

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)	Chapter 11
)	
GENUITY, INC., et al.,)	Case No. 02-43558 (PCB)
)	
Debtors)	Jointly Administered
)	

**APPLICATION BY AP SERVICES, LLC
FOR APPROVAL AND PAYMENT OF INCENTIVE FEES**

AP Services, LLC (“APS”), crisis managers to the debtors and debtors-in-possession in the above referenced chapter 11 cases (collectively, the “Debtors”), makes this application for approval and payment of incentive fees for professional services rendered and states:

Summary of Incentive Compensation Request

1. APS has served as crisis managers to the Debtors pursuant to an Order entered by this Court on March 20, 2002 (the “Retention Order”), a copy of which is attached hereto as Exhibit B. The Retention Order approved the engagement letter between APS and the Debtors (the “Engagement Letter”), a copy of which is attached hereto as Exhibit C. According to the terms of the Engagement Letter, the Debtors are authorized to a) compensate APS on an hourly basis for services rendered, b) reimburse APS for actual and necessary expenses incurred, and c) provide to APS an incentive fee (the “Incentive Fees”) whose terms are further described in the Engagement Letter.

2. Throughout the cases, APS has been paid hourly fees and reimbursed for expenses for each monthly period and has filed all quarterly fee statements relating to these fees and expenses as outlined in the Retention Order. Under the Retention Order, APS is required to file an application with the Court in order to receive the Incentive Fees from the Debtors.

3. On December 9, 2003 APS informed Kramer Levin Naftalis & Frankel LLP (“Kramer Levin”), Counsel to the Unsecured Creditors Committee, and Debtors’ Oversight Committee (the “Oversight Committee”) that APS had earned Incentive Fees totaling \$1,200,000 based upon a distribution made on December 2, 2003.

4. On January 15, 2004 APS informed Kramer Levin and the Oversight Committee that APS had earned an additional \$200,000 based on distributions made between December 3, 2003 and December 23, 2003.

5. APS acknowledges that, according to the Retention Order, Incentive Fees paid and payable are subject to application to and approval by this Court based on a “reasonableness” standard. By this Application, APS seeks approval of Incentive Fees totaling \$1,400,000 as calculated below.

Calculation of The Incentive Fees

6. Under the terms of the Engagement Letter, the Debtors agreed to pay APS Incentive Fees equal to the sum of the following.

- a. An Incentive Fee of \$500,000 will be paid if a distribution is made by November 30, 2003 and the distribution percentage is no less than 7.5% of the allowed creditors’ claims (the “Allowed Creditors’ Claims”). Even if the November 30, 2003 date is not met, the \$500,000 amount contemplated herein will be paid provided that the distribution percentage is greater than 14% of Allowed Creditors’ Claims.
- b. An additional \$500,000 will be paid if a distribution percentage is no less than 14% of Allowed Creditors’ Claims and the distribution is made by February 29, 2004.

- c. An additional \$125,000 will be paid once the cases are closed provided that aggregate distributions to creditors are no less than 17.5% of Allowed Creditors' Claims. An additional \$100,000 will be paid for each percentage point of distribution percentage above 17.50% of Allowed Creditors' Claims.
7. APS made cumulative cash distributions of \$745,638,189 consisting of a cash distribution of \$695,340,904 made on December 2, 2003 and cash distributions of \$50,597,285 made between December 3, 2003 and December 23, 2003.
8. The total Allowed Creditors' Claims in these cases totaled \$3,446,888,745 consisting of (i) Bank debt of \$1,677,248,349, (ii) Verizon Debt of \$1,169,116,458, (iii) BBN bonds of \$7,802,850 and (iv) allowed/reserved unsecured claims of \$600,523,948.
9. APS' distribution percentage for purposes of calculating Incentive Fees is 21.6% of Allowed Creditors' Claims (\$745,638,189 divided by \$3,446,888,745)
10. As a result of the above cash distributions as a percentage of Allowed Creditors' Claims, APS seeks approval and payment of Incentive Fees totaling \$1,400,000 based upon the following:
 - a. An Incentive Fee of \$500,000 based on a distribution percentage in excess of 14% of Allowed Creditors' Claims,
 - b. an additional \$500,000 based on distributions made before February 29, 2004 and a distribution percentage in excess of 14% of Allowed Creditors' Claims and,
 - c. An additional \$400,000 calculated as \$100,000 for each percentage point of distribution percentage in excess of 17.5% of Allowed Creditors' Claims.
11. APS acknowledges that \$1,200,000 of Incentive Fees were approved by the Oversight Committee and paid by the Debtors on December 12, 2003 are subject to approval

from this Court. By submitting this Application, APS seeks approval of the \$1,200,000 portion of Incentive Fees already paid to APS.

12. In addition, by submitting this Application, APS also seeks authorization for the Debtors to pay APS an additional \$200,000 in Incentive Fees and approval of the same.

Fee Enhancements Often Required by Restructuring Firms

13. Fee Enhancements for lawyers and accountants are rarely sought and rarely granted. However, APS is neither a law firm nor an accounting firm. On the contrary, APS among other things is a firm that specializes in supplying senior executives on an interim basis to financially troubled companies. Unlike law firms and accounting firms, success fees are a normal part of compensation for firms such as turnaround firms, management restructure consulting firms, and investment banking firms. As the Bankruptcy court for the Southern District of Ohio held, *In re Cardinal Indus., Inc.*, 151 B.R. 843 (Bankr. S.D. Ohio 1993) (Chapter 11 operating trustee awarded a fee of \$2.1 million plus a success fee of 50,000 shares of stock):

[P]erformance-based or success-factor bonuses are a normal part of compensation arrangements for management restructure consultants and ... such bonuses generally far exceed the time value of the consultant's services on a lodestar basis. Indeed, the time value component is referred to as the base salary, apparently payable to the consultant even if success is not achieved.

In re Cardinal Indus., Inc., 151 B.R. at 847

14. As the accompanying Declaration of Meade Monger shows, AlixPartners (as well as other turnaround firms) regularly receive success fees from both inside and outside of bankruptcy cases. When Congress passed the Bankruptcy Reform Act of 1978, it decided to remove the "spirit of frugality" as a factor in bankruptcy professional fees. The standard is now the cost of comparable services in a non-bankruptcy setting.

15. Other reported decisions awarding success fees to firms that were not law firms or accounting firms include *Kaufman v. Sand C Corp.*, 171 B.R. 38 (S.D. Texas 1994) (management company that operated hotel entitled to a success fee of \$212,417 for fiscal year 1992); *In re Intelogic Trace, Inc.*, 188 B.R. 557 (Bankr. W.D. Texas 1995) (awarding consultant a success fee of \$77,500 based on a percentage of the sale price of debtor's assets plus hourly fees of \$24,880 based on a rate of \$200 per hour); *In the matter of Chicago, Milwaukee, St. Paul and Pacific Railroad Co.*, 841 F.2d 789 (7th Cir. 1988) (investment banking firm awarded \$1 million success fee).

16. Success fees are a normal part of compensation for firms such as turnaround firms, management restructure consulting firms, and investment banking firms. Therefore, this court should approve APS' request for payment of incentive fees for professional services rendered in the amount of \$1,400,000

Jurisdiction

17. This Court has jurisdiction over this Motion under 28 U.S.C. § 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2)(A), (M) and (O). The statutory bases for the relief requested herein are sections 105(a) and 365 of title 11 of the United States Code (the "Bankruptcy Code").

Relief Requested

18. By this Application, APS seeks approval of the Court for the allowance of \$1,200,000 in incentive compensation, which is applied for under the terms of the Employment Agreement, and the Retention Order.

19. In addition, by this Application, APS also seeks authorization and approval for the Debtors to pay APS an additional \$200,000 in Incentive Fees.

No Prior Request

20. No prior Motion for the relief requested herein has been made to this or any other Court.

Notice

21. Notice of this Motion has been given to (i) the Office of the United States Trustee, (ii) counsel to the Prepetition Lenders, (iii) counsel to the Official Committee of Unsecured Creditors and (iv) those parties that requested papers under Bankruptcy Rule 2002.

WHEREFORE, APS seeks an order consistent with the attached Proposed Order granting the relief requested herein.

Dated: February 24, 2004

SHELDON S. TOLL PLLC
Attorneys for AP Services, LLC

By: /s/ Sheldon S. Toll
Sheldon S. Toll (P-21490)
2000 Town Center, Suite 2550
Southfield, MI 48075
(248) 358-2460

EXHIBIT A
(Declaration of Meade Monger)

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)	Chapter 11
)	
GENUITY, INC., et al.,)	Case No. 02-43558 (PCB)
)	
Debtors)	Jointly Administered

**DECLARATION OF MEADE MONGER IN SUPPORT OF
THE APPLICATION BY AP SERVICES, LLC
FOR APPROVAL AND PAYMENT OF INCENTIVE FEES**

MEADE MONGER makes this declaration pursuant to 28 U.S.C. sec. 1746, and states:

1. I am associated with AP Services, LLC (“APS”), which has as its principal place of business 2000 Town Center Drive, Suite 2400, Southfield, MI 48075. APS specializes in, among other things, supplying senior executives on an interim basis to financially troubled companies. APS is an affiliate of AlixPartners, LLC, AlixPartners Ltd., AlixPartners GmbH and AlixPartners S.r.l., (herein collectively “AlixPartners”) internationally recognized restructuring and turnaround advisory and consulting firms; The System Advisory Group, an information technology consulting firm; Partnership Services, LLC, a company that provides temporary employees; and the Questor entities, which are private equity funds. I am a principal of AlixPartners, LLC.

2. I submit this Declaration in support of the application (the “Application”) by APS for approval and payment of Incentive Fees. I have personal knowledge of the facts recited herein, and, if called as a witness, I am competent to testify thereto.

3. On March 20, 2002, APS this Court entered an order authorizing the Debtors to employ and retain APS as an independent contractor to provide temporary employees to perform

management and administration services *nunc pro tunc* to January 8, 2003. I was a member of the engagement team that worked on Debtors' cases.

4. The services of APS were important to the effective administration of the estate and recovery of value to certain parties in interest. Namely, APS' services in these cases were essential in maximizing the Allowed Creditors' Claims as defined in the Engagement Letter and the Application.¹ The distributions made with respect to the Allowed Creditors' Claims are the basis for the Incentive Fees sought herein.

5. In addition to time charges, success fees are a normal part of compensation for firms such as turnaround firms and management restructure consulting firms. Prior to accepting the engagement with Debtors, AlixPartners priced the engagement, negotiated the success fee as part of its total compensation package, and took the success fee into account in accepting the work from Debtors in a busy market.

I declare under penalty of perjury under the laws of the United States of America that, to the best of my knowledge and after reasonable inquiry, the foregoing is true and correct.

Dated: March 1, 2004

/s/Meade Monger

Meade Monger

¹ Certain capitalized terms are defined in the Application and incorporated by reference herein.

EXHIBIT B
(Signed Order)

Docket Item # 673

Date Entered: 03/21/03

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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:
In re : Chapter 11
:
GENUITY INC., et al., : Case No. 02-43558 (PCB)
:
Debtors. : (Jointly Administered)
:
----- X

ORDER AUTHORIZING THE DEBTORS TO ENTER INTO AN AGREEMENT TO EMPLOY AP SERVICES, LLC AS AN INDEPENDENT CONTRACTOR TO PROVIDE TEMPORARY EMPLOYEES TO PERFORM MANAGEMENT AND ADMINISTRATION SERVICES FOR THE DEBTORS AND DEBTORS-IN-POSSESSION NUNC PRO TUNC TO JANUARY 8, 2003

Upon the motion, dated February 28, 2003 (the "Motion"),¹ of the above-captioned debtors and debtors-in-possession (collectively, the "Debtors"), for entry of an order pursuant to Section 363 of the Bankruptcy Code authorizing the Debtors to enter into an agreement to employ AP Services, LLC ("APS") as an independent contractor to provide temporary employees to perform management and administration services *nunc pro tunc* to January 8, 2003; and the Court having reviewed the Declaration of Eric Simonsen, a Principal of AlixPartners LLC, an affiliate of APS, signed under penalty of perjury on March 6, 2003 (the "Simonsen Declaration"); and the Court being satisfied with the disclosures made in the Motion and the Simonsen Declaration that APS represents no interest adverse to the Debtors' estates with respect to the matters upon which it is to be engaged, and that its employment is necessary to and in the best interests of the Debtors' estates, creditors and other parties-in-interest; and it appearing that notice of the Application was good and sufficient under the particular

¹ Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Motion.

circumstances and that no other or further notice need be given; and upon the record herein; and after due deliberation thereon; and good and sufficient cause appearing therefor, it is hereby

ORDERED, ADJUDGED AND DECREED THAT:

1. The Motion is GRANTED, and the engagement letter (the "Engagement Letter") attached hereto as Exhibit A is APPROVED.

2. Pursuant to Bankruptcy Code Section 363, the Debtors, as debtors and debtors-in-possession, are authorized to employ and retain APS as an independent contractor to provide temporary employees to perform management and administration services *nunc pro tunc* to January 8, 2003, and Eric Simonsen and the Temporary Staff are authorized to perform the services identified in the Motion and Engagement Letter upon the terms and conditions set forth therein.

3. APS shall be compensated as set forth in the Motion and Engagement Letter, provided, however, that, in the event of a conflict between the terms of the Engagement Letter and the provisions of the Motion, the Motion shall control. Because APS is not being employed as a professional under Section 327 of the Bankruptcy Code, it will not be submitting quarterly fee applications pursuant to Sections 330 and 331 of the Bankruptcy Code. However, APS will file quarterly statements of compensation with the Court (the "Fee Statements"), which shall be subject to objection by parties-in-interest in these cases. Objections to the Fee Statements may be resolved either consensually or pursuant to a hearing in this Court. APS shall apply for the Incentive Fees at the conclusion of these cases. Such application for Incentive Fees shall be subject to approval by the Court on a "reasonableness" standard, and nothing herein shall be deemed an authorization to pay the Incentive Fees.

4. The indemnification provisions of the Engagement Letter are APPROVED, provided, however, that Mr. Simonsen and other APS employees serving as officers of the Debtors, if any, shall be entitled to receive only whatever indemnities are made available, during the term of APS's engagement, to non-APS affiliated officers of the Debtors, whether under the Debtors by-laws, certificate of incorporation, applicable corporation laws, or contractual agreements of general applicability to the Debtors ("Contractual Coverage"). To the extent APS is required to seek its own directors' and officers' insurance policy, pursuant to the terms of the Letter Agreement, APS shall charge the Debtors as an out-of-pocket expense only such amounts as are necessary to secure coverage equivalent to any Contractual Coverage.

5. The requirement under Local Bankr. R. 9013-1(b) for the service and filing of a separate memorandum of law is satisfied by the Application.

Dated: New York, New York
March 20, 2002

/s/ Prudence Carter Beatty

The Honorable Prudence C. Beatty
United States Bankruptcy Judge

EXHIBIT C
(Engagement Letter)

January 7, 2003

Mr. Ira Parker
Genuity Inc.
Chief Executive Officer
225 Presidential Way
Woburn, MA 01801

Re: Management of the Wind-Down and Liquidation of Genuity Inc.

Dear Ira:

This letter outlines the understanding between AP Services, LLC, a Michigan limited liability company, ("APS") and Genuity, Inc. and its related debtor entities (collectively, the "Company" or the "Debtors"), for the engagement of APS to provide certain temporary employees to the Company to assist it in its wind-down and liquidation as described below. Generally, the engagement of APS, including any APS employees who serve in Executive Officer positions, shall be under the approval of the Board of Directors of the Company and the direct supervision of you as Chief Executive Officer ("CEO").

APS will provide individuals as temporary employees ("Temporary Staff"), subject to the terms and conditions of this letter.

APS will provide Eric Simonsen to serve as a senior officer of the Company, with title and duties defined by the CEO, reporting to the CEO. Working collaboratively with the senior management team, the Board of Directors and other Company professionals, Eric Simonsen will assist the Company in managing the wind-down and liquidation of the Company and, at the request of the CEO, perform other services with respect to the overall bankruptcy process in connection with the Chapter 11 case. In addition to any other duties requested by the CEO, the Temporary Staff roles will include working with you and your team to do the following:

- Assist with the transition period with respect to the expected sale of the Company's assets including the preservation of documents and electronic data.
- Assist with the sale or wind down of international assets of the Company.
- Assist with the orderly liquidation of the remaining domestic assets of the Company, including non-debtor subsidiaries of the Company.

- Manage the preparation of its bankruptcy schedules and statements of financial affairs and other bankruptcy matters in coordination with the Company's counsel.
- Analyze claims against each of the Debtors, assist the Company's counsel to prepare objections to disputed claims, and, subject to the approval of the CEO and/or the Board, resolve such claims by settlement or court order.
- Assist the Company's counsel in connection with the preparation of a plan of reorganization for the Company, as well as solicitation and confirmation of such a plan.
- Consult with the Board and/or CEO in connection with the retention of professionals, as necessary, for litigation, claims administration and other matters.
- Perform other tasks as may be mutually agreed between the Company and APS.

With the exception of Eric Simonsen and certain other individuals that may be approved by the Company and Unsecured Creditors Committee, APS shall be compensated for its services under this agreement at the low end of the rates per level as set forth in the table below. Eric Simonsen's rate will be \$620 per hour and the other individuals that may be approved by the Company and Unsecured Creditors committee will be within the ranges of rates set forth below.

We commenced this engagement on January 8, 2003.

For purposes of monthly billings, our fees will be based on the hours charged at our discounted hourly rates, which are:

Principals	\$395 - \$670
Senior Associates	\$305 - \$495
Associates	\$260 - \$390
Accountants and Consultants	\$215 - \$280
Analysts	\$150 - \$180
Paraprofessionals	\$105

We review and revise our billing rates effective January 1 of each year.

In addition to hourly fees, APS will be compensated for its efforts by the payment of "Incentive Fees." The Company understands and acknowledges that the Incentive Fees are an integral part of APS' compensation for the engagement.

The Company agrees to seek approval to pay APS the Incentive Fees that are described herein to the extent that they are earned. These incentive fees have been designed to reward APS for assisting the Company in achieving consummation of a plan of reorganization which maximizes the net distributable value of the estate that is available for distribution to general unsecured creditors.

The Incentive Fees support an arrangement that is aligned with the interests of creditors: to maximize the value of the estate, minimize the operating expenses of the estate, and eliminate unwarranted claims. A description of the Incentive Fees is as follows:

1. An Incentive Fee will be paid in the amount of \$500,000 if a distribution is made by 11/30/03 and the distribution percentage is no less than 7.5% of allowed creditors' claims.
2. An additional \$500,000 will be paid if a distribution percentage is no less than 14% of allowed creditors' claims and the distribution is made by 2/29/04. To the extent that the terms in #2 are met with the exception of the distribution being made by 2/29/04, a payment will be made in the amount of \$125,000 to \$500,000 (to be determined at the committee's sole discretion, which decision will be based on the timing and amount of creditor distributions). Even if the 11/30/03 date in #1 is not met, the \$500,000 amount from #1 above will also be paid as long as the 14% in #2 is met.
3. An additional \$125,000 will be paid once the cases are closed, provided that aggregate distributions to creditors are no less than 17.5% of allowed creditors' claims. For each percentage point above 17.5% of allowed claim amounts that are distributed to creditors, an additional \$100,000 will be paid.
4. The distribution percentage of allowed creditors' claims is defined as:
 - (x) the total amount of cash actually distributed on the Effective Date (including undeliverable distributions under a plan of reorganization) to general unsecured creditors of any of the Debtors, excluding cash distributed to other Debtors
divided by
 - (y) the total amount of general unsecured claims against the Debtors that are allowed as of the Effective Date, but excluding
 - (i) claims that are based on (A) secondary obligations of one Debtor for the obligation of another Debtor, (B) co-primary obligations with another Debtor or (C) obligations as a joint tortfeasor with another

- Debtor, provided that one underlying obligation has been included in the total; and
- (ii) claims of one Debtor against another Debtor.

In addition to the fees set forth above, the Company shall pay directly or reimburse APS upon receipt of periodic billings, for all reasonable out-of-pocket expenses incurred in connection with this assignment such as travel, lodging and postage.

The parties intend that an independent contractor relationship will be created by this agreement. As an independent contractor, APS will have complete and exclusive charge of the management and operation of its business, including hiring and paying the wages and other compensation of all its employees and agents, and paying all bills, expenses and other charges incurred or payable with respect to the operation of its business. Of course, as an independent contractor, neither the Temporary Staff nor APS will be entitled to receive from the Company any vacation pay, sick leave, retirement, pension, or social security benefits, workers' compensation, disability, unemployment insurance benefits, or any other employee benefits. APS will be responsible for all employment, withholding, income and other taxes incurred in connection with the operation and conduct of its business. Temporary Staff will not be considered employees of the Company except for purposes of this agreement.

APS agrees to keep confidential all information obtained from the Company, and neither APS nor the Temporary Staff will disclose to any other person or entity, or use for any purpose other than specified herein, any information pertaining to the Company which is either non-public, confidential, or proprietary in nature ("Information") which it obtains or is given access to during the performance of the services provided hereunder. The foregoing is not intended to nor shall be construed as prohibiting APS or the Temporary Staff from disclosure pursuant to a valid subpoena or court order, but neither APS nor such Temporary Staff shall encourage, suggest, invite or request, or assist in securing, any such subpoena or court order, and the Temporary Staff shall immediately give notice of any such subpoena or court order by fax transmission to the Company. Furthermore, APS and the Temporary Staff may make reasonable disclosures of Information to third parties in connection with their performance of their obligations and assignments hereunder. In addition, APS will have the right to disclose to others in the normal course of business their involvement with the Company.

Information includes data, plans, reports, schedules, drawings, accounts, records, calculations, specifications, flow sheets, computer programs, source or object codes, results, models, or any work product relating to the business of the Company, its subsidiaries, distributors, affiliates, vendors, customers, employees, contractors and consultants.

The Company acknowledges that all information (written or oral) generated by the Temporary Staff in connection with their engagement is intended solely for the benefit and use of the Company (limited to its management, including its Board of Directors) in connection with the wind down and liquidation of the Company. The Company agrees that no such information shall be used for any other purpose or reproduced, disseminated, quoted or referred to with attribution to APS at any time in any manner or for any purpose other than accomplishing the tasks referred to herein, without APS' prior approval (which shall not be unreasonably withheld) except as required by law. This agreement will survive the termination of the engagement.

The Company acknowledges that it is hiring the Temporary Staff purely to assist the Company and its Board of Directors in the wind-down and liquidation of the Company and to provide bankruptcy administration services to the Company. This engagement shall not constitute an audit, review or compilation, or any other type of financial statement reporting or consulting engagement that is subject to the rules of the AICPA, the SSCS, or other such state and national professional bodies.

Eric Simonsen, serving as an officer of the Company, will be entitled to the benefit of the indemnification provided by the Company to its officers and directors, whether under the Company's by-laws, certificates of incorporation, by contract or otherwise. In the event that other APS employees become officers of the Company, such individuals will be entitled to the same benefit.

The Company agrees that it will use its best efforts to specifically include and cover APS employees serving as officers of the Company under the Company's policy for directors' and officers' ("D&O") insurance. In the event that the Company is unable to include APS appointees under the Company's policy or does not have first dollar coverage as outlined in the preceding paragraph in effect for at least \$10 million, (e.g., such policy is not reserved based on actions that have been or are expected to be filed against officers and directors alleging prior acts that may give rise to a claim), it is agreed that APS will attempt to purchase a separate D&O policy that will cover its employees and agents only and that the cost of same shall be invoiced to the Company as an out of pocket cash expense. If APS is unable to purchase such D&O insurance, then we reserve the right to terminate this agreement. In the event that other Temporary Staff become officers of the Company, such individuals will be entitled to the same benefit. The obligations of the parties as reflected herein shall survive the termination of the engagement.

APS' engagement to provide Temporary Staff hereunder may be terminated at any time by written notice by one party to the other; provided, however, that notwithstanding such termination APS will be entitled to any fees and expenses due under the provisions of the agreement, including Incentive Fees.

This letter agreement is governed by and construed in accordance with the laws of the State of New York with respect to contracts made and to be performed entirely therein and without regard to choice of law or principles thereof.

If we have any dispute arising between us, including any dispute with respect to this agreement, its interpretation, performance or breach, and are unable to agree on a mutually satisfactory resolution within 30 days, such matter shall be determined by the Bankruptcy Court, unless the Court declines jurisdiction of such dispute, in which case either party may require the matter to be settled by binding arbitration. If such arbitration shall occur, it shall be in New York, New York. We shall attempt for two weeks to agree on a single arbitrator. If that effort shall fail, each party shall appoint one arbitrator. The two arbitrators so chosen shall attempt for two weeks to select a third. If they are unable to agree, the American Arbitration Association in New York City shall choose the third. The arbitration shall occur using the rules and procedures of the American Arbitration Association; provided however that the arbitration shall be conducted and the arbitrators shall render a written reasoned opinion within three months of being appointed. The decision of the arbitrator(s) shall be final, binding and non-appealable. This arbitration provision shall apply only to the extent that the United States Bankruptcy Court, or the United States District Court if the reference is withdrawn, does not retain jurisdiction over a controversy or claim.

To the best of our knowledge, we believe that APS, its employees, and its affiliates¹ do not have any financial interest or business connection with the Company other than as contemplated by this agreement, and we know of no fact or situation that would represent a conflict of interest for us with regard to the Company.

We know of no fact or situation that would represent a conflict of interest for us with regard to the Company and believe, based on reasonable inquiry, that APS is "disinterested" and neither holds nor represents an interest adverse to the bankruptcy estate of the Company. We do wish to disclose the following:

- Mr. Simonsen, who will be acting as an officer of the Company, was retained by WorldCom as its interim controller up to February 26, 2003, as APS is providing several officer-level and numerous other temporary personnel to that company in connection with its reorganization. Mr. Simonsen terminated his connection with WorldCom on February

¹ APS is a company that provides temporary employees. Affiliates of APS include AlixPartners, LLC, AlixPartners Ltd. and AlixPartners GmbH, which are financial advisory and consulting firms, The System Advisory Group, providing information technology services, Partnership Services, LLC, a company that provides temporary employees, and the Questor funds, which are private equity funds that invest in special situations and under-performing companies.

26, 2003. Worldcom is also a chapter 11 debtor before the bankruptcy court. Mr. Simonsen's responsibilities at WorldCom did not involve any transactions with the Company. Both Worldcom and UUNET may be substantial creditors of the Company. Similarly, Meade Monger and other APS personnel who will provide services to the company provide services to Worldcom. Mr. Simonsen and others who have provided services to Worldcom will recuse themselves from making decisions and participating in discussions regarding Worldcom and UUNET's claim in the Company's bankruptcy case any other matters specifically affecting Worldcom or UUNET. APS personnel including Mr. Simonsen will participate in matters that could affect Worldcom or UUNET insofar as they are general unsecured creditors, or utilities, and the decisions affect such creditors, or utilities as a class.

- Questor Partners Fund, L.P. ("QPF") and Questor Partners Fund II, L.P. ("QPF II"), a \$300 million fund and an \$865 million fund, respectively, are private equity funds that invest in special situations and under-performing companies. Neither QPF nor QPF II will make an investment in the Company for at least three years after the date that APS' engagement terminates.
- Mr. Jay Alix, a principal in AlixPartners, is also the President and CEO of Questor Management Company, the entity that manages QPF and QPF II.
- Questor and AlixPartners are separate companies. AlixPartners, pursuant to contract, performs certain accounting and back-room services for Questor. From time to time, Questor hires AlixPartners as a contractor to advise it regarding a potential acquisition, and occasionally investee companies of QPF and QPF II hire AlixPartners. From time to time, employees of AlixPartners are elected to the boards of directors of investee companies of QPF and QPF II, but such employees are not involved in this engagement.
- Mr. Jay Alix owns interests in Questor General Partners, LP ("QGP") and Questor General Partner II, LP ("QGP II"), the general partners of QPF and QPF II. Mr. Albert Koch, Chairman of AlixPartners, is a limited partner in QGP II, as are the majority of the AlixPartners principals. AlixPartners principals, except Jay Alix and Al Koch, are passive investors and have no voice in approving Questor's investments.
- Substantially all of the other principals of AlixPartners, except for Mr. Alix and Mr. Koch, own limited partnership interests in one or more of the following entities: Questor Side-by-Side Partners, L.P., Questor Side-by-Side Partners II, L.P., and Questor Side-by-Side Partners II 3(c)(1), L.P. AlixPartners principals, except Jay Alix and Al Koch, are passive investors and have no voice in approving Questor's investments.

- Some of the limited partners of QPF and/or QPF II are affiliates of financial institutions that are also lenders to companies that may have retained AlixPartners. The affiliates of such financial institutions are passive investors in QPF and QPF II and have no voice in approving Questor's investments. Where such situations occur, the lending relationship and investment in QPF and/or QPF II is detailed in APS' disclosures.
- QPF, QPF II, Questor Side-by-Side Partners, L.P., Questor Side-by-Side Partners II, L.P., and Questor Side-by-Side Partners II 3(c)(1), L.P. are all related entities. The Side-by-Side funds contain, in the aggregate, 6.3% of the total Questor funds, which are in excess of \$1.17 billion.
- Ameritech, a creditor of the Debtors, is a current client of AlixPartners through AlixPartners' work for a creditors' committee in matters unrelated to the Debtors. Ameritech is a creditor, lender and vendor to other current and former AlixPartners clients in matters unrelated to the Debtors. Additionally, Ameritech previously employed a current AlixPartners employee.
- AT&T, a creditor to the Debtors, is affiliated with two entities that are current clients of AlixPartners in matters unrelated to the Debtors. Other entities associated with AT&T are creditors to current AlixPartners clients as well as vendors to AlixPartners in matters unrelated to the Debtors.
- Bellsouth is a creditor of the Debtors. Directors of two current AlixPartners clients are affiliated with Bellsouth.
- Benson P. Schapiro, a director of the Debtors, is an investor in the Questor Side-by-Side Partners II, L.P. and has previously been an advisor to AlixPartners and its affiliated entities.
- BNP Paribas, a creditor of the Debtors, has been retained by a current AlixPartners client and is a creditor to current and former AlixPartners clients in matters unrelated to the Debtors.
- Chase Manhattan Bank, a creditor of the Debtors, is affiliated with an entity that is a limited partner in QPF and QPF II and is a lender and/or shareholder or is affiliated with lenders and/or shareholders of certain other current or former AlixPartners clients in matters unrelated to the Debtors. Also, a current employee of AlixPartners worked for Chase Manhattan Bank more than 20 years ago.
- Cisco Systems, a creditor of the Debtors, is related to certain entities that are lenders and creditors to current and former AlixPartners clients in matters unrelated to the Debtors.

- Citicorp USA, a creditor of the Debtors, is affiliated with entities that are limited partners in QPF and QPF II, trustee for a current AlixPartners client as well as creditors, lenders, bondholders and shareholders of current and former AlixPartners clients in matters unrelated to the Debtors.
- Comdisco, a creditor of the Debtors, is a lender creditor and lessor to current and former AlixPartners clients in matters unrelated to the Debtors.
- Credit Suisse First Boston, a creditor of the Debtors, is affiliated with a current AlixPartners client in a matter unrelated to the Debtors and is a lender, creditor and bondholder of other current and former AlixPartners clients in matters unrelated to the Debtors. Additionally, the spouse of a current AlixPartners employee is employed by CS First Boston.
- Deloitte & Touche, a professional retained in this Chapter 11 Case, is affiliated with entities that are vendors to AlixPartners, adverse to a former AlixPartners client, as well as professionals to current and former AlixPartners clients in matters unrelated to the Debtors. Additionally, Deloitte affiliated entities previously employed several current AlixPartners employees.
- GTE, an affiliated non-Debtor entity and previous name of certain Debtors, was a creditor and lender to certain former AlixPartners clients.
- Integra, an affiliated non-Debtor entity, was adverse to a former AlixPartners client in matters unrelated to this Chapter 11 case.
- Lazard Freres, a professional retained in this Chapter 11 Case, is a current AlixPartners client through AlixPartners' work for a creditors committee in matters unrelated to the Debtors. Additionally, Lazard is an investment banker to two current AlixPartners clients in matters unrelated to the Debtors.
- MFS Telecom, a creditor of the Debtors, is an affiliated debtor entity of WorldCom, a current chapter 11 client of APS (see WorldCom disclosure below). All communications, negotiations and/or transactions between MFS and the Debtors in which AlixPartners and its employees will be involved, will take place at arms' length.
- MFS, a creditor of the Debtors, is a bondholder to current and former AlixPartners clients in matters unrelated to the Debtors.

- NCR Corporation, a creditor of the Debtors, was a preferred shareholder to a former client of AlixPartners in matters unrelated to the Debtors. In addition, NCR previously employed a current AlixPartners employee.
- Nortel Networks, a creditor of the Debtors, is affiliated with entities that are creditors, lenders and vendors to current and former AlixPartners clients in matters unrelated to the Debtors. Additionally, an affiliate of Nortel Networks previously employed a current AlixPartners employee.
- PricewaterhouseCoopers, a creditor of the Debtors, is a vendor to AlixPartners, current and former client of AlixPartners, as well as a vendor and professional to current and former AlixPartners clients in matters unrelated to the Debtors. PWC is the auditor for QPF and QPF II. Additionally, PWC previously employed several current AlixPartners employees.
- QWEST, a creditor of the Debtors, is a current client of AlixPartners in matters unrelated to the Debtors. Other QWEST related entities are counterparties to an IRU swap with a current AlixPartners client, as well as creditors and vendors to current and former AlixPartners clients in matters unrelated to the Debtors.
- Reed Smith LLP, a professional retained in this Chapter 11 Case, has been retained as a professional by, and adverse counsel to, current and former AlixPartners clients in matters unrelated to the Debtors.
- The director of a current client is also a director of Silicon Graphics, a creditor of the Debtors.
- Skadden Arps Slate Meagher & Flom, a professional retained in this Chapter 11 Case, has been retained as a professional by, and adverse counsel to, current and former AlixPartners clients in matters unrelated to the Debtors.
- Southwestern Bell, a creditor of the Debtors, is a current client of AlixPartners through AlixPartners work for a creditors' committee as well as a creditor and vendor to current and former AlixPartners clients in matters unrelated to the Debtors.
- Sprint, a creditor of the Debtors, is a counterparty to an executory contract with a current AlixPartners client, Kmart Corporation. Other Sprint affiliated entities are creditors and vendors to current and former AlixPartners clients in matters unrelated to the Debtors.

- State Street Bank & Trust, a creditor of the Debtors, has been a creditor, lender, vendor, bondholder and shareholder of current and former AlixPartners clients in matters unrelated to the Debtors.
- The Bank of New York, a creditor of the Debtors, is a trustee and creditor to current AlixPartners clients and lenders and bondholders to other current and former AlixPartners clients in matters unrelated to the Debtors. In addition, Bank of New York previously employed a current AlixPartners employee.
- The Industrial Bank of Japan, a creditor of the Debtors, is affiliated with entities that are former clients of AlixPartners as well as lenders and bondholders of current and former AlixPartners clients in matters unrelated to the Debtors.
- Toronto Dominion (Texas), a creditor of the Debtors, is a lender to current and former AlixPartners clients in matters unrelated to the Debtors.
- Verizon Instruments, a creditor of the Debtors, is a vendor to AlixPartners as well as a creditor and vendor to current and former AlixPartners clients in matters unrelated to the Debtors.
- Wachovia (f/k/a/ First Union), a creditor of the Debtors, is affiliated with entities which are bondholders and lenders to current and former AlixPartners clients in matters unrelated to the Debtors. Also, a member of the board of directors of Wachovia is a Director of a current AlixPartners client, Burlington Industries, in matters unrelated to the Debtors.

All such matters may be disclosed in connection with any application to employ APS.

While we are not currently aware of any other relationships that connect us to any party in interest, because APS and its affiliates serve clients on a national basis in numerous cases, both in and out of court, it is possible that APS or its affiliates may have rendered services to, or have business associations with, other entities which had, or have, relationships with the Company, including creditors of the Company. APS and affiliates have not, and will not perform services for, or have business connections with, any of these aforementioned entities in this matter involving the Company.

The Company also agrees not to solicit, recruit or hire any employees or agents of APS for a period of two years subsequent to the completion and/or termination of this agreement.

If any portion of the letter agreement shall be determined to be invalid or unenforceable, we each agree that the remainder shall be valid and enforceable to the maximum extent possible.

All of the above contains the entire understanding of the parties relating to the services to be rendered by APS and may not be amended or modified in any respect except in writing signed by the parties. APS will not be responsible for performing any services not specifically described in this letter or in a subsequent writing signed by the parties.

All notices required or permitted to be delivered under the terms of this letter agreement shall be sent, if to us, to the address set forth at the head of this letter, to the attention of Mr. Melvin R. Christiansen, and if to you, to the address for you set forth above, to the attention of your General Counsel, or to such other name or address as may be given in writing to the other party. All notices under the agreement shall be sufficient if delivered by facsimile or overnight mail. Any notice shall be deemed to be given only upon actual receipt.

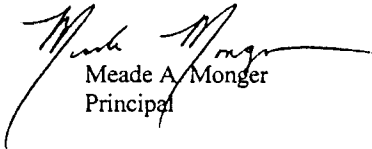
The Company agrees that it will promptly apply to the Bankruptcy Court to obtain approval of our retention and retainer nunc pro tunc to January 8, 2003.

If these terms meet with your approval, please sign and return the enclosed copy of this agreement.

We look forward to working with you.

Sincerely yours,

AP SERVICES, LLC



Meade A. Monger
Principal

P/mrc/clients/cms/genuityengltr022103

Acknowledged and Agreed to:

GENUITY INC.

By: _____

Its: _____

President and CEO

Dated: _____

March 4, 2003

EXHIBIT D
(Proposed Form of the Order)

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)	Chapter 11
)	
GENUITY, INC., et al.,)	Case No. 02-43558 (PCB)
)	
Debtors)	Jointly Administered
)	

**ORDER GRANTING APPLICATION BY AP SERVICES, LLC
FOR ALLOWANCE OF INCENTIVE FEES**

This matter came on to be heard on the application of AP Services, LLC (“APS”) for allowance of incentive compensation (the “Application”); and the Court having reviewed the Application and the Declaration of Meade Monger; and the Court having determined that the relief requested in the Application is in the best interests of the Debtors, its estates, its creditors and other parties-in-interest; and the Court having jurisdiction to consider the Application and the relief sought; and upon the record herein; and after due deliberation thereon; and good and sufficient cause appearing therefore,. The Court finds that proper reasons have been asserted to grant the Application. Therefore, it is hereby;

ORDERED that the Application is granted; and it is further

ORDERED that the Incentive Fees of \$1,200,000 previously paid to APS on December 12, 2003 are hereby authorized; and it is further

ORDERED that the Debtors are hereby authorized to pay to APS additional Incentive Fees of \$200,000.

Dated: _____

United States Bankruptcy Court