

JANUARY 2004

MONTHLY STATEMENT



HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

INVESTMENT BANKERS

www.hlh.com

VIA EMAIL

February 16, 2005

VarTec Telecom, Inc.
2440 Marsh Lane
Carrollton, TX 75006

Attn: Mr. Michael Hoffman, Chief Executive Officer

Re: In re VarTec Telecom, et al (“VarTec”, the “Debtors” or the “Company”).

Dear Mr. Hoffman:

Pursuant to the Amended Order Establishing Procedure for Monthly and Interim Compensation and Reimbursement of Expenses for Case Professionals (the “Administrative Order”) entered by the United States Bankruptcy Court for the Northern District of Texas (the “Court”) on November 5, 2004, I am enclosing the Monthly Statement for Houlihan Lokey Howard & Zukin Capital (“Houlihan Lokey”) for the monthly period of January 8, 2005 through February 7, 2005 (the “Monthly Compensation Period”)¹, which includes an itemized list of all reimbursable out-of-pocket expenses.

As detailed in the Final Order Approving Application to Employ Houlihan Lokey Howard & Zukin Capital as Investment Bankers, Houlihan Lokey is being compensated on a flat monthly basis plus, as applicable, Sale Fees pursuant to a formula described in the Houlihan Lokey employment application. Houlihan Lokey is not required to maintain or provide detailed time records but shall provide a narrative description of the services performed during the Monthly Compensation Period. Accordingly, a description of the services performed by Houlihan Lokey on behalf of the Debtors are attached hereto in support of this Monthly Statement and all interim and final fee applications, which will be filed with the Court pursuant to the Administrative Order.

¹ The anniversary date of the Houlihan Lokey Engagement Agreement is on the 8th day of each month.

February 16, 2005

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In accordance with the Administrative Order, Houlihan Lokey is requesting the interim payment of 80% of its fees (\$40,000.00) and 100% of its out-of-pocket expenses (\$7,046.40). Pursuant to the Administrative Order, after the expiration of the fifteen (15) day objection period and receiving no objections, VarTec is authorized to promptly pay the amount requested. For your convenience, wire transfer instructions are included on the invoice.

Please call me if you have any questions (214) 220-8483.

Sincerely,

A handwritten signature in black ink that reads "Adam Dunayer". The signature is written in a cursive, flowing style.

Adam Dunayer
Director
Houlihan Lokey Howard & Zukin Capital

Enclosure(s)

cc: **Notice Parties** (see attached list)

EXHIBIT A

INVOICE



HOULIHAN LOKEY HOWARD & ZUKIN

INVESTMENT BANKING SERVICES

www.hlh.com

INVOICE: 5914

Client 34729
Case 80454

PERSONAL & CONFIDENTIAL

February 16, 2005

VarTec Telecom, Inc.
2440 Marsh Lane
Carrollton, TX 75006

Attn: Mr. Michael Hoffman, Chief Executive Officer

Fees and Expenses incurred in connection with terms of Engagement Agreement
executed on November 18, 2004 and Final Retention Order dated December 16, 2004

PROFESSIONAL FEES:

January 2005 Monthly Fee	\$	100,000.00	
less: Transaction Fee Offset	\$	(50,000.00)	
Net Fees Due	\$	50,000.00	
less: 20% holdback	\$	(10,000.00)	
Total Fees Due			\$ 40,000.00

Out-of-Pocket Expenses:

Any expenses not yet posted by our Accounting Department will be included in a subsequent invoice.

Parking	\$	201.14	
Overtime Meals		301.27	
Meals & Entertainment		953.01	
Hotel and Taxes		1,267.89	
Airfare		1,888.50	
Travel-Miscellaneous		1,101.36	
Telephone Charges		606.14	
Cellular Telephone Charges		654.57	
Computer Information Services		72.52	
Total Out-of-Pocket Expenses:			\$ 7,046.40

TOTAL AMOUNT DUE AND PAYABLE: \$ 47,046.40

PAYMENT DUE UPON RECEIPT

Wire Transfer Instructions:

Union Bank of California
Transit & ABA #122000496
Bank Account #3030160796
Federal ID #95-4024056

EXHIBIT B
SERVICES PERFORMED

Summary Of Services Provided By Houlihan Lokey

1. Houlihan Lokey has been active so as to be able to advise and assist the Company in respect of these chapter 11 cases.

2. In aggregate, in the month of January 2005, Houlihan Lokey's work involved four separate categories, which included:

- (a) Strategic Discussions, Planning and Review;
- (b) Mexico, Canada and Domestic Sale Processes;
- (c) Key Employee Retention Plan;
- (d) Financial Analysis and Operational Review; and
- (e) Correspondence, Meetings and Discussions with Parties-in-interest.

(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 decision to market the Canadian operations, development of the "harvest" business plan case, and the evaluation of longer-term restructuring alternatives such as the potential sale of other non-core assets and a potential sale process for the U.S. operations. 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) **Sale Process.** Houlihan Lokey began 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) Developed a list of and contacted approximately 30 potential acquirers of Canada;
- 3) Compiled materials containing relevant documentation and information necessary for the due diligence investigations by potential acquirers;
- 4) Prepared a comprehensive information memorandum on Excel Canada to provide critical Company and industry information and investment rationale to interested acquirers.

In addition to beginning the Excel Canada sale process, Houlihan Lokey also began developing a strategy for initiating a full marketing process to sell the assets of the U.S. operations. To this end, Houlihan Lokey has conducted initial due diligence to develop an information memorandum, as well as developed a list of potential acquirers to be contacted when the process is initiated. Houlihan Lokey is also actively involved in discussions related to the sale of the Company's assets in Mexico.

(c) **Key Employee Retention Plan.** In connection with the approval of the Company's Key Employee Retention Plan, Houlihan Lokey assisted in the preparation and negotiation thereof, as well as the presentation to the bankruptcy court. To this end, Houlihan Lokey provided supporting analysis and expert testimony regarding the metrics of comparable key employee retention plans in other telecommunications company bankruptcy proceedings.

(d) **Financial Analysis and Operational Review.** During January 2005, Houlihan Lokey spent a significant amount of time assisting the Company and other professionals in developing the "Harvest" business plan case, which focuses on the Company's existing customer base, and began to develop the framework for the Company's growth plan. Specifically, Houlihan Lokey built the financial projections model, as well as assisted in evaluating the key assumptions driving the projections. This business plan was presented to the

RTFC's and the Committee's financial advisors on January 21, 2005. Additionally, Houlihan Lokey continued to analyze and monitor recent operational results and near term financial projections.

(e) **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 and various other parties-in-interest in these chapter 11 cases.

NOTICE PARTIES

Michael G. Hoffman
VarTec Telecom, Inc.
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mhoffman@vartec.net

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FEBRUARY 2004
MONTHLY STATEMENT



HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

INVESTMENT BANKERS

www.hlh.com

VIA EMAIL

March 17, 2005

VarTec Telecom, Inc.
2440 Marsh Lane
Carrollton, TX 75006

Attn: Mr. Michael Hoffman, Chief Executive Officer

Re: In re VarTec Telecom, et al (“VarTec”, the “Debtors” or the “Company”).

Dear Mr. Hoffman:

Pursuant to the Amended Order Establishing Procedure for Monthly and Interim Compensation and Reimbursement of Expenses for Case Professionals (the “Administrative Order”) entered by the United States Bankruptcy Court for the Northern District of Texas (the “Court”) on November 5, 2004, I am enclosing the Monthly Statement for Houlihan Lokey Howard & Zukin Capital (“Houlihan Lokey”) for the monthly period of February 8, 2005 through March 7, 2005 (the “Monthly Compensation Period”)¹, which includes an itemized list of all reimbursable out-of-pocket expenses.

As detailed in the Final Order Approving Application to Employ Houlihan Lokey Howard & Zukin Capital as Investment Bankers, Houlihan Lokey is being compensated on a flat monthly basis plus, as applicable, Sale Fees pursuant to a formula described in the Houlihan Lokey employment application. Houlihan Lokey is not required to maintain or provide detailed time records but shall provide a narrative description of the services performed during the Monthly Compensation Period. Accordingly, a description of the services performed by Houlihan Lokey on behalf of the Debtors are attached hereto in support of this Monthly Statement and all interim and final fee applications, which will be filed with the Court pursuant to the Administrative Order.

¹ The anniversary date of the Houlihan Lokey Engagement Agreement is on the 8th day of each month.

March 17, 2005

-2-

In accordance with the Administrative Order, Houlihan Lokey is requesting the interim payment of 80% of its fees (\$40,000.00) and 100% of its out-of-pocket expenses (\$4,820.18). Pursuant to the Administrative Order, after the expiration of the fifteen (15) day objection period and receiving no objections, VarTec is authorized to promptly pay the amount requested. For your convenience, wire transfer instructions are included on the invoice.

Please call me if you have any questions (214) 220-8483.

Sincerely,

A handwritten signature in black ink that reads "Adam Dunayer". The signature is written in a cursive, flowing style.

Adam Dunayer
Director
Houlihan Lokey Howard & Zukin Capital

Enclosure(s)

cc: **Notice Parties** (see attached list)

EXHIBIT A

INVOICE



HOULIHAN LOKEY HOWARD & ZUKIN

INVESTMENT BANKING SERVICES

www.hlh.com

INVOICE: 5990

Client 34729
Case 80454

PERSONAL & CONFIDENTIAL

March 15, 2005

VarTec Telecom, Inc.
2440 Marsh Lane
Carrollton, TX 75006

Attn: Mr. Michael Hoffman, Chief Executive Officer

Fees and Expenses incurred in connection with terms of Engagement Agreement
executed on November 18, 2004 and Final Retention Order dated December 16, 2004

PROFESSIONAL FEES:

February 2005 Monthly Fee	\$	100,000.00	
less: Transaction Fee Offset	\$	(50,000.00)	
Net Fees Due	\$	50,000.00	
less: 20% holdback	\$	(10,000.00)	
Total Fees Due	\$		40,000.00

Out-of-Pocket Expenses:

Any expenses not yet posted by our Accounting Department will be included in a subsequent invoice.

Parking	\$	194.38	
Overtime Meals		369.87	
Meals & Entertainment		123.19	
Hotel and Taxes		774.51	
Airfare		1,428.80	
Travel-Miscellaneous		666.73	
Telephone Charges		139.93	
Cellular Telephone Charges		875.02	
Computer Information Services		247.75	
Total Out-of-Pocket Expenses:	\$		4,820.18

TOTAL AMOUNT DUE AND PAYABLE: **\$ 44,820.18**

PAYMENT DUE UPON RECEIPT

Wire Transfer Instructions:

Union Bank of California
Transit & ABA #122000496
Bank Account #3030160796
Federal ID #95-4024056

EXHIBIT B
SERVICES PERFORMED

Summary Of Services Provided By Houlihan Lokey

1. Houlihan Lokey has been active so as to be able to advise and assist the Company in respect of these chapter 11 cases.

2. In aggregate, in the month of February 2005, Houlihan Lokey's work involved five separate categories, which included:

- (a) Strategic Discussions, Planning and Review;
- (b) Canada and Mexico Sale Processes;
- (c) U.S. Operations Sale Process
- (d) Financial Analysis and Operational Review; and
- (e) Correspondence, Meetings and Discussions with Parties-in-interest.

(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 Canada and Mexico sale process, the U.S. operations sale process, and development of the "growth" business plan case. 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) **Canada and Mexico Sale Processes.** Houlihan Lokey began 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) Developed a list of and contacted approximately 30 potential acquirers of Canada;
- 3) Negotiated non disclosure agreements with interested parties and distributed a comprehensive information memorandum on Excel Canada to provide critical Company and industry information and investment rationale to interested acquirers;
- 4) Compiled materials containing relevant documentation and information necessary for the due diligence investigations by potential acquirers; and
- 5) Assisted interested parties in completing their necessary due diligence.

In addition to the Canada sale process, Houlihan Lokey has conducted conversations with potential acquirers of the Company's Mexican assets. These activities have included contacting several interested parties and negotiating an asset purchase agreement with several potential buyers.

(c) **U.S. Operations Sale Process.** Houlihan Lokey initiated a process to sell the assets of the Company's U.S. Operations. To this end, Houlihan Lokey performed the following tasks:

- 1) Developed a list of and contacted approximately 100 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) Prepared a comprehensive information memorandum on the U.S. business to provide critical Company and industry information and investment rationale to interested acquirers; and
- 4) Assisted interested parties in completing their necessary due diligence.

(d) **Financial Analysis and Operational Review.** During February 2005, Houlihan Lokey spent a significant amount of time analyzing and studying the business for the purpose of writing the U.S business information memorandum and preparing due diligence material for potential acquirers. These activities included assisting in the development of the “growth” business plan case, compiling operational and financial data that would be relevant to potential acquirers, and meeting with management personnel to understand the key departmental business functions. Additionally, Houlihan Lokey continued to analyze and monitor recent operational results and near term financial projections.

(e) **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 and various other parties-in-interest in these chapter 11 cases.

NOTICE PARTIES

Michael G. Hoffman
VarTec Telecom, Inc.
2440 Marsh Lane
Carrollton, TX 75006
mhoffman@vartec.net

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MARCH 2004

MONTHLY STATEMENT



HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL

INVESTMENT BANKERS

www.hlh.com

VIA EMAIL

April 25, 2005

VarTec Telecom, Inc.
2440 Marsh Lane
Carrollton, TX 75006

Attn: Mr. Michael Hoffman, Chief Executive Officer

Re: In re VarTec Telecom, et al (“VarTec”, the “Debtors” or the “Company”).

Dear Mr. Hoffman:

Pursuant to the Amended Order Establishing Procedure for Monthly and Interim Compensation and Reimbursement of Expenses for Case Professionals (the “Administrative Order”) entered by the United States Bankruptcy Court for the Northern District of Texas (the “Court”) on November 5, 2004, I am enclosing the Monthly Statement for Houlihan Lokey Howard & Zukin Capital (“Houlihan Lokey”) for the monthly period of March 8, 2005 through April 7, 2005 (the “Monthly Compensation Period”)¹, which includes an itemized list of all reimbursable out-of-pocket expenses.

As detailed in the Final Order Approving Application to Employ Houlihan Lokey Howard & Zukin Capital as Investment Bankers, Houlihan Lokey is being compensated on a flat monthly basis plus, as applicable, a Sale Fees pursuant to a formula described in the Houlihan Lokey employment application. Houlihan Lokey is not required to maintain or provide detailed time records but shall provide a narrative description of the services performed during the Monthly Compensation Period. Accordingly, a description of the services performed by Houlihan Lokey on behalf of the Debtors are attached hereto in support of this Monthly Statement and all interim and final fee applications, which will be filed with the Court pursuant to the Administrative Order.

¹ The anniversary date of the Houlihan Lokey Engagement Agreement is on the 8th day of each month.

Los Angeles • 1930 Century Park West • Los Angeles, California 90067 • tel.310.553.8871 •

fax.310.553.2173

New York Chicago San Francisco Washington, D.C. Minneapolis Dallas Atlanta

Broker/dealer services through Houlihan Lokey Howard & Zukin Capital.

April 25, 2005

-2-

In accordance with the Administrative Order, Houlihan Lokey is requesting the interim payment of 80% of its fees (\$40,000.00) and 100% of its out-of-pocket expenses (\$4,544.76). Pursuant to the Administrative Order, after the expiration of the fifteen (15) day objection period and receiving no objections, VarTec is authorized to promptly pay the amount requested. For your convenience, wire transfer instructions are included on the invoice.

Please call me if you have any questions (214) 220-8483.

Sincerely,

A handwritten signature in black ink that reads "Adam Dunayer". The signature is written in a cursive, flowing style.

Adam Dunayer
Director
Houlihan Lokey Howard & Zukin Capital

Enclosure(s)

cc: **Notice Parties** (see attached list)

EXHIBIT A

INVOICE



HOULIHAN LOKEY HOWARD & ZUKIN

INVESTMENT BANKING SERVICES

www.hlh.com

INVOICE: 6061

Client 34729
Case 80454

PERSONAL & CONFIDENTIAL

April 25, 2005

VarTec Telecom, Inc.
2440 Marsh Lane
Carrollton, TX 75006

Attn: Mr. Michael Hoffman, Chief Executive Officer

Fees and Expenses incurred in connection with terms of Engagement Agreement
executed on November 18, 2004 and Final Retention Order dated December 16, 2004

PROFESSIONAL FEES:

March 2005 Monthly Fee	\$	100,000.00	
less: Transaction Fee Offset	\$	(50,000.00)	
Net Fees Due	\$	50,000.00	
less: 20% holdback	\$	(10,000.00)	
Total Fees Due			\$ 40,000.00

Out-of-Pocket Expenses:

Any expenses not yet posted by our Accounting Department will be included in a subsequent invoice.

Parking	\$	171.00	
Overtime Meals		357.55	
Meals & Entertainment		581.26	
Hotel and Taxes		1,016.96	
Airfare		1,487.15	
Travel-Miscellaneous		76.36	
Travel-Mileage		83.43	
Telephone Charges		95.99	
Cellular Telephone Charges		311.21	
Computer Information Services		363.85	

Total Out-of-Pocket Expenses: **\$ 4,544.76**

TOTAL AMOUNT DUE AND PAYABLE: **\$ 44,544.76**

PAYMENT DUE UPON RECEIPT

Wire Transfer Instructions:

Union Bank of California
Transit & ABA #122000496
Bank Account #3030160796
Federal ID #95-4024056