

ORIGINAL

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

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In re:	101-12655-260
	101-12658-260
PT-1 COMMUNICATIONS, INC.	101-12660-260
PT-1 LONG DISTANCE, INC.	
PT-1 TECHNOLOGIES, INC.,	Chapter 11
Debtors.	Jointly Administered

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**ORDER SPECIFYING PROCEDURES, TERMS
AND CONDITIONS FOR ASSET SALE
AND SCHEDULING AUCTION AND SALE HEARING¹**

Upon the Motion (the "Motion") of PT-1 Communications, Inc., PT-1 Long Distance, Inc. and PT-1 Technologies, Inc., the debtors and debtors-in-possession in the above captioned Chapter 11 proceedings (the "Debtors"), for, *inter alia*, an order (the "Procedures Order") pursuant to §§ 105, 363(b), (f), (m) and 365 of Title 11, United States Code (the "Bankruptcy Code"), substantially in the form hereof, *inter alia*:

- (a) approving (i) the terms and conditions for submitting offers for the purchase of substantially all of the Debtors' Assets (collectively, the "Acquired Assets" as defined in the Motion); (ii) the right of MCI WorldCom Network Services, Inc. ("WorldCom") to credit bid, and (iii) a breakup fee in the amount of \$750,000.00 payable to WorldCom should WorldCom not be the approved buyer by virtue of a higher or better offer for the Acquired Assets being accepted and a closing thereon having occurred;
- (b) designating the form, manner of, and parties to receive, notice with respect to the Procedures Hearing (as defined below); and

¹ Terms not specifically defined by this Order shall have the same meaning as set forth in the Motion and Bidding Procedures, appended hereto as Exhibit "1".

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(c) granting to the Debtors such further relief as may be just and proper;

and an order to show cause dated January 22, 2002, having been entered by this Court scheduling:

(i) a hearing with respect to entry of this Procedures Order (the "Scheduling Order"), and (ii) a further hearing on the Motion for the sale of the Acquired Assets; and this Court having held a hearing on January 29, 2002 ("Procedures Hearing") to consider approval of the terms and conditions for bidding on the Acquired Assets; and it appearing from the affidavits of service on file with this Court that due and timely notice of the Motion and the Procedures Hearing has been given in accordance with the Scheduling Order to all parties entitled thereto; and a hearing on the Motion having been set by the Scheduling Order for March 7, 2002 (the "Sale Hearing") at which time the Debtors will seek authorization to sell the Acquired Assets, and upon the record of the Procedures Hearing; and due deliberation having been had, and sufficient cause appearing to me therefor, it is

NOW, on motion Angel & Frankel, P.C., attorneys for of the Debtors,

ORDERED, ADJUDGED, DETERMINED AND DECREED², that:

1. Good and sufficient notice of the Motion and the relief sought therein with respect to the Procedures Hearing has been provided and any other requirement for notice be, and hereby is, dispensed with and waived.

2. Offers for the Acquired Assets shall be accepted only if they meet the requirements outlined by the Debtors' Bidding Procedures guidelines annexed hereto as Exhibit "1" ("Bidding Procedures")

² Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Fed. R. Bankr. P. 7052. Statements made by the Court from the bench at the hearing shall constitute additional conclusions of law and findings of fact as appropriate.

3. The Bidding Procedures are hereby approved in their entirety.
4. The advertisement format in the form of Exhibit "2" annexed hereto is hereby approved.
5. The proposed notice of the Bidding Procedures and Sale and Procedures Motion are sufficient.
6. The form of the Asset Purchase Agreement, annexed to the Motion as Exhibit "A" is hereby approved.
7. The form of the Management Agreement, annexed to the Motion as Exhibit "C" is hereby approved.
8. The Debtors shall serve a copy of this Procedures Order, the Motion and Exhibits, upon the persons and in the manner specified in the Bidding Procedures and this Procedures Order. Such service shall be deemed good and sufficient notice of this Procedures Order, the Motion, and all proceedings to be held thereon.
9. The Court shall hold an Auction in accordance with the Bidding Procedures at the United States Bankruptcy Court, Eastern District of New York, 75 Clinton Street, Brooklyn, NY 11201, on March 7, 2002 at 10:00 a.m. Any person seeking to participate as a bidder at the Auction shall comply with the Bidding Procedures.
10. No representations are made by the Debtors. Bidders shall be deemed to rely solely upon their own independent due diligence, review, inquiry and analysis of the Acquired Assets.
11. For purposes of the Auction and Sale Hearing, the WorldCom Claim in the amount of \$106,373,824.42 shall be deemed an allowed secured claim which WorldCom shall be authorized to credit bid pursuant to Section 363(k) of the Bankruptcy Code, as limited by the Motion. The

WorldCom Claim has a minimum value of \$75,000,000, with an additional value dependant on increased bidding at the Auction.

12. WorldCom and TTI National, Inc., WorldCom's designee, are hereby found to be good faith purchasers and qualified bidders.

13. If WorldCom is the successful bidder, at the Closing, the Asset Purchase Agreement, the Management Agreement and WorldCom's rights under the Sale Order shall be assigned to TTI National, Inc. , without the necessity for the further approval by this Court or the execution of any other agreements.

14. The Pre-Closing contemplated by the Asset Purchase Agreement shall constitute substantial consummation of the sale of the Acquired Assets to WorldCom (or any other successful purchaser if they so elect) for all purposes, including, without limitation, § 363(m) of the Bankruptcy Code.

15. Each bidder shall be required to satisfy to the Debtors and the Court that it has financial ability to fulfill its obligations in the event its offer is accepted.

16. The Debtors reserve the right to reject any offer which in their discretion is deemed inadequate or insufficient or which is contrary to the best interests of their bankruptcy estates and their creditors.

17. No offer shall be deemed accepted until an order of this Court is entered approving such sale.

18. In the event that a purchaser other than WorldCom is the successful bidder for substantially all of the assets of the Debtors, the Releases and Waivers granted to the Debtors, the Committee, WorldCom, STAR and the STAR Committee and their respective related parties shall

remain effective as of the Closing of such sale. The form of such Releases and Waivers to be executed and delivered by the parties shall be agreed to by no later than February 15, 2002. If the parties cannot agree to the form and content of the Releases and Waivers, then in such event, this Court will hold a hearing to resolve such issues consistent with the terms of the Proposal (as defined in the Motion). In accordance with the Proposal, the release and waiver shall not release any unintended parties, including without limitation, any joint tort feasons and shall not release any persons or entities not expressly included in such releases and waivers.

19. For all the reasons set forth in the Motion and for the reasons articulated on the record at the Procedures Hearing on January 29, 2002, it is hereby ordered and decreed that the form and content of Releases and Waivers contemplated by the Proposal shall be jointly agreed to by all parties on or before February 15, 2002 and such agreed upon Releases and Waivers shall be executed in accordance with the terms and conditions of the Proposal and shall be deemed effective as of the Closing subject to Star's and Star's Committee's acceptance of the Proposal and the approval by the United States Bankruptcy Court for the District of Delaware.

20. In accordance with the Proposal and subject to the ^{OCCURRENCE OF THE CLOSING UNDER} approval of the Asset Purchase Agreement, ^{neither nor the Committee} the Debtors shall ^{IN ANY JURISDICTION} not file any further proof of claim ^{OR THE STAR COMMITTEE} against the estate of STAR ^{STAR} based on any known or unknown claim(s) ^{WHENEVER ARISING} and the Debtors shall waive distribution on their existing filed proof(s) of claim against STAR. ^{IN ACCORDANCE WITH THE PROPOSAL AND SUBJECT TO THE OCCURRENCE OF THE CLOSING UNDER THE ASSET PURCHASE}

21. The Break-Up Fee has been negotiated in good faith and at arm's length between the Debtors and the Purchaser and is necessary to induce the Purchaser to enter into its binding agreement with the Debtors.

OH) AGREEMENT, NEITHER STAR NOR THE STAR COMMITTEE SHALL FILE ANY FURTHER PROOF OF CLAIM IN ANY JURISDICTION AGAINST THE DEBTORS, THE ESTATES OF THE DEBTORS OR THE COMMITTEE BASED ON ANY KNOWN OR UNKNOWN CLAIM(S), WHENEVER ARISING, AND STAR SHALL WAIVE DISTRIBUTION OF ANY FUTURE FILED PROOF(S) OF CLAIM AGAINST THE

22. The Bidding Procedures, including the Break-Up Fee, are fair and reasonable, reflect the Debtors' exercise of sound business judgment consistent with its fiduciary duties and, in the case of the Break-Up Fee, is supported by reasonably equivalent value and fair consideration, are actual, necessary costs of expenses of preserving the Debtors' estates and is reasonable in amount, within the meaning of the Bankruptcy Code.

23. The Break-Up Fee is fixed and authorized in the amount of \$750,000.00 and the terms and conditions in the Debtors' payment of such fee as provided in the Motion and as set forth in the Bidding Procedures appended hereto as Exhibit "1" is approved in all respects.

24. Objections, if any, to the relief sought in the Motion other than as it relates to the assumption and assignment or rejection of executory contracts and unexpired leases shall be served in accordance with the Bidding Procedures such that the objection is actually received by **March 4, 2002 at 5:00 p.m.** This Court shall fix the date and time for the service and filing of objections that relate to the assumption and assignment of executory contracts and unexpired leases in the order to be entered approving the sale of Acquired Assets.

25. The Debtors may extend the deadlines set forth in the Bidding Procedures and/or adjourn the Auction at the Auction in open court without further notice.

26. Cure amounts required to be paid pursuant to 11 U.S.C. § 365(b)(1) in connection with those executory contracts and leases which are assumed and assigned pursuant to the Asset Purchase Agreement, shall be fixed within thirty (30) days after the Closing pursuant to agreement between the Debtors and each non-debtor party to such executory contracts or leases.

27. To the extent that an agreement regarding the cure amount cannot be reached between the parties to a particular contract or lease assumed pursuant to the Asset Purchase Agreement, the

Debtors shall file a motion with the Bankruptcy Court to fix such cure amounts no later than forty (40) days following the Closing and the Court shall thereafter make a determination as to the cure amount.

28. In the event the Purchaser or any other successful bidder wishes to assume additional executory contracts of STAR, the Purchaser or any other successful bidder shall notify STAR's counsel of such intent. STAR will then make a motion to assume and assign such executory contract in STAR's bankruptcy case before the United States Bankruptcy Court for the District of Delaware.


CPD 29. Purchaser or any other successful bidder will be responsible for any cure costs associated with ~~existing~~ ^{ANY} defaults under executory contracts or unexpired leases to be assumed by STAR and assigned to the Purchaser or other successful bidder.

30. The Sale Order shall become effective immediately upon its entry.

31. This Court shall retain jurisdiction over any matter or dispute arising from or relating to the implementation of the Sale Order.

32. The Sale Order shall survive entry of an order which may be entered converting these cases to Chapter 7 or any order confirming a plan of reorganization.

Dated: Brooklyn, New York
January 29 2002



CONRAD B. DUBERSTEIN
CHIEF UNITED STATES BANKRUPTCY JUDGE

EXHIBIT "1"

EXHIBIT "1"

BIDDING PROCEDURES¹

The following procedures (the "Bidding Procedures") shall govern the sale of assets (the "Sale") of the Debtors' assets (the "Acquired Assets"), in whole or in part, pursuant to the Motion for an Order Pursuant to Sections 105, 363(b), 363(f), 363(m), 365 and 1146(c) of the Bankruptcy Code Approving and Authorizing (i) the Sale of substantially all of the Debtors' assets free and clear of liens, claims, and encumbrances, (ii) authorizing the Debtors to sell such assets to MCI WorldCom Network Services, Inc. ("Purchaser") or any higher or better bidder pursuant to the terms of an agreement dated January 22, 2002 (the "Proposal"); (iii) approving a Break-Up Fee and certain bidding procedures; (iv) authorizing assumption and assignment of certain executory contracts and unexpired leases in connection therewith, (v) approving mechanism for fixing cure amount and scheduling hearing(s) and approving notice related thereto; (vi) exempting the sale from stamp or similar taxes; (vii) approving compromise of a controversy and the exchange of waivers and releases pursuant to Bankruptcy Rule 9019; (viii) approving management agreement; (ix) authorizing credit bidding; (x) authorizing Debtors to enter into and approving agreement with RFC Capital Corporation; and (xi) granting related relief, (the "Sale Motion"). These Bidding Procedures have been approved and authorized by order dated January 29, 2002 (the "Procedures Order") of the United States Bankruptcy Court for the Eastern District of New York ("Bankruptcy Court") in the Chapter 11 cases of PT Communications, Inc. ("PT-1"), PT-1 Long Distance, Inc. ("Long Distance"), and PT-1 Technologies, Inc. ("Technologies"), the debtors and debtors-in-possession (collectively, the "Debtors"), which cases were commenced on March 9, 2001.

¹ All terms not defined herein shall have the same meaning as set forth in the Sale Motion and Asset Purchase Agreement.

1. **ASSETS TO BE SOLD**

The Debtors shall consider bids for all of the Acquired Assets as more particularly set forth in the Sale Motion and proposed Asset Purchase Agreement for the sale of the Acquired Assets. The Acquired Assets shall be sold in a single sale to a single bidder, free and clear of all liens, claims and encumbrances.

2. **PURCHASE PRICE**

In consideration for the acquisition of the Acquired Assets, Purchaser shall pay or cause to be paid consideration in an amount agreed to be \$108,800,000.00 and other consideration, as more fully set forth in the Asset Purchase Agreement ("Purchase Price").

3. **MAILING THE SALE HEARING NOTICE**

On a date no later than two (2) business days following entry by the Bankruptcy Court of the Bidding Procedures Order, the Debtors shall mail the Procedures Order, together with a copy of the Sale Motion by first class mail, postage prepaid to: (a) all potential interested parties identified by the Debtors; (b) the Office of the United States Trustee; (c) counsel to the Creditors' Committee; (d) counsel to WorldCom; (e) counsel to STAR; (f) counsel to the STAR Committee; (g) parties in interest who have requested notice pursuant to Bankruptcy Rule 2002; (h) all known entities holding or asserting a security interest in or lien against any of the required Acquired Assets; (i) the parties to the Debtors' material executory contracts and unexpired leases that may be subject to assumption and assignment or rejection; (j) all taxing authorities whose rights may be affected by the sale of the Acquired Assets; and (k) government agencies required to receive notice of proceedings under the Bankruptcy Rules and other regulatory rules. All other creditors of the Debtors and interested parties will receive notice by publication in *The New York Times*, national edition.

4. **INDICATION OF INTEREST**

The Debtors shall send a form of confidentiality agreement to any person who responds to the Sale Hearing Notice indicating an interest in participating in the Auction, and requesting information about the Acquired Assets.

5. **CONFIDENTIALITY AGREEMENT AND SELECTION OF QUALIFIED BIDDERS**

Potential purchasers shall be required to complete and execute a confidentiality agreement and provide the Debtors with their financial qualifications and such other information as the Debtors may reasonably request including descriptions of their current business(es). The Debtors, with the assistance of the Official Committee of Unsecured Creditors (the "Committee"), shall qualify potential purchasers for continuing with the sales process. The Debtors shall promptly notify potential purchasers who have returned the confidentiality agreement and satisfactory financial qualifications that they have been selected as a qualified bidder (the "Qualified Bidders").

6. **FINANCIAL QUALIFICATIONS**

To become a Qualified Bidder to be considered by the Debtors, potential purchasers must submit to the Debtors proof of their ability to purchase the Acquired Assets. Said determination shall be made by the Debtors and the Committee in good faith. A potential bidder will not qualify until it has submitted a Bid and pays the Debtors' counsel, in the form of a certified check or wire transfer, a deposit in the amount of ten percent (10%) of the aggregate bid ("Earnest Money Deposit").

7. **THE ASSET PURCHASE AGREEMENT AND DUE DILIGENCE**

The Debtors shall send to each Qualified Bidder a copy of a proposed Asset Purchase Agreement. The Debtors, upon execution of a confidentiality agreement, will provide reasonable

access to Debtors' books, records and executives to Qualified Bidders for the purpose of conducting due diligence.

8. SUBMISSION OF BIDS

Any Qualified Bidder desiring to submit a Bid must deliver such Bid to the Debtors' counsel, Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022-1906, Attention: Bruce Frankel, Esq. with a copy to Committee Counsel, McCarter & English, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attn: Lisa A. Bonsall, Esq. not later than 10:00 a.m. (EST) on the date which is two (2) Business Days prior to the date scheduled by the Bankruptcy Court for the Sale Hearing (*i.e.* Auction).

A Bid shall consist of: (i) a letter from a potential Bidder offering to purchase the Acquired Assets upon the terms and conditions set forth in the Asset Purchase Agreement, together with all Exhibits and Schedules and stating that the Bidder is prepared to enter into and consummate the transaction within not more than ten days (10) after entry of the Sale Order, subject to obtaining any governmental or regulatory approvals; (ii) a copy of the Asset Purchase Agreement and the Management Agreement marked to show any proposed amendments and modifications, including price and the time of closing, that such Bidder proposes (the "Marked Agreements"); (iii) the Earnest Money Deposit; and (iv) financial information of the Bidder sufficient to demonstrate that the Bidder is a Qualified Bidder.

A "Qualified Bid" is a Bid that: (i) is made by a Qualified Bidder (as determined by the Debtors and the Committee in good faith after a deposit by such bidder of 10% of the aggregate purchase price offered by such bidder with Debtors' counsel) and complies with the provisions set forth above, in all respects; (ii) is not, in the good faith opinion of the Debtors, materially more burdensome or conditional than the terms of the Asset Purchase Agreement; and (iii) contains an

offer in the amount of the Purchase Price plus at least \$3,000,000, of which \$2,000,000 must be immediately available funds to be placed in escrow upon the Pre-Closing. The Purchase Price together with an additional \$3,000,000, shall be paid at Closing as follows: (1) to WorldCom in the amount of \$75,000,000 plus two-thirds (2/3) of any amount paid in excess of the Purchase Price in immediately available funds; (2) to the Debtors' estates, the \$33.8 million in consideration (composed of the payments to be made during the Management Period, the agreement to pay \$500,000 in Contract Costs (and all other Contract Costs in excess of \$900,000), the agreement to assume the Chase Amendment, and the agreement to assume the STAR Agreement) plus one third (1/3) of the amount in excess of the Purchase Price to be paid on terms no less advantageous to such bidder than WorldCom's payment terms set forth in the Asset Purchase Agreement.

Bids must provide sufficient indicia that such Qualified Bidder or representative is legally empowered, by power of attorney or otherwise, and financially capable to (a) bid on behalf of the prospective bidder, and (b) to complete and sign, on behalf of the bidder, a binding and enforceable Asset Purchase Agreement, not contain any contingencies to the validity, effectiveness, and/or binding nature of the offer, including, without limitation, contingencies for financing, due diligence or further bidding approval, including from any board of directors or shareholders, or otherwise. Bids are irrevocable until ten days after the close of the Auction.

If closing such Bid is conditioned on the assumption and assignment of any Contracts or Leases, the Bid must include sufficient information to permit the Court, the Debtors, the Committee, and the applicable lessors and contracting parties to determine the proposed assignee's ability to comply with section 365 of the Bankruptcy Code (to the extent applicable), including providing adequate assurance of such assignee's ability to perform in the future (the "Adequate Assurance Package").

Only Qualified Bids will be considered at the Sale, and the Debtors reserve the right to reject any Bid if the Bid, among other things:

- is on terms that are materially more burdensome or conditional than the terms of the Asset Purchase Agreement;
- proposes to purchase items other than the Acquired Assets contemplated by the Asset Purchase Agreement;
- is not received by the Bid Deadline;
- includes noncash consideration; or
- is subject to any financing condition.

To the extent WorldCom increases its bid, it shall be permitted to credit bid two-thirds of such increase in its bid through the WorldCom Claim, and the remainder of such increased bid shall be in cash payable at the same time as the "Fourth Payment" (as identified in the Asset Purchase Agreement). Notwithstanding any provision to the contrary, in no event shall WorldCom be entitled to credit bid an amount greater than the WorldCom Claim, nor shall WorldCom receive on account of its claims in the Debtors' cases an amount greater than the WorldCom Claim.

To the extent that there is a successful competing bidder (the "Winning Bidder"), WorldCom shall be entitled to receive in cash, at Closing, in addition to \$75,000,000, two-thirds of the difference between the Winning Bidder's Winning Bid and \$108,800,000.00 payable at the Closing, in cash, and the remainder shall be turned over to the Debtors' estates.

In the event that a purchaser other than WorldCom is the successful bidder for substantially all of the assets of the Debtors, the Releases and Waivers granted to the Debtors, the Committee, WorldCom, STAR and the STAR Committee and their respective related parties shall remain effective as of the Closing of such sale.

All Bids shall be kept confidential with access restricted to the Debtors, the Committee, and any of their respective professionals. Bids may, however, be revealed to any other party at the option of the Debtors. The Debtors may request additional information from a bidder in order to evaluate the bidder's ability to consummate a transaction and to fulfill its obligations in connection therewith and such bidder shall be obligated to provide such information as a precondition to participating further in the Auction.

9. **THE AUCTION AND SELECTION OF THE WINNING BID(S)**

In the event the Debtors do not receive any Qualified Bids other than a bid from WorldCom, the Debtors shall report this fact to the Bankruptcy Court, the Auction shall not be held, and the Debtors shall proceed to have the sale to WorldCom approved at the Auction and Sale Hearing.

If the Debtors receive any Qualified Bids in addition to the WorldCom bid, an Auction will be conducted at the United States Bankruptcy Court, Eastern District of New York, 75 Clinton Street, Brooklyn, NY 11201, on March 7, 2002 at 10:00 a.m. or such later time, date or other place as the Debtors may notify all Qualified Bidders who have submitted Qualified Bids. All bidders shall appear in person at the Auction, or through a duly authorized representative. If multiple Bids satisfying all Auction requirements are received, each party shall have the right to continue to improve its bid at the Auction. Bidding shall be in minimum monetary increments of \$3,000,000.

After the conclusion of the Auction, and subject to Bankruptcy Court approval following the Auction, the winning bid(s) shall be selected by the Debtors from the Bids (the "Winning Bid(s)"); provided, however, that the Debtors shall have the right to reject any and all Bids, other than WorldCom's Bid.

Immediately subsequent to the Sale Hearing (as defined below), the entity or entities that make(s) Winning Bids shall complete and sign all agreement(s), contract(s), instrument(s) or other document(s) evidencing and containing the terms and conditions upon which such bid(s) were made.

10. OBJECTIONS

Objections to any relief requested by the Sale Motion, other than as relate to the assumption and assignment of executory contracts and unexpired leases, shall set forth in writing with particularity the grounds for such objections or other statements of position and be served so as to be received by or before *March 4, 2002 at 5:00 p.m.* on: (i) the Bankruptcy Court (with a courtesy copy to Chambers); (ii) the Office of the United States Trustee for the Eastern District of New York, 33 Whitehall Street, 21st Floor, New York, NY 10004, Attention: Linda Riffkin, Esq.; (iii) counsel for the Debtors Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022, Attention: Bruce Frankel, Esq. and Rochelle R. Weisburg, Esq.; (iv) counsel for the Committee, McCarter & English, LLP, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attention: Lisa Bonsall, Esq. and Patricia Zohn, Esq.; and (v) counsel for WorldCom, Reed Smith, LLP, 435 Sixth Avenue, Pittsburgh, PA 15219 Attention: Many Emamzadeh, Esq., and Reed Smith, LLP, One River Front Plaza, Newark, NJ 07102, Attention: Deborah A. Reperowitz, Esq. The date and time to file and serve objections that relate to the assumption and assignment of executory contracts and unexpired leases shall be fixed by the Court in the order to be entered approving the sale of the Acquired Assets.

11. COURT APPROVAL

At the conclusion of the Auction the Debtors shall recommend to the Court the highest and best bidder. The sale(s) of the Acquired Assets is (are) subject to entry of an order of the Bankruptcy Court approving the sale(s).

12. CLOSING AND PRE-CLOSING

The Closing of the sale of the Acquired Assets to the Winning Bidder(s) shall occur in accordance with the terms of the executed Asset Purchase Agreement within ten (10) days of obtaining all Necessary Approvals, then the Closing shall occur, and in any case provided that no stay pending an appeal, if any, has been entered and further provided that the successful bidder has been found by the Bankruptcy Court to be a good faith purchaser and entitled to the protections of Section 363(m) of the Bankruptcy Code.

A Pre-Closing shall occur no later than ten (10) days after the entry of a final Sale Order by the Bankruptcy Court which is not subject to further stay or appeal (provided, however, that Purchaser may elect to close or pre-close as the case may be, the transactions contemplated hereby (despite a pending appeal if no stay thereof is in effect) pursuant to, and in accordance with, the protections offered under 363(m) of the Bankruptcy Code, approving the sale of the Acquired Assets pursuant to the terms and conditions thereof, at which time the Debtors shall deliver the executed and approved Asset Purchase Agreement and any related agreements, including, without limitation, the Management Agreement.

A Pre-Closing shall be deemed to be substantial consummation of the sale affording the Winning Bidder the protections set forth in § 363(m) of the Bankruptcy Code.

The Winning Bidder shall execute and deliver to the Debtors the Management Agreement, as more particularly set forth in the Asset Purchase Agreement.

**13. ASSUMPTION AND ASSIGNMENT, OR REJECTION,
OF CONTRACTS AND LEASES**

To the extent any of the executory contracts or unexpired leases are utilized prior to the Closing and shall not be utilized subsequent to the Closing, then a separate motion shall be made rejecting such executory contracts and unexpired leases.

In connection with the Sale Hearing (or thereafter as provided for in the Asset Purchase Agreement), the Debtors will provide evidence that all requirements for the assumption and/or assignment of the executory contracts and unexpired leases proposed to be assigned to the purchaser of the Acquired Assets will be satisfied. It is an express condition of the proposed Bidding Procedures that Bidders submit as part of their Bids, sufficient financial and other information to assess the Bidder's compliance with section 365 (b)(1)(C) of the Bankruptcy Code. The Debtors will provide all parties to executory contracts and unexpired leases to be assumed and assigned pursuant to the Sale Motion with such information and an opportunity to be heard.

The Debtors may not reject any executory contracts or unexpired leases before the Closing without the Purchaser's consent. Further, to the extent any executory contract or unexpired leases remains in place during the Management Period, then the Winning Bidder, pending the Closing, is obligated to pay such non-debtor parties, with such payments to be included as calculating Aggregate Cash Flow. To the extent any of the executory contracts or unexpired leases are utilized prior to the Closing and shall not be utilized subsequent to the Closing, then a separate motion shall be made rejecting such executory contracts and unexpired leases.

14. **MECHANISM FOR FIXING CURE AMOUNTS**

Cure amounts required to be paid pursuant to 11 U.S.C. § 365(b)(1) in connection with those executory contracts and leases which are assumed and assigned pursuant to the Asset Purchase Agreement shall be fixed within thirty (30) days after the Closing pursuant to agreement between the Debtors and each non-debtor party to such executory contracts or leases. To the extent that an agreement regarding the cure amount cannot be reached between the parties to a particular contract or lease to be assumed pursuant to the Asset Purchase Agreement, the Debtors shall file a motion

with the Bankruptcy Court to fix such cure amounts no later than forty (40) days following the Closing.

15. FAILURE TO CONSUMMATE PURCHASE

If for any reason the entity that makes the highest or best bid fails to consummate the purchase of the Acquired Assets, or any part thereof, the offeror of the second highest or best bid will automatically be deemed to have submitted the highest or best bid and to the extent such offeror and the Debtors consent, the Debtors and such offeror are authorized to effect the sale of the Acquired Assets, to such offeror as soon as is commercially reasonable without further order of the Bankruptcy Court. If such failure to consummate the purchase is the result of a breach by the Winning Bidder, the Earnest Money Deposit shall be forfeited to the Debtors and the Debtors specifically reserve the right to seek all available additional damages from the defaulting bidder.

All Earnest Money Deposits shall be held by the Debtors, without interest, until such time as the bids are officially rejected by the Debtors. Such deposit shall be forfeited in the event that any bidder for an accepted bid defaults. The Earnest Money Deposit will be forfeited if:

- (i) the bidder is determined to be a Qualified Bidder and withdraws or modifies its bid other than as provided in the Bidding Procedures before the Bankruptcy Court approves the Debtors' selection of the successful Bidder, or
- (ii) the Bidder is the successful Bidder and (a) modifies or withdraws its Bid without the Debtors' consent before the consummation of the sale contemplated by such Bid, (b) breaches its Bid, or (c) breaches its confidentiality agreement.

16. **RETURN OF EARNEST MONEY DEPOSIT**

After the Sale Hearing, if the Winning Bid has been selected and the sale of the Acquired Assets to the Winning Bidder has been approved by the Bankruptcy Court, the Earnest Money Deposit of the Qualified Bidders who were not the Winning Bidder shall be returned within five (5) business days.

17. **RESERVATION OF RIGHTS; DEADLINE EXTENSIONS**

The Debtors reserve the right, subject to Bankruptcy Court approval, to (i) impose additional terms and conditions at or prior to the Auction, (ii) extend the deadlines set forth in the Bidding Procedures and/or adjourn the Auction at the Auction and/or the Sale Hearing in open court without further notice, (iii) withdraw from sale any assets at any time prior to or during the Auction and to make subsequent attempts to market the same; and (iv) reject all bids, if in the Debtors' reasonable judgment no Bid is for a fair and adequate price.

Dated: New York, New York
January __, 2002

ANGEL & FRANKEL, P.C.
Attorneys for PT Communications, Inc.,
PT-1 Long Distance, Inc., and PT-1 Technologies,
Inc., Debtors and Debtors-in-Possession

By: _____
Bruce Frankel, Esq. (BF-5001)
Rochelle R. Weisburg, Esq. (RW-6848)
460 Park Avenue
New York, NY 10022-1906
(212) 752-8000

EXHIBIT "2"

EXHIBIT "2"

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

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In re: 101-12655-260
101-12658-260
PT-1 COMMUNICATIONS, INC. 101-12660-260
PT-1 LONG DISTANCE, INC.
PT-1 TECHNOLOGIES, INC., Chapter 11
Debtors. Jointly Administered
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NOTICE OF BIDDING PROCEDURES AND ASSET SALE

PLEASE BE ADVISED that, on January 29, 2002, pursuant to a motion (the "Motion") filed by the above-captioned Debtors in the United States Bankruptcy Court for the Eastern District of New York (the "Court"), an order was entered approving bidding procedures annexed to the motion as Exhibit "E" (the "Procedures Order") for the sale of substantially all of the Debtors' assets (the "Acquired Assets") to MCI WorldCom Network Services, Inc. ("WorldCom") for \$108,800,000 and other consideration as more particularly set forth in the Asset Purchase Agreement, appended to the Motion as Exhibit "B", subject to higher or better offers. The Acquired Assets are described in the Motion and Asset Purchase Agreement.

PLEASE BE FURTHER ADVISED that, all interested bidders should carefully read the Motion (with Exhibits) and Bidding Procedures. To the extent there are any inconsistencies between the Motion and Bidding Procedures and the summary description of their terms and conditions contained in this Notice, the terms of the Motion and Bidding Procedures control.

PLEASE BE FURTHER ADVISED, that copies of the Motion, appended exhibits, which includes, the Proposed Asset Purchase Agreement, Management Agreement and, the Procedures Order are on file with the Clerk of the Bankruptcy Court for the Eastern District of New York at 75 Clinton Street, Brooklyn, New York 11201 and may be viewed during regular business hours, or are available on written request to counsel for the Debtors as provided below. ENTITIES REQUESTING ADDITIONAL INFORMATION OR REQUESTING COPIES OF THE AFORESAID DOCUMENTS MAY CONTACT ROCHELLE R. WEISBURG, ESQ., IN WRITING AT ANGEL & FRANKEL, P.C., ATTORNEYS FOR THE DEBTORS, VIA FACSIMILE, FAX NO. (212) 752-8393 OR VIA EMAIL AT rweisburg@angelfrankel.com. No representation is made by the Debtors or its counsel or other professionals except as specifically set forth in the Motion and Asset Purchase Agreement, and all entities which are submitting an offer for the purchase of the Acquired Assets shall be relying upon their own independent due diligence, review and analysis.

PLEASE BE FURTHER ADVISED that, pursuant to the Bidding Procedures, any Bidder desiring to submit a bid at the Auction (a "Bid") shall send a letter of interest to Debtors' counsel and follow the terms of the Procedures Order (a "Qualified Bidder"). Qualified Bidders, as determined by the Debtors with the assistance of the Official Committee of Unsecured Creditors (the "Committee") shall deliver such bids in writing and follow all terms and conditions prescribed by the Bidding Procedures which must be delivered to Debtors' counsel, Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022-1906, Attn: Bruce Frankel, Esq., with a copy to counsel to the Committee, McCarter & English,

100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attn: Lisa Bonsall, Esq. such that the Bid is actually received not later than **March 4, 2002 at 10:00 a.m.**

PLEASE BE FURTHER ADVISED that, pursuant to the Procedures Order, the Auction will be conducted at the United States Bankruptcy Court, Eastern District of New York, 75 Clinton Street, Brooklyn, New York 11201, **Courtroom 313, on March 7, 2002 at 10:00 a.m.** ("Sale Hearing")

PLEASE BE FURTHER ADVISED that, pursuant to the Procedures Order, objections to any relief requested by the Motion, other than as it relates to the assumption and assignment or rejection of executory contracts and unexpired leases, shall be set forth in writing with particularity as to the grounds for such objections or other statements of position and be served so as to be received by **5:00 p.m. on March 4, 2002** on (i) the Bankruptcy Court located at 75 Clinton Street, Brooklyn, New York 11201 (with a courtesy copy to be delivered to the Chambers of the Honorable Conrad B. Duberstein, Chief United States Bankruptcy Judge for the Eastern District of New York at 75 Clinton Street, Brooklyn, New York 11201); (ii) the Office of the United States Trustee for the Eastern District of New York, 33 Whitehall Street, 21st Floor, New York, NY 10004, Attention: Linda Riffkin, Esq.; (iii) counsel for the Debtors Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022, Attention: Bruce Frankel, Esq. and Rochelle R. Weisburg, Esq.; (iv) counsel for the Committee, McCarter & English, LLP, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attention: Lisa Bonsall, Esq. and Patricia Zohn, Esq.; and (v) counsel for MCI WorldCom Network Services, Inc., Reed Smith, LLP, 435 Sixth Avenue, Pittsburgh, PA 15219 Attention: Many Emamzadeh, Esq., and Reed Smith, LLP, One River Front Plaza, Newark, NJ 07102, Attention: Deborah A. Reperowitz, Esq. The date and time to file and serve objections that relate to the assumption and assignment of executory contracts and unexpired leases shall be fixed by the Court in the order to be entered approving the sale of Assets.

PLEASE BE FURTHER ADVISED that, if you do not oppose the proposed sale or other relief sought in the Motion, you need not respond to the Motion, nor attend the Sale Hearing.

PLEASE BE FURTHER ADVISED that, pursuant to the Bidding Procedures, the Debtors may, subject to Court approval, (i) impose additional terms and conditions at or prior to the Auction, (ii) extend the deadlines set forth in the Bidding Procedures and/or adjourn the Sale Hearing in open court without further notice, (iii) withdraw from sale any assets at any time prior to or during the Auction and to make subsequent attempts to market the same, and (iv) to reject all bids, except for the WorldCom bid, if in the Debtors' and Committee's reasonable judgment, no bid is for a fair and adequate price.

Dated: New York, New York
January __, 2002

BY ORDER OF THE COURT

CONRAD B. DUBERSTEIN
CHIEF U.S. BANKRUPTCY JUDGE

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Leonard H. Gerson, Esq. (LG-6421)
Rochelle R. Weisburg, Esq. (RW-6848)

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

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In re:	101-12655-260
	101-12658-260
PT-1 COMMUNICATIONS, INC.	101-12660-260
PT-1 LONG DISTANCE, INC.	
PT-1 TECHNOLOGIES, INC.,	Chapter 11
Debtors.	Jointly Administered

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AMENDED EXHIBIT "A"
TO

DEBTORS' MOTION SEEKING THE ENTRY OF AN ORDER(S):
(i) AUTHORIZING THE SALE OF SUBSTANTIALLY ALL OF DEBTORS' ASSETS FREE AND CLEAR OF ALL LIENS, CLAIMS AND ENCUMBRANCES;
(ii) AUTHORIZING THE DEBTORS TO SELL SUCH ASSETS TO MCI WORLDCOM NETWORK SERVICES, INC. OR ANY HIGHER OR BETTER BIDDER PURSUANT TO THE TERMS OF AN AGREEMENT DATED JANUARY 22, 2002; **(iii) APPROVING A BREAK-UP FEE AND CERTAIN BIDDING PROCEDURES;** **(iv) AUTHORIZING ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN CONNECTION THEREWITH,** **(v) APPROVING MECHANISM FOR FIXING CURE AMOUNTS AND SCHEDULING HEARING(S) AND APPROVING NOTICE RELATED THERETO;** **(vi) EXEMPTING THE SALE FROM STAMP OR SIMILAR TAXES,** **(vii) APPROVING COMPROMISE OF A CONTROVERSY AND THE EXCHANGE OF RELEASES PURSUANT TO BANKRUPTCY RULE 9019,** **(viii) APPROVING MANAGEMENT AGREEMENT,** **(ix) AUTHORIZING CREDIT BIDDING,** **(x) AUTHORIZING DEBTORS TO ENTER INTO AND APPROVING AGREEMENT WITH RFC CAPITAL CORPORATION AND** **(xi) GRANTING RELATED RELIEF**

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January 30, 2002

Bryan L. Engle
Chief Executive Officer
PT-1 Communications, Inc.
PT-1 Long Distance, Inc.
PT-1 Technologies, Inc.
30-50 Whitestone Expressway
Flushing, New York 11354

Dear Mr. Engle:

MCI WorldCom Network Services, Inc. ("WorldCom" or "Purchaser") is pleased to submit this proposal to acquire substantially all of the assets (the "Acquisition") related to the businesses (the "Business") of PT-1 Communications, Inc., PT-1 Long Distance, Inc. and PT-1 Technologies, Inc. and their respective subsidiaries (collectively, the "Sellers") and assume only those liabilities of Sellers expressly set forth herein (the "Assumed Liabilities"), pursuant to a sale authorized pursuant to Section 363 of the United States Bankruptcy Code (the "Bankruptcy Code"). The Business shall be conveyed free and clear of all liens, claims and encumbrances, except for the Assumed Liabilities. The proposed purchase of the Business by Purchaser as outlined herein is hereinafter referred to as the "Proposal". This Proposal is being distributed as part of settlement negotiations between WorldCom, the Sellers and the Official Committee of Unsecured Creditors of the Sellers (the "Committee"), STAR Telecommunications, Inc. and its wholly-owned direct and indirect subsidiaries and affiliates, other than the Sellers and their wholly-owned direct and indirect subsidiaries (collectively, "STAR") and the Official Committee of Unsecured Creditors of STAR (the "STAR Committee") and is not admissible into evidence by the Sellers, the Committee, STAR, the STAR Committee or WorldCom, in any legal or administrative proceeding.

1. **Assets.** Purchaser will purchase all of the assets owned by the Sellers (other than those assets expressly excluded from purchase by Purchaser in the Purchase Agreement, as defined below), which are used in the operation of the Business, including, without limitation, the following (collectively referred to herein as the "Acquired Assets").
 - a. All cash at Pre-Closing, as defined in Section 6, below, less all cash required to pay all outstanding postpetition unpaid expenses incurred in the ordinary course of the Sellers' Business as of the actual Pre-Closing, excluding professional fees and expenses (the "Initial Cash");
 - b. All accounts receivable (including, without limitation, the "tail") related solely to the Business (the "Acquired Receivables"), but specifically excluding the receivables due the Sellers by IDT Corporation or its affiliates (collectively, "IDT"), and any other receivables not related to the Business;
 - c. All deposits;
 - d. All prepaid expenses;

Bryan L. Engle
 January 30, 2002
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- e. All equipment (including, without limitation, all telecommunications and switching equipment and platforms, computers and peripherals and office equipment), furniture, fixtures and leasehold improvements;
- f. 1016868 Carrier Identification Code ("CIC") and any other CICs that are loaded on the Sellers' Feature Group D network, and all rights related thereto;
- g. All customer base related to the Business and all dial-around traffic and revenue streams related thereto, including, without limitation, any past or current customers and any information or call records relating thereto;
- h. All telecommunications network assets, including, without limitation, 800 and other telephone numbers, ACNAs, all circuits, private lines, internachine trunk lines, and Feature Group D's related to Sellers' operation of its telecommunications network, and all rights related to the foregoing to be used in perpetuity;
- i. All intellectual property related to the Business or any of the Acquired Assets, including, without limitation, trademarks, copyrights, patents, licenses, sublicenses, technical information, data, specifications, research and development information, engineering drawings and operating and maintenance manuals (the "Intellectual Property"), and including, without limitation, Intellectual Property which may be recovered by the Sellers' estates pursuant to its avoidance actions under chapter 5 of the Bankruptcy Code;
- j. All permits relating to the Business or any of the Acquired Assets;
- k. All rights to any and all cash true-ups or other contract rights related to HOLD Billing Services, Inc., HOLD Billing Services, Ltd., or any other billing and collection service agreements related to the Business;
- l. All of Sellers' claims and causes of action, if any, against Purchaser and its affiliates;
- m. Copies, at Purchaser's cost, of all of Sellers' financial, accounting and other books and records as are necessary for the Purchaser's continued operation of the Acquired Assets and the Business;
- n. All other personal, real, tangible or intangible property used in the operation of the Business;
- o. All rights to employ the employees of the Sellers, as may be requested by Purchaser, there being no obligation imposed on the Purchaser to employ any of the employees of the Sellers; and
- p. Such other assets as are specifically set forth in the Purchase Agreement, but specifically excluding the Excluded Assets, as defined in Section 3, below.

The foregoing are collectively referred to as the "Acquired Assets." The Acquired Assets will be delivered free and clear of all liens, claims and encumbrances, other than those which do not materially impair the use or operation of such assets in the ordinary course of business and which are consented to by Purchaser. Purchaser consents to the lien and security interest of Chase Equipment Leasing, Inc., and

agrees to assume the obligations of the Sellers as set forth in the Chase Amendment and the STAR Agreement, each as defined below in Section 2. The Acquired Assets will otherwise be transferred on an "as is, where is" basis and with all faults.

2. Executory Contracts. STAR, to the extent necessary to transfer contracts relating directly and exclusively to the services provided by STAR to Sellers, *provided that* any cure costs related to such executory contracts shall not be paid by STAR, and Sellers shall assign to Purchaser all executory contracts (unless expressly excluded in the Purchase Agreement) to which any one or more of them is a party, and Purchaser shall assume the liabilities under such executory contracts after the Closing, including without limitation the following:

- a. The postpetition agreement between the Sellers and STAR related to the transfer of assets and continued provision of services executed by STAR and the Sellers on or about October 24, 2001 (together with any amendments thereto, the "STAR Agreement"), approved by the United States Bankruptcy Court for the District of Delaware on December 4, 2001, and approved by the United States Bankruptcy Court for the Eastern District of New York (the "Bankruptcy Court") on December 21, 2001;
- b. That certain agreement by and between the Purchasers and Chase Equipment Leasing, Inc., dated November 9, 2001, as the same may be amended, modified or supplemented from time to time (the "Chase Amendment"), approved by the Bankruptcy Court on January 15, 2002;
- c. The Billing Services Agreement by and between HBS Billing Services, Ltd. and its affiliates (collectively, "HBS") and Sellers dated as of October 16, 1997, as the same may have been amended, modified or supplemented from time to time, *provided that* it shall be a condition to Pre-Closing that Purchaser and HBS enter into a modification or supplement to such agreement which eliminates Purchaser's risk with respect to collection of receivables from HBS (but not the collection risk from the end-users), and *provided further* that in lieu of assuming the foregoing HBS contract, Purchaser may enter into a new contract with HBS; and
- d. Such other executory contracts and unexpired leases as Purchaser determines on or before the Closing, as defined in Section 8, below.

The foregoing are collectively referred to as the "Assumed Contracts." The Assumed Contracts will be delivered free and clear of all liens, claims and encumbrances, other than those which do not materially impair the use or operation of such assets in the ordinary course of business or which are consented to by Purchaser, or those that accrue from and after the Closing, as defined below.

3. Excluded Assets. Notwithstanding the foregoing, the Acquired Assets shall not include the following "Excluded Assets" of Sellers:

- a. All avoidance or other actions under chapters 5 or 11 of the Bankruptcy Code or otherwise, and any recoveries thereunder, except for actions against WorldCom or its affiliates or and recoveries from actions recovering Intellectual Property, to the extent that Intellectual Property is ultimately recovered by the Sellers;
 - b. All accounts receivable and other assets (including, without limitation, choses of action) not related to the Business, including without limitation the accounts receivable and other sums owed by IDT to the Sellers and any debit card receivables;
 - c. Any and all claims or choses of action in connection with or arising out of the Sellers' debit card business which was sold prepetition;
 - d. Any assets in Sellers' executive or incentive compensation, bonus, deferred compensation, pension, profit sharing, savings, retirement, stock option, stock purchase, group life, health or accident insurance or other employee benefit plans;
 - e. All minute books, stock transfer books and corporate seals;
 - f. All financial and accounting books and records, except such books and records as are necessary for the Purchaser's continued operation of the assets and the Business, *provided that*, Purchaser shall have reasonable access to any such books and records retained by the Sellers as may be necessary or desirable to operate the Business and the opportunity to copy such books and records at Purchaser's cost, and further the right to take any data, books or records which the Sellers decide to discard after the Closing, as defined below;
 - g. Any actions against former officers and directors of Sellers or STAR, other than those expressly released pursuant to the terms and conditions of this Proposal; and
 - h. All tangible, intangible, real or personal property, including, without limitation, contracts, permits or intellectual property which Purchaser specifically lists in the Purchase Agreement, as defined in Section 9, below, as an "Excluded Asset".
4. Releases and Waivers. As a condition to Pre-Closing, the following releases and waivers (collectively, the "Releases and Waivers") shall have become effective on or before the Pre-Closing (whether to Purchaser or a Successful Competing Bidder, as defined in Section 10(f), below):
- a. The Sellers and the Committee shall waive and release any and all claims, demands, allegations and/or causes of action, if any, each may have against WorldCom, and its Related Entities, as defined in Section 4(j), below, as they relate to the bankruptcy cases of the Sellers, but specifically excluding WorldCom's obligations under this Proposal (the "PT-1 Release");
 - b. WorldCom shall waive and release any and all claims, liens, security interests, demands, allegations and/or causes of action, if any, it may have

against the Sellers, the Committee, STAR and the STAR Committee and their respective Related Entities as they relate to the WorldCom Claim, as defined in Section 5(a), below, and the bankruptcy cases of the Sellers and STAR and all prepetition activity, but specifically excluding any claims for the provision of postpetition telecommunications services and related charges to the Sellers or STAR, and the obligations of the Sellers and STAR under this Proposal (the "WorldCom Release"); and

- c. STAR and the STAR Committee shall waive any and all claims, demands, allegations and/or causes of action, if any, it may have against WorldCom, and its Related Entities, as they relate to the bankruptcy cases of STAR or the Sellers, but specifically excluding WorldCom's obligations under this Proposal and any claims and defenses for the provision of postpetition telecommunications services and related charges due to or due from WorldCom (the "STAR Release");
- d. Each of Sellers, the Committee, STAR and the STAR Committee acknowledge and agree that (i) each of STAR and Sellers have filed proofs of claim in the bankruptcy cases of Sellers and STAR, respectively; (ii) the bar date for filing proofs of claim in each of the Sellers' and STAR's bankruptcy cases has passed; (iii) each of the parties knew of the passage of the bar date in each of the respective bankruptcy cases and that each had sufficient time to prepare and file a proof of claim in respect thereof, and that each knowingly decided not to file any additional proofs of claim in the respective cases, and that no other proofs of claim shall be filed by such parties in the Sellers' or STAR's bankruptcy cases with respect to claims, known or unknown; whenever arising, regardless of whether a proof of claim was, could be or could have been filed; (iv) such knowing failure to file any additional claims is not excusable neglect; (v) after further review, such filed proofs of claim are unliquidated, contingent and uncertain as to allowance and any anticipated distribution thereon is believed to be *de minimis*; and (vi) at the Closing, Sellers and STAR shall irrevocably waive distribution in STAR's and Sellers' respective bankruptcy cases;
- e. The Sellers and the Committee shall waive any right to any recovery from STAR's director and officer insurance policies, *notwithstanding the foregoing*, such waiver shall not impair the claim of any party insured under such policies for defense costs from the policy, and each of the Sellers, the Committee, STAR and the STAR Committee shall share information with each other with respect to any lawsuit initiated by the Sellers, the Committee, STAR or the STAR Committee against any former officers and directors of STAR or the Sellers;
- f. Each of Sellers and STAR recognize the consideration each shall be receiving under this Agreement by virtue of, *inter alia*, the WorldCom Release, as defined in Section 4(b), above, and the effect thereof in the Sellers' and STAR's bankruptcy cases.

- g. WorldCom, Sellers and the Committee shall waive and release from any and all claims, demands, allegations and/or causes of action, if any, each may have, against Gordon Hutchins ("Hutchins") and Mary Casey ("Casey"), or both of them, from any and all claims, except for telecommunications services provided to Hutchins or Casey.
 - h. Notwithstanding any provision of the foregoing Releases and Waivers, the obligations of the Sellers under the STAR Agreement and Sellers' postpetition obligations to STAR, and the obligations of WorldCom upon assuming the STAR Agreement, shall not be affected by this Proposal or any contracts or orders effectuating this Proposal, unless consented to in a separate writing by STAR.
 - i. Any releases or waivers contemplated herein shall include the waiver of any statute or law which affects the releasing or waiving party's ability to release or waive unknown claims.
 - j. Nothing herein shall be construed as an admission by any party that any other party has causes of action or claims against such party or its Related Entities.
 - k. For purposes of this Section 4, "Related Entities" shall mean with respect to any person or entity, its current and former agents, servants, employees, directors, officers, shareholders, attorneys, branches, affiliates, subsidiaries, successors and assigns and all persons, firms, corporations, and organizations acting on behalf of such person or entity.
5. Purchase Price. In consideration for the acquisition of the Acquired Assets, the Purchaser shall pay (or cause to be paid) consideration in an amount agreed to be \$108,800,000.00 (the "Purchase Price") and the other consideration set forth below:
- a. At Closing, as defined in Section 8, below, Purchaser shall cause WorldCom to waive all of its claims against the Sellers, but excluding its Secured Claim of \$106,373,824.42 (the "WorldCom Claim") which shall be credit bid pursuant to Section 363(k) of the Bankruptcy Code, having a minimum value of \$75,000,000, with additional, incremental bids, if any, by WorldCom to be submitted in accordance with Section 10(e) of this Proposal;
 - b. At the actual Pre-Closing, as defined in Section 6, Purchaser shall cause to be paid to the Sellers \$5,200,000 (the "Initial Payment"), in escrow, in immediately available funds;
 - c. Thirty (30) days after the actual Pre-Closing, Purchaser shall cause to be paid to the Sellers \$10,400,000 (the "Second Payment"), in escrow, in immediately available funds;
 - d. Sixty (60) days after the actual Pre-Closing, the Purchaser shall cause to be paid to Sellers an additional \$10,400,000 (the "Third Payment"), in escrow, in immediately available funds;
 - e. Ninety (90) days after the actual Pre-Closing, the Purchaser shall cause to be paid to Sellers an additional \$2,000,000 (the "Fourth Payment"), in escrow, in immediately available funds; and

Bryan L. Engle
January 30, 2002
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- f. At Closing, Purchaser shall (i) assume post-Pre-Closing obligations under the Chase Amendment, having an agreed value of \$3,500,000, (ii) assume post-Pre-Closing obligations under the STAR Agreement, having an agreed value of \$1,800,000, and (iii) pay up to an additional \$500,000 towards cure and assumption costs related to unexpired leases and executory contracts assumed by the Sellers and assigned to the Purchaser, or other costs incurred by the Purchaser in order to reduce such cure and assumption costs, as are incurred pursuant to the terms and conditions of this Proposal (all such costs collectively referred to herein as the "Contract Costs").
6. Pre-Closing and Closing.
- a. No later than ten (10) days after the entry of the Sale Approval Order, as defined in Section 12(c), below, by the Bankruptcy Court which is not subject to further stay or appeal (*provided, however*, that Purchaser may elect to close or pre-close, as the case may be, the transactions contemplated hereby (despite a pending appeal if no stay thereof is in effect) pursuant to, and in accordance with, the protections afforded under Section 363(m) of the Bankruptcy Code), approving the sale of the Acquired Assets to Purchaser pursuant to the terms and conditions hereof, Purchaser and Sellers shall have a pre-closing (the "Pre-Closing") in Purchaser's counsel's offices in Pittsburgh, Pennsylvania at which the parties shall deliver the executed and approved Purchase Agreement and any related agreements, including, without limitation a Management Agreement, as defined and described in Section 7, below;
- b. Within ten (10) days of obtaining all Necessary Approvals, as defined in Section 8, below, Purchaser and Sellers shall close on the Acquisition (the "Closing") and the Management Agreement and the Purchase Agreement shall be deemed to be assigned to TTI National, Inc., without the requirement for further court approval or execution of any documents by and among the parties; and
- c. The period between the Pre-Closing and the earlier of (i) the Closing or (ii) the last day of the month in which the Management Agreement is terminated for failure to obtain the Necessary Approvals (inclusive) shall be referred to herein as the "Management Period".
7. Management Agreement. At the actual Pre-Closing, Purchaser and Sellers shall enter into an agreement (the "Management Agreement") pursuant to which Purchaser shall be granted the right to manage the Business during the Management Period or the termination of the Purchase Agreement (*i.e.*, as a result of failure to obtain the Necessary Approvals), whichever occurs first. The Management Agreement shall be in a form reasonably acceptable to each of the Sellers, the Committee and Purchaser, and shall include the following general terms and conditions:

- a. The WorldCom Claim shall be conditionally credited to Sellers' account with WorldCom on the date of the Pre-Closing;
- b. Purchaser shall operate the Business during the Management Period in the ordinary course, except as contemplated by this Proposal, it being contemplated by the parties that Purchaser may move some of its traffic onto WorldCom's network. During the Management Period, Purchaser shall cause all Operating Reports, in the form currently submitted to the United States Trustee, to be prepared and served monthly upon the United States Trustee, the Committee's counsel and the Sellers' counsel;
- c. In the event of a Termination, as defined in Section 16, below, the Purchaser shall be entitled to twenty-five percent (25%) of the Aggregate Cash Flow, if positive, during the Management Period. In the event Aggregate Cash Flow is negative, Purchaser shall be liable for such negative aggregate cash flow. For purposes of this Proposal, "Aggregate Cash Flow" in any given period is equal to the cash received by the Purchaser during such period (excluding the Initial Cash), less any expenditures of cash by the Purchaser during such period (including, without limitation, operating expenses, capital expenditures, and the provision of telecommunications services to the Sellers by WorldCom and its affiliates during the Management Period, whether paid by WorldCom or its affiliates (including setoffs and intercompany transfers) or paid from the Initial Cash or cash received by the Purchaser from operation of the Business during the Management Period);
- d. Purchaser and Sellers shall use their respective best efforts during the Management Period to obtain all Necessary Approvals, as defined below, without the requirement that Purchaser pay third parties for such Necessary Approvals;
- e. During the Management Period, Purchaser shall pay into an interest-bearing escrow account controlled by the Sellers' counsel, the Initial Payment at the actual Pre-Closing, the Second Payment thirty (30) days after the actual Pre-Closing, the Third Payment sixty (60) days after the actual Pre-Closing and the Fourth Payment ninety (90) days after the actual Pre-Closing.
- f. At the Closing, Sellers' counsel shall disburse from the escrow account: (i) Contract Costs, to the extent such Contract Costs exceed \$500,000 paid by Purchaser, in an amount not to exceed \$400,000, with the remainder of any Contract Costs to be paid by Purchaser, to the appropriate parties (including Purchaser to the extent that Purchaser has paid Contract Costs in excess of \$500,000); and (ii) the remainder to the Sellers' estates to be made available for distribution to creditors.
- g. At Termination, the escrowed funds, including interest thereon, shall be turned over to the Purchaser after reduction for payments due the Sellers' estates pursuant to Section 7(c), above.
- h. Notwithstanding the foregoing, in the event that Purchaser does not obtain Necessary Approvals within 180 days of the Pre-Closing (a "Delay in

- Closing”), and Purchaser has obtained all necessary Regulatory Approvals, as defined in Section 8, below, Sellers’ counsel shall release from the escrow the Purchase Price, less \$400,000, and make such amounts available for distribution to creditors.
- i. At the Closing after a Delay in Closing, Sellers’ counsel shall pay from the escrow account up to \$400,000 in Contract Costs in excess of the \$500,000 in Contract Costs paid by Purchaser to the appropriate parties (including Purchaser, to the extent that Purchaser has paid Contract Costs in excess of \$500,000), and the remainder, if any, shall be paid to the Sellers’ estates and made available for distribution to creditors.
 - j. Notwithstanding any other provision of this Proposal to the contrary, in the event that notwithstanding the Purchaser’s efforts to obtain the Necessary Approvals, a Termination occurs after a Delay in Closing, Purchaser shall not be required to turn over an amount equal to the Initial Cash to the Sellers, *provided that* the escrowed funds have been disbursed to the estates, as set forth above in Section 7(i), and Sellers shall be obligated to pay to Purchaser any costs or expenses, including, without limitation, usage of WorldCom’s telecommunications services, incurred during the Management Period which was not actually paid from the Initial Cash or the cash flow of the Business during the Management Period;
 - k. Purchaser shall pay Contract Costs from the Aggregate Cash Flow during the Management Period, which shall effect a reduction in the Aggregate Cash Flow, in the event of a Termination. In the event of a Closing, the Contract Costs paid from Aggregate Cash Flow shall be credited against Purchaser’s obligation to pay the first \$500,000 in Contract Costs.
 - l. Purchaser agrees that it will use its best efforts to minimize Contract Costs, and to further such efforts, if the Sellers, the Committee and the Purchaser determine that the Contract Costs of assumption and cure of an executory contract or unexpired lease would be more than the costs of entering into alternative arrangements and the Sellers and the Committee agree, in writing, on a case-by-case basis, that the Contract Costs of entering into such alternative arrangements shall be included in Contract Costs for all purposes under this Proposal, then, Purchaser shall pursue such alternative arrangements, it being understood that Purchaser’s best efforts does not include any duty to pay monies to third parties in order to obtain the desired result of minimizing Contract Costs, unless such costs are deemed Contract Costs for all purposes. The Sellers and the Committee agree to support Purchaser’s efforts to minimize Contract Costs.
8. Necessary Approvals. The “Closing” shall occur after all notices, permits, authorizations, approvals, consents, or waivers determined by the Purchaser to be reasonably required or necessary from any state or federal regulatory agency asserting jurisdiction over the transactions contemplated by this Proposal, including, without limitation, approvals required (if any) under the Hart-Scott-Rodino Antitrust

Improvements Act, as amended, and from the Federal Communications Commission, and state public utility and public service commissions (collectively, the "Regulatory Approvals"), and all consents as are reasonably required to operate the Business are obtained, including, without limitation, assignment of contracts, licenses, sublicenses, and the like, or the obtainment by Purchaser of reasonable alternatives for such contracts, licenses, sublicenses and the like (collectively with the Regulatory Approvals, the "Necessary Approvals")

9. Purchase Agreement. Sellers and Purchaser intend to enter into a definitive purchase agreement (the "Purchase Agreement") with respect to the Acquisition to be submitted with a motion to approve the Bidding Procedures set forth in Section 10, below. The Purchase Agreement will contain covenants, representations and warranties, closing conditions and other customary provisions for transactions of this type and magnitude. The representations and warranties will not survive the closing, except:
 - a. The representations by each party as to its power and authority to enter into the Purchase Agreement and to complete the transactions contemplated thereby, subject to entry of the Sale Approval Order, as defined in Section 12(c), below; and
 - b. The representations by each party as to the enforceability against it of the Purchase Agreement and related documents.

10. Bidding Procedures. Purchaser shall require the following bidding Procedures (the "Bidding Procedures") to serve as the stalking horse in the Sellers' bankruptcy. These Bidding Procedures will reflect the following:
 - a. This Proposal is further subject to entry of a final, non-appealable order by the Bankruptcy Court approving these Bidding Procedures (the "Bidding Procedures Order"), that is in form and substance satisfactory to Purchaser, Sellers and the Committee;
 - b. The Bidding Procedures shall include a form of Purchase Agreement and Management Agreement approved by the Purchaser, the Sellers and the Committee, provided that if the Sellers and the Purchaser agree to certain terms consistent with this Proposal, not agreeable to the Committee, such terms shall be included in the Purchase Agreement and the Management Agreement after good faith negotiations by all parties with respect thereto, and the Committee may raise its objections related solely to such provisions before the Bankruptcy Court for a final determination by the Bankruptcy Court in a manner consistent with the terms and conditions of this Proposal. The Purchase Agreement and the Management Agreement shall be executed by Purchaser and Sellers, subject to Bankruptcy Court approval;
 - c. For purposes of the sale of the Acquired Assets only, the WorldCom Claim, as set forth in WorldCom's proof of claim shall be deemed to be an allowed secured claim (the "Secured Claim"). In the event that a sale of the

Acquired Assets to Purchaser (or any other bidder) is not ultimately closed, the Debtors and the Committee shall not be deemed to have waived any right each may have, if any, to challenge the Secured Claim merely as a result of accepting this Proposal;

- d. Such Purchase Agreement and Management Agreement must be accepted by any competing bidder in substantially the same form, but in no event shall such bidder's terms be more onerous to the Sellers or more beneficial to such bidder than those terms and conditions as are contained in the Purchase Agreement and the Management Agreement, including, without limitation, such changes as are necessitated by the economic terms of such bidder's bid, consistent with the terms of the Bidding Procedures Order. Each such bidder shall be required to submit to the Bankruptcy Court and serve upon the Purchaser, the Sellers and the Committee, a redlined version of the Purchase Agreement and the Management Agreement so that the same are received by the respective parties no later than two (2) business days before the Sale Approval Hearing, as defined below;
- e. The Bidding Procedures will provide that the Sellers can only accept an initial competing bid from a financially qualified bidder (as determined by the Sellers and the Committee in good faith after a deposit by such bidder of 10% of the aggregate purchase price offered by such bidder with the Sellers' counsel) that includes payment of the Purchase Price plus at least \$3,000,000 payable in immediately available funds into escrow upon the Pre-Closing and to be paid at the Closing as follows: (i) to WorldCom in the amount of \$75,000,000 in immediately available funds; (ii) to the Sellers' estates, the \$33.8 Million in consideration (composed of the payments to be made during the Management Period, the agreement to pay \$500,000 in Contract Costs, the agreement to assume the Chase Amendment, and the agreement to assume the STAR Agreement) on terms no less advantageous to such bidder than Purchaser's payment terms set forth in this Proposal; (iii) to the extent that Purchaser increases its bid, it shall be permitted to credit bid two-thirds of such increase in its bid through its Secured Claim, and the remainder of such increased bid shall be in cash payable at the same time as the Fourth Payment; (iv) to the extent that there is a Successful Competing Bidder, as defined in Section 10(f), below, WorldCom shall be entitled to receive in cash, at Closing, in addition to the \$75,000,000 set forth above, two-thirds of the difference between the Successful Competing Bidder's winning bid and \$108,800,000.00, payable at the Closing, in cash, and the remainder shall be turned over to the Sellers' estate. Each successive bid shall be in a minimum increment of \$3,000,000. Notwithstanding any provision in this Proposal to the contrary, in no event shall Purchaser be entitled to credit bid an amount greater than the Secured Claim, nor shall WorldCom receive on account of its claims in the Sellers' cases an amount greater than its Secured Claim, in the event that there is a Successful Competing Bidder.

Bryan L. Engle
January 30, 2002
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Reed Smith

- f. The Bidding Procedures Order shall include a provision that in the event that a purchaser other than WorldCom or Purchaser is the successful bidder for substantially all of the assets of the Sellers (a "Successful Competing Bidder"), the Releases and Waivers granted to the Sellers, the Committee, WorldCom, STAR and the STAR Committee, and their respective related parties, shall remain effective as of the Closing of such sale;
 - g. As used herein, the term "Break-up Fee" shall mean the entitlement by Purchaser or WorldCom to receive payment from the Sellers upon a Closing of the sale of substantially all of their assets to a Successful Competing Bidder in an aggregate amount of \$750,000.00, after payment of which together with the required payment at the Closing as set forth in Section 10(e), above, neither Purchaser nor WorldCom shall have any claim against the Sellers for fees, expenses or any other claim, other than WorldCom's claim for postpetition telecommunications services to the Sellers and their affiliates and related charges;
 - h. The Bidding Procedures Order shall include a finding that WorldCom and/or its designee, TTI National, Inc., is a good faith purchaser and a qualified bidder;
 - i. The Bidding Procedures Order shall include a finding by the Bankruptcy Court that the Pre-Closing contemplated by this Proposal shall constitute substantial consummation of the sale of the Acquired Assets to the purchaser (whether the Purchaser or a Successful Competing Bidder) for all purposes, including, without limitation, Section 363(m) of the Bankruptcy Code, providing the Purchaser or such Successful Competing Bidder, as the case may be, the protections afforded under Section 363(m) of the Bankruptcy Code;
 - j. The Bidding Procedures Order shall approve the settlements contemplated by this Proposal, effective upon a Closing; and
 - k. Neither the Sellers, the Committee, STAR nor the STAR Committee shall object to approval by the Bankruptcy Court of the Bidding Procedures.
11. Carrier Agreements. The Closing shall be conditioned upon the Sellers' telecommunications carriers agreeing to enter into post-Closing carrier agreements with the Purchaser on or before the Closing with standard and customary business terms, including, without limitation, on and after the Closing, standard payment terms commensurate with Purchaser's (or such Successful Competing Bidder's) creditworthiness.
12. Timing. This Proposal is conditioned upon the following events occurring on or before the specified dates:
- a. Motion to Approve Bidding Procedures, consistent with the terms contained in this Proposal, to be filed on or before Tuesday, January 22, 2002;

Bryan L. Engle
 January 30, 2002
 Page 13

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- b. Hearing and entry of Bankruptcy Court order approving Motion to Approve Bidding Procedures to be entered on or before January 29, 2002;
 - c. Sale Approval Hearing on or before March 5, 2002 (the "Sale Approval Hearing") and entry of an order approving the sale of the Acquired Assets (the "Sale Approval Order") on or before March 6, 2002, and
 - d. Actual Pre-Closing on or before March 12, 2002. Notwithstanding the actual date of the Pre-Closing, the Pre-Closing shall be effective, *nunc pro tunc*, as of December 31, 2001 at 11:59:59 p.m. for all purposes. Notwithstanding the actual date of the Closing, the economic benefits of the Purchaser's acquisition of the Acquired Assets shall be effective as of January 1, 2002, at 12:00:00 a.m.
13. Press Releases. Except as is necessitated by notice of the sale of the Acquired Assets, neither Sellers, the Committee, STAR, the STAR Committee, Purchaser, nor WorldCom will release publicity of any type concerning this Proposal or the Acquisition without the prior written consent of the other parties, except as may be necessary to secure approvals or make disclosures required by a governmental or regulatory body or authority, or in connection with obtaining Bankruptcy Court approval of this Proposal and the transactions contemplated hereby.
 14. Costs. STAR, Sellers, the Committee, the STAR Committee, Purchaser and WorldCom will each pay their respective transaction expenses, including internal personnel or overhead costs and fees and expenses of legal counsel, incurred in connection with the Acquisition or the resolution of Contract Costs. Nothing contained in this letter shall make STAR liable for any Contract Costs.
 15. Access. Sellers shall provide Purchaser with access to its consultants and accountants and documentation related to the Acquisition.
 16. Termination. In the event that Purchaser determines that after use of its best efforts (without the obligation to pay any additional amounts to third parties) to obtain the Necessary Approvals, that it will not be able to obtain such Necessary Approvals, Purchaser shall notify the Sellers, the Committee, STAR and the STAR Committee of its determination and the Purchase Agreement and the Management Agreement shall terminate (the "Termination") as of the last day of the month in which the notice is given.
 17. Confidentiality. Each party and its advisors will hold all information obtained from the other party or its advisors in strict confidence and will use such information only for the purpose of evaluating the Acquisition. In the event that the transactions contemplated by this Proposal and the Purchase Agreement is not consummated, the receiving party will return promptly all originals and copies of materials reflecting such confidential information to the providing party. To the extent any such confidential information was provided to the receiving party electronically, the

receiving party shall delete all such confidential material from whatever media it is stored, including, without limitation, any backups or archives,

18. Execution Deadline. If the foregoing is acceptable to you, please execute and cause the Committee and STAR to execute this Letter Agreement as indicated below and return it to me no later than 12:00 p.m., Eastern Time, Tuesday, January 31, 2002. If a fully executed copy of this Letter Agreement is not received by WorldCom by that time this Letter Agreement shall terminate and be of no further effect, at WorldCom's option.
19. Postpetition Financing. Sellers and WorldCom shall agree to support Sellers' obtainment of postpetition financing from RFC on an expedited basis, and in any event, no later than the actual Pre-Closing, in an amount equal to \$22,800,000, which financing shall be used in the event of a disruption in anticipated cash flow. In the event of any such borrowing, Purchaser agrees to assume the liabilities to RFC incurred by the Sellers at the Closing.
20. Waiver, Certain Consents. Any of the terms or conditions of this Proposal may be waived (in writing) at any time and from time to time by the party entitled to the benefits thereof without affecting any other terms or conditions of this Agreement.
21. Release of Management Team. WorldCom, Purchaser, Sellers, the Committee, STAR and the STAR Committee shall each release the existing management team of the Sellers composed of Bryan L. Engle, Tamie Barsky and Adam Kolodny (collectively, the "Management Team"), effective as of the Closing, from all liabilities, claims, damages, or causes of action, if any, related to (a) their respective employment by Asset Recovery Services, Inc. ("ARSI") in relation to ARSI's prepetition review of the Sellers' and STAR's operations and financials and (b) their respective employment by the Sellers, except for acts of gross negligence, willful misconduct or fraud.
22. Release of Committee Members. Sellers, STAR and WorldCom shall each release the individual members of the Committee and the STAR Committee, effective as of the Closing, from all liabilities, claims, damages or causes of action, if any, related to their serving as members of the Committee and the STAR Committee, respectively, except for acts of gross negligence, willful misconduct or fraud.
23. Stay Put Bonus for Management Team. The Purchaser, the Committee and the Sellers consent to the stay put bonuses for the Management Team requested by the Sellers in the Sellers' chapter 11 cases, *provided that* such stay put bonuses shall be paid one-third at the actual Pre-Closing and two-thirds at the earlier to occur of a Delay in Closing or the Closing. Such stay-put bonuses shall be paid by Purchaser, and payment of the same shall not reduce the Purchase Price in any manner.

Bryan L. Engle
January 30, 2002
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24. WorldCom Claims Against STAR and Sellers. WorldCom represents and warrants that it has not assigned its claims against STAR or the Sellers to any third party, and agrees to indemnify and hold STAR and/or the Sellers, as the case may be, harmless from any and all claims, demands, allegations and/or causes of action, if any, which arise out of WorldCom's breach of this representation and warranty.
25. Documentation Efforts. The parties shall use their best efforts to faithfully and in a timely manner, document the terms and conditions of this Proposal, including, without limitation, the drafting of the Bidding Procedures Order and the pleadings supporting same, the Sale Approval Order and the pleadings supporting same, the Purchase Agreement, the Management Agreement and the Releases and Waivers contemplated by this Proposal and promptly implement such agreements after approval thereof by the Bankruptcy Court and the United States Bankruptcy Court for the District of Delaware, to the extent necessary..
26. Time is of the Essence. Time is of the essence with respect to all provisions of this Proposal.
27. Headings. The headings used herein are for purposes of reference only and shall not limit or affect the meaning of such section.
28. Governing Law. This Letter Agreement shall be governed by the laws of the State of New York, without regard to choice of law principles.
29. Integration Clause. This Agreement is intended by the parties as a final expression of their agreement and is intended as a complete statement of the terms and conditions of their agreement.
30. No Amendments. This Proposal may only be modified or amended by a writing executed by all parties to this Proposal, except as set forth in Section 20, as it relates to waivers of conditions.
31. STAR and STAR Committee Obligations. The obligations of STAR and the STAR Committee, and the benefits to STAR and the STAR Committee and their respective Related Entities, are subject to the STAR Committee's acceptance of this Proposal and the approval by the United States Bankruptcy Court for the District of Delaware.

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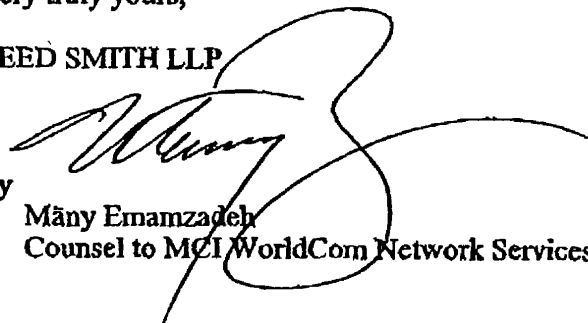
Bryan L. Engle
 January 30, 2002
 Page 16

Reed Smith

Please indicate your agreement to the terms and conditions of this Proposal (subject to approval by the Bankruptcy Court) and consent to the relief requested in the Bidding Procedures Motion by executing and delivering this Proposal to me on or before Tuesday, January 31, 2002 at 12:00 p.m. If you have any questions, please do not hesitate to call me.

Very truly yours,

REED SMITH LLP



By
 Many Emamzadeh
 Counsel to MCI WorldCom Network Services, Inc.

- cc: Bruce Frankel, Esq. (by facsimile)
- Lisa Bonsall, Esq. (by facsimile)
- James Stang, Esq. (by facsimile)
- Dan Lowenthal III, Esq. (by facsimile)
- David Myers (by facsimile)
- George Hampton (by facsimile)
- Thomas F. O'Neil III, Esq. (by facsimile)
- Brian H. Benjet, Esq. (by facsimile)
- Robert P. Simons, Esq.

Signatures Appear on Following Page

Bryan L. Engle
January 30, 2002
Page 17

Reed Smith

Agreed to and accepted this 30th day of January, 2002:

PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: _____
Bryan L. Engle
Chief Executive Officer

Agreed to and accepted this 30th day of January, 2002:

STAR TELECOMMUNICATIONS, INC.

By: _____
Gordon Hutchins, Jr.
Chief Executive Officer

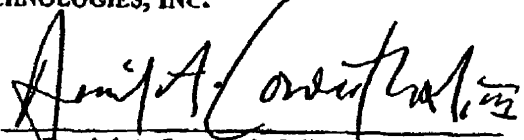
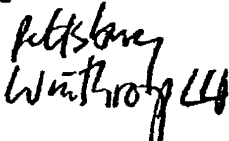
Agreed to and accepted this 30th day of January, 2002:

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: _____
Lisa Bonsall, Esq., authorized Counsel to the Official Committee of Unsecured Creditors of the Sellers

Agreed to and accepted this 30th day of January, 2002:

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By:  _____
Daniel A. Lowenthal, Esq., authorized Counsel to the Official Committee of Unsecured Creditors of STAR 

01/31/2002 13:19 FAX
JAN. 30. 2002 4:03PM

ANGEL & FRANKEL, P.C.

019
NO. 7136 P. 18/23

Bryan L. Engle
January 30, 2002
Page 17

Reed Smith

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2002:

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DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: _____
Bryan L. Engle
Chief Executive Officer

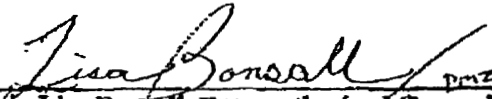
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2002:

STAR TELECOMMUNICATIONS, INC.

By: _____
Gordon Hutchins, Jr.
Chief Executive Officer

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2002:

OFFICIAL COMMITTEE OF UNSECURED
CREDITORS OF PT-1 COMMUNICATIONS, INC.,
PT-1 LONG DISTANCE, INC., AND PT-1
TECHNOLOGIES, INC.

By:  _____
Lisa Bonsall, Esq., authorized Counsel to
the Official Committee of Unsecured
Creditors of the Sellers

Agreed to and accepted this 30th day of January,
2002:

OFFICIAL COMMITTEE OF UNSECURED
CREDITORS OF PT-1 COMMUNICATIONS, INC.,
PT-1 LONG DISTANCE, INC., AND PT-1
TECHNOLOGIES, INC.

By: _____
Daniel A. Lowenthal, Esq., authorized
Counsel to the Official Committee of
Unsecured Creditors of STAR

Bryan L. Engle
January 30, 2002
Page 17

Reed Smith

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2002:

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DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.**

By: 
Bryan L. Engle
Chief Executive Officer

Agreed to and accepted this 30th day of January,
2002:

STAR TELECOMMUNICATIONS, INC.

By: _____
Gordon Hutchins, Jr.
Chief Executive Officer

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2002:

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CREDITORS OF PT-1 COMMUNICATIONS, INC.,
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Lisa Bonsall, Esq., authorized Counsel to
the Official Committee of Unsecured
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2002:

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CREDITORS OF PT-1 COMMUNICATIONS, INC.,
PT-1 LONG DISTANCE, INC., AND PT-1
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By: _____
Daniel A. Lowenthal, Esq., authorized
Counsel to the Official Committee of
Unsecured Creditors of STAR

Bryan L. Engle
January 30, 2002
Page 17

Reed Smith

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PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: _____
Bryan L. Engle
Chief Executive Officer

Agreed to and accepted this 30th day of January, 2002:

STAR TELECOMMUNICATIONS, INC.

By: Gordon Hutchins, Jr.
Gordon Hutchins, Jr.
Chief Executive Officer

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By: _____
Lisa Bonsall, Esq., authorized Counsel to the Official Committee of Unsecured Creditors of the Sellers

Agreed to and accepted this 30th day of January, 2002:

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: _____
Daniel A. Lowenthal, Esq., authorized Counsel to the Official Committee of Unsecured Creditors of STAR

Procedures Hearing: January 29, 2002
At: 2:00 p.m.
Sale Hearing: March 7, 2002
At: 10:00 a.m.

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

-----X

In re: 101-12655-260
101-12658-260
PT-1 COMMUNICATIONS, INC. 101-12660-260
PT-1 LONG DISTANCE, INC.
PT-1 TECHNOLOGIES, INC., Chapter 11

Debtors. Jointly Administered

-----X

ORDER TO SHOW CAUSE FIXING DATES, TIMES AND PLACE OF HEARING TO CONSIDER MOTION FOR FURTHER ORDERS PURSUANT TO SECTIONS 105, 363(b), 363(f), 363(m), 365 AND 1146(c) OF THE BANKRUPTCY CODE AND FED. R. BANKR. P. 2002(a)(2), 6004 AND 6006, 9007 AND 9019: (A) AUTHORIZING THE SALE OF SUBSTANTIALLY ALL OF DEBTORS' ASSETS FREE AND CLEAR OF ALL LIENS, CLAIMS AND ENCUMBRANCES, (B) AUTHORIZING THE DEBTORS TO SELL SUCH ASSETS TO MCI WORLDCOM NETWORK SERVICES, INC. OR ANY HIGHER AND BETTER BIDDER PURSUANT TO THE TERMS OF AN AGREEMENT DATED JANUARY 22, 2002, (C) APPROVING A BREAK-UP FEE AND CERTAIN BIDDING PROCEDURES (D) AUTHORIZING ASSUMPTION AND ASSIGNMENT OR REJECTION OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN CONNECTION THEREWITH, (E) APPROVING MECHANISM FOR FIXING CURE AMOUNT AND SCHEDULING HEARING(S) AND APPROVING NOTICE RELATED THERETO; (F) EXEMPTING THE SALE FROM STAMP OR SIMILAR TAXES; (G) APPROVING COMPROMISE OF A CONTROVERSY AND THE EXCHANGE OF RELEASES PURSUANT TO BANKRUPTCY RULE 9019; (H) APPROVING MANAGEMENT AGREEMENT, (I) AUTHORIZING CREDIT BIDDING, (J) AUTHORIZING DEBTORS TO ENTER INTO AND APPROVING AGREEMENT WITH RFC CAPITAL CORPORATION, AND (K) GRANTING RELATED RELIEF

Upon the motion ("Motion") of PT-1 Communications, Inc., PT-1 Long Distance, Inc., and PT-1 Technologies, Inc., the debtors and debtors-in-possession in the above captioned Chapter 11 proceedings (the "Debtors"), dated January 22, 2002, for an Order fixing dates, times and place of hearing to consider motion for further orders pursuant to Sections 105, 363(b), 363(f), 363(m), 365, and 1146(c) of the Bankruptcy Code and Fed. R. Bankr. P. 2002(a)(2), 6004, 6006, 9007, and 9019:

- (a) authorizing the sale of substantially all of the Debtors' assets free and clear of all liens, claims and encumbrances;
- (b) authorizing the Debtors to sell such assets to MCI WorldCom Network Services, Inc. ("WorldCom") or any higher and better bidder pursuant to the terms of a letter agreement dated January 22, 2002;
- (c) approving a break-up fee and certain bidding procedures;
- (d) authorizing assumption and assignment or rejection of certain executory contracts and unexpired leases;
- (e) approving mechanism for fixing cure amount and scheduling hearing(s) and approving notice related thereto;
- (f) exempting the sale from stamp or similar taxes;
- (g) approving compromise of a controversy and the exchange of releases pursuant to Bankruptcy Rule 9019;
- (h) approving management agreement;
- (i) authorizing credit bidding,
- (j) authorizing debtors to enter into and approving agreement with RFC Capital Corporation; and

(k) granting related relief

and the Court finding that: (a) the Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334; and (b) this is a core proceeding pursuant to 28 U.S.C. §§ 157(b)(2)(A), (N) and (O); (c) the relief granted herein is in the best interests of the Debtors and their estates and creditors; and (d) the legal and factual basis set forth in the Motion establish just cause for the relief granted herein; and due deliberation having been had and sufficient cause appearing to me therefor, it is hereby

ORDERED, ADJUDGED AND DECREED THAT:

1. On January 29, 2002 at 2:00 p.m., or as soon thereafter as counsel can be heard, a hearing (the "Procedures Hearing") will be held before the Honorable Conrad B. Duberstein, Chief United States Bankruptcy Judge for the Eastern District, at the United States Bankruptcy Court, 75 Clinton Street, Courtroom 313, Brooklyn, New York 11201, to consider entry of an order, substantially in the form annexed as Exhibit "E" to the Motion, (i) approving the terms of the Sale, including the terms of the bidding procedures, as set forth in the Motion, including WorldCom's right to credit bid, the break-up fee, right to match competing offers, minimum over bid and certain other provisions as set forth in the Agreement dated January 22, 2002, and (ii) fixing deadline dates for objections and the manner and extent of notice of the Sale Hearing (as defined below) (the "Procedures Order").

2. On March 7, 2002 at 10:00 a.m., or as soon thereafter as counsel can be heard, a further hearing ("Sale Hearing") will be held before the Honorable Conrad B. Duberstein, Chief United States Bankruptcy Judge, at the United States Bankruptcy Court, 75 Clinton Street, Courtroom 313, Brooklyn, New York 11201, for an order (i) authorizing the sale of the Assets

pursuant to the proposed Asset Purchase Agreement, consistent with the terms of the bidding procedures provided for under the Procedures Order, (ii) authorizing the Debtors to assume and assign or reject certain executory contracts, (iii) approving compromise of a controversy and exchange of releases, (iv) approving a management agreement; (v) authorizing the Debtors to enter into an agreement with RFC Capital Corporation; and (vi) otherwise authorizing the relief requested in the Motion.

3. The Debtors shall give notice of the Motion and Procedures Hearing by overnight mail, or by hand delivery, if in New York City, by a copy of this Order and the Motion with exhibits thereto on or before January 23 2002 upon: (i) all potential interested parties identified by the Debtors or the Committee, (ii) the Office of the United States Trustee, (iii) counsel to the Official Committee of Unsecured Creditors; (iv) counsel for WorldCom; (v) counsel to STAR Telecommunications, Inc.; (vi) counsel to the Official Committee of Unsecured Creditors of STAR Telecommunications, Inc.; and (vii) parties in interest who have requested notice pursuant to Bankruptcy Rule 2002.

4. The forms of notice set forth above shall constitute good and sufficient notice of the Motion and the Procedures Hearing, and any requirements for other notice be, and hereby are, waived and dispensed with pursuant to Rules 2002, 6006, 9006 and 9007 of the Federal Rules of Bankruptcy Procedure and 11 U.S.C. § 105.

5. Cause has been shown to allow this Court to reduce the notice period required in order that this Court may consider approval of a certain Proposed transaction by the Debtors.

6. Any interested party requesting additional information with regard to the Motion and the Acquired Assets may contact counsel for the Debtors during regular business hours; provided, however, that each entity that submits an offer shall be relying upon its own independent due diligence, review and analysis.

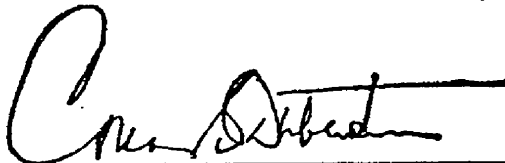
7. The Procedures Hearing or Sale Hearing may be adjourned from time to time by the Court without further notice to creditors or parties in interest other than by an announcement of said adjournment in Court or by notation on the Court's official calendar for the date scheduled for said hearing.

8. Responsive Papers or Objections, if any, must conform to the requirements of Title 11, United States Code, the Federal Rules of Bankruptcy Procedure and the Local Rules of the United States Bankruptcy Court for the Eastern District of New York, and must be in writing and filed with the Clerk of the Court (with a copy to the Chambers of the Undersigned) and a copy served upon: (a) counsel for the Debtors, Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022-1906, Attention: Bruce Frankel, Esq. and Rochelle R. Weisburg, Esq.; (b) counsel for the Committee, McCarter & English, LLP, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attention: Lisa Bonsall, Esq. and Patricia Zohn, Esq., (c) counsel for WorldCom, Reed Smith LLP, 435 Sixth Avenue, Pittsburgh, PA 15219, Attention: Many Emamzadeh, Esq., and Reed Smith LLP, The Legal Center, One River Front Plaza, Newark, NJ 07102, Deborah A. Reperowitz, Esq.; and (d) the Office of the United States Trustee for the Eastern District of New York, 33 Whitehall Street, 21st Floor, New York, NY 10004, Attention: Linda Riffkin, Esq., so as to be received by the above parties (x) not later than 9:00 a.m. January 28, 2002, if the

Objection/Response is with respect to the Procedures Order, and/or (y) not later than 2:00 p.m. on March 4, 2002, if the Objection/Response is to the Proposed Sale of the Assets.

9. Any requirement for the filing of a memorandum of law in support of the Motion be, and it hereby is, dispensed with and waived except upon further order of the Court.

~~NEW YORK~~
Dated: ~~New York~~, New York
January 22, 2002



CONRAD B. DUBERSTEIN
CHIEF UNITED STATES BANKRUPTCY JUDGE

ANGEL & FRANKEL, P.C.
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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

-----x

In re:	101-12655-260
	101-12658-260
PT-1 COMMUNICATIONS, INC.,	101-12660-260
PT-1 LONG DISTANCE, INC.,	
PT-1 TECHNOLOGIES, INC.,	Chapter 11

Debtors.	Jointly Administered
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DEBTORS' MOTION SEEKING THE ENTRY OF AN ORDER(S): (i) AUTHORIZING THE SALE OF SUBSTANTIALLY ALL OF DEBTORS' ASSETS FREE AND CLEAR OF ALL LIENS, CLAIMS AND ENCUMBRANCES; (ii) AUTHORIZING THE DEBTORS TO SELL SUCH ASSETS TO MCI WORLDCOM NETWORK SERVICES, INC. OR ANY HIGHER OR BETTER BIDDER PURSUANT TO THE TERMS OF AN AGREEMENT DATED JANUARY 22, 2002; (iii) APPROVING A BREAK-UP FEE AND CERTAIN BIDDING PROCEDURES; (iv) AUTHORIZING ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN CONNECTION THEREWITH, (v) APPROVING MECHANISM FOR FIXING CURE AMOUNTS AND SCHEDULING HEARING(S) AND APPROVING NOTICE RELATED THERETO; (vi) EXEMPTING THE SALE FROM STAMP OR SIMILAR TAXES, (vii) APPROVING COMPROMISE OF A CONTROVERSY AND THE EXCHANGE OF RELEASES PURSUANT TO BANKRUPTCY RULE 9019, (viii) APPROVING MANAGEMENT AGREEMENT, (ix) AUTHORIZING CREDIT BIDDING, (x) AUTHORIZING DEBTORS TO ENTER INTO AND APPROVING AGREEMENT WITH RFC CAPITAL CORPORATION AND (xi) GRANTING RELATED RELIEF

PT-1 Communications, Inc. ("PT-1"), PT-1 Long Distance, Inc. ("Long Distance"), and PT-1 Technologies, Inc. ("Technologies"), debtors and debtors-in-possession (collectively, the "Debtors"), as and for their Motion seeking the entry of an order pursuant to sections 105, 363, 365 and 1146 of Title 11 of the United States Code, 11 U.S.C. §101, et seq. (the "Bankruptcy Code"), Rules 6004, 6006, 9019 and 2002 of the Federal Rules of Bankruptcy Procedure and the Local Rules of Bankruptcy Procedure for the Eastern District of New York (the "Local Rules"), respectively request the entry of Orders: (i) authorizing the sale of substantially all of Debtors' assets free and clear of all liens, claims and encumbrances; (ii) authorizing the Debtor to sell such assets to MCI WorldCom Network Services, Inc. ("WorldCom") or any higher or better bidder pursuant to the terms of an agreement dated January 22, 2002; (iii) approving a break-up fee and certain bidding procedures; (iv) authorizing assumption and assignment of certain executory contracts and unexpired leases in connection therewith, (v) approving mechanism for fixing cure amounts and scheduling hearing(s) and approving notice related thereto; (vi) exempting the sale from stamp or similar taxes, (vii) approving compromise of a controversy and the exchange of releases pursuant to Bankruptcy Rule 9019, (viii) approving management agreement, (ix) authorizing credit bidding, (x) authorizing Debtors to enter into and approving agreement with RFC Capital Corporation (the "Sale and Procedures Motion"); and (xi) granting related relief, respectfully represent:

I. INTRODUCTION

A. The Debtors' Bankruptcy Cases

1. On March 9, 2001, (the "Petition Date"), each of the Debtors filed in the United States Bankruptcy Court for the Eastern District of New York (the "Bankruptcy Court") a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "Bankruptcy Cases"). The Debtors have

continued in the operation of their businesses and management of their assets as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code (the "Bankruptcy Code").

2. On or about March 13, 2001, the Bankruptcy Court entered an Order authorizing the joint administration of the Debtors' Bankruptcy Cases.

3. On or about March 23, 2001, an official committee of unsecured creditors (the "Creditors' Committee") was appointed by the United States Trustee to serve in the Bankruptcy Cases. The Creditors' Committee is represented by McCarter & English, LLP and has been actively involved in the Bankruptcy Cases.

4. Prior to the Petition Date, the Debtors' businesses had suffered a severe economic downturn. On the eve of the Petition Date, the Debtors' management was replaced, however, as of the Petition Date, it was unclear whether the Debtors' businesses could be stabilized, or whether any funds would be available for distribution to the Debtors' unsecured creditors.

5. Following diligent analysis by the Debtors' new management team, substantive changes in the way the Debtors operate and finance their operations were made. For example, prior to the Petition Date, the Debtors had sold their receivables. The Debtors' new management team, Debtor's counsel and the Committee determined that this action was unnecessarily costly to the Debtors. Accordingly, the Debtors now directly collect and use their own receivables and no longer discount and sell same. Also, by way of example, prior to the Petition Date, many of the services rendered to the Debtors were not rendered directly to the Debtors, but rather, flowed through the STAR debtor (as defined and described hereinafter), which currently is the subject of a bankruptcy case pending before the Bankruptcy Court for the District of Delaware. The Debtors' new

management has been successful in eliminating the "middleman" so that now such services are provided directly to the Debtors.

6. Ultimately, after lengthy negotiations between all parties-in-interest, final orders authorizing the Debtors' use of cash collateral and authorizing debtor-in-possession financing were entered in these cases. Despite the current state of the economy and recent terrorist events, the Debtors' businesses have been stabilized and the Debtors, in conjunction with the Creditors' Committee and their largest creditor, MCI WorldCom Network Services, Inc., as agent for WorldCom, Inc. and its wholly owned subsidiaries, have developed a strategy for the Debtors' emergence from bankruptcy, which involves the Debtors' sale of substantially all of their assets to WorldCom or its designee.

7. The sale of the Debtors' assets, however, must move forward expeditiously, as the Debtors' revenue is declining and it is unclear how long the Debtors' businesses will remain stable. Accordingly, by this Sale and Procedures Motion, the Debtors are seeking to schedule hearings to be conducted to approve the relief requested hereby and to provide for notice thereof.

B. The Debtors' Business

8. PT-1 is the parent corporation of Long Distance and Technologies. They are in the telecommunications industry and provide long-distance "dial-around" services, both domestically and internationally.

C. The Star Debtors

9. STAR Telecommunications, Inc. ("STAR") is the parent of PT-1 which itself filed a petition for reorganization under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Just prior to the Petition Date, WorldCom exercised

its rights under a voting trust agreement with STAR pursuant to which a new board of directors was elected for PT-1 which board elected new officers. Such new board and officers continue to supervise and manage the Debtors during the Bankruptcy Cases.

D. The Proposed Sale

10. The Debtors have determined that it is in their best interests, as well as the best interests of their creditors, to effectuate an orderly sale of all, or substantially all of the assets relating to their businesses, together with certain obligations and liabilities relating to such assets (the "Acquired Assets"). Accordingly, the Debtors (and others) have marketed the Assets for sale.

11. These efforts, after lengthy and arduous negotiations, have resulted in the execution of an agreement among the Debtors, the Creditors' Committee, STAR, the Official Committee of Unsecured Creditors appointed in STAR's bankruptcy case (the "STAR Committee"), and WorldCom (the "Proposal"). A copy of the Proposal is annexed hereto as Exhibit "A" and incorporated herein by reference. The Proposal contemplates execution of an asset purchase agreement between the Debtors and WorldCom (the "Asset Purchase Agreement"), substantially in the form attached hereto as Exhibit "B". The Debtors and Purchaser agree to negotiate the final terms of the Asset Purchase Agreement with the Committee in good faith. A description of the material terms of the Proposal (and Asset Purchase Agreement) follows¹.

¹ The following is merely a summary description of the relevant portions of the Proposal and final Asset Purchase Agreement and is subject in all respects to the more detailed terms and conditions set forth in the Proposal and final Asset Purchase Agreement. In addition, capitalized terms utilized herein and not defined have the meanings given to them in the Proposal and final Asset Purchase Agreement, as the case may be.

II. THE ASSET SALE

A. Assets to Be Acquired

12. Assets. WorldCom² will purchase all of the assets owned by the Debtors (collectively, "Acquired Assets") (other than those assets expressly excluded from purchase by WorldCom in the Asset Purchase Agreement), which are used in the operation of the Debtors' business (the "Business"), including, without limitation, the following:

- (a) All cash at Pre-Closing (as defined in the Asset Purchase Agreement), less all cash required to pay all outstanding postpetition unpaid expenses incurred in the ordinary course of the Debtors' Business, excluding professional fees and expenses;
- (b) All accounts receivable (including, without limitation, the funds payable to the Debtors by RFC Capital) related solely to the Business (the "Acquired Receivables"), but specifically excluding the receivables due the Debtors by IDT Corporation or its affiliates (collectively, "IDT"), and any other receivables not related to the Business;
- (c) All deposits;
- (d) All prepaid expenses;
- (e) All equipment (including, without limitation, all telecommunications and switching equipment and platforms, computers and peripherals and office equipment), furniture, fixtures and leasehold improvements;
- (f) 1016868 Carrier Identification Code ("CIC") and any other CICs that are loaded on the Debtors' Feature Group D network, and all rights related thereto;
- (g) All customer base related to the Business and all dial-around traffic and revenue streams related thereto, including, without limitation, any past or current customers and any information or call records relating thereto;

² Reference to WorldCom are also references to the "Purchaser" as defined in the Asset Purchase Agreement and may be used interchangeably, as the case may be.

- (h) All telecommunications network assets, including, without limitation, 800 and other telephone numbers, ACNAS, all circuits, private lines, intermachine trunk lines, and Feature Group D's related to Debtors' operation of its telecommunications network, and all rights related to the foregoing to be used in perpetuity;
- (i) All intellectual property related to the Business or any of the Acquired Assets, including, without limitation, trademarks, copyrights, patents, licenses, sublicenses, technical information, data, specifications, research and development information, engineering drawings and operating and maintenance manuals; (defined as the Intellectual Property), and including without limitation, Intellectual property which may be recovered by the Debtors' estates pursuant to their avoidance actions under chapter 5 of the Bankruptcy Code;
- (j) All permits relating to the Business and/or any of the Acquired Assets;
- (k) All rights to any and all cash true-ups or other contract rights related to HOLD Billing Services, Inc., HOLD Billing Services, Ltd., or any other billing and collection service agreements related to the Business;
- (l) All of Debtors' claims and causes of action, if any, against Purchaser and its affiliates.
- (m) Copies, at Purchaser's cost, of all of Debtors' financial, accounting and other books and records as are necessary for the Purchaser's continued operation of the Acquired Assets and the Business;
- (n) All other personal, real, tangible or intangible property used in the operation of the Business;
- (o) All rights to employ the employees of the Debtors, as may be requested by Purchaser, there being no obligation imposed on Purchaser to employ any of the employees of the Debtors; and
- (p) Such other assets as are specifically set forth in the Asset Purchase Agreement, but specifically excluding the Excluded Assets, as defined therein (and below).

B. Executory Contracts and Unexpired Leases.

13. The Debtors shall assign to WorldCom all executory contracts (unless expressly excluded in the Asset Purchase Agreement) to which any one or more of them is a party, and WorldCom shall assume the liabilities under such executory contracts after the Closing (as defined in the Asset Purchase Agreement), including the following:

- (a) The postpetition agreement between the Debtors and STAR related to the transfer of assets and continued provision of services executed by Star and the Debtors on or about October 24, 2001, and any subsequent amendments, approved by the United States Bankruptcy Court for the District of Delaware on December 4, 2001 and approved by the Bankruptcy Court on December 21, 2001;
- (b) That certain agreement by and between Debtors and Chase Equipment Leasing, Inc. (n/k/a JP Morgan Leasing, Inc.), dated February 20, 1998, a stipulation and order "so ordered" by the Bankruptcy Court on July 12, 2001, and a second stipulation and order "so ordered" by the Bankruptcy Court on January 15, 2002, as the same may be amended, modified or supplemented from time to time;
- (c) The Billing Services Agreement by and between HBS Billing Services Ltd. and its affiliates ("HBS") and Debtors dated as of October 16, 1997, as the same may have been amended, modified or supplemented from time to time, provided that it shall be a condition to the Pre-Closing that WorldCom and HBS enter into a modification or supplement to such agreement which eliminates MCI's risk with respect to collection of receivables from HBS (but not the collection risk from the end-users), and provided further that in lieu of assuming the foregoing HBS contract, WorldCom may enter into a new contract with HBS; and
- (d) Such other executory contracts and unexpired leases as WorldCom determines on or before the Closing.

C. Excluded Assets

14. Notwithstanding the foregoing, the Acquired Assets shall not include the following "Excluded Assets" of Debtors:

- (a) All avoidance or other actions under chapters 5 or 11 of the Bankruptcy Code or otherwise, and any recoveries thereunder, except for actions against WorldCom or its affiliates, or and recoveries from actions recovering Intellectual Property;
- (b) All accounts receivable and other assets (including, without limitation choses of action) not related to the Debtors' Business, including, without limitation, the accounts receivable and other sums owed by IDT to the Debtors and any debit card receivables;
- (c) Any and all claims or choses of action in connection with or arising out of Debtor's debit card business which was sold prepetition.
- (d) Any assets in Debtors' executive or incentive compensation, bonus, deferred compensation, pension, profit sharing, savings, retirement, stock option, stock purchase, group life, health or accident insurance or other employee benefit plans;
- (e) All minute books, stock transfer books and corporate seals;
- (f) All financial and accounting books and records except such books and records as are necessary for Purchaser's continued operation of the Business, provided that, Purchaser shall have reasonable access to any such books and records retained by the Business and the opportunity to copy such books and any data, books or records which Debtors decide to discard after the closing; and
- (g) Any actions against former officers and directors of Debtors or STAR, other than those expressly released pursuant to the terms of the Proposal and an executed Asset Purchase Agreement; and
- (h) All tangible, intangible, real or personal property, including contracts, permits or intellectual property which Purchaser specifically lists in the Asset Purchase Agreement as an "Excluded Asset".

D. Purchase Price

15. In consideration for the acquisition of the Acquired Assets, WorldCom shall pay (or cause to be paid) consideration in the amount of \$108,800,000.00 in cash and assumed liabilities and the other consideration set forth below, payable as follows:

- (a) At Closing WorldCom shall waive all of its claims against the Debtors, but excluding its Secured Claim of \$106,373,824.42 (the "WorldCom Claim") which shall be credit bid pursuant to Section 363(k) of the Bankruptcy Code, having a minimum value of \$75,000,000, with any incremental bids by WorldCom to be made in accordance with Section 10(c) of the Proposal;
- (b) At the actual Pre-Closing, WorldCom shall cause to be paid to the Debtors \$5,200,000 (the "Initial Payment");
- (c) Thirty (30) days after the actual Pre-Closing, WorldCom shall cause to be paid to the Debtors \$10,400,000 (the "Second Payment"), in immediately available funds;
- (d) Sixty (60) days after the actual Pre-Closing, WorldCom shall cause to be paid to Debtors an additional \$10,400,000 (the "Third Payment") in immediately available funds;
- (e) Ninety (90) days after the actual Pre-Closing, WorldCom shall cause to be paid to the Debtors an additional \$2,000,000 (the "Fourth Payment") in immediately available funds;
- (f) WorldCom shall (i) assume post-Pre-Closing obligations under the Chase Amendment, having an agreed value of \$3,500,000, (ii) assume post-Pre-Closing obligations under the STAR Agreement, having an agreed value of \$1,800,000, and (iii) pay the first \$500,000 towards Contract Costs, and all Contract Costs in excess of \$900,000 in the aggregate.

E. The Management Agreement

16. At the actual Pre-Closing, WorldCom and the Debtors shall enter into an agreement (the "Management Agreement") pursuant to which WorldCom shall be granted the right to manage the Debtors' Business during the period between the Pre-Closing and the earlier of (i) the Closing or (ii) the last day of the month in which the Management Agreement is terminated for failure to obtain the Necessary Approvals (the "Management Period"). The Management Agreement substantially in the form is attached hereto as Exhibit "C". The Debtors and Purchaser agree to

negotiate the final terms of the Management Agreement with the Committee in good faith. A description of the material terms of the Management Agreement are as follows.³

- (a) The WorldCom Claim shall be conditionally credited to the Debtors' account with WorldCom on the Pre-Closing Date;
- (b) WorldCom shall operate the business during the Management Period in the ordinary course, subject to certain express exceptions. During the Management Period, WorldCom shall cause all Operating Reports, in the form currently submitted to the United States Trustee, to be prepared and served monthly upon the United States Trustee, the Creditors' Committee, the Committee's counsel, and the Debtors' counsel;
- (c) WorldCom and the Debtors shall use their respective best efforts during the Management Period to obtain all Necessary Approvals, without the requirement that WorldCom pay third parties for such Necessary Approvals;
- (d) WorldCom agrees that it will use its best efforts to minimize the Contract Costs, it being understood that WorldCom's best efforts does not include any duty to pay monies to third parties in order to obtain the desired result of minimizing assumption and cure costs, unless credited against the Purchase Price. The Debtors and the Creditors' Committee agree to support WorldCom's efforts to minimize such assumption and cure costs.

F. Conditions Precedent to Closing

17. Several conditions must be met prior to the Closing, including:

- execution of a Management Agreement on terms agreeable to WorldCom, the Debtors and the Committee which gives WorldCom the right to manage the Debtors' businesses prior to closing of the sale;
- receipt of all necessary notices, permits, authorizations, approvals, consents and/or waivers determined by WorldCom to be reasonably required or necessary from

³ The following is merely a summary description of the relevant portions of the Management Agreement and is subject in all respects to the more detailed terms and conditions set forth in the Management Agreement. In addition, capitalized terms utilized herein and not defined have the meanings given to them in the Management Agreement.

any state or federal regulatory agency asserting jurisdiction over the sale;

- any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, having expired or terminated; and
- entry of an order of the Bankruptcy Court approving the sale of the Acquired Assets in form and substance satisfactory to WorldCom and the Committee

18. The Debtors believe that the value of their estates will be maximized by a sale of substantially all of their assets as a going concern pursuant to the terms of the Asset Purchase Agreement.

III. JURISDICTION

19. This Bankruptcy Court has jurisdiction to consider this motion pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). The statutory predicates for the relief sought herein are sections 105, 363, 365 and 1146 of the Bankruptcy Code. Venue is proper before this Bankruptcy Court pursuant to 28 U.S.C. §§ 1408 and 1409.

IV. RELIEF REQUESTED

20. By this Sale and Procedures Motion, the Debtors request the scheduling of two hearings and the entry of two orders. Specifically, pursuant to sections 105, 363, 365 and 1146 of the Bankruptcy Code and Rules 2002, 6004, 6006 and 9019 of the Bankruptcy Rules, the Debtors request the scheduling of two separate hearings to consider the entry of each of the following orders:

(a) The Bidding Procedures Order:

- approving the Bidding Procedures as defined below;
- approving the mechanism for fixing cure amounts;

- finding that the Pre-Closing shall constitute substantial consummation of the sale of the Acquired Assets;
- finding that WorldCom is a "good faith purchaser" and a qualified bidder;
- authorizing WorldCom to credit bid pursuant to the terms of the Proposal;
- approving the Stalking Horse Incentives (as hereinafter defined) and a break-up fee;
- approving notice of this Sale and Procedures Motion and related procedures and the hearings;
- declaring that the "Releases and Waivers" granted pursuant to the Agreement shall remain effective in the event an entity other than WorldCom is the successful bidder with all such releases and waivers to become effective only on the Closing of a sale;
- approve the settlements contemplated, effective upon the Closing.

(b) : The Sale Order:

- approving the Proposal and transactions contemplated thereby;
- approving the Asset Purchase Agreement;
- approving the sale of the Acquired Assets free and clear of liens, claims and encumbrances;
- authorizing the assumption and assignment of certain executory contracts and unexpired leases in connection with the sale of the Acquired Assets;
- approving the Management Agreement;
- authorizing WorldCom to assign its rights under the Proposal, Management Agreement and the Asset

Purchase Agreement, as of the Closing, without the necessity for obtaining any additional court approval and/or execution of any additional agreements;

- approving the exchange of the Releases and Waivers;
- authorizing the exemption of the sale of the Acquired Assets from stamp or similar taxes;
- waiving the ten-day stay contained in Bankruptcy Rule 6004(g);
- authorizing and approving the RFC Agreement (as defined below);

V. ARGUMENT

POINT I THE DEBTORS ARE ENTITLED TO THE ENTRY OF THE BIDDING PROCEDURES ORDER

A. Approval of Bidding Procedures

21. The Debtors believe that conducting an auction of the Acquired Assets in accordance with the following procedures will maximize the value of the Debtors' estates and the Acquired Assets:

- (a) The Debtors shall mail this Sale and Procedures Motion giving notice of the Hearing to consider entry of the Bidding Procedures Order on: (a) all potential interested parties identified by the Debtors or the Committee, (b) the Office of the United States Trustee, (c) counsel to the Creditors' Committee, (d) counsel to STAR, (e) counsel to the STAR Committee, and (f) parties in interest who requested notice pursuant to Bankruptcy Rule 2002.
- (b) Within two (2) business days after the Bidding Procedures Order is entered, the Debtors shall mail the Bidding Procedures Order, together with a copy of this Sale and Procedures Motion by first class mail, postage prepaid, to (a) all potential interested parties identified by the Debtors or the Committee, (b) the Office of the United States Trustee, (c) counsel to the Creditors' Committee, (d) counsel to WorldCom, (e) counsel to STAR, (f) counsel to the STAR Committee, (g) parties in interest who have requested notice pursuant to Bankruptcy Rule 2002, (h) all known entities holding or asserting

a security interest in or lien against any of the Acquired Assets, (i) the parties to the Debtors' material executory contracts and unexpired leases that the Debtors believe may be subject to assumption and assignment (or rejection), (j) all taxing authorities whose rights may be affected by the sale of the Acquired Assets, and (k) all government agencies required to receive notice of proceedings under the Bankruptcy Rules and other regulatory rules. All other creditors and interested parties of the Debtors will receive notice by publication in *The New York Times*, National Edition in the form annexed hereto as Exhibit "D" (the "Publication Notice").

- (c) The Acquired Assets shall be sold at an auction sale (the "Auction") in a single sale to a single bidder free and clear of all liens, claims and encumbrances.
- (d) The Asset Purchase Agreement shall establish the form for bidding on the Acquired Assets and shall constitute a minimum bid for the Acquired Assets. The Asset Purchase Agreement shall constitute WorldCom's qualified bid for the Acquired Assets.
- (e) As a pre-condition to participating in the Auction, a potential bidder must be qualified. The Debtors will qualify potential bidders according to their financial ability to purchase the Acquired Assets. A potential bidder will not be qualified until it submits a Bid and pays to Debtors' counsel, in the form of a certified check or wire transfer, a deposit in the amount of ten percent (10%) of the aggregate purchase price offered by such potential bidder (the "Earnest Money Deposit").
- (f) A "Bidder" is a person who submits a Bid.
- (g) A "Bid" shall consist of: (i) a letter from a potential Bidder offering to purchase the Acquired Assets upon the terms and conditions set forth in the Asset Purchase Agreement, together with all Exhibits and Schedules and stating that the Bidder is prepared to enter into and consummate the transaction within not more than ten days after entry of the Sale Order, subject to obtaining any governmental or regulatory approvals; (ii) a copy of the Asset Purchase Agreement and the Management Agreement marked to show any proposed amendments and modifications, including price and the time of closing, that such Bidder proposes (the "Marked Agreements"); (iii) the Earnest Money Deposit; and (iv) financial information of the Bidder sufficient to demonstrate that the Bidder is a Qualified Bidder. All Bids must be delivered to the Debtors' counsel, Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022-1906, Attention: Bruce Frankel, Esquire, with a copy to Committee Counsel, McCarter & English, LLP, 100 Mulberry

Street, 4 Gateway Center, Newark, NJ 07102-4096, Attention: Lisa S. Bonsall, Esq., not later than 10:00 a.m. (EST) on the date which is two Business Days prior to the date scheduled by the Bankruptcy Court for the Auction and Sale Hearing (the "Bid Deadline").

- (h) Qualified Bidders will be allowed to perform reasonable due diligence on the Acquired Assets, including reasonable access to the books, records and executives of the Debtors, after first signing an appropriate confidentiality agreement.
- (i) A "Qualified Bid" is a Bid in cash that: (i) is made by a Qualified Bidder and complies with the provisions of sub-paragraph (f), above, in all respects; (ii) is not, in the good faith opinion of the Debtors, and the Committee, materially more burdensome or conditional than the terms of the Asset Purchase Agreement; and (iii) contains an offer in the amount of the Purchase Price plus at least \$3,000,000 in immediately available funds into escrow upon the Pre-Closing and to be paid at Closing as follows: (1) WorldCom in the amount of \$75,000,000 in immediately available funds; (2) to the Debtor's estates, the \$33.8 million in consideration (composed of the payments to be made during the Management Period, the agreement to pay \$500,000 in Contract Costs (and all other Contract Costs in excess of \$900,000), the agreement to assume the Chase Amendment, and the agreement to assume the STAR Agreement) on terms no less advantageous to such bidder than WorldCom's payment terms set forth in the Purchase Agreement.
- (j) WorldCom is permitted to bid in excess of \$75,000,000, and such increased bid shall be a credit bid to the extent of two-thirds of such increase over \$75,000,000 up to the amount of WorldCom's claim, with the remainder of such increased bid payable in cash at the same time as the Fourth Payment.
- (k) To the extent there is a Successful Competing Bidder, WorldCom shall be entitled to receive in cash, at Closing, in addition to the \$750,000 Break-Up Fee, two-thirds of the difference between the Successful Competing Bidder's winning bid and \$108,800,000, payable at Closing, in cash, and the remainder shall be turned over to the Debtors' estates.
- (l) Only Qualified Bids will be considered at the Auction, and the Debtors reserve the right to reject any Bid if the Bid, among other things:
 - is on terms that are materially more burdensome or conditional than the terms of the Asset Purchase Agreement;

- proposes to purchase items other than the Acquired Assets contemplated by the Asset Purchase Agreement;
 - is not received by the Bid Deadline;
 - includes noncash consideration; or
 - is subject to any financing condition.
- (m) In the event the Debtors do not receive any Qualified Bids, other than a bid from WorldCom, the Debtors shall report this fact to the Bankruptcy Court, the Auction shall not be held, and the Debtors shall proceed to have the sale to WorldCom approved at the Auction and Sale Hearing.
- (n) If the Debtors receive any Qualified Bids in addition to the WorldCom Bid, the Bankruptcy Court will conduct an Auction and hearing ("Sale Hearing") with respect to the Acquired Assets at the United States Bankruptcy Court for the Eastern District of New York beginning at 10:00 a.m. (EST) or such later time, date, or other place as the Debtors may notify all Qualified Bidders who have submitted Qualified Bids.
- (o) Only WorldCom and any Qualified Bidder who has submitted a Qualified Bid are eligible to participate at the Auction.
- (p) At the Auction, Qualified Bidders will be permitted to increase their bids and will be permitted to bid based only upon the terms of the Asset Purchase Agreement or the Marked Agreements, as the case may be. The bidding will start at the Purchase Price plus \$3,000,000.00, and continue in increments of at least \$3,000,000 thereafter, payable in cash at the Closing to the Debtors (to be escrowed at the Pre-Closing).
- (q) At the Auction, the Debtors may adopt and announce additional procedural rules for conducting the Auction that are reasonable under the circumstances (e.g. the amount of time allotted to make subsequent overbids), will better promote the goals of the bidding process, and that are not inconsistent with any of the provisions of the Bidding Procedures Order described herein.
- (r) A court reporter will be in attendance at the Auction to transcribe such proceeding.
- (s) The Debtors will select the winning Bid after the conclusion of the Auction, subject to Bankruptcy Court approval, and the winning Bidder (the

"Purchaser") will enter into definitive agreements substantially in the form of the Asset Purchase Agreement immediately after the conclusion of the Sale Hearing.

- (t) A Pre-Closing of the Sale shall occur not later than ten (10) days after the Sale Hearing, unless the Debtors otherwise agree, provided no stay pending an appeal has been entered and further provided that the Bankruptcy Court found that the successful Bidder was a good faith purchaser entitled to the protections of Section 363(m) of the Bankruptcy Code. After the Pre-Closing, the Debtors and Purchaser shall use their best efforts to obtain the necessary approvals, permits, authorizations or waivers from any state or federal regulatory agency asserting jurisdiction over the Sale, including the Federal Communications Commission (the "Regulatory Approvals"). The Sale shall close within ten (10) days after obtaining all Necessary Approvals (as defined in the Asset Purchase Agreement), provided, however, that in the event WorldCom has not obtained the Necessary Approvals within 180 days of the Pre-Closing but has obtained all necessary Regulatory Approvals, then the Purchase Price, less \$400,000, shall be released from escrow and made available for distribution to creditors.
- (u) Bids must be unconditional and not contingent upon any event, including, any due diligence investigation, the receipt of financing and further bidding approval, including from any board of directors, shareholders or otherwise. Bids are irrevocable until ten days after the close of the Auction.
- (v) Objections to any relief requested by the Sale and Procedures Motion, including objections relating to the assumption and assignment of executory contracts and unexpired leases, shall be in writing and filed and served so as to be actually received by 4:00 p.m. on a date to be established by further order of the Bankruptcy Court.
- (w) If for any reason the entity that makes the highest or best bid fails to consummate the purchase of the Acquired Assets, or any part thereof, the offeror of the second highest or best bid will automatically be deemed to have submitted the highest or best bid and to the extent such offeror and the Debtors consent, the Debtors and such offeror are authorized to effect the sale of the Acquired Assets, or any part thereof, to such offeror as soon as is commercially reasonable without further order of the Bankruptcy Court. If such failure to consummate the purchase is the result of a breach by the winning bidder, the Earnest Money Down Payment shall be forfeited to the Debtors and the Debtors specifically reserve the right to seek all available damages from the defaulting bidder.

- (x) All Earnest Money Deposits shall be held by the Debtors, without interest, until such time as the bids are officially rejected by the Debtors. Such deposit shall be forfeited in the event that any bidder for an accepted bid defaults. The Earnest Money Deposit will be forfeited if (i) the bidder is determined to be a Qualified Bidder and withdraws or modifies its bid other than as provided in the Bidding Procedures before the Bankruptcy Court approves the Debtors' selection of the successful Bidder, or (ii) the Bidder is the successful Bidder and (A) modifies or withdraws its Bid without the Debtors' consent before the consummation of the sale contemplated by such Bid, (B) breaches its Bid, or (C) breaches its confidentiality agreement.

POINT II THE BID OF ANY BIDDER FAILING TO COMPLY WITH THESE REQUIREMENTS MAY NOT BE CONSIDERED BY THE DEBTORS, IN THEIR REASONABLE DISCRETION.

22. The Debtors believe that the sale procedures set forth herein will facilitate an orderly sale of the Acquired Assets and the maximization of the value for their estates and creditors. Accordingly, the Debtors request that this Bankruptcy Court enter an order approving the bidding procedures ("Procedures Order"), in the form annexed hereto as Exhibit "E", approve the bidding procedures in the form annexed hereto as Exhibit "F" (the "Bidding Procedures"), and the proposed Publication Notice to be published in The New York Times, National Edition in the form annexed hereto as Exhibit "D".

23. The Debtors believe that these Bidding Procedures provide an appropriate framework for selling the Acquired Assets in a uniform fashion and will enable the Debtors to review, analyze and compare all bids received to determine which Bid is in the best interests of the Debtors' estates and creditors. Therefore, the Debtors respectfully request that this Bankruptcy Court enter the Procedures Order to approve the Bidding Procedures.

B. Approval of the General Form of the Asset Purchase Agreement and Including the Management Agreement

24. It is increasingly commonplace that, in chapter 11 sales of this nature, the court approves the form of agreement upon which bids are required to be submitted. The use of a uniform agreement will enable the Debtors and other parties in interest to easily compare and contrast the differing terms of the bids at the Auction. Accordingly, the Debtors will require that bids for the purchase of the Acquired Assets be submitted in the form of the Asset Purchase Agreement, including all exhibits thereto, a copy of which is annexed hereto as Exhibit "B", as such agreement may be modified in the manner described below.

25. In addition, the Management Agreement is integral to the Asset Sale, and has been negotiated by the Debtors, and WorldCom at arms' length as a material condition to the Sale. Under the Management Agreement, during the Management Period, the Purchaser has the right, subject to certain limitations, to operate the Sellers' business in order to secure and preserve the Assets. Since the Management Agreement is an essential component of the Sale and the Sale cannot go forward absent Bankruptcy Court approval of the Management Agreement, the Bankruptcy Court should approve the Management Agreement, pursuant to 11 U.S.C. §§ 105 and 363. See, e.g., In re Thrifty Liquors, Inc., 26 B.R. 26 (Bankr. D. Mass. 1982) (bankruptcy court deferred to business judgment of Chapter 11 trustee, authorizing pre-confirmation sale of debtor's assets, and trustee's entry into pre-closing management agreement with the purchaser).

26. The Debtors submit that the Asset Purchase Agreement and the Management Agreement contain terms and conditions commonly used in sales of this nature. Therefore, the Debtors submit that the form of the Asset Purchase Agreement and Management Agreement should

be approved by this Bankruptcy Court for use by the Debtors in connection with the Auction of the Acquired Assets.

C. Approval of the Mechanism for Fixing Cure Amounts

27. The Debtors propose that the cure amounts required to be paid pursuant to 11 U.S.C. §365(b)(1) in connection with those executory contracts and leases which are assumed and assigned pursuant to the Asset Purchase Agreement, be fixed within thirty (30) days after the Closing pursuant to agreement between the Debtors and each non-debtor party to such executory contracts or leases. To the extent that an agreement regarding the cure amount cannot be reached between the parties to a particular contract or lease assumed pursuant to the Asset Purchase Agreement, the Debtors shall file a motion with the Bankruptcy Court to fix such cure amounts no later than forty (40) days following the Closing.

D. Authority for WorldCom to Credit Bid

28. WorldCom has filed a proof of secured claim against the Debtors in the amount of \$106,373,824.42 (the "WorldCom Claim"). The WorldCom Claim is secured by, among other things, the Acquired Assets. Pursuant to the terms of the Asset Purchase Agreement and the Proposal, for purposes of the sale of the Acquired Assets only, the WorldCom Claim shall be deemed an allowed secured claim to be credit bid pursuant to Section 363(k) of the Bankruptcy Code and the terms herein. In the event the sale of the Acquired Assets to WorldCom, or any other bidder, ultimately is not closed, the Debtors and the Creditors' Committee shall not be deemed to have waived any right each may have, if any, to challenge the validity and/or amount of the WorldCom Claim.

29. Under these circumstances, a credit bid by WorldCom is appropriate and authorized under applicable law. Section 363(k) of the Bankruptcy Code provides:

At a sale under . . . [Bankruptcy Code Section 363(b)] of property that is subject to a lien that secures an allowed claim, unless the court for cause orders otherwise the holder of such claim may bid at such sale, and, if the holder of such claim purchases such property, such holder may offset such claim against the purchase price of such property.

11 U.S.C. § 363(k).

30. Thus, Section 363(k) allows a secured creditor to credit bid at a sale of Assets pursuant to Section 363 by offsetting its secured claim against the purchase price. See, e.g., In re New York International Hostel, Inc., 157 B.R. 748, 750 (S.D.N.Y. 1993) (citing August 7, 1990 Order of the Honorable Tina Brozman, C.U.S.B.J., approving the sale of debtor's assets to credit bidding secured creditor, pursuant to 11 U.S.C. § 363(k)); In the Matter of Homestead Partners, Ltd., 197 B.R. 706, 719 at n.15 (Bankr. N.D. Ga. 1996) (recognizing that a secured creditor has the "undisputed right to credit bid full amount of its claim" in a sale of the secured creditor's collateral); see also, In re Valley View Shopping Center, L.P., 260 B.R. 10, 40 at n.80 (Bankr. N.D. Kans. 2001) ("Under § 363(k), a buyer is allowed to credit bid its secured claim.").

31. As explained by one authority, the purpose of Section 363(k) is to "give[] the secured creditor protections against attempts to sell the collateral too cheaply; if the secured party thinks the collateral is worth more than the debtor is selling it for, it may effectively bid its debt and take title to the property." *Collier on Bankruptcy*, ¶1129.05[2][b], at pp. 1129-34 (15th ed. Rev. 1998); see also, Beal Bank, S.S.B. v. Waters Edge Limited Partnership, 248 B.R. 668, 680 (Bankr. D. Mass. 2000) (*Ibid.*).

32. Based on the foregoing, this Bankruptcy Court should permit WorldCom to credit bid the amount of the WorldCom Claim, pursuant to 11 U.S.C. § 363(k) and the term herein. Any order entered herein which approves such credit bid shall include a finding that WorldCom and/or its designee, TTI National, Inc. is a good faith purchaser and qualified bidder.

E. Approval of the Stalking Horse Incentives

33. The Debtors have marketed the Acquired Assets. The offer from WorldCom memorialized in the Asset Purchase Agreement and the Proposal is the highest or best written offer the Debtors have received. Integral to the negotiations between WorldCom and the Debtors and WorldCom's offer to purchase the Acquired Assets are (a) the payment of a break-up fee to WorldCom in the amount of \$750,000 (the "Break-Up Fee"), in the event the Bankruptcy Court approves a Bid other than WorldCom's as the highest and best offer, and (b) all Releases provided to WorldCom shall remain effective as of the Closing of the sale of the Acquired Assets (the continued effectiveness of the Releases, together with the Break-Up Fee shall be referred to as the "Stalking Horse Incentives").

34. The ability of the Debtors to offer incentives such as the Stalking Horse Incentives is beneficial to the Debtors' estates and creditors in that such protections provide the incentive required to induce a potential bidder to submit or increase its bid prior to the Auction. To the extent bids can be improved prior to the Auction, a higher floor is established for further bidding. Thus, even if a stalking horse bidder ultimately is not the successful bidder, the Debtors and their estates will have benefitted from the higher floor established by the improved bid.

35. Approval of breakup fees and other forms of bidding protections in connection with the sale of significant assets pursuant to section 363 of the Bankruptcy Code has become an

established practice in chapter 11 cases. Bankruptcy courts have approved bidding incentives similar to the Stalking Horse Incentives under the "business judgment rule", which proscribes judicial second-guessing of the actions of a corporation's board of directors taken in good faith and in the exercise of honest judgment. In re Marrose Corp., Case Nos. 89 B 12171-12179 (CB), 1992 WL 33848 at *5 (Bankr. S.D.N.Y. 1992) (bidding incentives are "meant to compensate the potential acquirer who serves as a catalyst or 'stalking horse' which attracts more favorable offers"). See, also, In re 995 Fifth Ave. Assocs., L.P., 96 B.R. 24, 28 (Bankr. S.D.N.Y. 1989) (bidding incentives may be "legitimately necessary to convince a white knight to enter the bidding by providing some form of compensation for the risks it is undertaking") (citation omitted).

36. The Debtors submit that the proposed Stalking Horse Incentives are reasonable and will enable the Debtors to maximize the value of their estates. The Stalking Horse Incentives meet the "business judgment rule" standard. The Stalking Horse Incentives are reasonable because (i) they are not excessive compared to fees and reimbursements approved in other cases in this Circuit, and (ii) they will not diminish the Debtors' estates. Bidding incentives such as proposed herein enable a debtor to assure a sale to a contractually committed bidder at a price the debtor believes is fair and reasonable, while providing the debtor with the opportunity of obtaining even greater benefits for the estate through an auction process.

37. Based upon the foregoing, the Debtors respectfully request that this Bankruptcy Court approve the Stalking Horse Incentives. See In re Integrated Resources Inc., 135 B.R. 746 (Bankr. S.D.N.Y.), aff'd, 147 B.R. 650 (S.D.N.Y. 1992).

F. Notice of the Bidding Procedures, The Auction and the Sale Hearing

38. The Debtors submit that the notice to be provided through the Publication Notice of the Sale and Procedures Motion, and notice of the Hearing to consider the Bidding Procedures Order, and the method of service proposed herein, constitutes good and adequate notice of the sale of the Acquired Assets and the proceedings to be had with respect thereto. Therefore, the Debtors respectfully request that this Bankruptcy Court approve the foregoing notice procedures.

POINT III THE DEBTORS ARE ENTITLED TO ENTRY OF THE SALE APPROVAL ORDER

A. Approval of the Asset Purchase Agreement and the Sale

39. The Debtors submit that ample authority exists for the approval of the Proposal, the Asset Purchase Agreement and the proposed sale of the Acquired Assets pursuant thereto. Section 363 of the Bankruptcy Code, which authorizes a debtor to sell Assets of the estate other than in the ordinary course of business free and clear of liens, claims and encumbrances, provides, in relevant part:

(b)(1) The trustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate.

* * *

(f) The trustee may sell property under subsection (b) or (c) of this section free and clear of any interest in such property of an entity other than the estate, only if

(1) applicable non-bankruptcy law permits sale of such property free and clear of such interest;

(2) such entity consents; . . .

- (5) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

11 U.S.C. § 363(b)(1), (f); see also, Fed. R. Bankr. P. 6004(f)(1) ("All sales not in the ordinary course of business may be by private sale or by public auction.").

40. Section 363 does not set forth a standard for determining when it is appropriate for a court to authorize the sale or disposition of a debtor's assets prior to confirmation of a plan. However, courts in the Second Circuit and others have allowed a debtor to sell property of its estate outside of the ordinary course of its business, pursuant to section 363(b)(1) of the Bankruptcy Code, where the sale represents an exercise of the debtor's sound business judgment. See Licensing By Paolo, Inc. v. Sinatra (In re Gucci), 126 F.3d 380, 387 (2d Cir. 1997) ("A sale of substantial part of a Chapter 11 estate may be conducted if a good business reason exists to support it"); In re Chateaugay Corp., 973 F.2d 141 (2d Cir. 1992) (recognizing that the sale of the debtors' Assets pursuant to Section 363 was appropriate where the debtors "advanced good business reasons" for the sale and it was "a reasonable exercise of the debtors' business judgment" to consummate the sale; Committee of Equity Security Holders v. Lionel Corp. (In re Lionel Corp.), 722 F.2d 1063, 1071 (2d Cir. 1983) (the standard for bankruptcy court approval of a sale of assets under Section 363 is whether there is a "good business reason" for the sale); In re Delaware & Hudson Ry. Co., 124 B.R. 169, 176 (D. Del. 1991) ("The Second and Sixth Circuit Courts of Appeal require that the trustee show there is a sound business purpose for conducting the sale prior to confirmation of a plan."); Stephens Indus. v. McClung, 789 F.2d 386, 390 (6th Cir. 1986) ("bankruptcy court can authorize a sale of all a Chapter 11 debtor's assets under § 363(b)(1) when a sound business purpose dictates such action"); In re Phoenix Steel Corp., 82 B.R. 334, 33536 (Bankr. D. Del. 1987) (stating that

judicial approval of a section 363 sale requires a showing that the proposed sale is fair and equitable, a good business reasons exists for completing the sale and that the transaction is in good faith). (explaining that courts have applied the "sound business purpose" test to evaluate motions brought pursuant to section 363(b) of the Bankruptcy Code); 3 *Collier on Bankruptcy* ¶ 363.02[4] (15th ed. rev. 1997) (generally recognized that a sale of substantially all of the debtor's assets can be accomplished pursuant to section 363(b)).

41. The "sound business purpose" test requires a debtor to establish four elements as a prerequisite to selling property outside the ordinary course of business. Specifically, a debtor must demonstrate that (a) a sound business justification exists for the sale of assets outside the ordinary course of business, (b) adequate and reasonable notice of the sale and hearing has been provided to interested persons; (c) the proposed sale price is fair and reasonable, and (d) the parties have acted in good faith. See, e.g., *In re Lionel Corp.*, 722 F. 2d at 1071 (noting that notice is required by statute and finding that the debtor must provide some "articulated business justification" for the §363(b) sale); see also, *In re Abbotts Dairies of Penn. Inc.*, 788 F. 2d 143 (3rd Cir. 1986) (finding of good faith by purchaser is necessary to satisfy requirements of §363(m)); *In re Delaware & Hudson Ry.*, *supra*, 124 B.R. at 176 (D. Del. 1991) ("sound business purpose" required for conducting a sale of the debtor's assets prior to confirmation of a plan); *Titusville Country Club v. Pennbank (In re Titusville Country Club)*, 128 B.R. 396 (Bankr. W.D. Pa. 1991) ("sound business purpose" test has four requirements: (i) sound business reason for the sale; (ii) accurate and reasonable notice; (iii) adequate (fair and reasonable) price; and (iv) good faith); *Phoenix Steel*, *supra*, 82 B.R. at 335-36 (requirements for approval of asset sale under Section 363 are that the proposed sale is fair and equitable, that there is a good business reason for completing the sale and

the transaction is in good faith) 3 *Collier on Bankruptcy* ¶363.02[4] (15th ed. rev. 1997). Courts have made it clear that a debtor's showing of a sound business justification need not be unduly exhaustive. Instead, a debtor is "simply required to justify the proposed disposition with sound business reason." In re Baldwin United Corp., 43 B.R. 888, 906 (Bankr. S.D. Ohio 1984). The Debtors submit that their proposed sale of the Acquired Assets satisfies each of the four criteria set forth in this four-pronged test and that their proposed sale of the Acquired Assets is based upon their sound business judgment.

42. First, the Debtors have determined, in the exercise of their sound business judgment, that the sale of the Acquired Assets to WorldCom is appropriate and in the best interests of their estates and creditors. This decision is supported by compelling business reasons including the following: (a) the Debtors' estates are experiencing a monthly loss in revenue; (b) the Acquired Assets are substantially more valuable if sold as a going concern rather than piecemeal; (c) a prompt sale of the Acquired Assets will further the goal of keeping administrative expenses to a minimum; and (d) the current value of the Debtors' businesses can be maximized.

43. It is also submitted that any Chapter 11 plan of reorganization in these Bankruptcy Cases would likely require the sale of the Acquired Assets. By selling the Acquired Assets pursuant to a section 363 sale, the sale proceeds will be generated earlier in the case, thereby permitting the creditors to receive their distribution in a more timely fashion. The Debtors further submit that nothing would be gained by delaying the sale until a Plan is confirmed. Indeed, a substantial delay of the sale is likely to result in a reduction of the value of the Acquired Assets.

44. Second, the sale of the Acquired Assets, in accordance with the sale procedures proposed herein will provide adequate and reasonable notice of the proposed sale of the Acquired Assets, the Auction and the Sale Hearing to all interested parties.

45. Third, the Debtors also submit that the sale price resulting from this transaction will be fair, reasonable, and in the best interests of their estates. The Debtors will confirm the fairness of the sale price by soliciting bids for the Acquired Assets, and if qualifying bids are received in accordance with the Bidding Procedures proposed herein, the Debtors have provided procedures for competitive bidding between the parties submitting such bids. The proposed Bidding Procedures thereby would insure that the Debtors' estates realize the maximum available value for the Acquired Assets and that the sale price is fair and reasonable.

46. Finally, by design, the Bidding Procedures proposed herein will ensure that any purchase agreement between any bidder and the Debtors is negotiated in good faith by the Debtors and the Purchaser. To begin, the Debtors and WorldCom have negotiated the form of the Asset Purchase Agreement at arms' length. Since the Asset Purchase Agreement will serve as the form agreement for any and all bidders, it can be concluded that the sale of the Acquired Assets will be negotiated in good faith. Furthermore, the Debtors will show at the Sale Hearing that (a) the purchase of the Acquired Assets is in good faith in accordance with section 363(m) of the Bankruptcy Code; and (b) any purchaser is an independent purchaser and not an insider of the Debtors as that term is defined in section 101(31) of the Bankruptcy Code.

47. The proposed sale of the Acquired Assets, pursuant to the terms and conditions of the Proposal and Asset Purchase Agreement, is in the best interest of the Debtors' estates and creditors because it provides for procedures that will ensure that the highest possible price is paid for the

Acquired Assets. Any delay in consummating a sale of the Acquired Assets will simply diminish the current value of the Acquired Assets and generate administrative expenses that will decrease available funds for distribution. Accordingly, the creditors' best interests are served by authorizing the sale of the Acquired Assets as provided herein, and the Debtors respectfully request that the Bankruptcy Court approve the same.

48. Although the Debtors have marketed the Acquired Assets, to date, WorldCom has submitted the highest and best written offer to purchase the Acquired Assets.

(i) Sale Free and Clear of Liens, Claims and Encumbrances

49. In accordance with section 363(f) of the Bankruptcy Code, a debtor in possession may sell property under section 363(b) "free and clear of any interest in such property of an entity other than the estate" if one of the following conditions is satisfied:

- (1) applicable non-bankruptcy law permits sale of such property free and clear of such interest;
- (2) such entity consents;
- (3) such interest is a lien and the price at which such property is to be sold is greater than the aggregate value of all liens on such property;
- (4) such interest is in bona fide dispute; or
- (5) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

11 U.S.C. § 363(f); In re Dundee Equity Corp., 1992 Bankr. LEXIS 436 (Bankr. S.D.N.Y. 1992)

("Section 363(f) is in the disjunctive, such that the sale free of the interest concerned may occur if any one of the conditions of § 363(f) have been met."); In re Elliott, 94 B.R. 343, 354 (E.D. Pa.

1988) (Section 363(f) is written in the disjunctive; accordingly, the bankruptcy court may approve a sale "free and clear" under Section 363 provided at least one of the subsections is met).

50. Under the Asset Purchase Agreement, and pursuant to section 363(f) of the Bankruptcy Code, the Debtors seek authority to sell the Acquired Assets to WorldCom free and clear of all liens, claims and other encumbrances, including those held by all applicable taxing authorities, other than those expressly permitted by the Asset Purchase Agreement.

51. The proposed Sale contemplates the consent of the secured creditors to the sale of the Acquired Assets free and clear of all liens. Moreover, any liens, claims and encumbrances shall attach to the proceeds of the sale of the Assets in the same order of priority which they now enjoy.

52. In the event consent cannot be obtained, the Debtors believe that each holder of a lien or security interest in the Acquired Assets could be compelled to accept a monetary satisfaction of its existing lien up to the value of the collateral securing the applicable existing lien; provided that, all of the Debtors' claims, defenses and objections with respect to the amount, validity or priority of the existing liens and the underlying liabilities are expressly preserved.

53. All liens and security interests on and against the Acquired Assets will be satisfied, assumed by WorldCom, or will attach to the proceeds of the sale of the Acquired Assets with the same force, effect and priority as such liens have on the Acquired Assets, subject to the rights and defenses, if any, of the Debtors and any party in interest with respect thereto. Accordingly, the Debtors submit that their proposed sale of the Acquired Assets free and clear of liens, claims and encumbrances satisfies the statutory prerequisites of section 363(f) of the Bankruptcy Code. WorldCom shall be deemed to have assigned its rights under the Proposal, Management Agreement and the Asset Purchase Agreement to TTI National, Inc. as the designee of WorldCom, as of the

Closing without the necessity for obtaining any additional court approval and/or execution of any agreements.

**B. Approval of the Assumption and Assignment
of Executory Contracts and Unexpired Leases**

54. The Debtors seek to assume and assign certain executory contracts and unexpired leases to the purchaser of the Acquired Assets. Section 365 of the Bankruptcy Code authorizes a debtor to assume and assign its executory contracts and unexpired leases subject to the approval of the bankruptcy court. Specifically, section 363 provides in relevant part:

- (a) (a) Except as provided in ... subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor.
- (b) (b)(1) If there has been a default in an executory contract or unexpired lease of the debt the trustee may not assume such contract or lease unless, at the time of assumption of such contract or lease, the trustee:
 - (A) cures, or provides adequate assurance that the trustee will promptly cure such default;
 - (B) compensates or provides adequate assurance that the trustee will promptly compensate, a party other than the debtor to such contract or lease, for any actual pecuniary loss to such party resulting from such default; and
 - (C) provides adequate assurance of future performance under such contract or lease. . . .
- (f)(2) The trustee may assign an executory contract or unexpired lease of the debtor only if
 - (A) trustee assumes such contract or lease in accordance with the provisions of this section; and

(B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

11 U.S.C. §§ 365(a), (b)(1), (f)(2). Accordingly, section 365 authorizes the proposed assumptions and assignments, provided that the defaults under such contracts and leases are cured and adequate assurance of future performance is provided. Courts routinely approve motions to assume, assume and assign or reject executory contracts or unexpired leases upon a showing that the debtor's decision to take such action will benefit the debtor's estate and is an exercise of sound business judgment. In re Century Brass Products, Inc., *supra*, 795 F.2d at 271 (business judgment standard governs the rejection of executory contracts); *see also*, In re G.I. Industries, Inc., 204 F.3d 1276 (3d Cir. 2000) (a bankruptcy court applies the business judgment rule to evaluate a trustee's decision to reject an executory contract); In re Market Square Inn, Inc., 978 F.2d 116 (3d Cir. 1992) (*Id.*).

55. The assumption or rejection of an executory contract or unexpired lease by a debtor is subject to review under the business judgment standard; if the debtor has exercised "sound" business judgment, a court should approve the proposed assumption or rejection. In re III Enterprises, Inc. V, 163 B.R. 435, 469 (Bankr. E.D. Pa. 1994) (court will give deference to debtor's decision to assume or reject the contract; *see also*, NLRB v. Bildisco & Bildisco, 465 U.S. 513 (1984) (recognizing that the business judgment standard applies to a trustee's rejection of ordinary executory contracts, pursuant to Section 365). As a result, courts generally will not second-guess a debtor's business judgment concerning the assumption or rejection of an executory contract or unexpired lease. Sharon Steel Corp. v. National Fuel Gas Distrib. Corp., 872 F.2d 36, 39-40 (3d Cir. 1989) (noting that the propriety of trustee's decision to reject a contract is measured under the

traditional "business judgment test," requiring only that the trustee demonstrate that rejection will benefit the estate). The "business judgment" test is not a strict standard; it merely requires a showing that either assumption or rejection of the executory contract or unexpired lease will benefit the debtor's estate. See, Red Bell Brewing Co. v. GS Capital, L.P. (In re RBGSC Inv. Corp.), 240 B.R. 536 (Bankr. E.D. Pa. 1999) (business judgment standard is low threshold to satisfy).

56. In connection with the consummation of the transactions contemplated by the Asset Purchase Agreement, the Debtors will assume the Assumed Contracts and assign them to the Purchaser, effective as of the closing date of the sale.

(i) Fixing the Cure Amounts

57. As a pre-condition to the assumption of an unexpired executory contract or lease, a debtor is required to cure all defaults thereunder, or provide adequate assurance that such defaults will be cured. 11 U.S.C. §§365(b)(1)(A). Accordingly, "cure amounts" must be established with respect to each of the executory contracts and unexpired leases to be assumed by the Debtors.

58. Cure amounts required to be paid pursuant to 11 U.S.C. § 365(b)(1) in connection with those executory contracts and leases which are assumed and assigned pursuant to the Asset Purchase Agreement, shall be fixed within thirty (30) days after the Closing pursuant to agreement between the Debtors and each non-debtor party to such executory contracts or leases. To the extent that an agreement regarding the cure amount cannot be reached between the parties to a particular contract or lease assumed pursuant to the Asset Purchase Agreement, the Debtors shall file a motion with the Bankruptcy Court to fix such cure amounts no later than forty (40) days following the Closing.

59. The Debtors request that any non-debtor party that does not timely object to the proposed Sale of Acquired Assets be deemed to consent to the proposed treatment of its executory contract and unexpired lease under section 365 of the Bankruptcy Code. See Hargrave v. Township of Pemberton (In re Tabone, Inc.), 175 B.R. 855, 858 (Bankr. D.N.J. 1994) (by not objecting to sale motion, creditor deemed to consent); Pelica Homestead v. Wooten (In re Gabel), 61 B.R. 661, 667 (Bankr. W.D. La. 1985) (same). Moreover, the Debtors request that each non-debtor party to an executory contract or unexpired lease be deemed to consent to the assumption and assignment of its executory contract or unexpired lease notwithstanding any antialienation provision or other restriction on assignment. See 11 U.S.C. §§ 365(c)(1)(B), (e)(2)(A)(ii) and (f).

(ii) The Debtors Will Demonstrate "Adequate Assurance of Future Performance"

60. Section 365(b)(1)(C) provides that if a default exists under an executory contract or unexpired lease, same may not be assumed unless the debtor "provides adequate assurance of future performance under such contract or lease." 11 U.S.C. §365(b)(1)(C). The meaning of "adequate assurance of future performance" depends on the facts and circumstances of each case, but should be given "practical, pragmatic construction." In re Natco Indus., Inc., 54 B.R. 436, 440 (Bankr. S.D.N.Y. 1985) (adequate assurance of future performance does not mean absolute assurance that debtor will thrive and pay rent); see also, Carlisle Homes, Inc. v. Arrari (In re Carlisle Homes, Inc.), 103 B.R. 524, 538 (Bankr. D.N.J. 1989) ("Although no single solution will satisfy every case, the required assurance will fall considerably short of an absolute guarantee of performance."); In re Bon Ton Rest. & Pas Shop, Inc., 53 B.R. 789, 803 (Bankr. N.D. Ill. 1985) (Ibid.).

61. Among other things, adequate assurance may be given by demonstrating the assignee's financial health and experience in managing the type of enterprise or property assigned.

In re Bygaph, Inc., 56 B.R. 596, 60506 (Bankr. S.D.N.Y. 1986) (adequate assurance of future performance is present when prospective assignee of a lease from debtor has financial resources and has expressed a willingness to devote sufficient funding to business in order to give it strong likelihood of succeeding; chief determinant of adequate assurance is whether rent will be paid).

62. In connection with the Sale Hearing, the Debtors will provide evidence that all requirements for the assumption and/or assignment of the executory contracts and unexpired leases proposed to be assigned to the purchaser of the Acquired Assets will be satisfied. It is an express condition of the proposed sale procedures that Bidders submit as part of their Bids, sufficient financial and other information to assess the Bidder's compliance with section 365 (b)(1)(C) of the Bankruptcy Code. The Debtors will provide all parties to executory contracts and unexpired leases to be assumed and assigned pursuant to this Sale and Procedures Motion with such information and an opportunity to be heard. Thus, the Debtors respectfully submit that by the conclusion of the Sale Hearing, assumption and assignment of the executory contracts and unexpired leases should be approved.

(iii) Debtors Reserve the Right to Reject Unsold Contracts and Leases

63. In the event there are any executory contracts or unexpired leases that remain unsold at the conclusion of the Auction, the Debtors reserve the right to request authority at or prior to the Sale Hearing to reject any or all such unsold executory contracts and unexpired leases. After conducting the Auction and selling the Acquired Assets, the unsold executory contracts and unexpired leases may be valueless to the Debtors and would only create an administrative expense burden on the Debtors' estates. Therefore, the Debtors request authority to reject, as of the date of the Sale Hearing, some or all executory contracts and unexpired leases they believe to have no value.

The Debtors however, shall not reject any executory contracts or unexpired leases before the Closing without the Purchasers consent.

C. The Sale is Exempt from Stamp or Similar Taxes and Bulk Sale Statutes

64. Pursuant to section 1146(c) of the Bankruptcy Code, "[t]he issuance, transfer, or exchange of a security, or the making or delivery of an instrument of transfer under a plan confirmed under Section 1129 of this title, may not be taxed under any law imposing a stamp or similar tax." 11 U.S.C. § 1146(c). Courts have broadly construed this provision to include sales and transfers that occur outside of a chapter 11 plan of reorganization and before or after confirmation of that chapter 11 plan. See In re Jacoby-Bender, Inc., 40 B.R. 10 (Bankr. E.D.N.Y. 1984), aff'd 758 F.2d 840 (2d Cir. 1985) (postconfirmation sale); In re 995 Fifth Ave. Assocs., L.L.P., 116 B.R. 384 (Bankr. S.D.N.Y. 1990), aff'd 127 B.R. 533 (S.D.N.Y. 1991), aff'd in part, rev'd in part (on other grounds) 963 F.2d 503 (2d Cir. 1992) (discussing holding of Jacoby-Bender case); see also In re Hechinger Investment Co. of Delaware, Inc., 254 B.R. 306 (Bankr. D. Del. 2000) (pre-confirmation sale); In re Permar Provisions, Inc., 79 B.R. 530, 534 (Bankr. E.D.N.Y. 1987) (pre-confirmation sale). In so holding, the courts have focused on whether the sale and transfer is "essential to the consummation of the plan." Permar Provisions, Inc., 79 B.R. at 533-34; Jacoby-Bender, 758 F.2d at 842. Moreover, courts have applied the exemption provided under section 1146(c) of the Bankruptcy Code where: (a) the sale is of substantially all of the assets of the debtors, or (b) is essential to, or an important component of, the chapter 11 process. See, e.g., In re Hechinger Inv., Inc., 254 B.R. 306, 320 (Bankr. D. Del. 2000) (holding that a "transfer. . . that is essential to or an important component of the plan process. . ." but that occurred prior to the filing of a plan of reorganization was exempt from state transfer and recording taxes prior to the filing). Sales which occur outside

of the chapter 11 plan and before confirmation of such a plan have therefore been given the benefit of the exemption under section 1146(c).

65. In this case, the Debtors' sale of the Acquired Assets is essential to the formulation, confirmation and consummation of a plan and, therefore, should be deemed to be "under a plan." The Debtors propose to distribute the net proceeds of the sale of the Acquired Assets to creditors pursuant to a confirmed chapter 11 plan. Consequently, the Debtors submit that the sale of the Acquired Assets facilitates and is indeed essential to the Debtors' confirmation of a chapter 11 plan, and thus falls within the scope of the tax exemption afforded under section 1146(c) of the Bankruptcy Code. See Permar Provisions, 79 B.R. at 534 (Bankr. E.D.N.Y. 1987) (sale of property one year prior to plan confirmation was exempt under section 1146(c) where sale proceeds were distributed to secured and unsecured creditors).

D. The Ten Day Stay Provided For in Bankruptcy Rule 6004(g) Should Be Waived With Respect to the Sale

66. Bankruptcy Rule 6004(g) provides that an "order authorizing the use, sale, or lease of property other than cash collateral is stayed until the expiration of 10 days after entry of the order, unless the court orders otherwise".

67. The Debtors hereby request that this Bankruptcy Court, in the discretion provided to it under Rules 6004(g) and 6006(d) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), waive the ten-day stay of the order approving the sale of the Acquired Assets and the assignment of the operation contracts and leases to WorldCom arising under those same Bankruptcy Rules. In re Perry Hollow Mgm't Co., 260 B.R. 58, 65 (D.N.H. 2001) (waiving the ten-day stay under Bankruptcy Rule 6004(g) to permit the sale of estate property the following day where the sales price

was found to be reasonable, the buyer was ready to close and the estate would likely have to pay to continue storing the property); In re Singer Co., N.V., No. M-47(V), 2000 U.S. Dist. LEXIS 2565, at *48 - *52 (S.D.N.Y. Mar. 7, 2000) (stating that [t]he bankruptcy court denied the requested stays [under Bankruptcy Rules 6004(g) and 6004(d)] in order to ensure the quick distribution of funds that it had found so vital to the continuing and successful reorganization of [the debtors] and to promote the rehabilitative purposes behind Chapter 11); In re Quanalyze Oil & Gas Corp., 250 B.R. 83, 91 (Bankr. W.D. Tex. 2000) (authorizing the closing of a sale of estate property one day after the entry of the order authorizing the sale where the estate would lose the property to foreclosure if the sale were not consummated). Moreover, the Debtors seek a declaration that the Pre-Closing constitutes substantial consummation of the Sale such that the protections of § 363(m) of the Bankruptcy Code are applicable to such Pre-Closing.

E. The Mutual Exchange of Releases and Waivers Should Be Approved Pursuant to Bankruptcy Rule 9019

68. The Proposal represents the results of extensive, protracted and difficult negotiation between, among others, the Debtors, the Creditors' Committee, WorldCom, STAR, the STAR Committee, and the Debtors' current officers and directors. It provides in part for various releases and waiver including but not limited to (i) The Debtors and the Committee shall waive and release any and all claims and causes of action against WorldCom and its Related Entities, as they relate to the bankruptcy cases of the Debtors, excluding WorldCom's obligations under the Proposal; and (ii) WorldCom shall waive and release any and all claims and causes of action against the Debtors, the Committee, Star and the Star Committee and their respective Related Entities as they relate to the WorldCom Claim and the bankruptcy cases of the Debtors and Star, excluding any claims for

the provision of postpetition telecommunications services and related charges to the Debtors or Star, and the obligations of the Debtors and Star under the Proposal; and (iii) Star and the Star Committee shall waive any and all claims and causes of action it may have against WorldCom and its Related Entities as they relate to the bankruptcy cases of Star or the Debtors, excluding WorldCom's obligations under the Proposal and any claims for postpetition telecommunications services and related charges due to or from WorldCom; and (iv) Each of Debtors, the Committee, STAR and the STAR Committee acknowledge and agree that (i) each of STAR and Debtors have filed proofs of claim in the bankruptcy cases of Debtors and STAR, respectively; (ii) the bar date for filing proofs of claim in each of the Debtors' and STAR's bankruptcy cases has passed; (iii) each of the parties knew of the passage of the bar date in each of the respective bankruptcy cases and that each had sufficient time to prepare and file a proof of claim in respect thereof, and that each knowingly decided not to file any additional proofs of claim in the respective cases, and that no other proofs of claim shall be filed by such parties in the Debtors' or STAR's bankruptcy cases; (iv) such knowing failure to file any additional claims is not excusable neglect; (v) after further review, such filed proofs of claim are unliquidated, contingent and uncertain as to allowance and any anticipated distribution thereon is believed to be de minimis; and (vi) at the Closing, Debtors and STAR shall irrevocably waive distribution in STAR's and Sellers' respective bankruptcy cases; (v) The Debtors and the Committee shall waive any right to any recovery from STAR's director and officer insurance policies, notwithstanding the foregoing, such waiver shall not impair the claim of any party insured under such policies for defense costs from the policy, and each of the Debtors, the Committee, STAR and the STAR Committee shall share information with each other with respect to any lawsuit initiated by the Debtors, the Committee, STAR or the STAR Committee against any former officers

and directors of STAR or the Sellers; and (vi) WorldCom, Debtors and the Committee shall waive and release from any and all claims, demands, allegations and/or causes of action, if any, each may have, against Gordon Hutchins ("Hutchins") and Mary Casey ("Casey"), or both of them, from any and all claims arising from their respective roles as officers, directors, employees, agents or contractors of STAR and/or the Debtors, as they relate to the bankruptcy cases of the Debtors and STAR and the claim of WorldCom, the Debtors and the Committee in the Debtors and STAR's bankruptcy cases.

69. The language of the proposed releases and waivers is to be narrowly drawn in such a manner as to (i) not release any unintended parties, including without limitation any joint tortfeasors, (ii) not adversely affect STAR's current directors and officers or insurance policies; and (iii) result in a release by WorldCom of its claims, lien and security interests on the Debtors and STAR's assets.

70. STAR shall obtain an order in its own bankruptcy proceeding determining that the Proposal constitutes a good faith settlement and compromise under applicable law.

71. The Debtors expressly reserve all rights, claims, demands and causes of action of any kind whatsoever against any and all persons and entities not involved in the releases and waivers.

72. The releases and waivers contemplated herein shall not affect the post-petition obligations of the Debtors, STAR or WorldCom as they relate to the provision of telecommunications services, the collection of amounts due as a result thereof, or billing disputes related thereto.

73. In the event that a purchaser other than WorldCom is the successful Bidder, the Releases and Waivers granted to the Debtors, the Committee, WorldCom, STAR and the STAR Committee and their respective related parties shall be effective as of the Closing of such sale.

74. The Releases and Waivers flow from the exercise of the Debtors' business judgement and represent compromises which the Debtors assert are beneficial to their estates and their creditors. Approval of such compromises does not require any evidentiary hearing and do not fall below the lowest level of reasonableness.

F. Approval of RFC Agreement

75. As indicated above, prior to the Petition Date, the Debtors were parties to a Receivables Sale Agreement with RFC Capital Corporation ("RFC"), pursuant to which they sold their accounts receivable to RFC. The Debtors contemplated entering into a similar post-Petition Date agreement with RFC and sought this Bankruptcy Court's authorization to do so. The Committee objected to such financing request. Ultimately the Debtors determined that their cash flow (without the sale of receivables) was sufficient to permit them to pay their bills as they matured.

76. Recently, the Debtors became aware of a holding by a bankruptcy court whereby receivables collected by a billing agent (such as HBS, the billing agent used by the Debtors), were found to be "owned" by such billing agent such that the failure of such billing agent to continue in business could have the consequence of diminishing the Debtors' collections and interrupt its cash flow.

77. In order to avoid such consequences, the Debtors once again seek to enter into a Receivables Sale Agreement with RFC, substantially in the form outlined in a term sheet annexed hereto as Exhibit "G" (the "New RFC Agreement"). Under the New RFC Agreement, in conjunction

with the HBS Agreement, as the same may be modified, the Debtors' risk of collection from HBS will be eliminated (but not the risk of collection from end-users of the Debtors' services). The Debtors believe that the benefits attendant to the New RFC Agreement far outweigh the costs of same.

V. NOTICE

A. The Hearings to Consider this Motion Should Be Conducted on Shortened Notice, if Necessary

78. The Debtors wish to proceed by order fixing date, time, and place of hearings, rather than notice of motion because it is essential that the relief requested by this Sale and Procedures Motion be considered on an expedited basis. Rules 2002(a)(2) and 9006(c)(1) of the Federal Rules of Bankruptcy Procedure authorize this Bankruptcy Court, for cause shown, to reduce the notice period required for a hearing to consider approval of transactions undertaken by a debtor outside the ordinary course of business pursuant to section 363(b) of the Bankruptcy Code.

79. An expedited hearing on this Sale and Procedures Motion is imperative for several reasons. First, the purchase price for the Acquired Assets is based upon the current condition of the Debtors' business, and it is uncertain how long that condition can be maintained in light of the current economic condition of the country and particularly, the economic climate in the metropolitan New York area. Moreover, the Debtors' revenues currently are dropping. Furthermore, the bulk of the Debtors' advertising is done via mail, and it is unclear the extent to which the recent Anthrax scares will negatively affect the Debtors' business. Accordingly, any delay in the approval of the Sale and Procedure Motion may cause a reduction in the purchase price for the Acquired Assets.

Accordingly, the Debtors believe that all parties in interest will be best served if the hearings on this Sale and Procedures Motion are expedited.

80. Accordingly, and for the reasons described more fully in this Sale and Procedures Motion, the Debtors submit that good and sufficient cause exists for this Bankruptcy Court to enter an order shortening the prescribed notice period so that the hearings on this Sale and Procedures Motion may proceed on an expedited basis. The Debtors submit that the notice provisions set forth in the scheduling order prefixed to this Sale and Procedures Motion constitute good and sufficient notice of this Sale and Procedures Motion, the relief requested therein, and the hearings to be held with respect thereto.

V. CONCLUSION

81. Pursuant to Local Bankruptcy Rule 9013-1(b) for the Eastern District of New York, because there are no novel issues of law presented herein, the Debtors respectfully requests that this Bankruptcy Court waive the requirement that the Debtors file a memorandum of law in support of this motion.

82. No prior request for the relief sought herein has been made to this Bankruptcy Court or any other court.

83. The Committee, the Debtors, WorldCom, and STAR have engaged in extensive arms length negotiations resulting in the signing of the January 22, 2002 Proposal, the terms of which have been incorporated herein.

WHEREFORE, the Debtors respectfully request that this Bankruptcy Court enter the Order to Show Cause, the Bidding Procedures Order and the Sale Order and grant such other and further relief as this Court deems just and proper.

Dated: New York, New York
January 22, 2002

ANGEL & FRANKEL, P.C.
Attorneys for PT-1 Communications, Inc.,
PT-1 Long Distance, Inc. and PT-1 Technologies, Inc.,
Debtors and Debtors in Possession

By: 

Bruce Frankel, Esq. (BF-9009)

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460 Park Avenue

New York, New York 10022-1906

(212) 752-8000

EXHIBIT "A"

ReedSmith

January 22, 2002

Bryan L. Engle
Chief Executive Officer
PT-1 Communications, Inc.
PT-1 Long Distance, Inc.
PT-1 Technologies, Inc.
30-50 Whitestone Expressway
Flushing, New York 11354

Dear Mr. Engle:

MCI WorldCom Network Services, Inc. ("WorldCom" or "Purchaser") is pleased to submit this proposal to acquire substantially all of the assets (the "Acquisition") related to the businesses (the "Business") of PT-1 Communications, Inc., PT-1 Long Distance, Inc. and PT-1 Technologies, Inc. and their respective subsidiaries (collectively, the "Sellers") and assume only those liabilities of Sellers expressly set forth herein (the "Assumed Liabilities"), pursuant to a sale authorized pursuant to Section 363 of the United States Bankruptcy Code (the "Bankruptcy Code"). The Business shall be conveyed free and clear of all liens, claims and encumbrances, except for the Assumed Liabilities. The proposed purchase of the Business by Purchaser as outlined herein is hereinafter referred to as the "Proposal". This Proposal is being distributed as part of settlement negotiations between WorldCom, the Sellers and the Official Committee of Unsecured Creditors of the Sellers (the "Committee"), STAR Telecommunications, Inc. and its wholly-owned direct and indirect subsidiaries and affiliates, other than the Sellers and their wholly-owned direct and indirect subsidiaries (collectively, "STAR") and the Official Committee of Unsecured Creditors of STAR (the "STAR Committee") and is not admissible into evidence by the Sellers, the Committee, STAR, the STAR Committee or WorldCom, in any legal or administrative proceeding.

1. Assets. Purchaser will purchase all of the assets owned by the Sellers (other than those assets expressly excluded from purchase by Purchaser in the Purchase Agreement, as defined below), which are used in the operation of the Business, including, without limitation, the following (collectively referred to herein as the "Acquired Assets").
 - a. All cash at Pre-Closing, as defined in Section 6, below, less all cash required to pay all outstanding postpetition unpaid expenses incurred in the ordinary course of the Sellers' Business as of the actual Pre-Closing, excluding professional fees and expenses (the "Initial Cash");
 - b. All accounts receivable (including, without limitation, the "tail") related solely to the Business (the "Acquired Receivables"), but specifically excluding the receivables due the Sellers by IDT Corporation or its affiliates (collectively, "IDT"), and any other receivables not related to the Business;
 - c. All deposits;
 - d. All prepaid expenses;

- e. All equipment (including, without limitation, all telecommunications and switching equipment and platforms, computers and peripherals and office equipment), furniture, fixtures and leasehold improvements;
- f. 1016868 Carrier Identification Code ("CIC") and any other CICs that are loaded on the Sellers' Feature Group D network, and all rights related thereto;
- g. All customer base related to the Business and all dial-around traffic and revenue streams related thereto, including, without limitation, any past or current customers and any information or call records relating thereto;
- h. All telecommunications network assets, including, without limitation, 800 and other telephone numbers, ACNAs, all circuits, private lines, intermachine trunk lines, and Feature Group D's related to Sellers' operation of its telecommunications network, and all rights related to the foregoing to be used in perpetuity;
- i. All intellectual property related to the Business or any of the Acquired Assets, including, without limitation, trademarks, copyrights, patents, licenses, sublicenses, technical information, data, specifications, research and development information, engineering drawings and operating and maintenance manuals (the "Intellectual Property"), and including, without limitation, Intellectual Property which may be recovered by the Sellers' estates pursuant to its avoidance actions under chapter 5 of the Bankruptcy Code;
- j. All permits relating to the Business or any of the Acquired Assets;
- k. All rights to any and all cash true-ups or other contract rights related to HOLD Billing Services, Inc., HOLD Billing Services, Ltd., or any other billing and collection service agreements related to the Business;
- l. All of Sellers' claims and causes of action, if any, against Purchaser and its affiliates;
- m. Copies, at Purchaser's cost, of all of Sellers' financial, accounting and other books and records as are necessary for the Purchaser's continued operation of the Acquired Assets and the Business;
- n. All other personal, real, tangible or intangible property used in the operation of the Business;
- o. All rights to employ the employees of the Sellers, as may be requested by Purchaser, there being no obligation imposed on the Purchaser to employ any of the employees of the Sellers; and
- p. Such other assets as are specifically set forth in the Purchase Agreement, but specifically excluding the Excluded Assets, as defined in Section 3, below.

The foregoing are collectively referred to as the "Acquired Assets." The Acquired Assets will be delivered free and clear of all liens, claims and encumbrances, other than those which do not materially impair the use or operation of such assets in the ordinary course of business and which are consented to by Purchaser. Purchaser consents to the lien and security interest of Chase Equipment Leasing, Inc., and

agrees to assume the obligations of the Sellers as set forth in the Chase Amendment and the STAR Agreement, each as defined below in Section 2. The Acquired Assets will otherwise be transferred on an "as is, where is" basis and with all faults.

2. Executory Contracts. STAR, to the extent necessary to transfer contracts relating directly and exclusively to the services provided by STAR to Sellers, *provided that* any cure costs related to such executory contracts shall not be paid by STAR, and Sellers shall assign to Purchaser all executory contracts (unless expressly excluded in the Purchase Agreement) to which any one or more of them is a party, and Purchaser shall assume the liabilities under such executory contracts after the Closing, including without limitation the following:
 - a. The postpetition agreement between the Sellers and STAR related to the transfer of assets and continued provision of services executed by STAR and the Sellers on or about October 24, 2001 (together with any amendments thereto, the "STAR Agreement"), approved by the United States Bankruptcy Court for the District of Delaware on December 4, 2001, and approved by the United States Bankruptcy Court for the Eastern District of New York (the "Bankruptcy Court") on December 21, 2001;
 - b. That certain agreement by and between the Purchasers and Chase Equipment Leasing, Inc., dated November 9, 2001, as the same may be amended, modified or supplemented from time to time (the "Chase Amendment"), approved by the Bankruptcy Court on January 15, 2002;
 - c. The Billing Services Agreement by and between HBS Billing Services, Ltd. and its affiliates (collectively, "HBS") and Sellers dated as of October 16, 1997, as the same may have been amended, modified or supplemented from time to time, *provided that* it shall be a condition to Pre-Closing that Purchaser and HBS enter into a modification or supplement to such agreement which eliminates Purchaser's risk with respect to collection of receivables from HBS (but not the collection risk from the end-users), and *provided further* that in lieu of assuming the foregoing HBS contract, Purchaser may enter into a new contract with HBS; and
 - d. Such other executory contracts and unexpired leases as Purchaser determines on or before the Closing, as defined in Section 8, below.

The foregoing are collectively referred to as the "Assumed Contracts." The Assumed Contracts will be delivered free and clear of all liens, claims and encumbrances, other than those which do not materially impair the use or operation of such assets in the ordinary course of business or which are consented to by Purchaser, or those that accrue from and after the Closing, as defined below.

3. Excluded Assets. Notwithstanding the foregoing, the Acquired Assets shall not include the following "Excluded Assets" of Sellers:

- a. All avoidance or other actions under chapters 5 or 11 of the Bankruptcy Code or otherwise, and any recoveries thereunder, except for actions against WorldCom or its affiliates or and recoveries from actions recovering Intellectual Property, to the extent that Intellectual Property is ultimately recovered by the Sellers;
 - b. All accounts receivable and other assets (including, without limitation, choses of action) not related to the Business, including without limitation the accounts receivable and other sums owed by IDT to the Sellers and any debit card receivables;
 - c. Any and all claims or choses of action in connection with or arising out of the Sellers' debit card business which was sold prepetition;
 - d. Any assets in Sellers' executive or incentive compensation, bonus, deferred compensation, pension, profit sharing, savings, retirement, stock option, stock purchase, group life, health or accident insurance or other employee benefit plans;
 - e. All minute books, stock transfer books and corporate seals;
 - f. All financial and accounting books and records, except such books and records as are necessary for the Purchaser's continued operation of the assets and the Business, *provided that*, Purchaser shall have reasonable access to any such books and records retained by the Sellers as may be necessary or desirable to operate the Business and the opportunity to copy such books and records at Purchaser's cost, and further the right to take any data, books or records which the Sellers decide to discard after the Closing, as defined below;
 - g. Any actions against former officers and directors of Sellers or STAR, other than those expressly released pursuant to the terms and conditions of this Proposal; and
 - h. All tangible, intangible, real or personal property, including, without limitation, contracts, permits or intellectual property which Purchaser specifically lists in the Purchase Agreement, as defined in Section 9, below, as an "Excluded Asset".
4. Releases and Waivers. As a condition to Pre-Closing, the following releases and waivers (collectively, the "Releases and Waivers") shall have become effective on or before the Pre-Closing (whether to Purchaser or a Successful Competing Bidder, as defined in Section 10(f), below):
- a. The Sellers and the Committee shall waive and release any and all claims, demands, allegations and/or causes of action, if any, each may have against WorldCom, and its Related Entities, as defined in Section 4(j), below, as they relate to the bankruptcy cases of the Sellers, but specifically excluding WorldCom's obligations under this Proposal (the "PT-1 Release");
 - b. WorldCom shall waive and release any and all claims, liens, security interests, demands, allegations and/or causes of action, if any, it may have

- against the Sellers, the Committee, STAR and the STAR Committee and their respective Related Entities as they relate to the WorldCom Claim, as defined in Section 5(a), below, and the bankruptcy cases of the Sellers and STAR, but specifically excluding any claims for the provision of postpetition telecommunications services and related charges to the Sellers or STAR, and the obligations of the Sellers and STAR under this Proposal (the "WorldCom Release"); and
- c. STAR and the STAR Committee shall waive any and all claims, demands, allegations and/or causes of action, if any, it may have against WorldCom, and its Related Entities, as they relate to the bankruptcy cases of STAR or the Sellers, but specifically excluding WorldCom's obligations under this Proposal and any claims and defenses for the provision of postpetition telecommunications services and related charges due to or due from WorldCom (the "STAR Release");
 - d. Each of Sellers, the Committee, STAR and the STAR Committee acknowledge and agree that (i) each of STAR and Sellers have filed proofs of claim in the bankruptcy cases of Sellers and STAR, respectively; (ii) the bar date for filing proofs of claim in each of the Sellers' and STAR's bankruptcy cases has passed; (iii) each of the parties knew of the passage of the bar date in each of the respective bankruptcy cases and that each had sufficient time to prepare and file a proof of claim in respect thereof, and that each knowingly decided not to file any additional proofs of claim in the respective cases, and that no other proofs of claim shall be filed by such parties in the Sellers' or STAR's bankruptcy cases; (iv) such knowing failure to file any additional claims is not excusable neglect; (v) after further review, such filed proofs of claim are unliquidated, contingent and uncertain as to allowance and any anticipated distribution thereon is believed to be *de minimis*; and (vi) at the Closing, Sellers and STAR shall irrevocably waive distribution in STAR's and Sellers' respective bankruptcy cases;
 - e. The Sellers and the Committee shall waive any right to any recovery from STAR's director and officer insurance policies, notwithstanding the foregoing, such waiver shall not impair the claim of any party insured under such policies for defense costs from the policy, and each of the Sellers, the Committee, STAR and the STAR Committee shall share information with each other with respect to any lawsuit initiated by the Sellers, the Committee, STAR or the STAR Committee against any former officers and directors of STAR or the Sellers;
 - f. Each of Sellers and STAR recognize the consideration each shall be receiving under this Agreement by virtue of, *inter alia*, the WorldCom Release, as defined in Section 4(b), above, and the effect thereof in the Sellers' and STAR's bankruptcy cases.
 - g. WorldCom, Sellers and the Committee shall waive and release from any and all claims, demands, allegations and/or causes of action, if any, each may

- have, against Gordon Hutchins ("Hutchins") and Mary Casey ("Casey"), or both of them, from any and all claims, except for telecommunications services provided to Hutchins or Casey.
- h. Notwithstanding any provision of the foregoing Releases and Waivers, the obligations of the Sellers under the STAR Agreement and Sellers' postpetition obligations to STAR, and the obligations of WorldCom upon assuming the STAR Agreement, shall not be affected by this Proposal or any contracts or orders effectuating this Proposal, unless consented to in a separate writing by STAR.
 - i. Any releases or waivers contemplated herein shall include the waiver of any statute or law which affects the releasing or waiving party's ability to release or waive unknown claims.
 - j. Nothing herein shall be construed as an admission by any party that any other party has causes of action or claims against such party or its Related Entities.
 - k. For purposes of this Section 4, "Related Entities" shall mean with respect to any person or entity, its current and former agents, servants, employees, directors, officers, shareholders, attorneys, branches, affiliates, subsidiaries, successors and assigns and all persons, firms, corporations, and organizations acting on behalf of such person or entity.
5. Purchase Price. In consideration for the acquisition of the Acquired Assets, the Purchaser shall pay (or cause to be paid) consideration in an amount agreed to be \$108,800,000.00 (the "Purchase Price") and the other consideration set forth below:
- a. At Closing, as defined in Section 8, below, Purchaser shall cause WorldCom to waive all of its claims against the Sellers, but excluding its Secured Claim of \$106,373,824.42 (the "WorldCom Claim") which shall be credit bid pursuant to Section 363(k) of the Bankruptcy Code, having a minimum value of \$75,000,000, with additional, incremental bids, if any, by WorldCom to be submitted in accordance with Section 10(e) of this Proposal;
 - b. At the actual Pre-Closing, as defined in Section 6, Purchaser shall cause to be paid to the Sellers \$5,200,000 (the "Initial Payment"), in escrow, in immediately available funds;
 - c. Thirty (30) days after the actual Pre-Closing, Purchaser shall cause to be paid to the Sellers \$10,400,000 (the "Second Payment"), in escrow, in immediately available funds;
 - d. Sixty (60) days after the actual Pre-Closing, the Purchaser shall cause to be paid to Sellers an additional \$10,400,000 (the "Third Payment"), in escrow, in immediately available funds;
 - e. Ninety (90) days after the actual Pre-Closing, the Purchaser shall cause to be paid to Sellers an additional \$2,000,000 (the "Fourth Payment"), in escrow, in immediately available funds; and
 - f. At Closing, Purchaser shall (i) assume post-Pre-Closing obligations under the Chase Amendment, having an agreed value of \$3,500,000, (ii) assume post-

Pre-Closing obligations under the STAR Agreement, having an agreed value of \$1,800,000, and (iii) pay up to an additional \$500,000 towards cure and assumption costs related to unexpired leases and executory contracts assumed by the Sellers and assigned to the Purchaser, or other costs incurred by the Purchaser in order to reduce such cure and assumption costs, as are incurred pursuant to the terms and conditions of this Proposal (all such costs collectively referred to herein as the "Contract Costs").

6. Pre-Closing and Closing.

- a. No later than ten (10) days after the entry of the Sale Approval Order, as defined in Section 12(c), below, by the Bankruptcy Court which is not subject to further stay or appeal (*provided, however*, that Purchaser may elect to close or pre-close, as the case may be, the transactions contemplated hereby (despite a pending appeal if no stay thereof is in effect) pursuant to, and in accordance with, the protections afforded under Section 363(m) of the Bankruptcy Code), approving the sale of the Acquired Assets to Purchaser pursuant to the terms and conditions hereof, Purchaser and Sellers shall have a pre-closing (the "Pre-Closing") in Purchaser's counsel's offices in Pittsburgh, Pennsylvania at which the parties shall deliver the executed and approved Purchase Agreement and any related agreements, including, without limitation a Management Agreement, as defined and described in Section 7, below;
- b. Within ten (10) days of obtaining all Necessary Approvals, as defined in Section 8, below, Purchaser and Sellers shall close on the Acquisition (the "Closing") and the Management Agreement and the Purchase Agreement shall be deemed to be assigned to TTI National, Inc., without the requirement for further court approval or execution of any documents by and among the parties; and
- c. The period between the Pre-Closing and the earlier of (i) the Closing or (ii) the last day of the month in which the Management Agreement is terminated for failure to obtain the Necessary Approvals (inclusive) shall be referred to herein as the "Management Period".

7. Management Agreement. At the actual Pre-Closing, Purchaser and Sellers shall enter into an agreement (the "Management Agreement") pursuant to which Purchaser shall be granted the right to manage the Business during the Management Period or the termination of the Purchase Agreement (*i.e.*, as a result of failure to obtain the Necessary Approvals), whichever occurs first. The Management Agreement shall be in a form reasonably acceptable to each of the Sellers, the Committee and Purchaser, and shall include the following general terms and conditions:

- a. The WorldCom Claim shall be conditionally credited to Sellers' account with WorldCom on the date of the Pre-Closing;

- b. Purchaser shall operate the Business during the Management Period in the ordinary course, except as contemplated by this Proposal, it being contemplated by the parties that Purchaser may move some of its traffic onto WorldCom's network. During the Management Period, Purchaser shall cause all Operating Reports, in the form currently submitted to the United States Trustee, to be prepared and served monthly upon the United States Trustee, the Committee's counsel and the Sellers' counsel;
- c. In the event of a Termination, as defined in Section 16, below, the Purchaser shall be entitled to twenty-five percent (25%) of the Aggregate Cash Flow, if positive, during the Management Period. In the event Aggregate Cash Flow is negative, Purchaser shall be liable for such negative aggregate cash flow. For purposes of this Proposal, "Aggregate Cash Flow" in any given period is equal to the cash received by the Purchaser during such period (excluding the Initial Cash), less any expenditures of cash by the Purchaser during such period (including, without limitation, operating expenses, capital expenditures, and the provision of telecommunications services to the Sellers by WorldCom and its affiliates during the Management Period, whether paid by WorldCom or its affiliates (including setoffs and intercompany transfers) or paid from the Initial Cash or cash received by the Purchaser from operation of the Business during the Management Period);
- d. Purchaser and Sellers shall use their respective best efforts during the Management Period to obtain all Necessary Approvals, as defined below, without the requirement that Purchaser pay third parties for such Necessary Approvals;
- e. During the Management Period, Purchaser shall pay into an interest-bearing escrow account controlled by the Sellers' counsel, the Initial Payment at the actual Pre-Closing, the Second Payment thirty (30) days after the actual Pre-Closing, the Third Payment sixty (60) days after the actual Pre-Closing and the Fourth Payment ninety (90) days after the actual Pre-Closing.
- f. At the Closing, Sellers' counsel shall disburse from the escrow account: (i) Contract Costs, to the extent such Contract Costs exceed \$500,000 paid by Purchaser, in an amount not to exceed \$400,000, with the remainder of any Contract Costs to be paid by Purchaser, to the appropriate parties (including Purchaser to the extent that Purchaser has paid Contract Costs in excess of \$500,000); and (ii) the remainder to the Sellers' estates to be made available for distribution to creditors.
- g. At Termination, the escrowed funds, including interest thereon, shall be turned over to the Purchaser after reduction for payments due the Sellers' estates pursuant to Section 7(c), above.
- h. Notwithstanding the foregoing, in the event that Purchaser does not obtain Necessary Approvals within 180 days of the Pre-Closing (a "Delay in Closing"), and Purchaser has obtained all necessary Regulatory Approvals, as defined in Section 8, below, Sellers' counsel shall release from the escrow the

- Purchase Price, less \$400,000, and make such amounts available for distribution to creditors.
- i. At the Closing after a Delay in Closing, Sellers' counsel shall pay from the escrow account up to \$400,000 in Contract Costs in excess of the \$500,000 in Contract Costs paid by Purchaser to the appropriate parties (including Purchaser, to the extent that Purchaser has paid Contract Costs in excess of \$500,000), and the remainder, if any, shall be paid to the Sellers' estates and made available for distribution to creditors.
 - j. Notwithstanding any other provision of this Proposal to the contrary, in the event that notwithstanding the Purchaser's efforts to obtain the Necessary Approvals, a Termination occurs after a Delay in Closing, Purchaser shall not be required to turn over an amount equal to the Initial Cash to the Sellers, *provided that* the escrowed funds have been disbursed to the estates, as set forth above in Section 7(i), and Sellers shall be obligated to pay to Purchaser any costs or expenses, including, without limitation, usage of WorldCom's telecommunications services, incurred during the Management Period which was not actually paid from the Initial Cash or the cash flow of the Business during the Management Period;
 - k. Purchaser shall pay Contract Costs from the Aggregate Cash Flow during the Management Period, which shall effect a reduction in the Aggregate Cash Flow, in the event of a Termination. In the event of a Closing, the Contract Costs paid from Aggregate Cash Flow shall be credited against Purchaser's obligation to pay the first \$500,000 in Contract Costs.
 - l. Purchaser agrees that it will use its best efforts to minimize Contract Costs, and to further such efforts, if the Sellers, the Committee and the Purchaser determine that the Contract Costs of assumption and cure of an executory contract or unexpired lease would be more than the costs of entering into alternative arrangements and the Sellers and the Committee agree, in writing, on a case-by-case basis, that the Contract Costs of entering into such alternative arrangements shall be included in Contract Costs for all purposes under this Proposal, then, Purchaser shall pursue such alternative arrangements, it being understood that Purchaser's best efforts does not include any duty to pay monies to third parties in order to obtain the desired result of minimizing Contract Costs, unless such costs are deemed Contract Costs for all purposes. The Sellers and the Committee agree to support Purchaser's efforts to minimize Contract Costs.
8. Necessary Approvals. The "Closing" shall occur after all notices, permits, authorizations, approvals, consents, or waivers determined by the Purchaser to be reasonably required or necessary from any state or federal regulatory agency asserting jurisdiction over the transactions contemplated by this Proposal, including, without limitation, approvals required (if any) under the Hart-Scott-Rodino Antitrust Improvements Act, as amended, and from the Federal Communications Commission, and state public utility and public service commissions (collectively, the "Regulatory

Approvals”), and all consents as are reasonably required to operate the Business are obtained, including, without limitation, assignment of contracts, licenses, sublicenses, and the like, or the obtainment by Purchaser of reasonable alternatives for such contracts, licenses, sublicenses and the like (collectively with the Regulatory Approvals, the **“Necessary Approvals”**)

9. **Purchase Agreement.** Sellers and Purchaser intend to enter into a definitive purchase agreement (the **“Purchase Agreement”**) with respect to the Acquisition to be submitted with a motion to approve the Bidding Procedures set forth in Section 10, below. The Purchase Agreement will contain covenants, representations and warranties, closing conditions and other customary provisions for transactions of this type and magnitude. The representations and warranties will not survive the closing, except:
 - a. The representations by each party as to its power and authority to enter into the Purchase Agreement and to complete the transactions contemplated thereby, subject to entry of the Sale Approval Order, as defined in Section 12(c), below; and
 - b. The representations by each party as to the enforceability against it of the Purchase Agreement and related documents.
10. **Bidding Procedures.** Purchaser shall require the following bidding Procedures (the **“Bidding Procedures”**) to serve as the stalking horse in the Sellers’ bankruptcy. These Bidding Procedures will reflect the following:
 - a. This Proposal is further subject to entry of a final, non-appealable order by the Bankruptcy Court approving these Bidding Procedures (the **“Bidding Procedures Order”**), that is in form and substance satisfactory to Purchaser, Sellers and the Committee;
 - b. The Bidding Procedures shall include a form of Purchase Agreement and Management Agreement approved by the Purchaser, the Sellers and the Committee, provided that if the Sellers and the Purchaser agree to certain terms consistent with this Proposal, not agreeable to the Committee, such terms shall be included in the Purchase Agreement and the Management Agreement after good faith negotiations by all parties with respect thereto, and the Committee may raise its objections related solely to such provisions before the Bankruptcy Court for a final determination by the Bankruptcy Court in a manner consistent with the terms and conditions of this Proposal. The Purchase Agreement and the Management Agreement shall be executed by Purchaser and Sellers, subject to Bankruptcy Court approval;
 - c. For purposes of the sale of the Acquired Assets only, the WorldCom Claim, as set forth in WorldCom’s proof of claim shall be deemed to be an allowed secured claim (the **“Secured Claim”**). In the event that a sale of the Acquired Assets to Purchaser (or any other bidder) is not ultimately closed, the Debtors and the Committee shall not be deemed to have waived any right

each may have, if any, to challenge the Secured Claim merely as a result of accepting this Proposal;

- d. Such Purchase Agreement and Management Agreement must be accepted by any competing bidder in substantially the same form, but in no event shall such bidder's terms be more onerous to the Sellers or more beneficial to such bidder than those terms and conditions as are contained in the Purchase Agreement and the Management Agreement, including, without limitation, such changes as are necessitated by the economic terms of such bidder's bid, consistent with the terms of the Bidding Procedures Order. Each such bidder shall be required to submit to the Bankruptcy Court and serve upon the Purchaser, the Sellers and the Committee, a redlined version of the Purchase Agreement and the Management Agreement so that the same are received by the respective parties no later than two (2) business days before the Sale Approval Hearing, as defined below;
- e. The Bidding Procedures will provide that the Sellers can only accept an initial competing bid from a financially qualified bidder (as determined by the Sellers and the Committee in good faith after a deposit by such bidder of 10% of the aggregate purchase price offered by such bidder with the Sellers' counsel) that includes payment of the Purchase Price plus at least \$3,000,000 payable in immediately available funds into escrow upon the Pre-Closing and to be paid at the Closing as follows: (i) to WorldCom in the amount of \$75,000,000 in immediately available funds; (ii) to the Sellers' estates, the \$33.8 Million in consideration (composed of the payments to be made during the Management Period, the agreement to pay \$500,000 in Contract Costs, the agreement to assume the Chase Amendment, and the agreement to assume the STAR Agreement) on terms no less advantageous to such bidder than Purchaser's payment terms set forth in this Proposal; (iii) to the extent that Purchaser increases its bid, it shall be permitted to credit bid two-thirds of such increase in its bid through its Secured Claim, and the remainder of such increased bid shall be in cash payable at the same time as the Fourth Payment; (iv) to the extent that there is a Successful Competing Bidder, as defined in Section 10(f), below, WorldCom shall be entitled to receive in cash, at Closing, in addition to the \$75,000,000 set forth above, two-thirds of the difference between the Successful Competing Bidder's winning bid and \$108,800,000.00, payable at the Closing, in cash, and the remainder shall be turned over to the Sellers' estate. Each successive bid shall be in a minimum increment of \$3,000,000. Notwithstanding any provision in this Proposal to the contrary, in no event shall Purchaser be entitled to credit bid an amount greater than the Secured Claim, nor shall WorldCom receive on account of its claims in the Sellers' cases an amount greater than its Secured Claim, in the event that there is a Successful Competing Bidder.
- f. The Bidding Procedures Order shall include a provision that in the event that a purchaser other than WorldCom or Purchaser is the successful bidder for

- substantially all of the assets of the Sellers (a "Successful Competing Bidder"), the Releases and Waivers granted to the Sellers, the Committee, WorldCom, STAR and the STAR Committee, and their respective related parties, shall remain effective as of the Closing of such sale;
- g. As used herein, the term "Break-up Fee" shall mean the entitlement by Purchaser or WorldCom to receive payment from the Sellers upon a Closing of the sale of substantially all of their assets to a Successful Competing Bidder in an aggregate amount of \$750,000.00, after payment of which together with the required payment at the Closing as set forth in Section 10(e), above, neither Purchaser nor WorldCom shall have any claim against the Sellers for fees, expenses or any other claim, other than WorldCom's claim for postpetition telecommunications services to the Sellers and their affiliates and related charges;
 - h. The Bidding Procedures Order shall include a finding that WorldCom and/or its designee, TTI National, Inc., is a good faith purchaser and a qualified bidder;
 - i. The Bidding Procedures Order shall include a finding by the Bankruptcy Court that the Pre-Closing contemplated by this Proposal shall constitute substantial consummation of the sale of the Acquired Assets to the purchaser (whether the Purchaser or a Successful Competing Bidder) for all purposes, including, without limitation, Section 363(m) of the Bankruptcy Code, providing the Purchaser or such Successful Competing Bidder, as the case may be, the protections afforded under Section 363(m) of the Bankruptcy Code;
 - j. The Bidding Procedures Order shall approve the settlements contemplated by this Proposal, effective upon a Closing; and
 - k. Neither the Sellers, the Committee, STAR nor the STAR Committee shall object to approval by the Bankruptcy Court of the Bidding Procedures.
11. Carrier Agreements. The Closing shall be conditioned upon the Sellers' telecommunications carriers agreeing to enter into post-Closing carrier agreements with the Purchaser on or before the Closing with standard and customary business terms, including, without limitation, on and after the Closing, standard payment terms commensurate with Purchaser's (or such Successful Competing Bidder's) creditworthiness.
12. Timing. This Proposal is conditioned upon the following events occurring on or before the specified dates:
- a. Motion to Approve Bidding Procedures, consistent with the terms contained in this Proposal, to be filed on or before Tuesday, January 22, 2002;
 - b. Hearing and entry of Bankruptcy Court order approving Motion to Approve Bidding Procedures to be entered on or before January 29, 2002;

- c. Sale Approval Hearing on or before March 5, 2002 (the "Sale Approval Hearing") and entry of an order approving the sale of the Acquired Assets (the "Sale Approval Order") on or before March 6, 2002, and
 - d. Actual Pre-Closing on or before March 12, 2002. Notwithstanding the actual date of the Pre-Closing, the Pre-Closing shall be effective, *nunc pro tunc*, as of December 31, 2001 at 11:59:59 p.m. for all purposes. Notwithstanding the actual date of the Closing, the economic benefits of the Purchaser's acquisition of the Acquired Assets shall be effective as of January 1, 2002, at 12:00:00 a.m.
13. Press Releases. Except as is necessitated by notice of the sale of the Acquired Assets, neither Sellers, the Committee, STAR, the STAR Committee, Purchaser, nor WorldCom will release publicity of any type concerning this Proposal or the Acquisition without the prior written consent of the other parties, except as may be necessary to secure approvals or make disclosures required by a governmental or regulatory body or authority, or in connection with obtaining Bankruptcy Court approval of this Proposal and the transactions contemplated hereby.
14. Costs. STAR, Sellers, the Committee, the STAR Committee, Purchaser and WorldCom will each pay their respective transaction expenses, including internal personnel or overhead costs and fees and expenses of legal counsel, incurred in connection with the Acquisition or the resolution of Contract Costs. Nothing contained in this letter shall make STAR liable for any Contract Costs.
15. Access. Sellers shall provide Purchaser with access to its consultants and accountants and documentation related to the Acquisition.
16. Termination. In the event that Purchaser determines that after use of its best efforts (without the obligation to pay any additional amounts to third parties) to obtain the Necessary Approvals, that it will not be able to obtain such Necessary Approvals, Purchaser shall notify the Sellers, the Committee, STAR and the STAR Committee of its determination and the Purchase Agreement and the Management Agreement shall terminate (the "Termination") as of the last day of the month in which the notice is given.
17. Confidentiality. Each party and its advisors will hold all information obtained from the other party or its advisors in strict confidence and will use such information only for the purpose of evaluating the Acquisition. In the event that the transactions contemplated by this Proposal and the Purchase Agreement is not consummated, the receiving party will return promptly all originals and copies of materials reflecting such confidential information to the providing party. To the extent any such confidential information was provided to the receiving party electronically, the receiving party shall delete all such confidential material from whatever media it is stored, including, without limitation, any backups or archives,

18. Execution Deadline. If the foregoing is acceptable to you, please execute and cause the Committee and STAR to execute this Letter Agreement as indicated below and return it to me no later than 12:00 p.m., Eastern Time, Tuesday, January 22, 2002. If a fully executed copy of this Letter Agreement is not received by WorldCom by that time this Letter Agreement shall terminate and be of no further effect, at WorldCom's option.
19. Postpetition Financing. Sellers and WorldCom shall agree to support Sellers' obtainment of postpetition financing from RFC on an expedited basis, and in any event, no later than the actual Pre-Closing, in an amount equal to \$22,800,000, which financing shall be used in the event of a disruption in anticipated cash flow. In the event of any such borrowing, Purchaser agrees to assume the liabilities to RFC incurred by the Sellers at the Closing.
20. Waiver, Certain Consents. Any of the terms of conditions of this Proposal may be waived (in writing) at any time and from time to time by the party entitled to the benefits thereof without affecting any other terms or conditions of this Agreement.
21. Release of Management Team. WorldCom, Purchaser, Sellers, the Committee, STAR and the STAR Committee shall each release the existing management team of the Sellers composed of Bryan L. Engle, Tamie Barsky and Adam Kolodny (collectively, the "Management Team"), effective as of the Closing, from all liabilities, claims, damages, or causes of action, if any, related to (a) their respective employment by Asset Recovery Services, Inc. ("ARSI") in relation to ARSI's prepetition review of the Sellers' and STAR's operations and financials and (b) their respective employment by the Sellers, except for acts of gross negligence, willful misconduct or fraud.
22. Release of Committee Members. Sellers, STAR and WorldCom shall each release the individual members of the Committee and the STAR Committee, effective as of the Closing, from all liabilities, claims, damages or causes of action, if any, related to their serving as members of the Committee and the STAR Committee, respectively, except for acts of gross negligence, willful misconduct or fraud.
23. Stay Put Bonus for Management Team. The Purchaser, the Committee and the Sellers consent to the stay put bonuses for the Management Team requested by the Sellers in the Sellers' chapter 11 cases, *provided that* such stay put bonuses shall be paid one-third at the actual Pre-Closing and two-thirds at the earlier to occur of a Delay in Closing or the Closing. Such stay-put bonuses shall be paid by Purchaser, and payment of the same shall not reduce the Purchase Price in any manner.
24. WorldCom Claims Against STAR and Sellers. WorldCom represents and warrants that it has not assigned its claims against STAR or the Sellers to any third party, and agrees to indemnify and hold STAR and/or the Sellers, as the case may be, harmless

from any and all claims, demands, allegations and/or causes of action, if any, which arise out of WorldCom's breach of this representation and warranty.

25. Documentation Efforts. The parties shall use their best efforts to faithfully and in a timely manner, document the terms and conditions of this Proposal, including, without limitation, the drafting of the Bidding Procedures Order and the pleadings supporting same, the Sale Approval Order and the pleadings supporting same, the Purchase Agreement, the Management Agreement and the Releases and Waivers contemplated by this Proposal and promptly implement such agreements after approval thereof by the Bankruptcy Court and the United States Bankruptcy Court for the District of Delaware, to the extent necessary..
26. Time is of the Essence. Time is of the essence with respect to all provisions of this Proposal.
27. Headings. The headings used herein are for purposes of reference only and shall not limit or affect the meaning of such section.
28. Governing Law. This Letter Agreement shall be governed by the laws of the State of New York, without regard to choice of law principles.
29. Integration Clause. This Agreement is intended by the parties as a final expression of their agreement and is intended as a complete statement of the terms and conditions of their agreement.
30. No Amendments. This Proposal may only be modified or amended by a writing executed by all parties to this Proposal, except as set forth in Section 20, as it relates to waivers of conditions.
31. STAR and STAR Committee Obligations. The obligations of STAR and the STAR Committee, and the benefits to STAR and the STAR Committee and their respective Related Entities, are subject to the STAR Committee's acceptance of this Proposal and the approval by the United States Bankruptcy Court for the District of Delaware.

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Bryan L. Engle
January 22, 2002
Page 16

Reed Smith

Please indicate your agreement to the terms and conditions of this Proposal (subject to approval by the Bankruptcy Court) and consent to the relief requested in the Bidding Procedures Motion by executing and delivering this Proposal to me on or before Tuesday, January 22, 2002 at 12:00 p.m. If you have any questions, please do not hesitate to call me.

Very truly yours,

REED SMITH LLP

By


Many Emamzadeh
Counsel to MCI WorldCom Network Services, Inc.

cc: Bruce Frankel, Esq. (by facsimile)
Lisa Bonsall, Esq. (by facsimile)
James Stang, Esq. (by facsimile)
Dan Lowenthal III, Esq. (by facsimile)
David Myers (by facsimile)
George Hampton (by facsimile)
Thomas F. O'Neil III, Esq. (by facsimile)
Brian H. Benjet, Esq. (by facsimile)
Robert P. Simons, Esq.

Signatures Appear on Following Page

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Reed Smith

Bryan L. Engle
January 22, 2002
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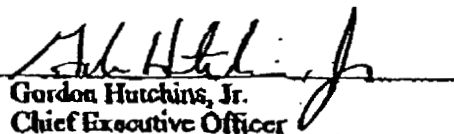
Agreed to and accepted this 22nd day of January, 2002:

PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: _____
Bryan L. Engle
Chief Executive Officer

Agreed to and accepted this 22nd day of January, 2002:

STAR TELECOMMUNICATIONS, INC.

By: 
Gordon Hutchins, Jr.
Chief Executive Officer

Agreed to and accepted this 22nd day of January, 2002:

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: _____
Lisa Bontall, Esq., authorized Counsel to the Official Committee of Unsecured Creditors of the Sellers

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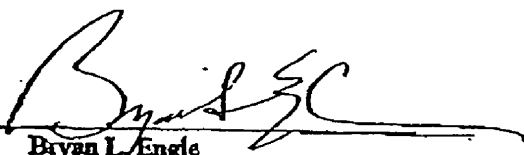
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Bryan L. Engle
January 22, 2002
Page 17

ReedSmith

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PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: 
Bryan L. Engle
Chief Executive Officer

Agreed to and accepted this 22nd day of January, 2002:

STAR TELECOMMUNICATIONS, INC.

By: _____
Gordon Hutchins, Jr.
Chief Executive Officer

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OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF PT-1 COMMUNICATIONS, INC., PT-1 LONG DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.

By: _____
Lisa Bonsall, Esq., authorized Counsel to the Official Committee of Unsecured Creditors of the Sellers

Bryan L. Engle
January 22, 2002
Page 17

Reed Smith

Agreed to and accepted this 22nd day of January,
2002:

**PT-1 COMMUNICATIONS, INC., PT-1 LONG
DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.**

By: _____
Bryan L. Engle
Chief Executive Officer

Agreed to and accepted this 22nd day of January,
2002:

STAR TELECOMMUNICATIONS, INC.

By: _____
Gordon Hutchins, Jr.
Chief Executive Officer

Agreed to and accepted this 22nd day of January,
2002:

**OFFICIAL COMMITTEE OF UNSECURED
CREDITORS OF PT-1 COMMUNICATIONS, INC.,
PT-1 LONG DISTANCE, INC., AND PT-1
TECHNOLOGIES, INC.**

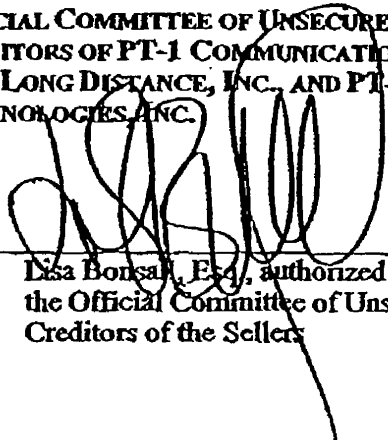
By: _____

Lisa Borsari, Esq., authorized Counsel to
the Official Committee of Unsecured
Creditors of the Sellers

EXHIBIT "B"

ASSET PURCHASE AGREEMENT,

Dated as of January __, 2002

between

MCI WORLDCOM NETWORK SERVICES, INC.

("BUYER"),

and

**PT-1 Communications, Inc.,
PT-1 Long Distance, Inc.,
PT-1 Technologies, Inc.
and their respective subsidiaries
(collectively, "SELLER")**

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THIS ASSET PURCHASE AGREEMENT, dated as of January 22, 2002, and effective as of January 1, 2002, is between MCI WorldCom Network Services, Inc. ("WorldCom" or "Buyer"), and PT-1 Communications, Inc. and its subsidiaries (collectively, "PT-1"), a New York corporation, PT-1 Long Distance, Inc. and its subsidiaries (collectively, "LD"), a Delaware corporation, PT-1 Technologies, Inc. and its subsidiaries (collectively, "Tech") a Delaware corporation (PT-1, LD, and Tech are collectively referred to herein as "Seller"). Capitalized terms used and not otherwise defined have the meanings ascribed to them in Section 24:

WITNESSETH:

WHEREAS, Seller is engaged in the business of marketing, selling and providing telecommunications products and services, including long-distance and dial around services (the "Business"); and

WHEREAS, on March 9, 2001, each entity constituting the Seller filed a voluntary petition for reorganization under Chapter 11 of Title 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Eastern District of New York (the "Bankruptcy Court") as case numbers 01-12655, 01-26578, and 01-12660 (collectively the "PT-1 Case"); and

WHEREAS, on or about March 23, 2001, an official committee of unsecured creditors (the "Committee") was appointed by the United States Trustee to serve in the PT-1 Case; and

WHEREAS, on or about April 20, 2001, WorldCom filed a proof of claim in the PT-1 Case asserting a secured claim in the amount of \$98,489,077.81 (the "Initial Claim"); and

WHEREAS, on or about August 31, 2001, WorldCom filed a proof of claim in the PT-1 Case asserting a secured claim in the amount of \$106,373,824.42 (together with the Initial Claim, the "WorldCom Claim"); and

WHEREAS, in support of the WorldCom Claim, WorldCom asserts that it agreed to provide services to STAR Telecommunications Services, Inc. and its wholly-owned direct and indirect subsidiaries and affiliates, other than the Seller and its wholly-owned direct and indirect subsidiaries (collectively, "STAR") and Seller, and that it in fact did provide such services to STAR and the Seller and that WorldCom remains unpaid for such services; and

WHEREAS, PT-1 guaranteed STAR's obligations to WorldCom; and

WHEREAS, in support of the WorldCom Claim, WorldCom asserts that it is entitled to payment for services that benefited PT-1 without regard to whether the services were provided directly to PT-1 or to PT-1 through STAR, and without regard to whether WorldCom billed STAR or PT-1 for such services; and

WHEREAS, the Parties have engaged in extensive, arms-length negotiations regarding the extent and validity of the WorldCom Claim;

WHEREAS, Seller has determined that it is in its best interest to sell to Buyer all right, title and interest of Seller in and to the Acquired Assets (as defined below) for consideration and upon the terms and conditions hereinafter set forth; and

WHEREAS, Buyer wishes to purchase the Acquired Assets from Seller on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual benefits to be derived from this Agreement and the representations, warranties, covenants and agreements contained herein, Buyer, on the one hand, and Seller, on the other hand, hereby represent, warrant, covenant and agree as follows:

Section 1. SALE AND PURCHASE

(a) Sale and Purchase of the Business. Subject to the terms and conditions hereinafter set forth, on the Closing Date, Seller will sell, convey, transfer, assign and deliver to Buyer, and Buyer will purchase from Seller, the Business, free and clear of any and all Encumbrances, with any such Encumbrances to attach to the proceeds of such sale, any and all real, personal, or mixed, tangible and intangible assets, wherever located, including the following (collectively, the "Acquired Assets"):

(i) all of Seller's right, title and interest in and to all the fixed assets, including machinery and equipment (including, without limitation, all telecommunications and switching equipment and platforms, computers and peripherals and office equipment), spare parts, supplies, packing materials, computer hardware, electronic data processing equipment, furniture and fixtures, leasehold improvements, motor vehicles, and all other personal property, of every kind and nature whatsoever, owned, leased or used by Seller on the Closing Date ("Personal Property"), wherever located; all rights of Seller under leases of real and personal property set forth on Exhibit 1(a)(i) ("Leases");

(ii) all of Seller's owned equipment, supplies and inventory, including raw materials, work-in-progress and finished products, wherever located;

(iii) all of Seller's right, title and interest in and to Intellectual Properties relating to the Business or any of the Acquired Assets, set forth on Exhibit 1(a)(iii), as well as any Intellectual Properties which may be recovered by the Seller's estates pursuant to its avoidance actions under Chapter 5 of the Bankruptcy Code;

(iv) copies, at Buyer's cost, of all of Seller's existing purchase, marketing and sales records, orders, supplier records, lists and other documents, files, manuals and records, correspondence, customer lists, customer data, production records, employment records, financial, accounting and other books and records necessary for Buyer's continued operation of the Acquired Assets and the Business, and any confidential information which has been reduced to writing, wherever located, with respect to, or in connection with Seller's Business;

(v) all of Seller's goodwill associated with the Business, including Seller's right to use its names and trade styles, and telephone numbers, together with any and all variants and derivatives thereof;

(vi) all of Seller's rights under express or implied warranties from suppliers and vendors with respect to the Business;

(vii) all rights in and to products of the Business sold or leased (including, but not limited to, products hereafter returned or repossessed and unpaid rights of rescission, replevin, reclamation and rights to stoppage in transit);

(viii) all written technical information, data, specifications, research and development information, engineering drawings and operating and maintenance manuals;

(ix) all computer applications, programs and other software, including systems documentation and instructions used in connection with the Business and/or any of the Acquired Assets; and

(x) all Permits relating to the Business or any of the Acquired Assets;

(xi) as of the actual Pre-Closing, all of Seller's cash on hand, on deposit and all cash equivalents, less all cash required by Seller to pay all outstanding post petition unpaid expenses incurred in the ordinary course of the Business as of the actual Pre-Closing, excluding professional fees and expenses (the "Initial Cash");

(xii) all of Seller's accounts receivable (including, without limitation, the "tail") related solely to the Business (the "Acquired Receivables"), but specifically excluding the receivables due Seller by IDT Corporation, Inc. or its affiliates (collectively, "IDT") and any other receivables not related to the Business;

(xiii) all of Seller's rights to any and all cash true-ups, or other contract rights, related to HOLD Billing Services, Inc., HOLD Billing Services, Ltd., or any other billing and collection service agreements related to the Business;

(xiv) all of Seller's deposits (security and otherwise);

(xv) all prepaid expenses relating to the Business or any of the Acquired Assets;

(xvi) 1016868 Carrier Identification Code ("CIC") and any other CIC's that are loaded on the Seller's Feature Group D network, and all rights related thereto;

(xvii) all customer base related to the Business and all dial-around traffic and revenue streams related thereto, including, without limitation, any past or current customers and any information or call records relating thereto;

(xviii) all telecommunications network assets related to the Business including, without limitation, 800 and other telephone numbers, ACNAs, all circuits, private lines, intermachine trunk lines, and Feature Group D's related to Seller's operation of its telecommunications network, and all rights related to the foregoing to be used in perpetuity;

(xix) all of Seller's claims and causes of action, if any, against Buyer and its affiliates;

(xx) all rights to employ the employees of Seller, as may be requested by Buyer, there being no obligation on Buyer to employ any such employees; and

(xxi) all executory contracts to which STAR, to the extent necessary to transfer contracts relating directly and exclusively to the services provided by STAR to Seller, provided that any cure costs related to such executory contracts shall not be paid by STAR, and all executory contracts to which Seller is a party (collectively, "Assumed Contracts") (to the extent such Assumed Contracts are transferable pursuant to applicable law and the terms of such Assumed Contracts without regard to the consent of any third party that may be required with respect to such transfer), except to the extent that any such item is included in the Excluded Assets. Such Assumed Contracts shall include, without limitation:

- (1) The postpetition agreement between the Seller and STAR related to the transfer of assets and continued provision of services executed by STAR and the Seller on or about October 24, 2001 (together with any amendments thereto, the "STAR Agreement"), approved by the United States Bankruptcy Court for the District of Delaware on December 4, 2001, and approved by the Bankruptcy Court on December 21, 2001;
- (2) That certain agreement by and between the Seller and Chase Equipment Leasing, Inc., dated November 9, 2001, as the same may be amended, modified or supplemented from time to time (the "Chase Amendment") approved by the Bankruptcy Court on January 15, 2002;
- (3) The Billing Services Agreement by and between HBS Billing Services Company, Ltd. And its affiliates (collectively, "HBS") and Seller dated as of the October 16, 1997, as the same may have been amended, modified or supplemented from time to time, provided that it shall be a condition to Pre-Closing that Buyer and HBS enter into a modification or supplement to such agreement which eliminates Buyer's risk with respect to collection of receivables from HBS (but not the collection risk from the end users), and provided further that in lieu of assuming the foregoing HBS Contract, Buyer may enter into a new contract with HBS; and

(4) Such other executory contracts and unexpired leases as Buyer determines on or before the Closing; and

(xxii) All other personal, real, tangible, or intangible property used in the operation of the Business.

(b) Excluded Assets. Buyer shall not acquire any interest in the following assets of Seller (the "Excluded Assets"):

(i) all accounts receivable and other assets (including, without limitation, choses of action) not related to the Business, including, without limitation, the accounts receivable and other sums owed to Seller by IDT to the Seller and any debit card receivables;

(ii) all of the assets of Seller's executive or incentive compensation plans, bonus plans, deferred compensation agreements, employee pension, profit sharing, savings or retirement plans, employee stock option or stock purchase plans, and group life, health, or accident insurance or other employee benefit plans, agreements, arrangements or commitments, including severance, holiday, vacation, Christmas or other bonus plans maintained by Seller or with respect to which Seller makes, or has an obligation to make, contributions, or under which any present or former officer, director, employee, consultant or agent of Seller is entitled to a benefit, and Seller's rights with respect thereto; however, WorldCom agrees to consent to the stay put bonuses described in Section 20 herein;

(iii) all of the rights and claims of Seller for avoidance actions available to Seller under chapters 5 or 11 of the Bankruptcy Code or otherwise, and any recoveries thereunder, except for actions against WorldCom or its affiliates or recoveries from actions to recover Intellectual Properties, to the extent that such Intellectual Properties are ultimately recovered by the Seller;

(iv) any and all claims or choses of action in connection with or arising out of Sellers' debit card business which was sold prepetition;

(v) all refunds or credits, if any, of taxes due to Seller which cannot be assigned by law;

(vi) the minute books, stock transfer books and corporate seal of Seller;

(vii) any actions against former officers and directors of Seller or STAR, other than those expressly released pursuant to the terms and conditions of the letter agreement dated January 21, 2002 between the parties;

(viii) all tangible, intangible, real or personal property including, without limitation, contracts, permits, or intellectual property which Buyer elects in a writing, to be sent to Seller, in accordance with this Agreement, to exclude from the Acquired Assets, provided that this will not result in any adjustment of the Purchase Price; and

(ix) all of Seller's financial and accounting books and records, and any software programs relating thereto, except those necessary for Buyer's continued operation of the Acquired Assets and the Business provided that Buyer shall have reasonable access to any such books and records retained by the Seller as may be necessary or desirable to operate the Business and the opportunity to copy such books and records at Buyer's cost, and further the right to take any data, books or records that the Seller decides to discard after the Closing.

(c) Assumption of Specified Liabilities of Seller. On the Closing Date, Buyer shall accept the Acquired Assets free and clear of all Encumbrances (other than those which are consented to in writing by Buyer) and Buyer shall assume and agree to pay, perform and discharge all liabilities and obligations of Seller under Assumed Contracts, Permits and Intellectual Properties included in the Acquired Assets solely to the extent such liabilities or obligations arise or accrue subsequent to the date on which Seller's rights in respect of such Assumed Contracts, Permits and Intellectual Properties are transferred to Buyer (the "Accepted Liabilities"). Notwithstanding anything to the contrary in the foregoing, Buyer consents to the lien and security interest of Chase Equipment Leasing, Inc. and agrees to assume the obligation of the Seller as set forth in the Chase Amendment and the STAR Agreement. Except as expressly provided in this Section 1(c), Buyer will not assume or agree to pay, perform or discharge, any debts, liabilities, obligations, claims, expenses, taxes, fines, contracts, accounts payable or commitments of any kind, character or description, whether accrued or fixed, absolute or contingent, matured or unmatured, or determined or undetermined of Seller.

(d) Purchase Price and Payment; Other Consideration. The purchase price to be paid by Buyer to Seller on the Closing Date for the Acquired Assets and the Business being purchased hereunder shall be One Hundred Eight Million Eight Hundred Thousand and NO/100 DOLLARS (\$108,800,000.00) (the "Purchase Price"), payable as follows:

(i) At Closing, Buyer shall cause WorldCom to waive all of its claims against Seller, but excluding the WorldCom Claim, which shall be credit bid pursuant to Section 363(k) of the Bankruptcy Code, having a minimum value of \$75,000,000), with additional, incremental bids, if any, by WorldCom to be submitted in accordance with the bidding procedures agreed upon by the parties with respect to Seller's bankruptcy in a letter agreement between the parties dated January 22, 2002;

(ii) At the actual Pre-Closing, Buyer shall cause to be paid to the Seller \$5,200,000 (the "Initial Payment"), in escrow, in immediately available funds;

(iii) Thirty (30) days after the actual Pre-Closing, Buyer shall cause to be paid to the Seller \$10,400,000 (the "Second Payment"), in escrow, in immediately available funds;

(iv) Sixty (60) days after the actual Pre-Closing, Buyer shall cause to be paid to Seller an additional \$10,400,000 (the "Third Payment"), in escrow, in immediately available funds;

(v) Ninety (90) days after the actual Pre-Closing, the Buyer shall cause to be paid to Seller an additional \$2,000,000 (the "Fourth Payment"), in escrow, in immediately available funds; and

(vi) At Closing, Buyer shall (a) assume post-Pre-Closing obligations under the Chase Amendment, having an agreed value of \$3,500,000, (b) assume post-Pre-Closing obligations under the STAR Agreement, having an agreed value of \$1,800,000, and (c) pay up to an additional \$500,000 towards cure and assumption costs related to unexpired leases and executory contracts assumed by the Seller and assigned to the Buyer, or other costs incurred by the Purchaser in order to reduce such cure and assumption costs ("Contract Costs").

(e) Tax Treatment. Buyer and each Seller shall agree on an allocation of the Purchase Price (the "Allocation"); provided, however that (a) the Allocation shall be reasonable, based on fair market values, consistent with the Internal Revenue Code and based on an initial proposal by Buyer, and (b) any dispute between Buyer and Seller in determining such allocation shall be resolved by the Bankruptcy Court. Buyer and Seller agree to act in accordance with the Allocation for all Tax purposes, including, for purposes of any Returns (such as IRS Form 8694 or any other forms or reports required to be filed pursuant to Section 1060 of the Internal Revenue Code or any comparable provisions of local, state or foreign law ("Section 1060 Forms")), and to refrain from taking any position inconsistent with the Allocation. Buyer and Seller agree to cooperate in the preparation of any such Section 1060 Forms and to timely file such Section 1060 Forms in the manner required by applicable law.

(f) Postpetition Financing. Buyer agrees to support Seller's obtainment of postpetition financing from RFC on an expedited basis, and in any event no later than the actual Pre-Closing, in an amount equal to Twenty-Two Million Eight Hundred Thousand and No/Dollars (\$22,800,000), which financing shall be used in the event of a disruption in anticipated cash flow. In the event of any such borrowing, Buyer agrees to assume at the Closing the liabilities, if any, to RFC incurred by the Seller.

Section 2.

(a) THE CLOSING. The Closing of the sale and transfer of the Acquired Assets and the Business (the "Closing") shall take place in Pittsburgh, Pennsylvania, on a date (the "Closing Date") within ten (10) days following the obtaining of all Necessary Approvals, and this Agreement and the Management Agreement shall be deemed to be assigned to TTI National, Inc. without the requirement for further court approval or execution of any documents by and among the parties.

(b) THE PRE-CLOSING.

(i) In order to provide sufficient time for Buyer to obtain Necessary Approvals from the time the Sale Approval Order is entered until the Closing, Seller and Buyer shall have a pre-closing (the "Pre-Closing") at the offices of Reed Smith, LLP, 435 Sixth Avenue, Pittsburgh, PA 15219.

(ii) Within ten (10) days after entry of the Sale Approval Order, (the "Pre-Closing Date") Seller and Buyer shall deliver the executed Asset Purchase Agreement and related documents including, without limitation, the Management Agreement as described in Section 3 herein.

Section 3. MANAGEMENT AGREEMENT.

(a) Management Agreement. At the actual Pre-Closing, Buyer and Seller shall enter into an agreement pursuant to which Buyer shall be granted the right to manage the Business ("Management Agreement") during the period beginning as of the Pre-Closing Date and extending until the earlier of (i) the Closing Date or (ii) the last day of the month in which the Management Agreement is terminated for failure to obtain the Necessary Approvals (the "Management Period").

(b) Form. The Management Agreement shall be in a form reasonably acceptable to Seller, Buyer and the Committee and shall contain the following terms:

(i) The WorldCom Claim shall be conditionally credited to Seller's account with WorldCom on the date of the Pre-Closing;

(ii) Buyer shall operate the Business during the Management Period in the ordinary course, except as contemplated by the Asset Purchase Agreement, it being contemplated by the parties that Buyer may move some or all of the Business' telecommunications traffic onto WorldCom's network at the current rates being charged by WorldCom to Seller. During the Management Period, Buyer shall cause all operating reports, in the form currently submitted to the United States Trustee, to be prepared and served upon the United States Trustee, the Committee and the Seller's counsel;

(iii) In the event of a Termination (as defined below) the Buyer shall be entitled to twenty-five percent (25%) of the Aggregate Cash Flow (as defined below), if positive, during the Management Period. In the event Aggregate Cash Flow is negative, Buyer shall be liable for such negative aggregate cash flow. "Aggregate Cash Flow" in any given period is equal to the cash received by the Buyer during such period (excluding the Initial Cash), less any expenditures of cash by Buyer during such period (including, without limitation, operating expenses, capital expenditures, and the provision of telecommunications services to the Seller by WorldCom and its affiliates during the Management Period, whether paid by WorldCom or its affiliates (including setoffs and intercompany transfers) or paid from the Initial Cash or cash received by the Buyer from the operation of the Business during the Management Period);

(iv) Buyer and Seller shall use their respective best efforts during the Management Period to obtain all Necessary Approvals, without the requirement that Buyer pay third parties for such Necessary Approvals;

(v) All payments by Buyer to Seller during the Management Period shall be held by the Seller's counsel, in escrow, until the Closing;

(vi) During the Management Period, Buyer shall pay into in an interest-bearing escrow account controlled by Seller's counsel, the Initial Payment at the actual Pre-Closing, the Second Payment thirty (30) days after the actual Pre-Closing, the Third Payment sixty (60) days after the actual Pre-Closing, and the Fourth Payment ninety (90) days after the actual Pre-Closing.

(vii) At the Closing, the Seller's counsel shall disburse from the escrow account: (1) Contract Costs, to the extent such Contract Costs exceed Five Hundred Thousand and No/Dollars (\$500,000) paid by Buyer, in an amount not to exceed Four Hundred Thousand and No/Dollars (\$400,000), with the remainder of any Contract Costs to be paid by Buyer, to the appropriate parties (including Buyer to the extent Buyer has paid Contract Costs in excess of Five Hundred Thousand and No/Dollars (\$500,000)); and (2) the remainder to the Seller's estates to be made available for distribution to creditors.

(viii) At Termination, the escrowed funds, including interest thereon, shall be turned over to the Buyer after reduction for payments due the Seller's estates pursuant to Section 3(b)(iii) above, and the Aggregate Cash Flow payments in 3(b)(iii) shall be paid to the estate..

(ix) Notwithstanding the foregoing, in the event Buyer does not obtain Necessary Approvals within 180 days of the Pre-Closing (a "Delay in Closing"), and Buyer has obtained an all necessary Regulatory Approvals, Seller's counsel shall release from the escrow the Purchase Price, less Four Hundred Thousand and No/Dollars (\$400,000), and make such amounts available for distribution to creditors.

(x) At the Closing after a Delay in Closing, Seller's counsel shall pay up to Four Hundred Thousand and No/Dollars (\$400,000) in Contract Costs in excess of the Five Hundred Thousand and No/Dollars (\$500,000) in Contract Costs paid by Buyer to the appropriate parties (including Buyer to the extent Buyer has paid Contract Costs in excess of Five Hundred Thousand and No/Dollars (\$500,000)), and the remainder, if any, shall be paid to the Seller's estates and made available for distribution to creditors.

(xi) Notwithstanding any other provision of this Agreement to the contrary, in the event that notwithstanding the Buyer's efforts to obtain the Necessary Approvals, a Termination occurs after a Delay in Closing, Buyer shall not be required to turn over an amount equal to the Initial Cash to Seller, provided that the escrowed funds have been disbursed to the estates as set forth above in Section 3(b)(x) above, such funds having been disbursed as set forth above, and Seller shall be obligated to pay to Buyer any costs or expenses, including, without limitation, usage of WorldCom's telecommunications services, incurred during the Management Period which was not actually paid from the Initial Cash or the cash flow of the Business during the Management Period.

(xii) Buyer shall pay Contract Costs from the Aggregate Cash Flow during the Management Period, which shall effect a reduction in the Aggregate Cash Flow, in the event of a Termination. In the event of a Closing, the Contract Costs paid from Aggregate Cash Flow shall be credited against Buyer's obligation to pay the first \$500,000 in Contract Costs. Seller's obligation

to pay Buyer for use of the WorldCom services shall be at the current rates being charged by WorldCom to Seller.

(xiii) Buyer agrees that it will use its best efforts to minimize the Contract Costs, and to further such efforts, if the Seller, the Committee and the Buyer determine that the Contract Costs of assumption and cure of an executory contract or unexpired lease would be more than the costs of entering into alternative arrangements and the Seller and the Committee reasonably agree, in writing, on a case-by-case basis, that the Contract Costs of entering into such alternative arrangements shall be included in Contract Costs for all purposes under this Agreement, then Buyer shall pursue such alternative arrangements, it being understood that Buyer's best efforts does not include any duties to pay money to third parties in order to obtain the desired result of minimizing Contract Costs, unless such costs are deemed Contract Costs for all purposes. The Seller agrees to support Buyer's efforts to minimize Contract Costs.

Section 4. EFFECTIVE DATE; BANKRUPTCY COURT APPROVAL

(a) Bankruptcy Court Orders.

(i) Sale Approval Order. Prior to the Pre-Closing, Seller shall file with the Bankruptcy Court an application for an order approving the transactions contemplated by this Agreement ("Sale Approval Order").

(ii) Assignment Order. An order or orders (the "Assignment Order") pursuant to Sections 363, 365 and other applicable provisions of the Bankruptcy Code declaring that (A) Seller, upon its assuming and assigning to Buyer each of the Assumed Contracts, Permits and Intellectual Properties designated by Buyer to be included in the Acquired Assets, (A) will have properly assumed and assigned the same, (B) there will be no defaults thereunder as of the Closing Date, nor will the assignment of same to Buyer constitute a default thereunder, unless such defaults would not have a materially adverse effect on the Condition of the Business (as defined below), and (C) true copies of the contracts have been annexed to such order or motion seeking entry of such order.

(b) Effective Date. For purposes of this Agreement, "Effective Date" means the date on which the later of (i) the entry of the Sale Approval Order by the Bankruptcy Court and (ii) the entry to the Assignment Order by the Bankruptcy Court shall have occurred. Notwithstanding anything to the contrary in this Agreement, and notwithstanding the actual date of the Pre-Closing, the Pre-Closing shall be effective, *nunc pro tunc*, as of December 31, 2001 at 11:59:59 p.m. for all purposes, and notwithstanding the actual date of the Closing, the economic benefits of Buyer's acquisition of the Acquired Assets shall be effective as of January 1, 2002, at 12:00:00 a.m.

(c) Binding Nature. Notwithstanding the provisions of Section 4(b), Section 12(c) shall be binding upon and shall inure to the benefit of the parties to this Agreement and their successors and permitted assigns.

Section 5. REPRESENTATIONS AND WARRANTIES OF SELLER. Seller hereby represents and warrants to Buyer, which representations and warranties shall be true, correct and complete in all material respects to the actual knowledge of Seller on the date hereof, the Pre-Closing Date, and on the Closing Date that:

(a) Authority, Execution and Delivery. Subject to the entry of the Sale Approval Order, Buyer has, and will have on the Closing Date, full power and authority to enter into this Agreement and to sell, transfer, assign and otherwise convey the Business and Acquired Assets in accordance with the terms hereof. This Agreement has been duly executed and delivered by Seller and constitutes the legal, valid and binding obligation of Seller enforceable against Seller in accordance with its terms, subject to the entry of the Sale Approval Order.

(b) No Other Agreements to Sell the Acquired Assets or the Business. Seller has no legal obligation, whether absolute or contingent or direct or indirect, to any other Person or firm to sell or otherwise convey, and has not granted any Person or firm any option to purchase, the Acquired Assets (other than sales of inventory in the ordinary course of business) or the Business, or to enter into any agreement with respect thereto.

(c) Litigation. Except as otherwise set forth in Exhibit 5(c) there is: (i) no litigation; proceeding; labor dispute (other than routine grievance procedures), arbitral action or government investigation pending; or, so far as known to Seller, threatened against (A) Seller relating in any way to the Business, or (B) current or former personnel employed by Seller in reference to actions taken by them in such capacities, nor is there (ii) any valid basis known to Seller for any such litigation, proceeding or investigation which, in either case, if adversely determined could in any one case or in the aggregate, have a material adverse effect on the Condition of the Business, nor are there any product liability claims pending or threatened against Seller or relating to the Business. There are no decrees, injunctions or orders of any court or governmental department or agency outstanding against Seller with respect to the Business or the Acquired Assets, except as set forth on Exhibit 5(c).

(d) Validity of Leases and Contracts. Except as set forth on Exhibit 5(d), (i) each Lease pursuant to which Seller leases personal property included in the Acquired Assets or related to the Business and each Assumed Contract or commitment of Seller included in the Acquired Assets, is valid and enforceable in accordance with its terms and Seller is not in material default under any material provision of any such Lease, Assumed Contract or commitment; (ii) upon Buyer's assumption of the lessee's, or obligor's liability thereunder, each Lease and each such Assumed Contract or commitment will be valid and binding and enforceable by Buyer in accordance with its terms; (iii) no party from whom Seller leases personal property included in the Acquired Assets or related to the Business, and no party which is a party to any of the Assumed Contracts or commitments included in the Acquired Assets, is in default under any material provision of any such lease or sublease or Assumed Contract or commitment.

(e) No Brokers. Seller has not entered into and will not enter into any agreement, arrangement or understanding with any Person or firm which will result in the obligation of Buyer to pay any finder's fee, brokerage commission or similar payment in connection with the transactions contemplated hereby.

(f) Labor Disputes. There are not currently any strikes, lockouts, slowdowns, unionization proposals or picketing involving personnel employed by Seller.

(g) Title to Assets. Seller has, and as of Pre-Closing and Closing will transfer, good and valid title to all the Acquired Assets pursuant to the Sale Approval Order.

(h) Compliance With Laws. Seller is conducting the Business in accordance with all statutes, rules, regulations, judgments, orders or decrees of any court or governmental or regulatory authority applicable to Seller or any of Seller's properties or assets, including, without limitation, the Acquired Assets, and Seller is not in violation of any such laws, statutes, rules, regulations, judgments, orders or decrees, except as set forth on Exhibit 5(h).

(i) Environmental Compliance. Seller is conducting the Business in accordance with all federal, state, county, city, municipal or other laws, statutes, rules, regulations, orders, consent decrees, permits or licenses, relating to the prevention, remediation, reduction or control of pollution to the protection of the environment, natural resources and/or human health and safety (collectively, "Environmental Laws").

(j) Permits. Seller holds all Permits which are necessary to own, lease and operate the Acquired Assets and to conduct the Business in the manner heretofore conducted and as proposed to be conducted. Exhibit 5(j) sets forth all Permits held by Seller. Except as set forth on Exhibit 5(j), no notice has been received and, to the best knowledge of Seller, no investigation or review is pending or threatened by any governmental or regulatory agency with regard to (i) any alleged violation by Seller of any law, rule, regulation, ordinance, Permit, judgment, order or decree or (ii) any alleged failure by Seller to have any Permit.

(k) Condition of Assets. Other than the Excluded Assets, the Acquired Assets are the only assets used by Seller to conduct the Business. Seller has caused the Acquired Assets to be maintained in accordance with good business practice and all the Acquired Assets are in good operation and repair and are suitable for the purposes for which they are used and intended.

(l) Environmental Matters. There are no Permits which are required under Environmental Laws for the lawful conduct of the Business and the activities customary or incidental thereto. There is no civil, criminal or administrative action, suit, demand, claim, hearing, notice of violation, investigation, proceeding, notice or demand letter existing or, to the best of Seller's knowledge, pending or threatened, against or relating to the Business and relating in any way to any Environmental Law or any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder. Seller has not received notice of any claim that any employee of Seller, in the course of his or her employment with Seller, has been exposed to any hazardous substances (as such term is defined under any Environmental Law) generated, produced or used by Seller which could give rise to any material claim against Seller or the Business.

(m) Intellectual Property. Seller owns or possesses adequate licenses or other valid rights to use all Intellectual Properties used or held for use in connection with the Business and included

in the Acquired Assets. All of the Intellectual Properties used in the Business is set forth in Schedule 1(a)(iii). Seller is unaware of any assertion or claim challenging the validity of any Intellectual Properties of Seller. Except as disclosed on Schedule 1(a)(iii), the rights of Seller to and in such Intellectual Properties do not conflict with or infringe on the rights of any other Person or entity and Seller has not received any claim or written notice from any Person or entity to such effect. The consummation of the transactions contemplated by this Agreement will not result in the termination or impairment of any of the Intellectual Properties. After consummation of the transactions contemplated hereby, Buyer shall own or possess adequate licenses or other valid rights to use all Intellectual Properties to the same extent, and in the same manner, as Seller.

(n) Limitation on Seller's Representations and Warranties. Buyer represents that it has inspected and is fully familiar with the Acquired Assets and, except as provided herein, hereby covenants and agrees to accept the same "as is" and "where is" on the Closing Date. Except as stated herein, Seller has not made, and is not willing to make, any representations or warranties as to the physical or other condition of the Acquired Assets, their contents, the revenues, income or commissions derived or potentially to be derived from the Acquired Assets or the Business, the expenses incurred or potentially to be incurred in connection with the Acquired Assets or the Business, taxes due and owing or potentially due and owing in connection with the Acquired Assets or the Business. Seller is not, and will not be, liable or bound in any manner by express or implied warranties, guarantees, statements, promises, representations or information pertaining to the Acquired Assets or the Business, made or furnished by any broker, agent, employee, servant or other Person representing or purporting to represent Seller, unless such are expressly and specifically set forth herein.

(o) Consents. No Conflicts. Etc. Neither the execution and delivery of this Agreement, the consummation by Seller of the transactions contemplated herein nor compliance by Seller with any of the provisions hereof will (with or without the giving of notice or the passage of time) (i) violate, conflict with, result in a breach of, or constitute a default under, any of the terms, conditions or provisions of the organizational documents of Seller, (ii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Seller or any of its assets or properties, or (iii) to the best of Seller's knowledge, require the consent, approval, permission or other authorization of or by or filing or qualification with any court, arbitrator or governmental, administrative, or self-regulatory authority, except for Necessary Approvals and such consents, approvals, etc., the failure of which to obtain prior to the Closing would not adversely affect the ability of Seller to consummate the transactions contemplated by this Agreement.

Section 6. REPRESENTATIONS AND WARRANTIES OF BUYER. Buyer hereby represents and warrants to Seller, which representations and warranties shall be true, correct, and complete in all material respects to the actual knowledge of Buyer on the date hereof, the Pre-Closing Date, and the Closing Date that:

(a) Buyer's Organization and Good Standing. Buyer is an entity duly organized, validly existing and in good standing under the laws of the State of its organization, and has, or will have on the Closing Date, all requisite power to carry on its business.

(b) Authority: Execution and Delivery. Subject to the entry of the Sale Approval Order, Buyer has, and will have on the Closing Date, full power and authority to enter into this Agreement and to purchase the Business in accordance with the terms hereof. The execution, delivery and performance of this Agreement by Buyer, including the purchases contemplated hereby, have, or will have, been duly and effectively authorized by Buyer's Board of Directors or other governing body, no other proceedings on the part of Buyer being necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Buyer and constitutes the legal, valid and binding obligations of Buyer enforceable against Buyer in accordance with its terms.

(c) No Brokers. Neither Buyer nor any of its affiliates has entered into and neither will enter into any agreement, arrangement or understanding with any Person or firm which will result in the obligation of Seller to pay any finder's fee, brokerage commission or similar payment in connection with the transactions contemplated hereby.

(d) Consents. No Conflicts. Etc. Neither the execution and delivery of this Agreement, the consummation by Buyer of the transactions contemplated herein nor compliance by Buyer with any of the provisions hereof will (with or without the giving of notice or the passage of time) (i) violate, conflict with, result in a breach of, or constitute a default under, any of the terms, conditions or provisions of the organizational documents of Buyer, (ii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Buyer or any of its assets or properties, or (iii) to the best of Buyer's knowledge, require the consent, approval, permission or other authorization of or by or filing or qualification with any court, arbitrator or governmental, administrative, or self-regulatory authority, except for Necessary Approvals and such consents, approvals, etc., the failure of which to obtain prior to the Closing would not adversely affect the ability of Buyer to consummate the transactions contemplated by this Agreement.

(e) WorldCom Claims Against Seller. WorldCom represents and warrants that it has not assigned its claims against the Seller to any third party, and WorldCom agrees to indemnify and hold the Seller harmless from and against any and all claims, demands, allegations, and/or causes of actions, if any, which arise out of WorldCom's breach of this representation and warranty.

Section 7. CERTAIN COVENANTS AND AGREEMENTS.

(a) Further Assurances. After the Closing Date, from time to time, at Buyer's request and without further consideration, Seller will execute and deliver such other instruments as Buyer may reasonably request to more effectively put Buyer in possession and operating control of all or any part of the Acquired Assets, including, without limitation, letters to Seller's customers and all regulatory agencies. Following the execution of this Asset Purchase Agreement and the parties' joint approval of a letter to be sent by Seller to the affected customers announcing Seller's intent to cease providing service and advising affected customers of both their rights and opportunities with the Buyer (the "Letter"), Seller will mail the Letter at Buyer's expense, first class, postage prepaid, to all the affected customers. Thereafter, the Letter will be included as an attachment by Buyer in a petition it will file to obtain an appropriate waiver of the FCC's anti-slamming rule (the "Waiver Request"). Seller and Buyer will use reasonable efforts to obtain FCC approval of the Waiver

Request. Nothing herein shall preclude Buyer from sending its own letter marketing solicitation(s) to affected customers in an attempt to assure, as best possible, that such customers will accept Buyer as their service provider.

(b) Certain Fees and Expenses. Except as otherwise provided herein, each party hereto (as well as STAR, the Committee, and WorldCom) shall be responsible for and shall pay all fees and expenses incurred by it relating to the transactions contemplated hereby including all fees and expenses of counsel and auditors engaged by it.

(c) Conduct of Seller's Business. Subject to orders of the Bankruptcy Court, and applicable obligations and fiduciary responsibilities of a debtor-in-possession under the Bankruptcy Code, from the date hereof up to and including the Closing Date, Seller will use its reasonable good faith efforts to cause the Business to be conducted only in the ordinary course in substantially the same manner as it previously has been carried out, and will not do, or cause to be done, anything which is represented and warranted not to have been done in this Agreement, and shall not make or institute any unreasonable or novel methods of manufacture, construction, purchase, sale, lease or operation that will vary materially from those methods used by Seller as of the date of this Agreement, except as otherwise expressly contemplated hereby or consented to by Buyer in writing. From and after the date hereof up to and including the Closing Date:

(i) Seller will use its reasonable good faith efforts to preserve the Business intact, and to preserve its present relationships with suppliers, customers, and others having business relationships with it;

(ii) Seller shall not sell, lease, transfer or dispose of any of its properties or assets relating to or used in connection with the Business, other than the sale of inventory in the ordinary course of the business;

(iii) Seller shall not terminate any contract, agreement, license or other instrument to which Seller is a party relating to the Business, other than in the ordinary course and pursuant to their terms; and

(iv) Seller will not enter into any contract, commitment, or transaction not in the usual and ordinary course of business.

(d) Consents and Approvals. Buyer and Seller shall take all measures reasonably necessary or advisable to secure such Necessary Approvals, consents, authorizations and approvals of governmental bodies, including with respect to the transfer of licenses, and of private Persons with respect to the transactions contemplated by this Agreement, and to the performance of all other obligations of such parties hereunder, as may be required by any legal requirements or by any agreement to which Seller is a party or by which it is bound. Seller shall (i) cooperate with Buyer in the filing of all forms, notifications, reports and information, if any, required or reasonably deemed advisable pursuant to legal requirements in connection with the transactions contemplated by this Agreement and (ii) use their good faith efforts to cause any applicable waiting periods thereunder to expire and any objections to the transactions contemplated hereby to be withdrawn before Closing.

(e) Changes in Representations and Warranties. Between the date of this Agreement and the Closing Date, Seller shall not, subject to orders of the Bankruptcy Court, and applicable obligations of a debtor-in-possession under the Bankruptcy Code, enter into any transaction, take any action, or by inaction permit any event to occur, which would result in any of the representations and warranties of Seller herein contained not being true and correct at and as of (i) the time immediately following the occurrence of such transaction or event; or (ii) the Closing Date. Seller shall promptly give written notice to Buyer upon obtaining knowledge of (A) any fact which, if known on the date hereof, would have been required to be set forth or disclosed pursuant to this Agreement and (B) any impending or threatened breach in any material respect of any of the representations and warranties contained in this Agreement and with respect to the latter shall use all reasonable efforts to remedy same, subject to orders of the Bankruptcy Court, and applicable obligations of a debtor under the Bankruptcy Code.

(f) Mutual Cooperation. The parties hereto will cooperate with each other, and will use all reasonable efforts to cause the fulfillment of the conditions to the parties' obligations hereunder, including Seller's obligation to assume and assign all agreements necessary, and to assign all Contracts and Intellectual Properties designated by Buyer to be included in the Acquired Assets, and to obtain as promptly as possible all consents, authorizations, orders or approvals from each and every third party, whether private or governmental, required in connection with the transactions contemplated by this Agreement.

(g) Consents and Permits. Each of Seller and Buyer shall use its reasonable good faith efforts to obtain the Required Approvals and any material consent, approval, Permit, order or authorization of, and to perform any material registration, declaration or filing with, any governmental entity or other third party required for the purchase and sale of the Acquired Assets.

(h) Further Actions. From and after the Closing, Seller shall not use the Seller's trade names except (i) as may be otherwise required by law, or (ii) as necessary for the conduct or administration of the bankruptcy cases.

(i) Access to Facilities. From and after the date hereof, Buyer and its employees, agents and representatives, upon reasonable notice to Seller, shall have full access to all books, records, facilities, personnel and lenders having a business relationship with Seller relating to the Business.

(j) Maintenance of Books and Records. Buyer shall retain the Books and Records of Seller acquired hereunder and, unless otherwise consented to in writing by Seller, Buyer shall not, for the period of three (3) years following the Closing, destroy or otherwise dispose of such Books and Records. Upon reasonable notice and at Seller's expense, Buyer shall make copies of such books and records available to Seller, its attorneys, accountants and representatives for examination.

(k) HSR Act Filings and Other Necessary Approvals: Reasonable Efforts; Notification; Consents. If applicable:

(i) (a) Each of the Buyer and Seller shall (i) promptly make or cause to be made any filings required of such party or any of its subsidiaries under the Hart-Scott-Rodino Antitrust

Improvements Act of 1976, as amended ("HSR Act") with respect to the transactions contemplated by this Agreement, (ii) comply at the earliest practicable date with any request under the HSR Act for additional information, documents, or other material received by such party or any of its subsidiaries from the United States Federal Trade Commission or the United States Department of Justice or any other governmental authority in respect of such filings or such transactions, and (iii) cooperate with the other party in connection with any such filing, and in connection with resolving any investigation or other inquiry of any such agency or other governmental authority under the antitrust laws. Each party shall promptly inform the other party of any communication with, and any proposed understanding, undertaking or agreement with any governmental authority regarding any such filings or any such transaction. Neither party shall participate in any meeting with any governmental authority in respect of any such filings, investigation or other inquiry without giving the other party notice of the meeting and, to the extent permitted by such governmental authority, the opportunity to attend and participate.

(ii) Each of Buyer and Seller shall use all reasonable efforts to take such action as may be required to cause the expiration of the notice periods under the HSR Act or any state statutes, rules, regulations, orders or decrees that are designed to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade with respect to the transactions contemplated hereby as promptly as possible after the execution of this Agreement.

Section 8. CONDITIONS TO EACH PARTY'S OBLIGATIONS. The respective obligations of each party to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or waiver on or before the Closing Date of the following conditions:

(a) Bankruptcy Court Approval. The Sale Approval Order and the Assignment Order shall have been entered and shall not have been stayed pending appeal, and no order shall have been entered restraining or enjoining the effectiveness of the Sale Approval Order or the Assignment Order. The Sale Approval Order shall become a final order, and all holders of liens and claims (including all landlords, mortgagees, creditors and shareholders, to the extent required by the Bankruptcy Code) on the Acquired Assets shall have received notice of Seller's bankruptcy case and the Bankruptcy Court's entry of the Sale Approval Order approving the transactions contemplated by this Agreement, copies and proof of service of which, together with certified copies of the Sale Approval Order and the Assignment Order, shall be delivered to Buyer on or prior to the Closing Date.

(b) Injunctions. There shall not be outstanding any injunction, decree or order of any court or governmental department or agency prohibiting the consummation of the transactions contemplated by this Agreement and no action shall have been commenced which could prohibit the consummation of the transactions contemplated hereby.

(c) No Change in Law. There shall not have been any action taken or any statute enacted by any governmental authority which would render the parties unable to consummate the transactions contemplated hereby or make the transactions contemplated hereby illegal or prohibit the consummation of the transactions contemplated hereby.

(d) Approvals and Consents. Seller and Buyer shall have obtained and delivered to the other all Necessary Approvals.

(e) Management Agreement. On the Pre-Closing Date, Seller and Buyer shall have executed and delivered to the other the Management Agreement.

Section 9. CONDITIONS TO OBLIGATIONS OF BUYER. The obligation of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment, or the waiver by Buyer, on or prior to the Closing Date, of the following conditions:

(a) Representations and Warranties True at the Closing Date. The representations and warranties of Seller contained in this Agreement shall be deemed to have been made on and as of the Closing Date and shall then be true and correct in all material respects, and on the Closing Date Seller shall have delivered to Buyer a certificate to such effect.

(b) Seller's Performance. Each obligation of Seller to be performed on or before the Closing Date pursuant to the terms of this Agreement shall have been duly performed by the Closing Date, in all material respects, and on the Closing Date Seller shall have delivered to Buyer a certificate to such effect.

(c) Instruments of Conveyance and Transfer: Title. At the Closing, Seller shall have delivered to Buyer such bills of sale, endorsements, assignments, and other good and sufficient instruments of conveyance and transfer (including assignments of any Intellectual Properties in recordable form), in form and substance reasonably satisfactory to Buyer and its counsel, as are effective to vest in Buyer good and marketable title to the Acquired Assets free and clear of any Encumbrances, except for the Accepted Liabilities.

(d) Material Adverse Change. No material adverse change in the business, financial condition, prospects, affairs or properties of the Business or Acquired Assets, taken as a whole, shall have occurred after the date hereof.

(e) Post-Closing Agreement. Seller's telecommunications carriers shall have entered into post-Closing carrier agreements with Buyer on or before the Closing with standard and customary business terms, including, without limitation, on and after the Closing, standard payment terms commensurate with Buyer's creditworthiness.

(f) Sale Approval Hearing and Order. The Sale Approval Hearing shall have occurred on or before March 7, 2002 (the "Sale Approval Hearing"), and the entry of a Sale Approval Order shall have occurred on or before March 8, 2002.

(g) Actual Pre-Closing. The Actual Pre-Closing shall have occurred on or before March 15, 2002.

(h) Closing. The Closing shall have occurred on or before the Closing Date.

(i) Bidding Procedures. A motion to approve the bidding procedures agreed upon by the parties with respect to Seller's bankruptcy in a letter agreement between the parties dated January 22, 2002, shall have been filed on or before Tuesday, January 22, 2002 and shall have been approved by the Bankruptcy Court in a form and substance satisfactory to the Buyer, Seller and the Committee.

Section 10. CONDITIONS TO OBLIGATIONS OF SELLER. The obligations of Seller to consummate the transactions contemplated hereby shall be subject to the fulfillment, or the waiver by Seller, on or prior to the Closing Date, of the following conditions:

(a) Representations and Warranties True at the Closing Date. The representations and warranties of Buyer contained in this Agreement shall be deemed to have been made at and as of the Closing Date and shall then be true and correct in all material respects, and on the Closing Date Buyer shall have delivered to Seller a certificate to such effect, signed by an officer of Buyer.

(b) Buyer's Performance. Each of the obligations of Buyer to be performed on or before the Closing Date under the terms of this Agreement, including payment of the Purchase Price under the terms hereof, shall have been duly performed by the Closing Date in all material respects, and on the Closing Date Buyer shall have delivered to Seller a certificate to such effect.

Section 11. NATURE AND SURVIVAL OF REPRESENTATIONS AND WARRANTIES, ETC.

(a) Survival of Representations, Warranties, Etc. The representations and warranties of the parties made in Sections 5(a) and 6(b) shall survive the Closing Date. Buyer shall have an administrative expense claim against the estates of the Seller for any breach by the Seller of its representations and warranties contained in this Agreement.

(b) No Other Representations. Notwithstanding anything to the contrary contained in this Agreement, it is the explicit intent of each party hereto that Seller is making no representation or warranty whatsoever, express or implied, including any implied representation or warranty as to condition, merchantability or suitability as to any of the Acquired Assets or other properties of the Business, except those representations and warranties contained in Section 5.

Section 12. TERMINATION.

(a) Termination. This Agreement may be terminated by written notice at any time prior to the Closing Date:

(i) By mutual consent of Buyer and Seller;

(ii) By Buyer or Seller if the other party hereto shall intentionally fail or refuse to consummate the transactions contemplated hereby or to take any other action referred to herein necessary to consummate the transactions contemplated hereby after affording such defaulting party a five (5) day period after notice in which to cure such default;

(iii) By either party if the conditions to such party's obligations set forth in Sections 8, 9 and 10 are not satisfied.

(iv) In the event Buyer determines that after the use of its best efforts (without the obligation to pay any additional amounts to third parties) to obtain the Necessary Approvals, that it will not be able to obtain such Necessary Approvals, Buyer shall notify the Seller and the Committee of its determination and this Agreement and the Management Agreement shall terminate (the "Termination") as of the last day of the month in which the notice is given.

(b) Effect of Termination. In the event of the termination of this Agreement as provided in Section 12(a), this Agreement, other than this Section 12(b), Section 12(c) and Section 13, shall forthwith become wholly void and of no further force and effect and, other than with respect to the defaulting party in the event of a termination pursuant to Section 12(a)(ii), there shall be no liability on the part of Seller or Buyer or their respective officers, directors or partners (except as set forth herein in Sections 12(c) and 13).

(c) Payment of Damages upon Breach. If the transactions contemplated by this Agreement are not consummated because one party (the "Non-breaching Party") terminates this Agreement as a result of a material breach of this Agreement by the other party (the "Breaching Party"), the Breaching Party shall upon the occurrence of any such event, reimburse the Non-breaching Party for its actual damages resulting from such breach (including the fees of counsel, advisors' fees and other professional fees and disbursements at such counsel's, advisors' or professional's standard rates, but not including any amounts allocated in respect of salary for personnel of the Non-breaching Party) and not including any consequential or punitive damages. The remedy provided by this Section 12(c) shall be the sole and exclusive remedy of the Non-breaching Party for any breach by the Breaching Party of any of its obligations hereunder.

Section 13. PAYMENT OF CERTAIN EXPENSES. Buyer will pay all federal, state, county, local and foreign taxes which may be payable by reason of the purchase and sale pursuant to this Agreement of the Business or the Acquired Assets. Each party will be liable for its own costs and expenses (including internal personnel or overhead costs and fees and expenses of legal counsel) incurred in connection with the negotiation, preparation, execution or performance of this Agreement or the resolution of Contract Costs. Nothing in this Agreement shall make STAR liable for any Contract Costs.

Section 14. WAIVER, CERTAIN CONSENTS.

(a) Any of the terms or conditions of this Agreement may be waived at any time and from time to time in writing by the party entitled to the benefits thereof without affecting any other terms or conditions of this Agreement.

(b) If a consent of a third party which is required in order to assign any Acquired Asset (or claim, right or benefit arising thereunder or resulting therefrom) is not obtained prior to the Closing Date, or if an attempted assignment would be ineffective or would adversely effect the ability of Seller to convey its interest in question to Buyer, Seller will cooperate with Buyer and use

reasonable efforts in any lawful arrangement to provide that Buyer shall receive Seller's interest in the benefits of such Acquired Asset. If any consent or waiver is not obtained before the Closing Date and the Closing is nevertheless consummated, Seller agrees to continue to use its reasonable efforts to obtain all such consents as have not been obtained prior to such date but at the sole cost and expense of Buyer.

Section 15. NOTICES. All notices, requests, demands, and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if delivered, addressed or telecopied to the address or telecopier number set forth below and shall be deemed to have been made (i) on the date of service if served personally on the party, (ii) on the second business day after delivery to an overnight courier service if first available delivery is indicated and paid for, (iii) on the third business day after mailing if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid, or (iv) on the date of transmission, if sent by telecopier and confirmation of transmittal is received by the transmitting party. Any party may change its address for purposes of this paragraph by giving the other parties written notice of the new address in the manner set forth above.

If to the Seller, to:

Bryan L. Engle
Chief Executive Officer
PT-1 Communications, Inc.
PT-1 Long Distance, Inc.
PT-1 Technologies, Inc.
10632 Little Patuxent Parkway
Ste. 230
Columbia, MD 21044
Fax: (718) 359-7520

with a copy to:

Angel & Frankel, P.C.
Attn: Bruce Frankel, Esq.
460 Park Avenue
New York, NY 10022
Fax: (212) 752-8393

If to the Buyer, to:

MCI WorldCom Network Services, Inc.
Attn: George Hampton
3072B Sunset Avenue
Rocky Mount, NC 27804
Fax: (252) 937-4237

With a copies to:

Reed Smith, LLP
Attn: Māny Emamzadeh, Esq.
435 Sixth Avenue
Pittsburgh, PA 15219
Fax: (412) 288-3063

WorldCom, Inc.
Attn: Brian Benjet, Esq.
1133 19th St, NW
M.D. 207-4779
Washington, DC 20036
Fax: (202) 736-6346

Section 16. ENTIRE AGREEMENT: AMENDMENT. This Asset Purchase Agreement and the other agreements referred to herein and entered into in connection herewith set forth the entire agreement and understanding of the parties in respect of the transactions contemplated hereby and supersede all prior agreements, arrangements and understandings relating to the subject matter hereof including all such agreements, arrangements and understandings between the Seller and Buyer. No representation, promise, inducement or statement of intention has been made by Seller or Buyer that is not embodied in this Agreement, or the other agreements referred to herein and entered into in connection herewith, the Schedules or Exhibits hereto, or the written statements, certificates or other documents delivered pursuant hereto, and neither Seller nor Buyer shall be bound by or liable for any alleged representation, promise, inducement or statement of intention not set forth herein. This Agreement may be amended or modified only by a written instrument executed by Buyer and Seller (to the extent such change relates to it) or by their successors and assigns. Each party to this Agreement acknowledges that it has been advised by counsel in connection with the execution of this Agreement and is not relying upon oral representations as statements inconsistent with the terms and provisions of this Agreement.

Section 17. PRESS RELEASE. Except as is necessitated by notice of the sale of the Acquired Assets and/or in connection with obtaining Bankruptcy Court approval of the transactions contemplated by this Agreement, neither Seller nor Buyer shall issue any press release or make any public announcements of any of the transactions contemplated by this Agreement except as may be agreed to in writing by the other party, provided, however, that notwithstanding the foregoing, either party shall be permitted, upon prior notice to the other party, to make such disclosures to the public or governmental authorities, including filings with the Securities Exchange Commission and the Bankruptcy Court, as its counsel shall deem necessary to maintain compliance with, or to prevent violation of, applicable laws.

Section 18. CONFIDENTIALITY. Each party will hold all information received obtained from the other party in confidence and will use such information for the purposes of consummating

the transactions contemplated hereby (and, in the case of Buyer, in connection with its operation of the Acquired Assets and the Business). In the event the transactions contemplated by this Agreement are not consummated, each party shall return promptly all originals and copies of materials reflecting such confidential information of the other party. To the extent any such confidential information was provided in electronic form, the receiving party shall delete all such confidential material from whatever media it is stored, including, without limitation, backups or archives.

Section 19. ACCESS. Seller agrees to provide Buyer with access to its consultants, accountants and documentation related to the Business and/or the Acquired Assets.

Section 20. STAY PUT BONUSES. Buyer and Seller consent to stay put bonuses requested by the Seller in the Seller's chapter 11 cases, provided that: such stay put bonuses shall be paid one-third at the actual Pre-Closing and two-thirds at the earlier to occur of a Delay in Closing or the Closing. Such stay-put bonuses shall be paid by Buyer; and payment of the same shall not reduce the Purchase Price in any manner.

Section 21. GENERAL. This Agreement: (i) shall be governed by, construed and enforced in accordance with the laws of the State of New York without regard to the choice of law principles thereof; (ii) shall inure to the benefit of and be binding upon the successors and assigns of Seller and Buyer, nothing in this Agreement, expressed or implied, being intended to confer upon any other Person any rights or remedies hereunder, provided; that, except as otherwise provided herein, neither party hereto may assign its rights or obligations hereunder without the prior written consent of the other party hereto, except that (A) Buyer may assign this Agreement to one or more affiliates of Buyer and (B) this Agreement may be assigned to a trustee appointed by the Bankruptcy Court to succeed to the rights of Seller, provided, however, that no such assignment shall relieve the assignor of its liability hereunder; and (iii) may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. The Section and other headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any legal action or proceeding relating to disputes between the parties hereto solely arising under this Agreement shall be brought in the Bankruptcy Court and, by execution and delivery of this Agreement, Seller hereby accepts in respect of its bankruptcy estates, and Buyer hereby accepts for itself, generally and unconditionally, the jurisdiction of the aforesaid court. The parties hereto hereby irrevocably waive any objection, including any objection to the laying of venue or based on the grounds of *forum non conveniens* which any of them may now or hereafter have to the bringing of any such action or proceeding in such jurisdiction.

Section 22. SEVERABILITY. To the extent that any provision of this Agreement shall be invalid or unenforceable, it shall be considered deleted herefrom and the remainder of such provision and of this Agreement shall be unaffected and shall continue in full force and effect. In furtherance and not in limitation of the foregoing, if the duration or geographic extent of, or business activity covered by, any provision of this Agreement shall be in excess of that which is enforceable under applicable law, then such provision shall be construed to cover only that duration, extent or activities which may be validly and enforceably covered.

Section 23. TIME OF THE ESSENCE. Time is of the essence with respect to this Agreement and every provision herein.

Section 24. DEFINITIONS.

(a) Defined Terms. As used in this Agreement, the following defined terms have the meanings indicated below:

"Accepted Liabilities" shall have the meaning ascribed to it in Section 1(c).

"ACNAs" means Access Carrier Name Abbreviation Numbers issued by Telcordia.

"Acquired Assets" shall have the meaning ascribed to it in Section 1(a).

"Acquired Receivables" shall have the meaning ascribed to it in Section 1(a)(xii).

"Agreement" means this Asset Purchase Agreement and the Exhibits and Schedules hereto, as the same shall be amended from time to time.

"Allocation" shall have the meaning ascribed to it in Section 1(e).

"Assignment Order" shall have the meaning ascribed to it in Section 4(a)(ii).

"Assumed Contract" shall have the meaning ascribed to it in Section 1(a)(xxi).

"Bankruptcy Code" shall have the meaning ascribed to it in the recitals hereto.

"Bankruptcy Court" shall have the meaning ascribed to it in the recitals hereto.

"Books and Records" means all files, documents, instruments, papers, books and records relating to the Business or the Condition of the Business, including financial statements, tax returns and related work papers and letters from accountants, budgets, pricing guidelines, ledgers, journals, deeds, title policies, Contracts, Permits, Intellectual Properties, customer lists, computer files and programs, retrieval programs, operating data and plans and environmental studies and plans.

"Breaching Party" shall have the meaning ascribed to it in Section 12(c).

"Business" shall have the meaning ascribed to it in the recitals hereto.

"Business Day" means a day other than Saturday, Sunday or any day on which banks in New York City are authorized or obligated to close.

"Buyer" shall have the meaning ascribed to it in the recitals hereto.

"Chase Amendment" shall have the meaning ascribed to it in Section 1(a)(xxi)(2).

"CIC" shall have the meaning ascribed to it in Section 1(a)(xvi)

"Closing" and "Closing Date" each shall have the meaning ascribed to it in Section 2.

"Committee" shall have the meaning ascribed to it in the recitals hereto.

"Condition of the Business" means the business condition (financial or otherwise), results of operations, assets and properties, and prospects of the Debtor.

"Contract Costs" shall have the meaning ascribed to it in Section 1(d)(vi).

"Delay in Closing" shall have the meaning ascribed to it in Section 3(b)(ix).

"Effective Date" shall have the meaning ascribed to it in Section 4(b).

"Encumbrances" means all liens, claims and encumbrances of any kind, except Accepted Liabilities.

"Environmental Laws" shall have the meaning ascribed to it in Section 5(i).

"Excluded Assets" shall have the meaning ascribed to it in Section 1(b).

"FCC" means the Federal Communications Commission.

"Fourth Payment" shall have the meaning ascribed to it in Section 1(d)(u).

"HBS" shall have the meaning ascribed to it in Section 1(a)(xxi)(3).

"IDT" shall have the meaning ascribed to it in Section 1(a)(xii).

"Initial Cash" shall have the meaning ascribed to it in Section 1(a)(xi).

"Initial Payment" shall have the meaning ascribed to it in Section 1(d)(ii).

"Intellectual Properties" means all patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, brand names, inventions, processes, formulae, copyrights and copyright rights, trade dress, business and product names, logos, slogans, trade secrets, industrial models, processes, designs, methodologies, computer programs (including all source codes) and related documentation, technical information, manufacturing, engineering and technical drawings, know-how and all pending applications for, and registration of, patents, trademarks, service marks and copyrights.

"Leases" shall have the meaning ascribed to it in Section 1(a)(i).

"Letter" shall have the meaning, ascribed to it in Section 7(a).

"Management Agreement" shall have the meaning ascribed to it in Section 3(a).

"Management Period" shall have the meaning ascribed to it in Section 3(a).

"Necessary Approvals" collectively means: (i) all Regulatory Approvals and (ii) all consents as are reasonably required to operate the Business, including, without limitation, assignment of contracts, licenses, sublicenses, and the like, or the obtainment by Buyer of reasonable alternatives for such contracts, licenses, sublicenses and the like.

"Non-breaching Party" shall have the meaning ascribed to it in Section 12(c).

"Permits" means all governmental or regulatory licenses, permits, franchises, approvals, tariffs, variances, exemptions, orders and certificates required in connection with the operation of the Business.

"Person" means any natural person, corporation, general partnership, limited partnership, proprietorship, other business organization, trust, union, association or governmental or regulatory authority.

"Personal Property" shall have the meaning ascribed to it in Section 1(a)(i).

"Pre-Closing" and "Pre-Closing Date" each shall have the meaning ascribed to it in Section 2(b).

"PT-1 Case" shall have the meaning ascribed to it in the recitals hereto.

"Purchase Price" shall have the meaning ascribed to it in Section 1(d).

"Regulatory Approvals" shall mean collectively: (i) a waiver of the Federal Communications Commission's subscriber selection rules at 47 CFR 64.1100-1190; and (ii) all notices, permits, authorizations, approvals, consents, or waivers reasonably required or necessary from any state regulatory agency asserting jurisdiction over the transactions contemplated by this Agreement, including, without limitation, approvals required (if any) under the Hart-Scott-Radio Antitrust Improvements Act, as amended, and from the Federal Communications Commission, and state public utility and public services commissions.

"Sale Approval Hearing" shall have the meaning ascribed to it in Section 9(f).

"Sale Approval Order" shall have the meaning ascribed to it in Section 4(a)(i).

"Sale Confirmation Hearing" means a hearing scheduled by the Bankruptcy Court to approve Buyer's offer to purchase the Acquired Assets.

"Second Payment" shall have the meaning ascribed to it in Section 1(d)(iii).

"Seller" shall have the meaning ascribed to it in the recitals hereto.

"STAR" shall have the meaning ascribed to it in the recitals hereto.

"STAR Agreement" shall have the meaning ascribed to it in Section 1(a)(xxi)(1)

"Termination" shall have the meaning ascribed to it in Section 12(a)(iv).

"Third Payment" shall have the meaning ascribed to it in Section 1(d)(iv).

"Waiver Request" shall have the meaning ascribed to it in Section 7(a).

"WorldCom" shall have the meaning ascribed to it in the introductory paragraph hereto.

"WorldCom Claim" shall have the meaning ascribed to it in Section 1(d)(i).

(b) Construction of Certain Terms and Phrases. Unless the context of this Agreement otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (iv) the terms "Article" or "Section" refer to the specified Article or Section of this Agreement; (v) the terms "include," "includes," "including" and derivative or similar words shall be construed to be followed by the phrase "without limitation"; (vi) the phrase "ordinary course of business" refers to the business of Seller in connection with the Business; and (vii) the word "or" connotes both the disjunctive and conjunctive of the terms affected, unless otherwise expressly stated. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified. All accounting terms used herein and not expressly defined herein shall have the meanings given to them under generally accepted accounting principles. Any representation or warranty contained herein as to the enforceability of an Assigned Contract shall be subject to the effect of any bankruptcy, insolvency, reorganization, moratorium or other similar law affecting the enforcement of creditors' rights generally and to general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed the day and year first above written.

PT-1 COMMUNICATIONS, INC.

PT-1 LONG DISTANCE, INC.

PT-1 TECHNOLOGIES, INC.

and their respective subsidiaries

By: _____

Name: Bryan L. Engle

Title: Chief Executive Officer

On behalf of each of the foregoing entities

MCI WORLDCOM NETWORK SERVICES, INC.

By: _____

Title:

EXHIBIT 1(a)(i)

Leases

?

[to be provided]

EXHIBIT 1(a)(iii)

Intellectual Properties

[to be provided]

EXHIBIT 5(c)

Litigation

[to be provided]

EXHIBIT 5(d)

Leases and Assumed Contracts

[to be provided]

EXHIBIT 5(h)

Compliance With Laws

[to be provided]

EXHIBIT 5(j)

Permits

[to be provided]

EXHIBIT "C"

MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT (the "Agreement") is made as of the ___ day of _____, 2002, and effective as of the Effective Date (as defined herein) by and between PT-1 Communications, Inc. and its subsidiaries (collectively, "Comm"), PT-1 Long Distance, Inc. and its subsidiaries ("LD") or its designer, and PT-1 Technologies, Inc. and its subsidiaries (collectively, "Tech" and together with Comm and LD, collectively the "Company"), MCI WorldCom Network Services, Inc. or its designee (the "Manager"), and TTI National, Inc. ("TTI"), which will be designated by the Manager at the Closing. Capitalized terms not defined herein shall have the meaning ascribed to them in the Asset Purchase Agreement by and among the Manager and the Company of even late herewith.

WITNESSETH

WHEREAS, each entity constituting the Company is a debtor-in-possession pursuant to reorganization cases commenced by them under chapter 11, title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Eastern District of New York (the "Bankruptcy Court") and is operating its business and managing its properties pursuant to section 1108 of the Bankruptcy Code; and

WHEREAS, Manager and the Company have entered into the Asset Purchase Agreement, a copy of which is annexed hereto and made a part hereof and Manager has agreed to purchase the Acquired Assets (as defined therein), in accordance with the terms of such Asset Purchase Agreement; and

WHEREAS, the Asset Purchase Agreement provides that the parties shall enter into a management agreement at the Pre-Closing; and

WHEREAS, in order to enable Manager and Company to ultimately effect a Closing of the transactions pursuant to the terms of such Asset Purchase Agreement, the parties hereto have agreed to execute this Agreement; and

WHEREAS, Manager agrees to oversee and manage the business and operations of the Company (the "Business"), subject to and upon the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and promises contained herein, the parties hereto agree as follows:

1. **Retention of Manager.** The Company hereby retains and engages Manager, and Manager hereby agrees to be retained, to provide management and operational services for the conduct of the Business pursuant to the terms and conditions of this Agreement.

2. Manager's Powers and Responsibilities. In connection with the performance of its management services hereunder, Manager shall, in general, have the right and power to do or cause to be done all acts and things in the name of and on behalf of the Company as the Company is authorized to do as a debtor-in-possession under the Bankruptcy Code. The Company and its appropriate officers, representatives, agents and attorneys will, upon reasonable request by Manager: (i) take such action to execute such instruments reasonably required to more effectively put Manager in control of the management of the Business; and (ii) join with Manager in any reasonable request for any necessary approval by the Bankruptcy Court for a course of action relating to the Business.

Without limiting the scope of the foregoing, Manager shall have full power and authority with respect to the Business to do any of the following, *provided, however*, that prior approval of the Bankruptcy Court shall be obtained when deemed appropriate upon the advice of counsel by either Manager or the Company:

(a) To carry on the Business in such manner as is consistent with the manner in which the Business has been conducted by the Company after the petition date, and, in connection therewith, to utilize such of the Company's assets, properties, supplies, facilities and inventories (the "Assets"), as Manager reasonably determines are usable and/or saleable, and to hold, own, use, sell, convert, transfer, transition, contract to sell or otherwise deal in or with the Assets, all at such prices and on such terms and conditions as Manager determines in its reasonable discretion *provided, however*, that no use, sale, conversion, transfer, transition or other disposition of the Assets may be made for inadequate consideration or less than the book value thereof to the Company, and *provided further that*, except (1) as required by applicable law or regulation, or (2) in response to the direction by the customer without the solicitation of Manager, no customer traffic shall be converted, transferred or transitioned from the Company's regulatory certifications by Manager, except in accordance with Section 2(l), below.

(b) To retain such managers, agents and employees of the Company as Manager determines to be required to conduct the Business, including without limiting the generality of the foregoing, executive, supervisory, sales, bookkeeping, accounting, clerical, regulatory and other office personnel and, in connection therewith, to hire, discharge and fix the compensation of such personnel *provided, however*, that no person or entity engaged by Manager shall be engaged for a period beyond the termination of this Agreement.

(c) To fulfill any pending orders and contracts of the Company and to enter into new orders and contracts, with respect to and in the ordinary course of the Business.

(d) To sell any of the Company's products or services under any tradename or trademark of the Company and to treat any such sale as the Manager's sale for purposes of accounting.

(e) To utilize any trade names, trademarks, patents, copyrights, technology, know-how or processes owned by or licensed to the Company and utilized in connection with the Business.

(f) To utilize or sell any machinery, equipment, fixed assets and leasehold properties or improvements of the Company.

(g) To utilize any and all cash or cash equivalents of the Company in the conduct of the Business subject to compliance with all orders of the Bankruptcy Court.

(h) To observe all laws, rules and regulations imposed by any governmental authority or agency.

(i) To make deposits of all gross receipts into an account in the name of the Manager.

(j) To pay for all expenses and costs in the operation of the Business including, but not limited to, vendors' invoices, all purchases, utilities, payroll, taxes, fees and any other obligations pursuant to the conduct of the Business during the term hereof.

(k) To generally do any and all things necessary and appropriate in the ordinary course of operating and managing the Business.

(l) To convert, transfer or transition some of Company's customer traffic to Manager's or its affiliates' networks, as Manager deems appropriate, in its sole discretion.

3. Manager Separate Entity. Manager may incur its own obligations as an independent party which shall not be paid as an expense of the Company but instead shall be paid by Manager out of its own monies.

4. Records and Reporting.

(a) All funds received from the operation of the Business shall be deposited into a new bank account(s) in the name of the Manager or its agent or contractor, as may from time to time be designated by Manager. All credit card receipts shall be in the name of the Manager or its agent or contractor, as may from time to time be designated by the Manager.

(b) Manager will prepare and submit to the Company, monthly during the term of this Agreement, a statement verified by an officer or agent of Manager, that all taxes incurred as a result of operating the Business after the Effective Date have been paid, and that all filings required by governmental agencies related to operating the Business after the Effective Date have been made.

5. Obligation Regarding Approvals. Manager and Company shall use their respective best efforts to obtain all Necessary Approvals during the Term, without the requirement that Manager pay any third parties for such Necessary Approvals.

6. Consideration, Indemnification and Liability.

(a) In consideration for the services provided by Manager under this Agreement, Manager shall operate the Business during the Term in the ordinary course, it being contemplated by the parties that Manager may move some of the Business' traffic onto WorldCom's network. Manager shall pay all operational costs incurred by the Company in operating the Business during the Term hereof and shall not have the right to seek reimbursement of such costs from Company except as provided herein. During the Term, Manager shall cause all operating reports, in the form currently submitted to the United States Trustee, to be prepared and served upon the United States Trustee, the Committee and the Company's counsel.

(b) In consideration for Company entering into this Agreement, the WorldCom Claim shall be conditionally credited to Company's account with WorldCom on the date of the Pre-Closing.

(c) In the event of a Termination (as defined below) the Manager shall be entitled to twenty-five percent (25%) of the Aggregate Cash Flow (as defined below), if positive, during the Term. In the event Aggregate Cash Flow is negative, Manager shall be liable for such negative aggregate cash flow. "Aggregate Cash Flow" in any given period is equal to the cash received by the Manager during such period (excluding the Initial Cash), less any expenditures of cash by Manager during such period (including, without limitation, operating expenses, capital expenditures, and the provision of telecommunications services to the Company by WorldCom and its affiliates during the Term, whether paid by WorldCom or its affiliates (including setoffs and intercompany transfers) or paid from the Initial Cash or cash received by the Manager from the operation of the Business during the Term).

(d) During the Term, Manager shall pay into in an interest-bearing escrow account controlled by Company's counsel, the Initial Payment at the actual Pre-Closing, the Second Payment thirty (30) days after the actual Pre-Closing, the Third Payment sixty (60) days after the actual Pre-Closing, and the Fourth Payment ninety (90) days after the actual Pre-Closing.

(e) At the Closing, the Company's counsel shall disburse from the escrow account: (1) Contract Costs, to the extent such Contract Costs exceed Five Hundred Thousand and No/Dollars (\$500,000) paid by Manager, in an amount not to exceed Four Hundred Thousand and No/Dollars (\$400,000), to the appropriate parties (including Manager to the extent Manager has paid Contract Costs in excess of Five Hundred Thousand and No/Dollars (\$500,000)); and (2) the remainder to the Company's estates to be made available for distribution to creditors.

(f) Manager agrees that it will use its best efforts to minimize the Contract Costs, and to further such efforts, if the Company, the Committee and the Manager determine that the Contract Costs of assumption and cure of an executory contract or unexpired lease would be more than the costs of entering into alternative arrangements and the Company and the Committee reasonably agree, in writing, on a case-by-case basis, that the Contract Costs of entering into such alternative arrangements shall be included in Contract Costs for all purposes under this Agreement, then Manager shall pursue such alternative arrangements, it being understood that Manager's best efforts does not include any duties to pay money to third parties in order to obtain the desired result of minimizing Contract Costs, unless such costs are deemed Contract Costs for all purposes. The Company agrees to support Manager's efforts to minimize Contract Costs.

(h) At Termination (as defined below), the escrowed funds, including interest thereon, shall be turned over to Manager after reduction for payments due the Company's estates pursuant to Section 6(c) above, and the Aggregate Cash Flow payments in Section 6(c) shall be paid to the estate.

(i) Notwithstanding the foregoing, in the event Manager does not obtain Necessary Approvals within 180 days of the Pre-Closing (a "Delay in Closing"), and Manager has obtained all necessary Regulatory Approvals, Company's counsel shall release from the escrow the Purchase Price, less Four Hundred Thousand and No/Dollars (\$400,000), and make such amounts available for distribution to creditors.

(j) In the event that notwithstanding the Manager's efforts to obtain the Necessary Approvals, a Termination occurs after a Delay in Closing, Manager shall not be required to turn over an amount equal to the Initial Cash to the Company.

(k) At the Closing after a Delay in Closing, Company's counsel shall pay up to Four Hundred Thousand and No/Dollars (\$400,000) in Contract Costs in excess of the Five Hundred Thousand and No/Dollars (\$500,000) in Contract Costs paid by Manager to the appropriate parties (including Manager to the extent Manager has paid Contract Costs in excess of Five Hundred Thousand and No/Dollars (\$500,000)), and the remainder, if any, shall be paid to the Company's estates and made available for distribution to creditors.

(l) Notwithstanding any other provision of this Agreement to the contrary, in the event that notwithstanding the Manager's efforts to obtain the Necessary Approvals, a Termination occurs after a Delay in Closing, Manager shall not be required to turn over an amount equal to the Initial Cash to Company, provided that the escrowed funds have been disbursed to the estates as set forth above in Section 6(k), such funds having been disbursed as set forth above, and Company shall be obligated to pay to Manager any costs or expenses, including, without limitation, usage of WorldCom's telecommunications services, incurred during the Term which was not actually paid from the Initial Cash or the cash flow of the Business during the Term.

(m) Manager shall pay Contract Costs from the Aggregate Cash Flow during the Term, which shall effect a reduction in the Aggregate Cash flow in the event of a Termination. In the event of a Closing, the Contract Costs paid from Aggregate Cash Flow shall be credited against Manager's obligation to pay the first \$500,000 in Contract Costs.

(n) Manager shall not be entitled to charge the Company for the costs, expenses or salaries of its own employees or to charge any of its general overhead to the Company, but Manager's direct operational costs incurred in operating the Business for the Term of this Agreement, shall be included in the calculation of any profits or losses for all purposes hereunder.

(o) Manager does hereby indemnify the Company, its officers, directors, servants, agents, contractors and employees, from and against any and all losses, claims, liabilities, damages, deficiencies, costs or expenses (including the fees and disbursements of legal counsel) sustained or incurred by Company arising in any way from Manager's failure to abide by the terms of this Agreement. Company hereby indemnifies Manager, its officers, directors, servants, agents, contractors and employees, from and against any and all losses, claims, liabilities, damages, deficiencies, costs or expenses (including the fees and disbursements of legal counsel) sustained or incurred by Manager arising in any way from Company's failure to abide by the terms of this Agreement. These indemnity obligations shall survive the Pre-Closing and the Closing.

(p) Notwithstanding any provision of this Agreement or the Asset Purchase Agreement to the contrary, in no event shall Company have a claim against Manager for any lost profits, special, consequential or punitive damages.

7. Effective Date; Term and Termination.

(a) This Agreement shall be effective as of the Pre-Closing Date (the "Effective Date") and shall continue until the earlier of (i) the Closing Date or (ii) the last day of the month in which this Agreement and/or the Asset Purchase Agreement are terminated for failure to obtain the Necessary Approvals (the "Term").

(b) In the event Manager determines that after the use of its best efforts (without the obligation to pay any additional amounts to third parties) to obtain the Necessary Approvals, that it will not be able to obtain such Necessary Approvals, Manager shall notify the Company and the Committee of its determination and this Agreement shall terminate (the "Termination") as of the last day of the month in which the notice is given. Upon Termination, Manager shall turn over to Company the Initial Cash, unless already turned over, pursuant to Section 6(d) hereof, less one-half of any negative Aggregate Cash Flow during the Term, plus one-half of the positive Aggregate Cash Flow during the Term, less any payments from the Purchase Price paid to Company in accordance with Section 6(d) above.

7. Miscellaneous.

(a) Any notice, report, demand or payment required, permitted or desired to be given pursuant to any of the provisions of this Agreement shall be deemed to have been sufficiently given or served for all purposes if sent by Federal Express, or any other private overnight courier service, as follows:

If to the Company, at:

Bryan L. Engle
Chief Executive Officer
PT-1 Communications, Inc.
PT-1 Long Distance, Inc.
PT-1 Technologies, Inc.
30-50 Whitestone Expressway
Flushing, New York 11354

Fax: (718) 359-7520

with a copy to:

Angel & Frankel, P.C.
Attn: Bruce Frankel, Esq.
460 Park Avenue
New York, NY 10022
Fax: (212) 752-8393

If to the Manager, at

MCI WorldCom Network Services, Inc.

Attn: George Hampton
3072B Sunset Avenue
Rocky Mount, NC 27804
Fax: (252) 937-4237

with a copies to:

Reed Smith LLP
Attn: Many Emamzadeh, Esq.
435 Sixth Avenue
Pittsburgh, Pennsylvania 15219

MCI WorldCom Network Services, Inc.
Attn: Brian H. Benjet, Esq.
1133 19th St., NW
M.D. 207-4779
Washington, DC 20036
Fax: (202) 736-6346

Any of the foregoing parties may at any time and from time to time change the address to which notice shall be sent hereunder by notice to the other parties given under this paragraph. The date of the giving of such notice shall be the date of receipt by the noticed party.

(b) This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof. The covenants and agreement set forth in this Agreement constitute all the covenants and agreements among the parties hereto and upon which the parties have relied and except as may be specifically provided herein, no change, modification, addition or termination to this Agreement or any part thereof shall be valid unless in writing and signed by or on behalf of the party to be charged therewith. All of the covenants and agreements made by the parties to this Agreement shall survive the execution and delivery of this Agreement and the consummation of the transactions hereunder.

(c) This Agreement shall be governed, interpreted and construed in accordance with the laws of the State of New York. Should any clause, section or part of this Agreement be held or declared to be void or illegal for any reason, all other clauses, sections or parts of this Agreement which can be effected without such illegal clause, section or part shall nevertheless remain in full force and effect.

(d) This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

(e) It is understood by the parties that this Agreement shall not in any way be construed as an agreement of partnership, general or limited, or of creating a joint venture between Company and Manager, or of creating any relationship other than that expressly stated herein. This Agreement calls for the performance of the services of Manager as an independent contractor of Company and neither Manager nor any of its employees or contractors, will be considered an employee of Company for any reason. None of the benefits provided by Company to its employees shall be available to Manager or any of its employees or contractors.

(f) This Agreement shall be deemed to be assigned to TTI at the Closing, without the necessity for execution of any additional agreements.

IN WITNESS WHEREOF, the parties hereto have caused this Management Agreement to be signed on the date and year first above written, effective as of the Effective Date.

**PT-1 COMMUNICATIONS, INC., PT-1 LONG
DISTANCE, INC., AND PT-1 TECHNOLOGIES, INC.**

By: _____
Bryan L. Engle
Chief Executive Officer of each of the
foregoing

MCI WORLD COM NETWORK SERVICES, INC.

By: _____
David F. Myers
Controller

TTI NATIONAL, INC.

By: _____
David F. Myers
Controller

EXHIBIT "D"

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

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In re:	101-12655-260
	101-12658-260
PT-1 COMMUNICATIONS, INC.	101-12660-260
PT-1 LONG DISTANCE, INC.	
PT-1 TECHNOLOGIES, INC.,	Chapter 11
Debtors.	Jointly Administered

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NOTICE OF BIDDING PROCEDURES AND ASSET SALE

PLEASE BE ADVISED that, on January 29, 2002, pursuant to a motion (the "Motion") the United States Bankruptcy Court for the Eastern District of New York (the "Court") entered an order approving bidding procedures annexed thereto as Exhibit "E" (the "Procedures Order") in connection with a motion of the Debtors for the sale of substantially all of their assets (the "Acquired Assets") to MCI WorldCom Network Services, Inc. ("WorldCom") for \$108,800,000 and other consideration as more particularly set forth in the Asset Purchase Agreement, appended to the Motion as Exhibit "B", subject to higher or better offer. The Acquired Assets are described in the Motion and Asset Purchase Agreement.

PLEASE BE FURTHER ADVISED that, all interested bidders should carefully read the Motion (with Exhibits) and Bidding Procedures. To the extent there are any inconsistencies between the Motion and Bidding Procedures and the summary description of their terms and conditions contained in this Notice, the terms of the Motion and Bidding Procedures control.

NOTICE IS FURTHER GIVEN, that copies of the Motion, appended exhibits, which includes, the Proposed Asset Purchase Agreement, Management Agreement and, the Procedures Order are on file with the Clerk of the Bankruptcy Court for the Eastern District of New York at 75 Clinton Street, Brooklyn, New York 11201 and may be viewed during regular business hours, or are available on written request to counsel for the Debtors as provided above. **ENTITIES REQUESTING ADDITIONAL INFORMATION OR REQUESTING COPIES OF THE AFORESAID DOCUMENTS MAY CONTACT ROCHELLE R. WEISBURG, ESQ., IN WRITING AT ANGEL & FRANKEL, P.C., ATTORNEYS FOR THE DEBTORS, VIA FACSIMILE, FAX NO. (212) 752-8393 OR VIA EMAIL AT rweisburg@angelfrankel.com.** No representation is made by the Debtors or its counsel or other professionals except as specifically set forth in the Motion and Asset Purchase Agreement, and all entities which are submitting an offer for the purchase of the Acquired Assets shall be relying upon their own independent due diligence review and analysis.

PLEASE BE FURTHER ADVISED that, pursuant to the Bidding Procedures, any Bidder desiring to submit a bid at the Sale (a "Bid") shall send a letter of interest to Debtors' counsel and follow the terms of the Procedures Order (a "Qualified Bidder"). Qualified Bidders, as determined by the Debtors with the assistance of the Official Committee of Unsecured Creditors (the "Committee") shall deliver such bids in writing and follow all terms and conditions prescribed by the Bidding Procedures and must be delivered to Debtors' counsel, Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022-1906, Attn: Bruce Frankel, Esq., with a copy to counsel to the Committee, McCarter & English, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attn: Lisa Bonsall, Esq. such that the Bid is actually received not later than March __, 2002 at 10:00 a.m.

PLEASE BE FURTHER ADVISED that, pursuant to the Procedures Order, the Sale will be conducted at the United States Bankruptcy Court, Eastern District of New York, 75 Clinton Street, Brooklyn, New York 11201, Courtroom __, on March 7, 2002 at 10:00 a.m. ("Sale Hearing")

PLEASE BE FURTHER ADVISED that, pursuant to the Procedures Order, objections to any relief requested by the Motion, other than as it relates to the assumption and assignment or rejection of executory contracts and unexpired leases, shall be set forth in writing with particularity as to the grounds for such objections or other statements of position and be served so as to be received by __: __ m. on March __, 2002 on (i) the Bankruptcy Court located at 75 Clinton Street, Brooklyn, New York 11201 (with a Chambers copy to be delivered to the Chambers of the Honorable Conrad B. Duberstein, Chief United States Bankruptcy Judge for the Eastern District of New York at 75 Clinton Street, Brooklyn, New York 11201); (ii) the Office of the United States Trustee, for the Eastern District of New York, 33 Whitehall Street, 21st Floor, New York, NY 10004, Attention: Linda Riffkin, Esq.; (iii) counsel for the Debtors Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022, Attention: Bruce Frankel, Esq. and Rochelle R. Weisburg, Esq.; (iv) counsel for the Committee, McCarter & English, LLP, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attention: Lisa Bonsall, Esq. and Patricia Zohn, Esq.; and (v) counsel for MCI WorldCom Network Services, Inc., Reed Smith, LLP, 435 Sixth Avenue, Pittsburgh, PA 15219 Attention: Many Emamzadeh, Esq., and Reed Smith, LLP, One River Front Plaza, Newark, NJ 07102, Attention: Deborah A. Reperowitz, Esq. The date and time to file and serve objections that relate to the assumption and assignment of executory contracts and unexpired leases shall be fixed by the Court in the order to be entered approving the sale of Assets.

NOTICE IS FURTHER GIVEN, that if you do not oppose the proposed sale or other relief sought in the Motion, you need not respond to the Motion, nor attend the Sale Hearing which has been scheduled on the Motion.

PLEASE BE FURTHER ADVISED that, pursuant to the Bidding Procedures, the Debtors may, subject to Court approval, (i) impose additional terms and conditions at or prior to the Auction, (ii) extend the deadlines set forth in the Bidding Procedures and/or adjourn the Sale Hearing in open court without further notice, (iii) withdraw from sale any assets at any time prior to or during

the Auction and to make subsequent attempts to market the same, and (iv) to reject all bids, except for the WorldCom bid, if in the Debtors' and Committee's reasonable judgment, no bid is for a fair and adequate price.

Dated: New York, New York
January __, 2002

BY ORDER OF THE COURT

ANGEL & FRANKEL, P.C.
Attorneys for Debtors and
Debtors-in-Possession
460 Park Avenue
New York, NY 10022-1906
(212) 752-8000
Fax: (212) 752-8393
Bruce Frankel, Esq.
Rochelle R. Weisburg, Esq.
email address: bfrankel@angelfrankel.com
email address: rweisburg@angelfrankel.com

CONRAD B. DUBERSTEIN
CHIEF U.S. BANKRUPTCY JUDGE

EXHIBIT "E"

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

-----x

In re:	101-12655-260
	101-12658-260
PT-1 COMMUNICATIONS, INC.	101-12660-260
PT-1 LONG DISTANCE, INC.	
PT-1 TECHNOLOGIES, INC.,	Chapter 11
Debtors.	Jointly Administered

-----x

**ORDER SPECIFYING PROCEDURES TERMS
AND CONDITIONS FOR ASSET SALE¹**

Upon the Motion (the "Motion") of PT-1 Communications, Inc., PT-1 Long Distance, Inc. and PT-1 Technologies, Inc., the debtors and debtors-in-possession in the above captioned Chapter 11 proceedings (the "Debtors"), for, *inter alia*, an order (the "Procedures Order") pursuant to §§ 105 and 363(b), (f), (m) and 365 of Title 11, United States Code (the "Bankruptcy Code"), substantially in the form hereof, *inter alia*:

(a) approving (i) the terms and conditions for submitting offers for the purchase of substantially all of the Debtors' Assets (as defined in the Motion) (collectively, the "Acquired Assets"); (ii) including opportunity by MCI WorldCom Network Services, Inc. ("WorldCom") to credit bid and (iii) a breakup fee in the amount of \$750,000.00 payable to WorldCom should WorldCom not be the approved buyer by virtue of the results of the Sale and certain bidding procedures;

¹ Terms not specifically defined by this Order shall have the same meaning as set forth in the Motion and Bidding Procedures, appended hereto as Exhibit "1".

(b) designating the form, manner and parties to receive notice with respect to the Procedures Hearing; and

(c) Granting to the Debtors such further relief as may be just and proper; and an order to show cause dated January 22, 2002, having been entered by the Court scheduling a hearing with respect to entry of the Procedures Order and a further hearing on the Motion and sale of the Assets; and the Court having held a hearing on January 29, 2002 ("Procedures Hearing") to consider approval of the terms and conditions of bidding on the Assets (the "Procedures Order"); and it appearing from the affidavits of service on file with this Court that due and timely notice of the Motion and the Scheduling Order has been given in accordance with the Scheduling Order to all parties entitled thereto; and a hearing on the Motion having been set by the Scheduling Order for March 7, 2002 (the "Sale Hearing") at which time the Debtors will seek authorization to sell the Acquired Assets, and upon the record of the Procedures Hearing; and due deliberation having been had, and sufficient cause appearing to me, therefor, it is

NOW, on motion of the Debtors,

ORDERED, ADJUDGED, DETERMINED AND DECREED², that:

1. Good and sufficient notice of the Motion and the relief sought therein with respect to the Procedures Hearing has been provided and any other requirement for notice be, and hereby is, dispensed with.

² Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Fed. R. Bankr. P. 7052. Statements made by the Court from the bench at the hearing shall constitute additional conclusions of law and findings of fact as appropriate.

2. Offers for the Acquired Assets shall be accepted only if they meet the requirements outlined by the Debtors' Bidding Procedures guidelines annexed hereto as Exhibit "1" ("Bidding Procedures")

3. The Bidding Procedures annexed hereto as Exhibit 1, are hereby approved in their entirety.

4. The advertisement format in the form of Exhibit "2" annexed hereto is hereby approved.

5. The proposed notice of the Bidding Procedures and Sale and Procedures Motion are sufficient.

6. The form of the Asset Purchase Agreement, annexed to the Motion as Exhibit "A" is hereby approved.

7. The form of the Management Agreement, annexed to the Motion as Exhibit "C" is hereby approved.

8. The Debtors shall serve a copy of the Procedures Order, Motion and Exhibits, upon the persons and in the manner specified in the Bidding Procedures. Such service shall be deemed good and sufficient notice of the order and all proceedings to be held thereon.

9. The Court shall hold an Auction in accordance with the Bidding Procedures at the United States Bankruptcy Court, Eastern District of New York, 75 Clinton Street, Brooklyn, NY 11201, on March 7, 2002 at 10:00 a.m. Any person seeking to participate as a bidder at the Auction shall comply with the Bidding Procedures.

10. No representations are made by the Debtors. Bidders shall be deemed to rely solely upon its own independent due diligence, review, inventory and analysis of the Assets.

11. For purposes of the Auction and Sale, the WorldCom Claim in the amount of \$106,373,824.42 shall be deemed an allowed secured claim which WorldCom shall be authorized to credit bid pursuant to Section 363(k) of the Bankruptcy Code, as limited by the Motion. The WorldCom Claim has a minimum value of \$75,000,000, with an additional value dependant on increased bidding at the Auction.

12. WorldCom and TTI National, Inc., WorldCom's designee, are good faith purchasers and qualified bidders.

13. If WorldCom is the successful bidder at the Closing, the Asset Purchase Agreement, the Management Agreement and WorldCom's rights under the Sale order shall be assigned to TTI National, Inc., without the necessity for the further approval by this Court or the execution of any other agreements.

14. The Pre-Closing contemplated by the Asset Purchase Agreement shall constitute substantial consummation of the sale of the Acquired Assets to WorldCom (whether WorldCom or any other successful purchaser) for all purposes, including, without limitation, § 363(m) of the Bankruptcy Code.

15. Each bidder shall be required to satisfy to the Court that it has financial ability to fulfill its obligations in the event its offer is accepted.

16. The Debtors reserve the right to reject any offer which in their discretion is deemed inadequate or insufficient or which is contrary to the best interests of the bankruptcy estates and their creditors.

17. No offer shall be deemed accepted until an order of the Court is entered approving such sale.

18. In the event that a purchaser other than WorldCom is the successful bidder for substantially all of the assets of the Debtors, the Releases and Waivers granted to the Debtors, the Committee, WorldCom, STAR and the STAR Committee and their respective related parties shall remain effective as of the Closing of such sale.

19. For all the reasons set forth in the Motion and for the reasons articulated on the record at the Procedures Hearing on January 29, 2002, it is hereby ordered and decreed that releases and waivers contemplated by the Proposal shall be executed in accordance with the terms and conditions of the Proposal and shall be deemed effective as of the Closing subject to Star's and Star's Committee's acceptance of the Proposal and the approval by the United States Bankruptcy Court for the District of Delaware.

20. The break-up fee has been negotiated in good faith and at arm's length between the Debtors and the Purchaser and is necessary to induce the Purchaser to enter into its binding agreement with the Debtors.

21. The Bidding Procedures, including the break-up fee, are fair and reasonable, reflect the Debtors' exercise of sound business judgment consistent with its fiduciary duties and, in the case of the break-up fee, is supported by reasonably equivalent value and fair consideration, are actual, necessary costs of expenses of preserving the Debtors' estates and is reasonable in amount, within the meaning of the Bankruptcy Code.

22. The break-up fee (as defined in the Motion) is fixed and authorized in the amount of \$750,000.00 and the terms and conditions in the Debtors' payment of such fee as provided in the Motion and as set forth in the Bidding Procedures appended hereto as Exhibit "1" is approved in all respects.

23. Objections, if any, to the relief sought in the Sale Motion other than as it relates to the assumption and assignment or rejection of executory contracts and unexpired leases shall be served in accordance with the Bidding Procedures such that the objection is actually received by March __, 2002 at ____ .m. The Court shall fix the date and time for the service and filing of objections that relate to the assumption and assignment of executory contracts and unexpired leases in the order to be entered approving the sale of assets.

24. The Debtors may extend the deadlines set forth in the Bidding Procedures and/or adjourn the Auction at the Auction in open court without further notice.

25. Cure amounts required to be paid pursuant to 11 U.S.C. § 365(b)(1) in connection with those executory contracts and leases which are assumed and assigned pursuant to the Asset Purchase Agreement, shall be fixed within thirty (30) days after the Closing pursuant to agreement between the Debtors and each non-debtor party to such executory contracts or leases.

26. To the extent that an agreement regarding the cure amount cannot be reached between the parties to a particular contract or lease assumed pursuant to the Asset Purchase Agreement, the Debtors shall file a motion with the Bankruptcy Court to fix such cure amounts no later than forty (40) days following the Closing and the Court shall thereafter make a determination as to the cure amount.

27. The Sale Order shall become effective immediately upon its entry.

28. The Court shall retain jurisdiction over any matter or dispute arising from or relating to the implementation of the Sale Order.

29. This order shall survive entry of an order which may be entered converting these cases to Chapter 7 or any order confirming a plan of reorganization.

Dated: New York, New York
January __, 2002

CONRAD B. DUBERSTEIN
CHIEF UNITED STATES BANKRUPTCY JUDGE

EXHIBIT "1"

EXHIBIT "1"

BIDDING PROCEDURES¹

The following procedures (the "Bidding Procedures") shall govern the sale of assets (the "Sale") of the Debtors' assets (the "Acquired Assets"), in whole or in part, pursuant to the Motion for an Order Pursuant to Sections 105, 363(b), 363(f), 363(m), 365 and 1146(c) of the Bankruptcy Code Approving and Authorizing (i) the Sale of substantially all of the Debtors assets free and clear of liens, claims, and encumbrances, (ii) authorizing the Debtors to sell such assets to MCI WorldCom Network Services, Inc. or any higher or better bidder pursuant to the terms of an agreement dated January 22, 2002; (iii) approving a break-up fee and certain bidding procedures; (iv) authorizing assumption and assignment of certain executory contracts and unexpired leases in connection therewith, (v) approving mechanism for fixing cure amount and scheduling hearing(s) and approving notice related thereto; exempting the sale from stamp or similar taxes; (vi) approving compromise of a controversy and the exchange of releases pursuant to Bankruptcy Rule 9019; (vii) approving management agreement; (viii) authorizing credit bidding; (ix) authorizing Debtors to enter into and approving agreement with RFC Capital Corporation; and (x) granting related relief, (the "Sale Motion"). These Bidding Procedures have been approved and authorized by order dated January __, 2002 (the "Procedures Order") of the United States Bankruptcy Court for the Eastern District of New York ("Bankruptcy Court") in the Chapter 11 cases of PT Communications, Inc. ("PT-1"), PT-1 Long Distance, Inc. ("Long Distance"), and PT-1 Technologies, Inc. ("Technologies"), the debtors and debtors-in-possession (collectively, the "Debtors"), which cases were commenced on March 9, 2001.

¹ All terms not defined herein shall have the same meaning as set forth in the Motion and Asset Purchase Agreement.

1. **ASSETS TO BE SOLD**

The Debtors shall consider bids for all of the Acquired Assets as more particularly set forth in the Motion and proposed asset purchase agreement for the sale of the Acquired Assets (“Asset Purchase Agreement”). The Assets shall be sold in a single sale to a single bidder, free and clear of all liens, claims and encumbrances.

2. **PURCHASE PRICE**

In consideration for the acquisition of the Acquired Assets, WorldCom shall pay or cause to be paid) consideration in an amount agreed to be \$108,800,000.00 and other consideration, as more fully set forth in the Asset Purchase Agreement (“Purchase Price”).

3. **MAILING THE SALE HEARING NOTICE**

On a date no later than two (2) business days following entry by the Bankruptcy Court of the Bidding Procedures Order, the Debtors shall mail the Bidding Procedures Order, together with a copy of this Sale and Procedures Motion by first class mail, postage prepaid to: (a) all potential interested parties identified by the Debtors; (b) the Office of the United States Trustee; (c) counsel to the Creditors’ Committee; (d) counsel to WorldCom; (e) counsel to STAR; (f) counsel to the STAR Committee; (g) parties in interest who have requested notice pursuant to Bankruptcy Rule 2002; (h) all known entities holding or asserting a security interest in or lien against any of the required Acquired Assets; (i) the parties to the Debtors’ material executory contracts and unexpired leases that may be subject to assumption and assignment or rejection; (j) all taxing authorities whose rights may be affected by the Sale of the Acquired Assets; and (k) government agencies required to receive notice of proceedings under the Bankruptcy Rules and other regulatory rules. All other creditors of the Debtors and interested parties will receive notice by publication in *The New York Times*, national edition.

4. **INDICATION OF INTEREST**

The Debtors shall send a form of confidentiality agreement to any person who responds to the Sale Hearing Notice indicating an interest in participating in the Sale, and requesting information about the Assets.

5. **CONFIDENTIALITY AGREEMENT AND SELECTION OF QUALIFIED BIDDERS**

Potential purchasers shall be required to complete and execute the confidentiality agreement and provide the Debtors with their financial qualifications and such other information as the Debtors may reasonably request including descriptions of their current business(es). The Debtors with the assistance of the Official Committee of Unsecured Creditors (the "Committee"), shall qualify potential purchasers for continuing with the sales process. The Debtors shall promptly notify potential purchasers who have returned the confidentiality agreement and satisfactory financial qualifications that they have been selected as a qualified bidder (the "Qualified Bidders").

6. **FINANCIAL QUALIFICATIONS**

To become a qualified bidder to be considered by the Debtors, potential purchasers must submit to the Debtors proof of their ability to purchase the Acquired Assets. Said determination shall be made by the Debtors and the Committee in good faith. A potential bidder, will not qualify until it has submitted a Bid and pays the Debtors' counsel, in the form of a certified check or wire transfer, a deposit in the amount of ten percent (10%) of the aggregate potential Bidder ("Earnest Money Deposit").

7. **THE ASSET PURCHASE AGREEMENT AND DUE DILIGENCE**

The Debtors shall send to each Qualified Bidder a copy of a proposed Asset Purchase Agreement. The Debtors, upon execution of a confidentiality agreement, will provide reasonable

access to Debtors' books, records and executives to Qualified Bidders for the purpose of conducting due diligence.

8. SUBMISSION OF BIDS

Any Qualified Bidder desiring to submit a Bid must deliver such Bid to the Debtors' counsel, Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022-1906, Attention: Bruce Frankel, Esq. with a copy to Committee Counsel, McCarter & English, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attn: Lisa A. Bonsall, Esq. not later than 10:00 a.m. (EST) on the date which is two (2) Business Days prior to the date scheduled by the Bankruptcy Court for the sale and Sale Hearing:

A Bid shall consist of: (i) a letter from a potential Bidder offering to purchase the Acquired Assets upon the terms and conditions set forth in the Asset Purchase Agreement, together with all Exhibits and Schedules and stating that the Bidder is prepared to enter into and consummate the transaction within not more than ten days (10) after entry of the Sale Order, subject to obtaining any governmental or regulatory approvals; (ii) a copy of the Asset Purchase Agreement and the Management Agreement marked to show any proposed amendments and modifications, including price and the time of closing, that such Bidder proposes (the "Marked Agreements"); (iii) the Earnest Money Deposit; and (iv) financial information of the Bidder sufficient to demonstrate that the Bidder is a Qualified Bidder.

A "Qualified Bid" is a Bid that: (i) is made by a Qualified Bidder (as determined by the Debtors and the Committee in good faith after a deposit by such bidder of 10% of the aggregate purchase price offered by such bidder with Debtors' counsel) and complies with the provisions set forth above, in all respects; (ii) is not, in the good faith opinion of the Debtors, materially more burdensome or conditional than the terms of the Asset Purchase Agreement; and (iii) contains an

offer in the amount of the Purchase Price plus at least \$3,000,000, of which \$2,000,000 must be immediately available funds to be placed in escrow upon the Pre-Closing. The Purchase Price together with an additional \$3,000,000, shall be paid at Closing as follows: (1) WorldCom in the amount of \$75,000,000 plus two-thirds (2/3) of any amount paid in excess of the Purchase Price in immediately available funds; (2) to the Debtors' estates, the \$33.8 million in consideration (composed of the payments to be made during the Management Period, the agreement to pay \$500,000 in Contract Costs (and all other Contract Costs in excess of \$900,000), the agreement to assume the Chase Amendment, and the agreement to assume the STAR Agreement) plus one third (1/3) of the amount in excess of the Purchase Price to be paid on terms no less advantageous to such bidder than WorldCom's payment terms set forth in the Asset Purchase Agreement.

Bids must provide sufficient indicia that such Qualified Bidder or representative is legally empowered, by power of attorney or otherwise, and financially capable to (a) bid on behalf of the prospective bidder, and (b) to complete and sign, on behalf of the bidder, a binding and enforceable Asset Purchase Agreement, not contain any contingencies to the validity, effectiveness, and/or binding nature of the offer, including, without limitation, contingencies for financing, due diligence or further bidding approval, including from any board of directors or shareholders, or otherwise. Bids are irrevocable until ten days after the close of the Auction.

If closing such Bid is conditioned on the assumption and assignment of any Contracts or Leases, the Bid must include sufficient information to permit the Court, the Debtors, the Creditors Committee appointed in these chapter 11 cases, and the applicable lessors and contracting parties to determine the proposed assignee's ability to comply with section 365 of the Bankruptcy Code (to the extent applicable), including providing adequate assurance of such assignee's ability to perform in the future (the "Adequate Assurance Package").

Only Qualified Bids will be considered at the Sale, and the Debtors reserve the right to reject any Bid if the Bid, among other things:

- is on terms that are materially more burdensome or conditional than the terms of the Asset Purchase Agreement;
- proposes to purchase items other than the Acquired Assets contemplated by the Asset Purchase Agreement;
- is not received by the Bid Deadline;
- includes noncash consideration; or
- is subject to any financing condition.

To the extent WorldCom increases its bid, it shall be permitted to credit bid two-thirds of such increase in its bid through the WorldCom Claim, and the remainder of such increased bid shall be in cash payable at the same time as the “Fourth Payment” (as identified in the Asset Purchase Agreement). Notwithstanding any provision to the contrary, in no event shall WorldCom be entitled to credit bid an amount greater than the WorldCom Claim, nor shall WorldCom receive on account of its claims in the Debtors’ cases an amount greater than the WorldCom Claim.

To the extent that there is a Successful Competing Bidder (the “Winning Bidder”), WorldCom shall be entitled to receive in cash, at Closing, in addition to \$75,000,000, two-thirds of the difference between the Successful Competing Bidders winning bid and \$108,800,000.00 payable at the Closing, in cash, and the remainder shall be turned over to the Debtors’ estates.

In the event that a purchaser other than WorldCom is the successful bidder for substantially all of the assets of the Debtors, the Releases and Waivers granted to the Debtors, the Committee, WorldCom, STAR and the STAR Committee and their respective related parties shall remain effective as of the Closing of such sale.

All Bids shall be kept confidential with access restricted to the Debtors, the Committee, and any of their respective professionals. Bids may, however, be revealed to any other party at the option of the Debtors. The Debtors may request additional information from a bidder in order to evaluate the bidder's ability to consummate a transaction and to fulfill its obligations in connection therewith and such bidder shall be obligated to provide such information as a precondition to participating further in the Auction.

9. **THE AUCTION AND SELECTION OF THE WINNING BID OR BIDS**

In the event the Debtors do not receive any Qualified Bids other than a bid from WorldCom, the Debtors shall report this fact to the Bankruptcy Court, the Auction shall not be held, and the Debtors shall proceed to have the sale to WorldCom approved at the Auction and Sale Hearing.

If the Debtors receive any Qualified Bids in addition to the WorldCom bid, an Auction will be conducted at the United States Bankruptcy Court, Eastern District of New York, 75 Clinton Street, Brooklyn, NY 11201, on **March 7, 2002 at 10:00 a.m.** or such later time, date or other place as the Debtors may notify all Qualified Bidders who have submitted Qualified Bids. All bidders shall appear in person at the Auction, or through a duly authorized representative. If multiple Bids satisfying all Auction requirements are received, each party shall have the right to continue to improve its bid at the Auction. Bidding shall be in minimum monetary increments of \$3,000,000.

After the conclusion of the Auction, and subject to Bankruptcy Court approval following the Auction, the winning bid(s) shall be selected by the Debtors from the Bids (the "Winning Bid(s)"); provided, however, that the Debtors shall have the right to reject any and all Bids, other than WorldCom's Bid.

Immediately subsequent to the Sale Confirmation Hearing (as defined below), the entity or entities that make(s) winning bids shall complete and sign all agreement(s), contract(s), instrument(s)

or other document(s) evidencing and containing the terms and conditions upon which such bid(s) were made.

10. OBJECTIONS

Objections to any relief requested by the Sale Motion, other than as relate to the assumption and assignment of executory contracts and unexpired leases, shall set forth in writing with particularity the grounds for such objections or other statements of position and be served so as to be received by or before *March __, 2002 at 4:00 p.m.* on: (i) the Bankruptcy Court (with a Chambers copy of the Court); (ii) the Office of the United States Trustee, for the Eastern District of New York, 33 Whitehall Street, 21st Floor, New York, NY 10004, Attention: Linda Riffkin, Esq.; (iii) counsel for the Debtors Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022, Attention: Bruce Frankel, Esq. and Rochelle R. Weisburg, Esq.; (iv) counsel for the Committee, McCarter & English, LLP, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attention: Lisa Bonsall, Esq. and Patricia Zohn, Esq.; and (v) counsel for WorldCom, Reed Smith, LLP, 435 Sixth Avenue, Pittsburgh, PA 15219 Attention: Many Emamzadeh, Esq., and Reed Smith, LLP, One River Front Plaza, Newark, NJ 07102, Attention: Deborah A. Reperowitz, Esq. The date and time to file and serve objections that relate to the assumption and assignment of executory contracts and unexpired leases shall be fixed by the Court in the order to be entered approving the sale of the Acquired Assets.

11. COURT APPROVAL

At the conclusion of the Sale the Debtors shall recommend to the Court the highest and best bidder (the "Sale Confirmation Hearing"). The sale(s) of the Acquired Assets is (are) subject to entry of an order of the Bankruptcy Court approving the sale(s) (the "Sale Confirmation Order").

12. CLOSING AND PRE-CLOSING

The Closing of the sale of the Assets to the Winning Bidder(s) shall occur in accordance with the terms of the executed Asset Purchase Agreement within ten (10) days of obtaining all Necessary Approvals, then the Closing shall occur, and in any case provided that no stay pending an appeal, if any, has been entered and further provided that the successful bidder has been found by the court to be a good faith purchaser and entitled to the protections of Section 363(m) of the Bankruptcy Code.

A pre-closing shall occur no later than ten (10) days after the entry of a final Sale Order by the Bankruptcy Court which is not subject to further stay or appeal (provided, however, that Purchaser may elect to close or pre-close as the case may be, the transactions contemplated hereby (despite a pending appeal if no stay thereof is in effect) pursuant to, and in accordance with, the protections offered under 363(m) of the Bankruptcy Code, approving the sale of the Acquired Assets pursuant to the terms and conditions thereon, at which time the Debtors shall deliver the executed and approved Purchase Agreement and any related agreements, including, without limitation, the Management Agreement.

A Pre-Closing shall be deemed to be substantial consummation of the sale affording the Winning Bidder which pre-closes the protections set forth in § 363(m) of the Bankruptcy Code.

The Winning Bidder shall exchange with the Debtors a Management Agreement to manage the business pending the Closing, as more particularly set forth in the Asset Purchase Agreement.

**13. ASSUMPTION AND ASSIGNMENT, OR REJECTION,
OF CONTRACTS AND LEASES**

To the extent any of the executory contracts or unexpired leases are utilized prior to the Closing and shall not be utilized subsequent to the Closing, then a separate motion shall be made rejecting such executory contracts and unexpired leases.

In connection with the Sale Hearing, the Debtors will provide evidence that all requirements for the assumption and/or assignment of the executory contracts and unexpired leases proposed to be assigned to the purchaser of the Acquired Assets will be satisfied. It is an express condition of the proposed Bidding Procedures that Bidders submit as part of their Bids, sufficient financial and other information to assess the Bidder's compliance with section 365 (b)(1)(C) of the Bankruptcy Code. The Debtors will provide all parties to executory contracts and unexpired leases to be assumed and assigned pursuant to the Sale and Procedures Motion with such information and an opportunity to be heard. Thus, the Debtors respectfully submit that by the conclusion of the Sale Hearing, assumption and assignment of the executory contracts and unexpired leases should be approved.

In the event there are any executory contracts or unexpired leases that remain unsold at the conclusion of the Auction, the Debtors reserve the right to request authority at or prior to the Sale Hearing to reject any or all such unsold executory contracts and unexpired leases. Debtors may not reject any executory contracts or unexpired leases before the Closing without the Purchaser's consent. Further, to the extent any executory contract or unexpired leases remain in place during the Management Period than the Winning Bidder, pending the Closing, is obligated to pay such non-debtor parties, with such payments to be included as calculating Aggregate Cash Flow. After conducting the Auction and selling the Acquired Assets, the unsold executory contracts and

unexpired leases may be valueless to the Debtors and would only create an administrative expense burden on the Debtors' estates. Therefore, the Debtors request authority to reject, as of the date of the Sale Hearing, subject to the consent of the Purchaser, some or all executory contracts and unexpired leases they believe to have no value. To the extent any of the executory contracts or unexpired leases are utilized prior to the Closing and shall not be utilized subsequent to the Closing, then a separate motion shall be made rejecting such executory contracts and unexpired leases.

14. MECHANISM FOR FIXING CURE AMOUNTS

Cure amounts required to be paid pursuant to 11 U.S.C. § 365(b)(1) in connection with those executory contracts and leases which are assumed and assigned pursuant to the Asset Purchase Agreement, be fixed within thirty (30) days after the Closing pursuant to agreement between the Debtors and each non-debtor party to such executory contracts or leases. To the extent that an agreement regarding the cure amount cannot be reached between the parties to a particular contract or lease assumed pursuant to the Asset Purchase Agreement, the Debtors shall file a motion with the Bankruptcy Court to fix such cure amounts no later than forty (40) days following the Closing.

15. FAILURE TO CONSUMMATE PURCHASE

If for any reason the entity that makes the highest or best bid fails to consummate the purchase of the Acquired Assets, or any part thereof, the offeror of the second highest or best bid will automatically be deemed to have submitted the highest or best bid and to the extent such offeror and the Debtors consent, the Debtors and such offeror are authorized to effect the sale of the Acquired Assets, or any part thereof, to such offeror as soon as is commercially reasonable without further order of the Bankruptcy Court. If such failure to consummate the purchase is the result of a breach by the winning bidder, the Earnest Money Down Payment shall be forfeited to the Debtors and the Debtors specifically reserve the right to seek all available damages from the defaulting bidder.

All Earnest Money Deposits shall be held by the Debtors, without interest, until such time as the bids are officially rejected by the Debtors. Such deposit shall be forfeited in the event that any bidder for an accepted bid defaults. The Earnest Money Deposit will be forfeited if (i) the bidder is determined to be a Qualified Bidder and withdraws or modifies its bid other than as provided in the Bidding Procedures before the Bankruptcy Court approves the Debtors' selection of the successful Bidder, or (ii) the Bidder is the successful Bidder and (A) modifies or withdraws its Bid without the Debtors' consent before the consummation of the sale contemplated by such Bid, (B) breaches its Bid, or (C) breaches its confidentiality agreement.

16. RETURN OF EARNEST DOWN PAYMENT

After the Sale Confirmation Hearing, if the Winning Bids have been selected and sales of the Assets to Winning Bidder(s) have been approved by the Bankruptcy Court, the Earnest Down Payments of the Qualified Bidders who are not winning bidder(s) shall be returned within five (5) business days.

17. RESERVATION OF RIGHTS; DEADLINE EXTENSIONS

The Debtors reserve the right, subject to court approval, to (i) impose additional terms and conditions at or prior to the Auction, (ii) extend the deadlines set forth in the Auction Procedures and/or adjourn the Auction at the Auction and/or the Sale Confirmation Hearing in open court without further notice, (iii) withdraw from sale any Assets at any time prior to or during the Auction

and to make subsequent attempts to market the same; and (iv) reject all bids, if in the Debtors' reasonable judgment no Bid is for a fair and adequate price.

Dated: New York, New York
January __, 2002

Angel & Frankel, P.C.
Attorneys for PT Communications, Inc., PT-1
Long Distance, Inc., and PT-1 Technologies,
Inc., debtors and debtors-in-possession

By: _____
Bruce Frankel, Esq. (BF-5001)
Rochelle R. Weisburg, Esq. (RW-6848)
460 Park Avenue
New York, NY 10022-1906
(212) 752-8000

EXHIBIT "2"

EXHIBIT "2"

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

-----X

In re:	101-12655-260
	101-12658-260
PT-1 COMMUNICATIONS, INC.	101-12660-260
PT-1 LONG DISTANCE, INC.	
PT-1 TECHNOLOGIES, INC.,	Chapter 11
Debtors.	Jointly Administered

-----X

NOTICE OF BIDDING PROCEDURES AND ASSET SALE

PLEASE BE ADVISED that, on January 29, 2002, pursuant to a motion (the "Motion") the United States Bankruptcy Court for the Eastern District of New York (the "Court") entered an order approving bidding procedures annexed thereto as Exhibit "E" (the "Procedures Order") in connection with a motion of the Debtors for the sale of substantially all of their assets (the "Acquired Assets") to MCI WorldCom Network Services, Inc. ("WorldCom") for \$108,800,000 and other consideration as more particularly set forth in the Asset Purchase Agreement, appended to the Motion as Exhibit "B", subject to higher or better offer. The Acquired Assets are described in the Motion and Asset Purchase Agreement.

PLEASE BE FURTHER ADVISED that, all interested bidders should carefully read the Motion (with Exhibits) and Bidding Procedures. To the extent there are any inconsistencies between the Motion and Bidding Procedures and the summary description of their terms and conditions contained in this Notice, the terms of the Motion and Bidding Procedures control.

NOTICE IS FURTHER GIVEN, that copies of the Motion, appended exhibits, which includes, the Proposed Asset Purchase Agreement, Management Agreement and, the Procedures Order are on file with the Clerk of the Bankruptcy Court for the Eastern District of New York at 75 Clinton Street, Brooklyn, New York 11201 and may be viewed during regular business hours, or are available on written request to counsel for the Debtors as provided above. **ENTITIES REQUESTING ADDITIONAL INFORMATION OR REQUESTING COPIES OF THE AFORESAID DOCUMENTS MAY CONTACT ROCHELLE R. WEISBURG, ESQ., IN WRITING AT ANGEL & FRANKEL, P.C., ATTORNEYS FOR THE DEBTORS, VIA FACSIMILE, FAX NO. (212) 752-8393 OR VIA EMAIL AT rweisburg@angelfrankel.com.** No representation is made by the Debtors or its counsel or other professionals except as specifically set forth in the Motion and Asset Purchase Agreement, and all entities which are submitting an offer for the purchase of the Acquired Assets shall be relying upon their own independent due diligence review and analysis.

PLEASE BE FURTHER ADVISED that, pursuant to the Bidding Procedures, any Bidder desiring to submit a bid at the Sale (a "Bid") shall send a letter of interest to Debtors' counsel and follow the terms of the Procedures Order (a "Qualified Bidder"). Qualified Bidders, as determined by the Debtors with the assistance of the Official Committee of Unsecured Creditors (the "Committee") shall deliver such bids in writing and follow all terms and conditions prescribed by the Bidding Procedures and must be delivered to Debtors' counsel, Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022-1906, Attn: Bruce Frankel, Esq., with a copy to counsel to the Committee, McCarter & English, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attn: Lisa Bonsall, Esq. such that the Bid is actually received not later than March __, 2002 at 10:00 a.m.

PLEASE BE FURTHER ADVISED that, pursuant to the Procedures Order, the Sale will be conducted at the United States Bankruptcy Court, Eastern District of New York, 75 Clinton Street, Brooklyn, New York 11201, Courtroom __, on March 7, 2002 at 10:00 a.m. ("Sale Hearing")

PLEASE BE FURTHER ADVISED that, pursuant to the Procedures Order, objections to any relief requested by the Motion, other than as it relates to the assumption and assignment or rejection of executory contracts and unexpired leases, shall be set forth in writing with particularity as to the grounds for such objections or other statements of position and be served so as to be received by __: __ m. on March __, 2002 on (i) the Bankruptcy Court located at 75 Clinton Street, Brooklyn, New York 11201 (with a Chambers copy to be delivered to the Chambers of the Honorable Conrad B. Duberstein, Chief United States Bankruptcy Judge for the Eastern District of New York at 75 Clinton Street, Brooklyn, New York 11201); (ii) the Office of the United States Trustee, for the Eastern District of New York, 33 Whitehall Street, 21st Floor, New York, NY 10004, Attention: Linda Riffkin, Esq.; (iii) counsel for the Debtors Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022, Attention: Bruce Frankel, Esq. and Rochelle R. Weisburg, Esq.; (iv) counsel for the Committee, McCarter & English, LLP, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attention: Lisa Bonsall, Esq. and Patricia Zohn, Esq.; and (v) counsel for MCI WorldCom Network Services, Inc., Reed Smith, LLP, 435 Sixth Avenue, Pittsburgh, PA 15219 Attention: Many Emamzadeh, Esq., and Reed Smith, LLP, One River Front Plaza, Newark, NJ 07102, Attention: Deborah A. Reperowitz, Esq. The date and time to file and serve objections that relate to the assumption and assignment of executory contracts and unexpired leases shall be fixed by the Court in the order to be entered approving the sale of Assets.

NOTICE IS FURTHER GIVEN, that if you do not oppose the proposed sale or other relief sought in the Motion, you need not respond to the Motion, nor attend the Sale Hearing which has been scheduled on the Motion.

PLEASE BE FURTHER ADVISED that, pursuant to the Bidding Procedures, the Debtors may, subject to Court approval, (i) impose additional terms and conditions at or prior to the Auction, (ii) extend the deadlines set forth in the Bidding Procedures and/or adjourn the Sale Hearing in open court without further notice, (iii) withdraw from sale any assets at any time prior to or during

the Auction and to make subsequent attempts to market the same, and (iv) to reject all bids, except for the WorldCom bid, if in the Debtors' and Committee's reasonable judgment, no bid is for a fair and adequate price.

Dated: New York, New York
January __, 2002

BY ORDER OF THE COURT

ANGEL & FRANKEL, P.C.
Attorneys for Debtors and
Debtors-in-Possession
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CONRAD B. DUBERSTEIN
CHIEF U.S. BANKRUPTCY JUDGE

EXHIBIT "E"

BIDDING PROCEDURES¹

The following procedures (the "Bidding Procedures") shall govern the sale of assets (the "Sale") of the Debtors' assets (the "Acquired Assets"), in whole or in part, pursuant to the Motion for an Order Pursuant to Sections 105, 363(b), 363(f), 363(m), 365 and 1146(c) of the Bankruptcy Code Approving and Authorizing (i) the Sale of substantially all of the Debtors assets free and clear of liens, claims, and encumbrances, (ii) authorizing the Debtors to sell such assets to MCI WorldCom Network Services, Inc. or any higher or better bidder pursuant to the terms of an agreement dated January 22, 2002; (iii) approving a break-up fee and certain bidding procedures; (iv) authorizing assumption and assignment of certain executory contracts and unexpired leases in connection therewith, (v) approving mechanism for fixing cure amount and scheduling hearing(s) and approving notice related thereto; exempting the sale from stamp or similar taxes; (vi) approving compromise of a controversy and the exchange of releases pursuant to Bankruptcy Rule 9019; (vii) approving management agreement; (viii) authorizing credit bidding; (ix) authorizing Debtors to enter into and approving agreement with RFC Capital Corporation; and (x) granting related relief, (the "Sale Motion"). These Bidding Procedures have been approved and authorized by order dated January __, 2002 (the "Procedures Order") of the United States Bankruptcy Court for the Eastern District of New York ("Bankruptcy Court") in the Chapter 11 cases of PT Communications, Inc. ("PT-1"), PT-1 Long Distance, Inc. ("Long Distance"), and PT-1 Technologies, Inc. ("Technologies"), the debtors and debtors-in-possession (collectively, the "Debtors"), which cases were commenced on March 9, 2001.

¹ All terms not defined herein shall have the same meaning as set forth in the Motion and Asset Purchase Agreement.

1. **ASSETS TO BE SOLD**

The Debtors shall consider bids for all of the Acquired Assets as more particularly set forth in the Motion and proposed asset purchase agreement for the sale of the Acquired Assets ("Asset Purchase Agreement"). The Assets shall be sold in a single sale to a single bidder, free and clear of all liens, claims and encumbrances.

2. **PURCHASE PRICE**

In consideration for the acquisition of the Acquired Assets, WorldCom shall pay or cause to be paid) consideration in an amount agreed to be \$108,800,000.00 and other consideration, as more fully set forth in the Asset Purchase Agreement ("Purchase Price").

3. **MAILING THE SALE HEARING NOTICE**

On a date no later than two (2) business days following entry by the Bankruptcy Court of the Bidding Procedures Order, the Debtors shall mail the Bidding Procedures Order, together with a copy of this Sale and Procedures Motion by first class mail, postage prepaid to: (a) all potential interested parties identified by the Debtors; (b) the Office of the United States Trustee; (c) counsel to the Creditors' Committee; (d) counsel to WorldCom; (e) counsel to STAR; (f) counsel to the STAR Committee; (g) parties in interest who have requested notice pursuant to Bankruptcy Rule 2002; (h) all known entities holding or asserting a security interest in or lien against any of the required Acquired Assets; (i) the parties to the Debtors' material executory contracts and unexpired leases that may be subject to assumption and assignment or rejection; (j) all taxing authorities whose rights may be affected by the Sale of the Acquired Assets; and (k) government agencies required to receive notice of proceedings under the Bankruptcy Rules and other regulatory rules. All other creditors of the Debtors and interested parties will receive notice by publication in *The New York Times*, national edition.

4. INDICATION OF INTEREST

The Debtors shall send a form of confidentiality agreement to any person who responds to the Sale Hearing Notice indicating an interest in participating in the Sale, and requesting information about the Assets.

5. CONFIDENTIALITY AGREEMENT AND SELECTION OF QUALIFIED BIDDERS

Potential purchasers shall be required to complete and execute the confidentiality agreement and provide the Debtors with their financial qualifications and such other information as the Debtors may reasonably request including descriptions of their current business(es). The Debtors with the assistance of the Official Committee of Unsecured Creditors (the "Committee"), shall qualify potential purchasers for continuing with the sales process. The Debtors shall promptly notify potential purchasers who have returned the confidentiality agreement and satisfactory financial qualifications that they have been selected as a qualified bidder (the "Qualified Bidders").

6. FINANCIAL QUALIFICATIONS

To become a qualified bidder to be considered by the Debtors, potential purchasers must submit to the Debtors proof of their ability to purchase the Acquired Assets. Said determination shall be made by the Debtors and the Committee in good faith. A potential bidder, will not qualify until it has submitted a Bid and pays the Debtors' counsel, in the form of a certified check or wire transfer, a deposit in the amount of ten percent (10%) of the aggregate potential Bidder ("Earnest Money Deposit").

7. THE ASSET PURCHASE AGREEMENT AND DUE DILIGENCE

The Debtors shall send to each Qualified Bidder a copy of a proposed Asset Purchase Agreement. The Debtors, upon execution of a confidentiality agreement, will provide reasonable

access to Debtors' books, records and executives to Qualified Bidders for the purpose of conducting due diligence.

8. SUBMISSION OF BIDS

Any Qualified Bidder desiring to submit a Bid must deliver such Bid to the Debtors' counsel, Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022-1906, Attention: Bruce Frankel, Esq. with a copy to Committee Counsel, McCarter & English, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attn: Lisa A. Bonsall, Esq. not later than 10:00 a.m. (EST) on the date which is two (2) Business Days prior to the date scheduled by the Bankruptcy Court for the sale and Sale Hearing:

A Bid shall consist of: (i) a letter from a potential Bidder offering to purchase the Acquired Assets upon the terms and conditions set forth in the Asset Purchase Agreement, together with all Exhibits and Schedules and stating that the Bidder is prepared to enter into and consummate the transaction within not more than ten days (10) after entry of the Sale Order, subject to obtaining any governmental or regulatory approvals; (ii) a copy of the Asset Purchase Agreement and the Management Agreement marked to show any proposed amendments and modifications, including price and the time of closing, that such Bidder proposes (the "Marked Agreements"); (iii) the Earnest Money Deposit; and (iv) financial information of the Bidder sufficient to demonstrate that the Bidder is a Qualified Bidder.

A "Qualified Bid" is a Bid that: (i) is made by a Qualified Bidder (as determined by the Debtors and the Committee in good faith after a deposit by such bidder of 10% of the aggregate purchase price offered by such bidder with Debtors' counsel) and complies with the provisions set forth above, in all respects; (ii) is not, in the good faith opinion of the Debtors, materially more burdensome or conditional than the terms of the Asset Purchase Agreement; and (iii) contains an

offer in the amount of the Purchase Price plus at least \$3,000,000, of which \$2,000,000 must be immediately available funds to be placed in escrow upon the Pre-Closing. The Purchase Price together with an additional \$3,000,000, shall be paid at Closing as follows: (1) WorldCom in the amount of \$75,000,000 plus two-thirds (2/3) of any amount paid in excess of the Purchase Price in immediately available funds; (2) to the Debtors' estates, the \$33.8 million in consideration (composed of the payments to be made during the Management Period, the agreement to pay \$500,000 in Contract Costs (and all other Contract Costs in excess of \$900,000), the agreement to assume the Chase Amendment, and the agreement to assume the STAR Agreement) plus one third (1/3) of the amount in excess of the Purchase Price to be paid on terms no less advantageous to such bidder than WorldCom's payment terms set forth in the Asset Purchase Agreement.

Bids must provide sufficient indicia that such Qualified Bidder or representative is legally empowered, by power of attorney or otherwise, and financially capable to (a) bid on behalf of the prospective bidder, and (b) to complete and sign, on behalf of the bidder, a binding and enforceable Asset Purchase Agreement, not contain any contingencies to the validity, effectiveness, and/or binding nature of the offer, including, without limitation, contingencies for financing, due diligence or further bidding approval, including from any board of directors or shareholders, or otherwise. Bids are irrevocable until ten days after the close of the Auction.

If closing such Bid is conditioned on the assumption and assignment of any Contracts or Leases, the Bid must include sufficient information to permit the Court, the Debtors, the Creditors Committee appointed in these chapter 11 cases, and the applicable lessors and contracting parties to determine the proposed assignee's ability to comply with section 365 of the Bankruptcy Code (to the extent applicable), including providing adequate assurance of such assignee's ability to perform in the future (the "Adequate Assurance Package").

Only Qualified Bids will be considered at the Sale, and the Debtors reserve the right to reject any Bid if the Bid, among other things:

- is on terms that are materially more burdensome or conditional than the terms of the Asset Purchase Agreement;
- proposes to purchase items other than the Acquired Assets contemplated by the Asset Purchase Agreement;
- is not received by the Bid Deadline;
- includes noncash consideration; or
- is subject to any financing condition.

To the extent WorldCom increases its bid, it shall be permitted to credit bid two-thirds of such increase in its bid through the WorldCom Claim, and the remainder of such increased bid shall be in cash payable at the same time as the "Fourth Payment" (as identified in the Asset Purchase Agreement). Notwithstanding any provision to the contrary, in no event shall WorldCom be entitled to credit bid an amount greater than the WorldCom Claim, nor shall WorldCom receive on account of its claims in the Debtors' cases an amount greater than the WorldCom Claim.

To the extent that there is a Successful Competing Bidder (the "Winning Bidder"), WorldCom shall be entitled to receive in cash, at Closing, in addition to \$75,000,000, two-thirds of the difference between the Successful Competing Bidders winning bid and \$108,800,000.00 payable at the Closing, in cash, and the remainder shall be turned over to the Debtors' estates.

In the event that a purchaser other than WorldCom is the successful bidder for substantially all of the assets of the Debtors, the Releases and Waivers granted to the Debtors, the Committee, WorldCom, STAR and the STAR Committee and their respective related parties shall remain effective as of the Closing of such sale.

All Bids shall be kept confidential with access restricted to the Debtors, the Committee, and any of their respective professionals. Bids may, however, be revealed to any other party at the option of the Debtors. The Debtors may request additional information from a bidder in order to evaluate the bidder's ability to consummate a transaction and to fulfill its obligations in connection therewith and such bidder shall be obligated to provide such information as a precondition to participating further in the Auction.

9. **THE AUCTION AND SELECTION OF THE WINNING BID OR BIDS**

In the event the Debtors do not receive any Qualified Bids other than a bid from WorldCom, the Debtors shall report this fact to the Bankruptcy Court, the Auction shall not be held, and the Debtors shall proceed to have the sale to WorldCom approved at the Auction and Sale Hearing.

If the Debtors receive any Qualified Bids in addition to the WorldCom bid, an Auction will be conducted at the United States Bankruptcy Court, Eastern District of New York, 75 Clinton Street, Brooklyn, NY 11201, on March 7, 2002 at 10:00 a.m. or such later time, date or other place as the Debtors may notify all Qualified Bidders who have submitted Qualified Bids. All bidders shall appear in person at the Auction, or through a duly authorized representative. If multiple Bids satisfying all Auction requirements are received, each party shall have the right to continue to improve its bid at the Auction. Bidding shall be in minimum monetary increments of \$3,000,000.

After the conclusion of the Auction, and subject to Bankruptcy Court approval following the Auction, the winning bid(s) shall be selected by the Debtors from the Bids (the "Winning Bid(s)"); provided, however, that the Debtors shall have the right to reject any and all Bids, other than WorldCom's Bid.

Immediately subsequent to the Sale Confirmation Hearing (as defined below), the entity or entities that make(s) winning bids shall complete and sign all agreement(s), contract(s), instrument(s)

or other document(s) evidencing and containing the terms and conditions upon which such bid(s) were made.

10. OBJECTIONS

Objections to any relief requested by the Sale Motion, other than as relate to the assumption and assignment of executory contracts and unexpired leases, shall set forth in writing with particularity the grounds for such objections or other statements of position and be served so as to be received by or before *March __, 2002 at 4:00 p.m.* on: (i) the Bankruptcy Court (with a Chambers copy of the Court); (ii) the Office of the United States Trustee, for the Eastern District of New York, 33 Whitehall Street, 21st Floor, New York, NY 10004, Attention: Linda Riffkin, Esq.; (iii) counsel for the Debtors Angel & Frankel, P.C., 460 Park Avenue, New York, NY 10022, Attention: Bruce Frankel, Esq. and Rochelle R. Weisburg, Esq.; (iv) counsel for the Committee, McCarter & English, LLP, 100 Mulberry Street, 4 Gateway Center, Newark, NJ 07102-4096, Attention: Lisa Bonsall, Esq. and Patricia Zohn, Esq.; and (v) counsel for WorldCom, Reed Smith, LLP, 435 Sixth Avenue, Pittsburgh, PA 15219 Attention: Many Emamzadeh, Esq., and Reed Smith, LLP, One River Front Plaza, Newark, NJ 07102, Attention: Deborah A. Reperowitz, Esq. The date and time to file and serve objections that relate to the assumption and assignment of executory contracts and unexpired leases shall be fixed by the Court in the order to be entered approving the sale of the Acquired Assets.

11. COURT APPROVAL

At the conclusion of the Sale the Debtors shall recommend to the Court the highest and best bidder (the "Sale Confirmation Hearing"). The sale(s) of the Acquired Assets is (are) subject to entry of an order of the Bankruptcy Court approving the sale(s) (the "Sale Confirmation Order").

12. CLOSING AND PRE-CLOSING

The Closing of the sale of the Assets to the Winning Bidder(s) shall occur in accordance with the terms of the executed Asset Purchase Agreement within ten (10) days of obtaining all Necessary Approvals, then the Closing shall occur, and in any case provided that no stay pending an appeal, if any, has been entered and further provided that the successful bidder has been found by the court to be a good faith purchaser and entitled to the protections of Section 363(m) of the Bankruptcy Code.

A pre-closing shall occur no later than ten (10) days after the entry of a final Sale Order by the Bankruptcy Court which is not subject to further stay or appeal (provided, however, that Purchaser may elect to close or pre-close as the case may be, the transactions contemplated hereby (despite a pending appeal if no stay thereof is in effect) pursuant to, and in accordance with, the protections offered under 363(m) of the Bankruptcy Code, approving the sale of the Acquired Assets pursuant to the terms and conditions thereon, at which time the Debtors shall deliver the executed and approved Purchase Agreement and any related agreements, including, without limitation, the Management Agreement.

A Pre-Closing shall be deemed to be substantial consummation of the sale affording the Winning Bidder which pre-closes the protections set forth in § 363(m) of the Bankruptcy Code.

The Winning Bidder shall exchange with the Debtors a Management Agreement to manage the business pending the Closing, as more particularly set forth in the Asset Purchase Agreement.

**13. ASSUMPTION AND ASSIGNMENT, OR REJECTION,
OF CONTRACTS AND LEASES**

To the extent any of the executory contracts or unexpired leases are utilized prior to the Closing and shall not be utilized subsequent to the Closing, then a separate motion shall be made rejecting such executory contracts and unexpired leases.

In connection with the Sale Hearing, the Debtors will provide evidence that all requirements for the assumption and/or assignment of the executory contracts and unexpired leases proposed to be assigned to the purchaser of the Acquired Assets will be satisfied. It is an express condition of the proposed Bidding Procedures that Bidders submit as part of their Bids, sufficient financial and other information to assess the Bidder's compliance with section 365 (b)(1)(C) of the Bankruptcy Code. The Debtors will provide all parties to executory contracts and unexpired leases to be assumed and assigned pursuant to the Sale and Procedures Motion with such information and an opportunity to be heard. Thus, the Debtors respectfully submit that by the conclusion of the Sale Hearing, assumption and assignment of the executory contracts and unexpired leases should be approved.

In the event there are any executory contracts or unexpired leases that remain unsold at the conclusion of the Auction, the Debtors reserve the right to request authority at or prior to the Sale Hearing to reject any or all such unsold executory contracts and unexpired leases. Debtors may not reject any executory contracts or unexpired leases before the Closing without the Purchaser's consent. Further, to the extent any executory contract or unexpired leases remain in place during the Management Period than the Winning Bidder, pending the Closing, is obligated to pay such non-debtor parties, with such payments to be included as calculating Aggregate Cash Flow. After conducting the Auction and selling the Acquired Assets, the unsold executory contracts and

unexpired leases may be valueless to the Debtors and would only create an administrative expense burden on the Debtors' estates. Therefore, the Debtors request authority to reject, as of the date of the Sale Hearing, subject to the consent of the Purchaser, some or all executory contracts and unexpired leases they believe to have no value. To the extent any of the executory contracts or unexpired leases are utilized prior to the Closing and shall not be utilized subsequent to the Closing, then a separate motion shall be made rejecting such executory contracts and unexpired leases.

14. MECHANISM FOR FIXING CURE AMOUNTS

Cure amounts required to be paid pursuant to 11 U.S.C. § 365(b)(1) in connection with those executory contracts and leases which are assumed and assigned pursuant to the Asset Purchase Agreement, be fixed within thirty (30) days after the Closing pursuant to agreement between the Debtors and each non-debtor party to such executory contracts or leases. To the extent that an agreement regarding the cure amount cannot be reached between the parties to a particular contract or lease assumed pursuant to the Asset Purchase Agreement, the Debtors shall file a motion with the Bankruptcy Court to fix such cure amounts no later than forty (40) days following the Closing.

15. FAILURE TO CONSUMMATE PURCHASE

If for any reason the entity that makes the highest or best bid fails to consummate the purchase of the Acquired Assets, or any part thereof, the offeror of the second highest or best bid will automatically be deemed to have submitted the highest or best bid and to the extent such offeror and the Debtors consent, the Debtors and such offeror are authorized to effect the sale of the Acquired Assets, or any part thereof, to such offeror as soon as is commercially reasonable without further order of the Bankruptcy Court. If such failure to consummate the purchase is the result of a breach by the winning bidder, the Earnest Money Down Payment shall be forfeited to the Debtors and the Debtors specifically reserve the right to seek all available damages from the defaulting bidder.

All Earnest Money Deposits shall be held by the Debtors, without interest, until such time as the bids are officially rejected by the Debtors. Such deposit shall be forfeited in the event that any bidder for an accepted bid defaults. The Earnest Money Deposit will be forfeited if (i) the bidder is determined to be a Qualified Bidder and withdraws or modifies its bid other than as provided in the Bidding Procedures before the Bankruptcy Court approves the Debtors' selection of the successful Bidder, or (ii) the Bidder is the successful Bidder and (A) modifies or withdraws its Bid without the Debtors' consent before the consummation of the sale contemplated by such Bid, (B) breaches its Bid, or (C) breaches its confidentiality agreement.

16. RETURN OF EARNEST DOWN PAYMENT

After the Sale Confirmation Hearing, if the Winning Bids have been selected and sales of the Assets to Winning Bidder(s) have been approved by the Bankruptcy Court, the Earnest Down Payments of the Qualified Bidders who are not winning bidder(s) shall be returned within five (5) business days.

17. RESERVATION OF RIGHTS; DEADLINE EXTENSIONS

The Debtors reserve the right, subject to court approval, to (i) impose additional terms and conditions at or prior to the Auction, (ii) extend the deadlines set forth in the Auction Procedures and/or adjourn the Auction at the Auction and/or the Sale Confirmation Hearing in open court without further notice, (iii) withdraw from sale any Assets at any time prior to or during the Auction

and to make subsequent attempts to market the same; and (iv) reject all bids, if in the Debtors' reasonable judgment no Bid is for a fair and adequate price.

Dated: New York, New York
January __, 2002

Angel & Frankel, P.C.
Attorneys for PT Communications, Inc., PT-1
Long Distance, Inc., and PT-1 Technologies,
Inc., debtors and debtors-in-possession

By: _____
Bruce Frankel, Esq. (BF-5001)
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(212) 752-8000

EXHIBIT "G"



RFC Capital

Division of Textron Financial Corporation

Receivables Sale Agreement

DISCUSSION TERM SHEET

Facility: Post-Petition, Debtor-in-Possession Receivables Sale Agreement

Purchaser/Master Servicer: RFC Capital Corporation or affiliate ("RFC")

Seller/Subservicer: PT-1 Communications, Inc. and affiliates ("PT-1")

Purchase Commitment: Initial maximum Purchase Commitment amount of \$22,800,000, reduced to \$10,400,000 after three months from closing date.

Eligible Receivables Amount: Purchaser in its sole discretion will purchase eligible billed accounts receivable expected to be collected within 90 days of invoice. Purchaser shall have the right to verify invoices in a manner acceptable to Seller.

To determine the Eligible Receivables Amount, Purchaser will multiply the gross amounts of eligible billed receivables presented by Seller by the percentage expected to collect within 90 days of invoice ("Gross Liquidation Rate" or "GLR").

Barring a material adverse change in the collection performance of the receivables, the initial GLR for billed accounts receivable will be TBD%. Thereafter, Purchaser shall determine the GLR based on actual performance of the receivables. Accounts Receivable from any single Payor shall not exceed five percent (5.00%) of the aggregate outstanding balance under the Facility (or "Net Value") or \$15,000, unless approved in writing by Purchaser.

Purchase Price/Net Value: 90.00% of the Eligible Receivables Amount.

Cash Reserve: 5.00% of the aggregate outstanding Net Value as of any Purchase Date, netted from Purchase Price. This "Seller Credit Reserve" shall be used to reimburse Purchaser for payment defaults on Purchased Receivables.

Upon Termination of the Facility and Purchaser's determination that Seller has met all of its obligations to Purchaser, any remaining balances in the Seller Credit Reserve shall be returned to the Seller.

Excess Collections: Collections in excess of Purchase Price/Net Value shall be returned to Seller after the payment by Seller of all obligations due to Purchaser.

Program Fee: The greater of a) the Prime Rate plus two percent (2.00%) per annum, to be adjusted for changes in the Prime Rate subsequent to issuance of this proposal, applied weekly to the aggregate outstanding Net Value of

all Purchased Receivables or b) \$10,000 per month. "Prime Rate" means the lending rate designated as the "Prime Rate" set forth in the Money Rates section of The Wall Street Journal, Midwest Edition.

- Commitment Fee:** Seller shall be obligated to pay Purchaser a commitment fee upon the Closing Date in an amount equal to the sum of one percent (1.00%) of the Purchase Commitment.
- Servicing:** Purchaser, in its capacity as Master Servicer, shall appoint Seller to act as Subservicer on its behalf for the purchased receivables.
- Term/Termination:** Excluding a Default or Termination Event, the earlier of: 1) the six-month anniversary of closing; 2) confirmation of a Chapter 11 Plan of Reorganization in connection with any Chapter 11 proceeding, unless substantially all the assets are sold to an entity acceptable to Purchaser and the Facility is assigned and assumed by such entity; 3) conversion of a Borrower's Chapter 11 proceeding to a Chapter 7 proceeding, unless substantially all the assets are sold to an entity acceptable to Purchaser and the Facility is assigned and assumed by such entity; 4) the entry of an order or similar finding by the Bankruptcy Court, the result of which is to entirely dismiss, suspend, or otherwise terminate the relief requested in connection with any Chapter 11 proceeding, unless substantially all the assets are sold to an entity acceptable to Purchaser and the Facility is assigned and assumed by such entity or 5) the entry of an order or similar finding by the Bankruptcy Court appointing a trustee or examiner in connection with any Chapter 11 proceeding, unless substantially all the assets are sold to an entity acceptable to Purchaser and the Facility is assigned and assumed by such entity.
- Termination Fee:** In the event of voluntary termination, two percent (2.00%) of the Purchase Commitment. Four percent (4.00%) of the Purchase Commitment in the event of Seller default.
- Guaranty:** None
- Receivable Proceeds:** Upon closing of the Facility, Seller shall direct each of its payors to forward all payments related to all receivables to accounts, including but not limited to lockbox accounts, designated by and assigned to Purchaser.
- Further, in the event that Seller has not already done so, Seller shall establish a lockbox relationship with a provider acceptable to Purchaser and commence depositing all collections into the lockbox account prior to Purchaser's initial funding.
- Security Interest:** The sale shall be perfected by the filing of UCC-1 Financing Statements per the Uniform Commercial Code. Seller shall grant a first priority security interest to Purchaser in all accounts receivable, and all attendant rights, title and contracts associated therewith, including but

not limited to Seller's customer base, to secure the payment of all amounts due to Purchaser and all deposit accounts related thereto.

Assignment and Assumption: Upon emergence from Chapter 11 bankruptcy and approval by Purchaser, the Facility may be assigned and assumed by an entity acceptable to Purchaser.

Documentation: The Facility shall be evidenced and secured by Purchaser's standard form of Receivables Sale Agreement, and other documentation containing conditions precedent, warranties and representations, covenants, events of default, indemnities, notices to payors and other provisions customary for transactions similar to the Facility, all in form and substance satisfactory to the Purchaser.

Conditions Precedent: Additionally, Purchaser's obligations under this letter shall be contingent upon:

- a) The satisfactory results, in Purchaser's sole discretion, of a full due diligence review of issues including, but not limited to, Seller's ownership and management, operations, financial condition and strategic plan.
- b) A determination, in Purchaser's sole discretion, that Seller is in compliance with any and all regulatory and administrative requirements which will include, but not be limited to, compliance with any and all tax obligations.
- c) Purchaser's receipt of personal background checks on certain of Seller's shareholders, directors or managers, the results of which are acceptable to Purchaser, in its sole determination.
- d) Purchaser's receipt of documentation, satisfactory in Purchaser's sole discretion, that the existing Lender's will release any and all liens on accounts receivable and customer base and they will refinance the remaining term debt not paid by proceeds of the proposed facility.
- e) Authorization by bankruptcy court for Seller to enter into the Facility.
- f) Approval by bankruptcy court of the Facility.
- g) Full due diligence review and approval by Purchaser of entity proposing to assume the Facility.
- h) HBS/ACI ("Clearinghouse") shall grant Purchaser a security interest in LEC accounts related to CDRs generated by Seller and transferred to Clearinghouse for processing and in the deposit accounts of Clearinghouse related thereto.

**Financial Statements/
Reporting:**

Within 30 days of the end of each month, the Seller shall prepare and deliver to the Purchaser internally-prepared monthly financial statements certified as correct by the chief executive officer or chief financial officer.

Within 90 days of the close of each fiscal year, the Seller shall provide the Purchaser with internally prepared financial statements prepared by an accounting firm acceptable to Purchaser.

Seller shall also provide to Purchaser any and all other information which Purchaser reasonably may request, and allow Purchaser access to Seller's facilities, books and records.

- Application Fee:** \$25,000, non-refundable. Unless, in the event the Facility closes within two months from issuance of the Discussion Term Sheet, the Application Fee shall be credited to the Commitment Fee.
- Legal Fee and Audit Deposit:** \$25,000.
- Post Closing Field Audits:** Unless an event of Seller default occurs, Purchaser may conduct quarterly field audits of Seller. All Costs and Expenses of such audits to be paid by Seller.
- Costs and Expenses:** All costs associated with the Facility, including, without limitation audit fees, banking fees, legal fees, search and filing fees and expenses incurred by the Purchaser before and after closing, shall be paid by the Seller.
- Closing:** Closing of the Facility will occur no later than March 15, 2002 or on such date that is mutually satisfactory to the Seller and Purchaser, and shall occur at the offices of Purchaser's counsel in Columbus, Ohio.
- Failure to Close:** In the event that Seller decides not to close the Facility following written acceptance of this letter, then Seller shall reimburse Purchaser for its audit fees, legal fees, search and filing fees and other out-of-pocket expenses incurred by the Purchaser in conjunction with preparing for the closing.
- Confidentiality:** This letter is delivered to the Seller with the understanding that neither it nor its substance shall be disclosed to any third party except those who are in confidential relationships with the Seller in connection with the proposed transaction, such as the Seller's legal counsel or where disclosure is required by applicable law.