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UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF KENTUCKY
LOUISVILLE DIVISION

IN RE:)	CHAPTER 11
LIGHTYEAR HOLDINGS, INC., ET AL.,)	CASE NO. 02-32257
DEBTORS.)	JOINTLY ADMINISTERED
)	HON. DAVID T. STOSBERG

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COMMISSIONER
COURT

ORDER: (A) ESTABLISHING AUCTION PROCEDURES TO SELL SUBSTANTIALLY ALL OF THE DEBTORS' ASSETS AND TO ASSUME AND ASSIGN CERTAIN OF THE DEBTORS' EXECUTORY CONTRACTS AND UNEXPIRED LEASES; (B) SETTING SALE HEARING DATE; AND (C) APPROVING FORM OF NOTICE

THIS MATTER is before the Court on DEBTORS' MOTION FOR ORDER: (A) ESTABLISHING AUCTION PROCEDURES TO SELL SUBSTANTIALLY ALL OF THE DEBTORS' ASSETS AND TO ASSUME AND ASSIGN CERTAIN OF THE DEBTORS' EXECUTORY CONTRACTS AND UNEXPIRED LEASES, (B) SETTING SALE HEARING DATE; AND (C) APPROVING FORM OF NOTICE, dated June 20, 2003 (the "Bid Procedures Motion") filed by LIGHTYEAR COMMUNICATIONS, INC., LIGHTYEAR TELECOMMUNICATIONS LLC, AND LIGHTYEAR COMMUNICATIONS OF VIRGINIA, INC., debtors and debtors possession (collectively, the "Debtors"), the Bid Procedures Motion having been served upon (i) the United States Trustee; (ii) the Debtors' postpetition secured lenders and their counsel; (iii) counsel for LY Acquisition; (iv) counsel for MCI/Worldcom; (v) counsel for the Official Committee of Unsecured Creditors of Lightyear Holdings, Inc. (the "Committee"); (vii) the members of the Official Committee of Unsecured Creditors of Lightyear Telecommunications, LLC; (viii) the top-twenty unsecured creditors in the Lightyear Communications, Inc. and Lightyear Communications of Virginia, Inc. chapter 11 cases; (ix) those parties requesting notice in these chapter 11 cases; and (x) all entities known to the Debtors to have expressed an

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interest in the Purchased Assets and their counsel, if known to the Debtors; objections having been filed by the Official Committee of Unsecured Creditors in the Lightyear Holdings, Inc. chapter 11 case (the "Committee Objection") and Stuart J. Frankenthal (the "Frankenthal Objection"); the Court having considered the files and records herein and having heard statements of the parties and/or their counsel at the hearing held to consider the Bid Procedures Motion conducted on August 4, 2003 (the "Bid Procedures Hearing"); and good cause appearing therefor,

NOW THEREFORE, THE COURT HEREBY FINDS THAT:

1. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334;
2. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2);
3. Notice of the Bid Procedures Motion having been given as described above, is sufficient and proper under the circumstances;
4. On June 12, 2003, the Debtors and LY Acquisition LLC, a Kentucky limited liability company ("LY Acquisition") entered into a term sheet (the "Term Sheet") for the sale (the "Sale") of substantially all of the assets of the Debtors (the "Purchased Assets") and the assumption and assignment of certain of the Debtors' executory contracts and unexpired leases (the "Assumed Contracts and Leases").
5. On July 30, 2003, the Debtors and LY Acquisition entered into a definitive asset purchase agreement (the "Purchase Agreement") for the Sale of the Purchased Assets and the assumption and assignment of the Assumed Contracts and Leases. A true and correct copy of the Purchase Agreement was filed with this Court on July 30, 2003.
6. Contemporaneously with the filing of the Bid Procedures Motion, the Debtors filed a Motion for Order: (A) Authorizing the Sale of Assets Pursuant to 11 U.S.C. § 363(b), (f) and (m) and (B) Authorizing the Assumption and Assignment of Executory Contracts and Unexpired Leases Pursuant to 11 U.S.C. § 365 (the "Sale Motion").

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

- A. The Bid Procedures Motion is approved in its entirety, except as modified herein.
- B. The Committee Objection and the Frankenthal Objection, and all objections raised at the Bid Procedures Hearing, are hereby overruled.
- C. The Sale Notice attached as Exhibit B to the Bid Procedures Motion: (a) is hereby approved, as modified by this Order; and (b) shall be served within three (3) business days following entry of this Order, to (i) the United States Trustee; (ii) U.S. Bank, National Association and Deutsche Bank AG New York Branch and/or Cayman Islands Branch, the Debtors' postpetition secured lenders (the "Banks") and their counsel; (iii) counsel for LY Acquisition; (iv) counsel for MCI/Worldcom; (v) counsel for the Official Committee of Unsecured Creditors of Lightyear Holdings, Inc.; (vii) the members of the Official Committees of Unsecured Creditors of Lightyear Telecommunications, LLC; (viii) the top-twenty unsecured creditors in the Lightyear Communications, Inc. and Lightyear Communications of Virginia, Inc. chapter 11 cases; (ix) those parties requesting notice in these chapter 11 cases; (x) all entities known to the Debtors to have expressed an interest in the Purchased Assets and their counsel, if known to the Debtors; (xi) all taxing authorities with jurisdiction over the Purchased Assets; and (xii) Stuart J. Frankenthal and his counsel.
- D. The Debtors shall advertise the Auction (as hereinafter defined) on bankruptcsales.com beginning no later than three (3) business days after entry of this Order and continuing through the date of the Auction (hereafter defined).

- E. The Debtors will post copies of the Sale Motion, the Bid Procedures Motion, the Purchase Agreement, this Order, the Sale Notice and all other related pleadings and agreements on the following website: www.fbtextra.com/LY.
- F. The Debtors shall conduct an auction (the "Auction") pursuant to the terms of this Order at the offices of Frost Brown Todd LLC, 400 West Market Street, 32nd Floor, Louisville, KY 40202-3363, commencing at 10:00 a.m. (Eastern Standard Time) on October 14, 2003.
- G. Only "Qualified Bidders" will be permitted to bid for the Purchased Assets. To constitute a Qualified Bidder, no later than three (3) business days prior to the Auction, an individual or entity will be required to: (i) submit a competing bid (a "Competing Bid") for the purchase of the Purchased Assets in writing to (a) counsel for the Debtors at Frost Brown Todd LLC, 2200 PNC Center, 201 East Fifth Street, Cincinnati, Ohio 45202, Attn: Ronald E. Gold; (b) counsel for LY Acquisition at Sawyer & Glancy PLLC, 3120 Wall Street, Suite 310, Lexington, Kentucky 40513, Attn: Robert V. Sartin; (c) counsel for U.S. Bank and Deutsche Bank, Bingham McCutchen LLP, One State Street, Hartford, Connecticut 06103-3178, Attn: Robert Dombroff and Mark Fucci; and (d) counsel for the Committee, Fleischman and Walsh LLP, 1400 Sixteenth Avenue, N.W., Washington D.C. 20036, Attn: Lawrence R. Freedman (ii) deposit with counsel for the Debtors a good faith earnest money deposit equal to \$2,000,000 (each, a "Deposit" and collectively, the "Deposits") on the terms set forth below; (iii) provide the Debtors, and each of the parties set forth above, with evidence that it has the financial ability to pay the balance of the purchase price in cash at closing and obtain the necessary regulatory approval to approve the transactions; and (iv) submit to the

Debtors, and each of the parties set forth above, a purchase agreement substantially similar to the Purchase Agreement, marked to show any modifications made to the Purchase Agreement, including the amount of consideration, the name of purchaser, and other conforming changes that must be made to reflect the purchaser and its bid, and such bid must not be subject to due diligence review, board approval, obtaining financing, or the receipt of any non-governmental consents.

- H. The Deposits will be held in escrow in a segregated, interest bearing account at the Louisville, Kentucky branch of U.S. Bank, National Association.
- I. Review of Competing Bids, selection of Qualified Bids, and recommendations to this Court of the highest and best bid following the Auction will be made jointly by the Debtors, the Committee and the Banks.
- J. Mr. Alan J. Glazer, of Morris Anderson & Associates Ltd., the Debtors' Chief Restructuring Manager, and John J. Greive, the Debtors' General Counsel and Vice President of Regulatory Affairs, will review on behalf of the Debtors Competing Bids, select Qualified Bids, and make recommendations to the Court of the highest and best bid following the Auction. Mr. J. Sherman Henderson, III, President of the Debtors ("Mr. Henderson"), will not participate in the review of the Competing Bids, the selection of Qualified Bids, or the recommendation to this Court of the highest and best bid following the Auction. However, Mr. Henderson may participate in the Auction and the Sale to the extent necessary to assist interested parties in conducting their due diligence review of the Debtors or otherwise so as to further the goal of obtaining the highest and best bid for the Purchased Assets.

- K. The Committee may select, in its discretion, a third-party to review on behalf of the Committee or to assist the Committee in reviewing Competing Bids, selecting Qualified Bids, and making recommendations to the Court of the highest and best bid following the Auction.
- L. The Banks may select, in their discretion, a third-party to review on behalf of the Banks or to assist the Banks in reviewing Competing Bids, designating Qualified Bids, and making recommendations to the Court of the highest and best bid following the Auction.
- M. If any Competing Bidder is unable to satisfy the Debtors, the Committee, and the Banks prior to the Auction of its ability to close the purchase of the Purchased Assets in accordance with the Purchase Agreement, such individual or entity will not be permitted to bid at the Auction. Bids that do not conform to the terms of the Purchase Agreement and/or the procedures set forth in the Bid Procedures Motion will not be accepted for bidding at the Auction.
- N. LY Acquisition is deemed to be a Qualified Bidder.
- O. The full amount of the Deposit required hereunder will be payable by cashier's or certified check or wire transfer of immediately available funds and must accompany each bid. All Deposits will be held in escrow in a segregated, interest bearing account at U.S. Bank, National Association in Louisville, Kentucky.
- P. Upon the closing of the Sale of the Purchased Assets, the Deposit submitted by the successful bidder at the Auction and the Sale Hearing shall be applied toward the Purchase Price, in accordance with the terms of the Purchase Agreement and this Order. The Deposit submitted by each unsuccessful bidder at the Auction will be returned to the applicable unsuccessful bidder as

soon as reasonably practicable upon the earlier of (a) the closing of the sale of the Purchased Assets to the winning bidder or (b) at such time as such bids are no longer binding pursuant to the Bidding Procedures as approved by this Court or (c) the Initial Closing.

- Q. Any opening competing bid (a "Competing Bid") from a Qualified Bidder must exceed the Purchase Price by at least \$750,000 cash.
- R. Subsequent bidding will be in \$200,000 cash increments; provided, however, that no bid can be of the same amount as any other bid.
- S. The Purchased Assets will be sold to the Qualified Bidder submitting the highest and best bid in accordance with the terms of the Purchase Agreement, as recommended by the Debtors, the Committee, and the Banks to the Court which shall make the final determination as to which Qualified Bidder (including LY Acquisition) has submitted the highest and best bid.
- T. In the event a Competing Bidder is the winning bidder (as approved by this Court), and such winning bidder fails to consummate the proposed transaction by the Initial Closing for any reason, the Debtors, shall: (i) retain (except as otherwise agreed with LY Acquisition), and pay to the Banks, if amounts are still outstanding under the DIP Loan Facility, such bidder's Deposit (but not as liquidated damages), and the Debtors reserve the right to pursue all available remedies, whether legal or equitable, available to it against said party; and (ii) be free to consummate the proposed sale of the Purchased Assets with the next highest and best bidder at the final price bid by such Competing Bidder at the Auction (or, if that Competing Bidder is unable to consummate the purchase of the Assets at that price, the Debtors may consummate the transaction with the next highest and best Competing

Bidder, and so forth) without the need for an additional hearing or order of this Court.

- U. Disputes, if any, between the Debtors, the Committee, and/or the Banks over the selection of Qualified Bidders will be resolved by this Court prior to the Auction. Disputes, if any, between the Debtors, the Committee, and/or the Banks over the determination of the highest and best offer following the Auction will be resolved by this Court at the Sale Hearing.
- V. All bids are irrevocable until the earlier to occur of (i) the Initial Closing of the sale of the Purchased Assets, or (ii) sixty (60) days following the last date of the Auction (as may be adjourned).
- W. Any Competing Bidders presenting a Competing Bid shall bear their own expenses in connection with the sale of the Assets, as the case may be, whether or not such sale is ultimately approved.
- X. The Debtors will provide access to their books and records and, upon reasonable notice, to interested persons for the purpose of conducting due diligence, provided that such persons (i) execute a written confidentiality agreement, including a non-solicitation provision prohibiting the solicitation of the current employees or customers of the Debtors, and (ii) provide evidence acceptable to the Debtors that such person has the present ability to fund a bid to purchase the Purchased Assets. All due diligence of all potential bidders must be completed before the Auction. In addition, prior to the Auction, the Debtors will meet at the Debtors' Louisville, Kentucky headquarters or at such other location as agreed to by the Debtors to discuss with prospective bidders, that request such a meeting in writing, the elements of the Purchase Price and the Purchased Assets.

- Y. In consideration of the substantial time and expense to be incurred by LY Acquisition during the due diligence and negotiating process, if a Termination Event (as defined in the Purchase Agreement) occurs after approval of the Procedures Order, other than approval by this Court of the Sale to a Competing Bidder or a Termination Event based on a material breach of the Purchase Agreement by LY Acquisition resulting in the failure to consummate the purchase of the Purchased Assets, LY Acquisition shall be entitled to receive an amount from the Debtors equal to its actual and documented reasonable out of pocket expenses incurred in negotiating and documenting the transactions contemplated by the Purchase Agreement, including all reasonable expenses of its professionals and consultants (the "Expense Reimbursement") in an amount not to exceed \$350,000. The Expense Reimbursement shall be (i) paid within five (5) business days following the Termination Event and (ii) entitled to administrative expense claim status under 11 U.S.C. §§ 503(b)(1)(A) and 507(a)(1).
- Z. In the alternative, if the Purchase Agreement is terminated because of the consummation of the Sale to a Competing Bidder, then, in addition to the return of LY Acquisition's Deposit, LY Acquisition shall be entitled to receive from the Debtors a payment in an amount equal to \$500,000 (the "Break-Up Fee"). Such Break-Up Fee shall be paid from the Deposit of the Competing Bidder submitting the highest and best bid as determined by the Debtors, the Committee and the Banks and approved by this Court within five (5) business days following the Initial Closing without the requirement of any notice or demand from LY Acquisition. LY Acquisition will not be entitled to a Break-Up Fee in the event the contemplated transactions are not concluded as a result of a breach of the Purchase Agreement by LY Acquisition. In no event will LY

Acquisition be entitled to receive both an Expense Reimbursement and a Break-Up Fee.

AA. Within five (5) business days after the date of entry of this Order, the Debtors shall file and serve upon all parties to the Debtors' executory contracts and unexpired leases (i) a copy of the Sale Notice; and (ii) a schedule of the Debtors' calculation of the amount that the Debtors believe must be paid to cure all defaults under each of the Debtors' executory contracts and unexpired leases (the "Cure Amounts"). Objections to the scheduled Cure Amounts must be filed with this Court and served upon counsel for the Debtors, Ronald E. Gold, Frost Brown Todd LLC, 2200 PNC Center, 201 East Fifth Street, Cincinnati, Ohio 45202, on or before three (3) business days prior to the Sale Hearing. Any party who fails to timely file and properly serve an objection to the scheduled Cure Amount shall be forever barred from objecting to the Cure Amount, and from asserting any additional cure or other amounts with respect to its executory contract or unexpired lease, and the Debtors will be entitled to rely solely upon the Cure Amounts. Any objections to a scheduled Cure Amount shall be heard at the Sale Hearing.

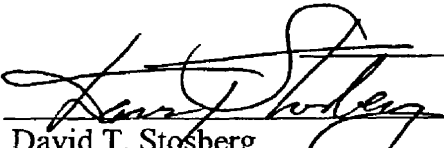
BB. The Cure Amounts scheduled shall be deemed to include any such actual or pecuniary losses from an existing default, if any, under the executory contract or unexpired lease. The amounts necessary to pay the Cure Amounts as scheduled or determined by this Court will compensate or provide adequate assurance that the appropriate party will be compensated for any such actual or pecuniary loss.

CC. Objections to the relief requested in the Sale Motion must: (i) be in writing and filed with the Court and served upon (such as to be received by) the following on or before October 15, 2003 at 4 p.m. (EST): (1) counsel for the

Debtors, Frost Brown Todd LLC, 2200 PNC Center, 201 East Fifth Street, Cincinnati, Ohio 45202, Attn: Ronald E. Gold; (2) counsel for LY Acquisition, Sawyer & Glancy PLLC, 3120 Wall Street, Suite 310, Lexington, Kentucky 40513, Attn: Robert V. Sartin; (3) counsel for U.S. Bank and Deutsche Bank, Bingham McCutchen LLP, One State Street, Hartford, Connecticut 06103-3178, Attn: Robert Dombroff and Mark Fucci; (4) counsel for the Official Committee of Unsecured Creditors in the Holdings' case, Fleischman and Walsh LLP, 1400 Sixteenth Avenue, N.W., Washington D.C. 20036, Attn: Lawrence R. Freedman; and (5) the Office of the United States Trustee, Joseph J. Golden, United States Trustee, 512 Gene Snyder Courthouse, 601 West Broadway, Louisville, Kentucky 40202; (ii) comply with the Bankruptcy Rules and the Local Bankruptcy Rules of this Court; and (iii) set forth the names of the objector and the nature and the amount of any claim or interest alleged by such objector against the Debtors' estates or property. All timely filed objections to the Sale Motion must be presented to the Court at the Sale Hearing.

DD. October 20, 2003 at 10:00 a.m. (EST) shall be the time and date for a hearing on the Sale and such other matters as may then properly come before this Court (the "Sale Hearing"). The Debtors shall report to this Court, the Banks, the Committee, and all Qualified Bidders the results of the Auction as well as the recommendation of the Debtors, the Banks and the Committee as to which of the bids represents the highest and best value to their estates. If the Court authorizes the sale of the Purchased Assets and the Assumed Contracts and Leases, the Sale shall be closed in accordance with the terms of the Purchase Agreement.

August 18, 2003


David T. Stosberg
United States Bankruptcy Judge