

Daniel C. Stewart, SBT #19206500
 William L. Wallander, SBT #20780750
 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

PROPOSED ATTORNEYS FOR THE DEBTORS

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

IN RE:	§	
	§	
VARTEC TELECOM, INC.,	§	CASE NO. 04-81694-SAF-11
EXCEL COMMUNICATIONS MARKETING,	§	CASE NO. 04-81695-BJH-11
INC.,	§	
EXCEL MANAGEMENT SERVICE, INC.,	§	CASE NO. 04-81696-BJH-11
EXCEL PRODUCTS, INC.,	§	CASE NO. 04-81697-HCH-11
EXCEL TELECOMMUNICATIONS, INC.,	§	CASE NO. 04-81698-SAF-11
EXCEL TELECOMMUNICATIONS OF	§	CASE NO. 04-81700-BJH-11
VIRGINIA, INC.,	§	
EXCEL TELESERVICES, INC.,	§	CASE NO. 04-81699-BJH-11
EXCELCOM, INC.,	§	CASE NO. 04-81701-SAF-11
TELCO COMMUNICATIONS GROUP, INC.,	§	CASE NO. 04-81704-HDH-11
TELCO NETWORK SERVICES, INC.,	§	CASE NO. 04-81702-BJH-11
VARTEC BUSINESS TRUST,	§	CASE NO. 04-81703-HDH-11
VARTEC PROPERTIES, INC.,	§	CASE NO. 04-81708-BJH-11
VARTEC RESOURCE SERVICES, INC.,	§	CASE NO. 04-81705-BJH-11
VARTEC SOLUTIONS, INC.,	§	CASE NO. 04-81706-SAF-11
VARTEC TELECOM HOLDING COMPANY,	§	CASE NO. 04-81710-SAF-11
VARTEC TELECOM INTERNATIONAL	§	CASE NO. 04-81707-BJH-11
HOLDING COMPANY,	§	
VARTEC TELECOM OF VIRGINIA, INC.	§	CASE NO. 04-81709-HDH-11
	§	
DEBTORS.	§	(Chapter 11)
	§	(Joint Administration
	§	Requested)

EXPEDITED MOTION FOR JOINT ADMINISTRATION OF CASES

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

The above-referenced debtors and debtors in possession (collectively, the "Debtors")¹ file this Expedited Motion for Joint Administration of Cases (the "Motion") and in support would respectfully show the Court as follows:

JURISDICTION AND PROCEDURAL BACKGROUND

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1334 and 157. This Motion concerns the administration of the estate; and therefore, it is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A).

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

3. 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").

4. Since the Petition Date, the Debtors have continued to operate and manage their businesses as debtors in possession pursuant to Bankruptcy Code §§ 1107(a) and 1108.

STATEMENT OF FACTS

VarTec and Its Business

5. VarTec Telecom, Inc., a Texas corporation, ("VarTec") along with its sixteen direct and indirect domestic subsidiaries, each of which is a Debtor, and eighteen non-debtor direct and indirect foreign subsidiaries (collectively, the "VarTec Entities"), is among the largest privately held companies providing telecommunications services in North America and Europe. The VarTec Entities, founded in DeSoto, Texas

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 Telecom of Virginia, Inc.

in February 1989, with current employees totaling over 1,300 worldwide (including approximately 1,000 in the Dallas metroplex), sell a full range of telecommunication products and services to customers. In 2003, the VarTec Entities had revenues of approximately \$1,260,000,000, and anticipate 2004 revenue in the approximate amount of \$900,000,000. VarTec's revenues have been derived primarily from three sale distribution channels: (a) Direct Marketing; (b) Commercial Services; and (c) Multi-Level Marketing.

6. The Direct Marketing channel, managed by VarTec and certain of its subsidiaries offers telecommunications services to small business and residential consumers, including local and long distance telephone services, wireless telephone services, and internet access. VarTec pioneered the "10-10 dial-around" long distance market by offering customers the opportunity to access VarTec's discounted long distance services on a call-by-call basis by dialing "10-10" then a three-digit unique carrier access code. Under the "dial-around" model, a customer's long distance usage is billed on her local phone service provider's invoice, the local phone service provider collects the billed amounts, and the local phone service provider remits those collected amounts to VarTec.

7. While experiencing tremendous success with the "dial-around" model, VarTec began to offer other telecommunication services, including local and traditional long distance telephone services, wireless telephone service, and internet access, directly to small business and residential customers. VarTec is licensed to provide local and long distance telephone services in all fifty states, and markets its products and services through, among other means, direct mail and magazine insert campaigns

composed of several hundred million items to persons in a targeted market each year. VarTec also uses outbound telemarketing for targeted campaigns to attract new customers of existing products and to offer new and/or additional products to existing customers.

8. The Commercial Services channel, managed by VarTec Solutions, Inc. (formerly known as eMeritus Communications, Inc.) and certain of its subsidiaries (collectively, "VarTec Solutions"), provides customized voice, data, and internet services to commercial and wholesale carrier customers throughout the U.S. VarTec Solutions' voice product offerings include switched and dedicated access, domestic and international toll-free service, calling cards, audio conferencing, and other specialized products. In addition, VarTec Solutions offers high-capacity data services that provide access to frame relay and IP networks. For carrier customers, VarTec Solutions offers the ability to co-locate their equipment inside carrier-class facilities, saving the cost and complications involved with building their own facilities.

9. Through the Multi-Level Marketing channel, which is managed by Excelcom, Inc. and certain of its subsidiaries (collectively, "Excel"), Excel offers telecommunications products and services to small business and residential consumers similar to those offered by VarTec to its customers. Excel, which was acquired by VarTec in 2002, has an international network of over 130,000 independent representatives who market Excel's products and services to small business and residential consumers and recruit new independent representatives to market such products and services. Each independent representative receives commissions and bonuses based on, among other things, the success of the independent representatives

recruited and a portion of the success of their recruits (referred to as a “downline”), the usage of Excel products and services by customers of the independent representative and a portion of their downline.

Secured Debt

10. VarTec is a borrower and the other Debtors (except VarTec Telecom of Virginia, Inc. and Excel Telecommunications of Virginia, Inc.) are guarantors under that certain First Amended and Restated Credit Agreement (the “Pre-Petition Loan Agreement”) with the Rural Telephone Finance Cooperative (the “RTFC”), pursuant to which the existing secured indebtedness owing to the RTFC was restructured in the form of a secured term loan and a secured line of credit to the Debtor.² The secured line of credit is in the form of a revolving credit facility, for the working capital, credit, and liquidity needed by the Debtor to conduct general business operations. As of the Petition Date, the total outstanding obligation to the RTFC consist of (a) a term loan of approximately \$154,000,000 and (b) a revolving line of credit with a total commitment of \$70,000,000.

The Industry

11. Prior to 1996, local telecommunications services were provided exclusively by traditional, monopoly providers, or incumbent local exchange carriers (the “ILECs”). Pursuant to the Telecommunications Act of 1996 (the “Telecommunications Act”), which was enacted to promote competition in the local telecommunications industry, ILECs were required to provide competitors, such as the Debtors, access to their networks to allow those competitive local exchange carriers (the “CLECs”) to offer

² The capital stock of VarTec Telecom of Virginia, Inc. and Excel Telecommunications of Virginia, Inc. was pledged to the Rural Telephone Finance Cooperative under transactions completed in conjunction with the Credit Agreement.

local telecommunications services. The terms, conditions, and prices charged by ILECs to CLECs are provided in agreements – referenced as interconnection agreements – governed by rules and regulations promulgated by the FCC and various state agencies or public utility commissions. As consideration for relinquishing their monopoly positions, the ILECs were authorized to offer long distance telecommunications services, both out-of-region and in-region (where they were an ILEC) provided certain terms and conditions were satisfied.

12. ILECs, CLECs, and long distance carriers utilize each other's networks to transmit the voice and data traffic of their customers. The framework and pricing of the exchange of voice and data traffic between ILECs and CLECs, on the one hand, and long distance carriers, on the other hand, is governed by multiple laws, regulations, tariffs, and interconnection agreements. For example, if an ILEC or a CLEC's customer originates a call that is carried to its destination by one of the Debtors, the respective Debtor will bill the CLEC or ILEC on a minute of use basis; if a customer of one of the Debtors originates a call that is carried to its destination by an ILEC or a CLEC, the ILEC or CLEC will bill the respective Debtor on a minute of use basis. This is known as reciprocated or intercarrier compensation.³

13. To effectuate the billing, collection, and maintenance of account information, the Debtors often entered into agreements with various ILEC and CLEC, under which such ILEC or CLEC bills customers for the services provided by the Debtors, collects the billed amount for the Debtors, and pays or remits to the Debtors the collected amounts periodically.

³ A long distance carrier can also be an ILEC or a CLEC.

14. The deregulation of local and long distance telecommunication services pursuant to the Telecommunications Act resulted in increased competition and decreased local and long distance rates. Despite successfully competing in the telecommunications industry for almost fifteen years, (i) VarTec's lack of brand name recognition comparable to some of its competitors in the more intensively competitive telecommunications market, (ii) customer attrition exacerbated by aggressive customer win-back campaigns by the dominant telco providers, and (iii) the margin compromises caused by increasing wholesale rates while retail rates are suffering, have all made it difficult for VarTec to maintain its historical revenue and profitability levels.

Challenges

15. In the weeks preceding the Petition Date, several ILECs, CLECs, and long distance carriers with whom the Debtors have interconnection or access agreements have (i) threatened to terminate services provided to the Debtors, (ii) requested security deposits, and/or (iii) offset amounts owed to the Debtors. The actions of the ILECs, CLECs, and long distance carriers have impaired the Debtors' liquidity.

16. In addition to the matters discussed above, because of various disputes⁴ with Teleglobe Inc. ("Teleglobe") regarding VarTec's acquisition of certain of the companies now associated with Excel and VarTec Solutions (the "Acquired Companies"), VarTec has had to spend millions of dollars in the past several years supporting the Excel companies (for which it had anticipated reimbursement), which has financially weakened the Debtors.

17. The combination of these economic and financial events has impaired the

⁴ Such disputes have spawned considerable litigation, including an arbitration between VarTec and Teleglobe's bankruptcy estate.

Debtors' liquidity and compelled the Debtors to commence these Cases in order to maximize the value of their assets for the benefit of their creditors and other constituencies under chapter 11 of the Bankruptcy Code.

RELIEF REQUESTED

18. Pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedures (the "Bankruptcy Rules"), the Debtors request that this Court enter an order providing for the joint administration of the Cases for procedural purposes only under the case styled *In re VarTec Telecom, Inc., et al.*, Case No. 04-81694-SAF-11, currently pending before this Court, such style and case number to be used on subsequently filed pleadings if joint administration is ordered.

19. Given the fact that all of the other Debtors are affiliated with VarTec Telecom, Inc., the procedural burdens that might be placed upon the Debtors and other creditors having to file multiple pleadings in each of these cases necessitates their joint administration.

20. The joint administration of the Cases, including the combining of notices to creditors of the respective estates, as well as calling and hearing all matters at the same time, will promote economic, efficient, and convenient administration of the estates. The rights of the respective creditors of each of the estates will not be adversely affected by the joint administration, because the relief sought is purely procedural and is not intended to affect substantive rights. Each creditor will be entitled to file a proof of claim against a particular estate.

21. Supervision of the administrative aspects of the cases by the Office of the United States Trustee will be simplified. No substantive consolidation is sought by this Motion.

22. No administrative or scheduling orders previously entered in the Cases will require modification if this Motion is granted. Mailing lists in each of the Cases will be consolidated for future noticing requirements.

PRAYER

The Debtors respectfully request that the Court enter an order providing for the joint administration of the Cases for procedural purposes and the consolidation of mailing lists in each of the Cases for future noticing requirements. The Debtors also request such other and further relief to which they may be justly entitled.

Respectfully submitted,

VINSON & ELKINS L.L.P.

2001 Ross Avenue
3700 Trammell Crow Center
Dallas, Texas 75201
Tel: 214-661-7299
Fax: 214-220-7716

By: /s/Daniel C. Stewart (11/1/04)
Daniel C. Stewart, SBT #19206500
William L. Wallander, SBT #20780750
Richard H. London, SBT #24032678

**PROPOSED ATTORNEYS FOR
THE DEBTORS**

827664_3.DOC