;
4. Assisted interested parties in completing their necessary due diligence;
5. Structured and negotiated a stalking horse contract with a bidder;
6. Solicited and evaluated two additional Stock Purchase Agreements from qualified bidders; and

7. Conducted an auction between the stalking horse bidder and two additional qualified bidders, which increased transaction proceeds to the Debtors from \$4.5 million to \$8.42 million.

In addition to the Canada sale process, Houlihan Lokey negotiated and closed a transaction with the stalking horse acquirer of the Company's Mexican assets, which resulted in proceeds to the Debtors of \$1.6 million.

(d) U.S. Operations Sale Process. Houlihan Lokey marketed the assets of the Company's U.S. Operations. To this end, Houlihan Lokey performed the following tasks during this period:

1. Contacted and solicited the interest of approximately 120 potential acquirers of the U.S. assets;
2. Compiled materials into an online data room containing relevant documentation and information necessary for the due diligence investigations by potential acquirers;
3. Negotiated non-disclosure agreements with interested parties and distributed a comprehensive information memorandum on the U.S. business to provide critical Company and industry information and investment rationale to interested acquirers;
4. Arranged for management presentations and on-site due diligence meetings with several interested parties;
5. Assisted interested parties in completing their necessary due diligence;
6. Led and participated in negotiations with potential acquirers of the

U.S. assets.

7. Structured and negotiated a stalking horse agreement with Leucadia National Corporation.

8. Solicited competing bids to the stalking horse agreement with Leucadia National Corporation, negotiated and evaluated Asset Purchase Agreements from qualified bidders; and

9. Conducted an auction between the staking horse bidder and one additional qualified bidder, which increased transaction proceeds to the Debtors from \$61.5 million to \$82.1 million.

(e) Financial Analysis and Operational Review. Houlihan Lokey spent a significant amount of time analyzing and studying the business for the purpose of preparing due diligence material for potential acquirers and assisting these buyers in understanding VarTec's business. These activities included compiling operational and financial data that would be relevant to potential acquirers, and meeting with management personnel to understand certain key issues that are critical to the buyers' due diligence. Additionally, Houlihan Lokey continued to analyze and monitor recent operational results and near term financial projections.

(f) Correspondence, Meeting and Preparation with Parties-In-Interest. Houlihan Lokey expended significant time and effort (both in-person and via conference call) in correspondence and meetings with the RTFC, the RTFC's advisors, the Committee, the Committee's advisors, The Official Committee of Excel Independent Representatives (the "IR Committee") and various other parties-in-interest in these chapter 11 cases.

Houlihan Lokey's Application

12. The professional services and related expenses that are the subject of Houlihan Lokey's Application were rendered and incurred in connection with these cases, and in discharge of Houlihan Lokey's professional responsibilities as investment banker for the Debtors in their chapter 11 cases. Houlihan Lokey's services have been substantial, necessary, and beneficial to the Debtors and their estates, creditors, and other parties in interest. Houlihan Lokey believes that the fees and expenses requested by their Application are reasonable and necessary-- given the variety and complexity of the issues involved in these cases and the need to act or respond on an expedited basis to those issues--and are contemplated by the Bankruptcy Code and this Court's Retention Order.

13. In support of this Application, Monthly Fee Statements and Invoices filed for this Application Period are attached hereto as Exhibit E to this Application.


14. Accordingly, Houlihan Lokey requests allowance of compensation in the amount of \$2,908,977.09 for investment banking services rendered during the Application Period, and seeks reimbursement for actual and necessary expenses during the same period in the amount of \$94,862.06. Details of fees and expenses are set forth in Exhibit E of this Application.

WHEREFORE, Houlihan Lokey requests that the Court enter an Order, substantially in the form of the Order annexed hereto as Exhibit F, allowing (a) final compensation for financial advisory and investment banking services rendered to the Debtors during the Application Period in the amount of \$3,003,839.15 consisting of: (a) interim compensation for the first interim period (December 8, 2004 through March 7, 2005) of \$533,000.00; (b) interim compensation for the second interim period (March 8, 2005 through

June 7, 2005) of \$449,250.00; and (c) compensation for the June 8, 2005 through August 18, 2005 period (not previously applied for) in the amount of \$1,926,727.09. Monthly Fees are \$100,000.00 per month and were offset by fifty percent (50%) pursuant to the terms of the Compensation Order. Included in the amounts above, Houlihan Lokey is entitled to the following: (a) Sale Fee of \$383,000.00 for the Europe Sale; (b) Sale Fee for the Canadian Sale of \$299,250.00; (c) Sale Fee for the Mexico Sale of \$78,560.42; (d) Sale Fee for the U.S. Operations Sale of \$1,731,500.00 and (e) the reimbursement of actual and necessary expenses of \$94,862.06, and that the Debtors be ordered to pay to Houlihan Lokey all unpaid amounts requested pursuant to the Compensation Order.

Dated: Dallas, Texas
September 2, 2005

HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

By: 
200 Crescent Court, Suite 1900
Dallas, Texas 75201-7843
214-220-8470

Investment Banker to the Debtors

EXHIBIT A

Certification of Adam L. Dunayer

ADAM L. DUNAYER
Houlihan Lokey Howard & Zukin Capital
200 Crescent Court, Suite 1900
Dallas, Texas 75201-7843
Telephone: 214-220-8470

Investment Banker to the Debtors

**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

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In re:	:	Chapter 11
	:	
VARTEC TELECOM, INC., et al.,	:	Case No. 04-81694-SAF-11
	:	
Debtors.	:	Jointly Administered
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CERTIFICATION OF ADAM L. DUNAYER

1. I am a Director of Houlihan Lokey Howard & Zukin Capital, and I make this certification in accordance with Local Rules.

2. I have read the Third and Final Application For Allowance of Fees and Reimbursement of Expenses of Houlihan Lokey Howard & Zukin Capital As Investment Banker To The Debtors for the Period of December 8, 2004 through August 18, 2005 (the "Application").

3. I am knowledgeable about Local Rules, and believe that the Application complies with the provisions of the Local Rules, the United States Bankruptcy Codes and the Orders of this Court.



Adam L. Dunayer

EXHIBIT B

Final Retention Order



ENTERED

TAWANA C. MARSHALL, CLERK
THE DATE OF ENTRY IS
ON THE COURT'S DOCKET

The following constitutes the order of the Court.

Signed December 16, 2004.

United States Bankruptcy Judge

**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-SAF-11
	§	
DEBTORS.	§	(Chapter 11)
	§	(Jointly Administered)

**FINAL ORDER APPROVING APPLICATION TO EMPLOY
HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL AS INVESTMENT BANKERS**

On December 2, 2004, the Court considered the Application to Approve Employment of Houlihan Lokey Howard & Zukin Capital as Investments Bankers [Docket No. 227] (the "Application").¹ Based on the Application, the objections thereto, and representations made at the hearing on the Application, the Court finds that the Application should be granted. The Court further finds that sufficient notice of the Application was given and no further notice is required, and based upon the affidavit submitted pursuant to Federal Rule of Bankruptcy Procedure 2014 in support thereof:

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

(1) Houlihan Lokey represents no interest adverse to the Debtors or their estates that would disqualify it from employment; (2) Houlihan Lokey is “disinterested” as that term is defined in Bankruptcy Code § 101(14); and (3) the employment of Houlihan Lokey is in the best interest of the Debtors and their estates herein and for good and sufficient cause. Therefore, it is

ORDERED that the Application is hereby **GRANTED**, as modified herein, as of December 8, 2004. It is further

ORDERED that Houlihan Lokey is approved to be employed pursuant to Bankruptcy Code § 328 as to its (i) monthly fee as provided in section 2(a) of the Engagement Letter (the “Monthly Fee”); (ii) Sale Fee (as defined in paragraph 2(d) of the Engagement Letter); and (iii) reimbursable expenses (collectively, the “328 Employment”), and the Debtors are authorized to pay Houlihan Lokey its Monthly Fee, Sale Fee, and reimbursable expenses subject to the Amended Order Establishing Procedure for Monthly and Interim Compensation and Reimbursement of Expenses for Case Professionals [Docket No. 118]. It is further

ORDERED that Houlihan Lokey is approved to be employed pursuant to Bankruptcy Code § 327, provided that the Debtors are not authorized to pay Houlihan Lokey any other fees, including their Restructuring Fee (as defined in paragraph 2(b) of the Engagement Letter) or Financing Fee (as defined in paragraph 2(c) of the Engagement Letter), without further Court approval after the filing of an interim fee application. It is further

ORDERED that Houlihan Lokey shall file an interim fee application (the “Interim Fee Application”) to be heard on or before April 7, 2005 for services performed from

December 8, 2004 through April 7, 2005 (the "Period") and, as applicable, seeking to continue the 328 Employment. The Interim Fee Application shall comply with the guidelines promulgated by this Court and the United States Trustee except that Houlihan Lokey shall not be required to maintain time records. It is further

ORDERED that at the hearing on the Interim Fee Application, the Court shall consider whether to continue the 328 Employment. It is further

ORDERED that the indemnification and contribution provisions of the Engagement Letter are approved subject to the following, during the pendency of the Debtors' Cases:

- (a) Houlihan Lokey shall be entitled to be indemnified in accordance with the Engagement Letter for any claim arising from, related to, or in connection with Houlihan Lokey's performance of the services described in the Engagement Letter, but not for other services, unless such other services and the indemnification, contribution or reimbursement therefore are approved by the Court;
- (b) The Debtors shall have no obligation to indemnify Houlihan Lokey or provide contribution or reimbursement to Houlihan Lokey, for any claim or expense that is either (i) judicially determined (the determination having become final) to have arisen primarily from Houlihan Lokey's gross negligence, willful misconduct, breach of fiduciary duty (if any), bad faith or self-dealing; or (ii) settled prior to a judicial determination as to Houlihan Lokey's gross negligence, willful misconduct, breach of fiduciary duty (if any), bad faith or self-dealing, but determined by this Court, after notice and a hearing to be a claim or expense for which Houlihan Lokey should not receive indemnity, contribution or reimbursement under the terms of the Engagement Letter as modified by this Order; and
- (c) If, before the earlier of (i) the entry of an order confirming a chapter 11 plan in these Cases (that order having become a final order no longer subject to appeal), and (ii) the entry of an order closing these Cases, Houlihan Lokey believes that it is entitled to the payment of any amounts by the Debtors on account of the Debtors' indemnification, contribution and/or reimbursement obligations under the Engagement Letter (as modified by this Order), including without limitation the advancement of defense costs, Houlihan Lokey must file an application therefore in this Court, and the Debtors may not pay any such amounts to Houlihan Lokey before the entry of an order by this Court approving the payment. This

subparagraph (c) is intended only to specify the period of time during which the Court shall have jurisdiction over any request for compensation and expenses by Houlihan Lokey for indemnification, contribution or reimbursement and not a provision limiting the duration of the Debtors' obligation to indemnify Houlihan Lokey.

End of Order

After entry, return copy to:

Richard H. London, SBT #24032678

VINSON & ELKINS L.L.P.

3700 Trammell Crow Center

2001 Ross Avenue

Dallas, Texas 75201-2975

Tel: 214-661-7299

Fax: 214-220-7716

VarTec@velaw.com

ATTORNEYS FOR THE DEBTORS

901026_1.DOC

EXHIBIT C

Engagement Letter with the Debtors dated November 1, 2004



HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

INVESTMENT BANKERS

1000 RIVER STREET, SUITE 2000

Personal and Confidential

November 1, 2004

Mr. Michael G. Hoffman
Chief Executive Officer
VarTec Telecom, Inc.
1600 Viceroy Drive
Dallas, TX 75235

Dear Michael:

This letter confirms the understanding and agreement (the "Agreement") between VarTec Telecom, Inc. (together with its subsidiaries, the "Company") and Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") and supercedes and replaces the agreement dated April 8, 2004 ("Original Agreement"), which Original Agreement shall, subject to the following sentence, terminate upon mutual execution of this Agreement. Notwithstanding the foregoing, and pursuant to Section 1 of the Original Agreement, termination of the Original Agreement upon execution of this Agreement shall not terminate (a) the Company's indemnification and other obligations as set forth on Schedule A attached to the Original Agreement, (b) the confidentiality provisions set forth in Original Agreement; (c) Sections 5-8 of the Original Agreement, and (d) Houlihan Lokey's right to receive, and the Company's obligation to pay, any and all fees and expenses due under the Original Agreement as of the date of such termination:

1. **Engagement; Services; Term.** The Company hereby retains Houlihan Lokey as its financial advisor and investment banker to provide investment banking and related financial advisory services in connection with the possible (a) comprehensive restructuring of the terms of the Company's outstanding indebtedness (including, without limitation, trade credit, indebtedness for borrowed money owing to Rural Telephone Finance Cooperative (the "RTFC Debt"), and capital leases (collectively, the "Indebtedness") in one or more transactions (such as reducing the principal balance of, modifying the non-financial terms or covenants governing, waiving any portion of, or otherwise amending the Company's debt service requirements under, any Indebtedness), including a transaction in which the requisite consents to a reorganization or restructuring are obtained pursuant to a plan of reorganization under the Bankruptcy Code (the "Restructuring Transaction"); (b) issuance by the Company (or any entity formed by or at the direction, or which is a majority-owned subsidiary, of the Company) of equity, preferred stock, unsecured or non-senior subordinated securities and/or senior notes or bank debt, in one

or more transactions, to any investor or lender (including any existing owner or creditor (other than Rural Telephone Finance Cooperative ("RTFC")) of the Company) in conjunction with a plan of reorganization under the Bankruptcy Code (each, a "Financing Transaction"); and (c) merger, consolidation, business combination or sale of all or a material portion of the assets or equity interests of the Company to any person or entity (including any existing owners, employees, or creditors or affiliates of the Company) in one or more transactions (provided, however, that two or more related transactions or transactions with related parties will be treated as one transaction for the purposes of this Agreement) (each, a "Sale Transaction"). A Restructuring Transaction, Financing Transaction and Sale Transaction are collectively referred to herein as "Transactions" and, individually, as a "Transaction."

At the request and direction of the Company, Houlihan Lokey's services will include, if necessary and appropriate (depending upon the nature of the Transaction), the following:

- (a) reviewing the Company's business, financial condition, operations, competitive environment, prospects and related matters, including the evaluation of proposed divestitures and other strategic transactions;
- (b) assisting in the review and analysis of a the Company's short and long-term operational and organizational business plans and related financial projections, including the development of a detailed financial model for the Company, the assessment of restructuring objectives and alternatives and assisting in the development of a comprehensive restructuring plan (collectively, the "Business Plan");
- (c) assisting in the preparation and distribution of selected information and related documents, including offering/information memoranda, financial data and presentations to the Company's management, creditors and other third parties regarding the Company and/or the financial terms of a potential Transaction;
- (d) soliciting and evaluating indications of interest and proposals, negotiating the financial aspects, and facilitating the consummation, of any Transaction, including participating in meetings or negotiations among the Company and its creditors, suppliers, lessors, and other interested parties and regulatory bodies in connection with any Transaction;
- (e) providing testimony in connection with any in-court restructuring proceeding; and
- (f) providing such other investment banking and related financial advisory services requested by the Company that are reasonably necessary to accomplish the foregoing.

The above services being included in the monthly fees set forth in Section 2.

If the Company receives any reasonable, credible and appropriate inquiry regarding a Transaction, Houlihan Lokey will be promptly informed of such inquiry so that it can evaluate such party and its interest in a Transaction, and assist the Company in any resulting negotiations. Houlihan Lokey will promptly inform the Company of any reasonable, credible and appropriate inquiry it receives or becomes aware of regarding a possible Transaction.

Where appropriate, Houlihan Lokey may involve one or more of its affiliates, including Houlihan Lokey Howard & Zukin Financial Advisors, Inc. and Houlihan Lokey Howard & Zukin (UK) Limited, in connection with the services described in this Agreement. Subject to Section 5 hereof, no additional fees will be charged to the Company for the services provided by said affiliates.

Houlihan Lokey will commit the personnel and resources necessary or appropriate to perform the services set forth herein and to work with the Company and its advisors.

Houlihan Lokey does not assume any responsibility for the Company's decision to pursue (or not to pursue) any business strategy or to effect (or not to effect) a Transaction or any other strategic alternative. Further, except as described herein, the Company has not retained Houlihan Lokey to provide any crisis management or business consulting services. As such, Houlihan Lokey will not implement any operational, administrative, cash management, profitability or similar improvements as part of its services hereunder.

Either party may terminate this Agreement at any time without cause upon delivery of thirty days' prior written notice to the other party. No expiration or termination of this Agreement shall affect (a) the Company's indemnification and other obligations as set forth on Schedule A attached hereto, (b) the confidentiality provisions set forth herein and Sections 5-8 hereof, and (c) Houlihan Lokey's right to receive, and the Company's obligation to pay, any and all fees and expenses due, all as more fully set forth in this Agreement. Notwithstanding anything to the contrary contained in this Agreement, the Company may terminate this engagement "for cause" immediately upon written notice by the Company. Upon termination of this engagement "for cause", this Agreement, including any obligations of the Company described in clause (c) of this paragraph or paragraph 2(e) below, will immediately be terminated and of no further force or effect; provided, however, that a termination "for cause" will not affect the Company's obligations described in clause (a) above or the parties obligations described in clause (b) above. For purposes of this Agreement, the terms "for cause" will mean fraud, bad faith, willful misconduct, or gross negligence by Houlihan Lokey in its performance hereunder.

2. Fees and Expenses.

(a) Monthly Fees. The Company shall pay Houlihan Lokey non-refundable fees of \$100,000 per month commencing upon December 8, 2004 and on each monthly anniversary (as set forth below) until this Agreement shall be terminated. Monthly fees are payable in advance without notice or invoice, and shall be prorated as of the effective date or termination of this Agreement. Fifty percent (50%) of all monthly fees received ("Monthly Credits") under this Section 2(a) will be credited against the Transaction Fees (as defined below) due hereunder, provided that such Transaction Fees shall not be reduced below zero.

(b) Restructuring Fee. Upon the confirmation date of a plan of reorganization under the Bankruptcy Code, the Company shall pay Houlihan Lokey a to be determined cash fee ("Restructuring Fee") based on mutually agreeable market terms. For the avoidance of doubt, confirmation of a plan of reorganization under the Bankruptcy Code will not include a liquidating or wind down plan under Chapter 11 or a liquidation under Chapter 7.

(c) Financing Transaction. Upon the consummation of a Financing Transaction, the Company shall pay Houlihan Lokey a to be determined cash fee ("Financing Fee") based on mutually agreeable market terms.

(d) Sale Transaction. Upon the consummation of a Sale Transaction, the Company shall pay Houlihan Lokey a cash fee ("Sale Fee") equal to:

- 3.5% of the Sale Transaction Value up to \$10,000,000;
- 3.0% of the Sale Transaction Value in excess of \$10,000,000 up to \$20,000,000;
- 2.0% of the Sale Transaction Value in excess of \$20,000,000 up to \$50,000,000;