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TI 368 = 4024
TJ355 = 7412
TX415 = 7413

July 19, 2000

VIA OVERNIGHT MAIL

Ms. Blanca S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0870

000903-TP

Re: Transfer of Control of Genesis Communications International, Inc. to American TeleSource International, Inc.

Dear Ms. Bayo:

American TeleSource International, Inc. ("ATSI") and Genesis Communications International, Inc. ("Genesis") (together, "Applicants"), by their undersigned counsel and pursuant to F.S.A. § 364.33, hereby request approval from the Florida Public Service Commission (the "Commission") of a series of transactions whereby Genesis will become a wholly-owned subsidiary of ATSI. Genesis is a nondominant carrier authorized by the Commission to provide telecommunications services in the State of Florida. ATSI's subsidiary, also known as American TeleSource International, Inc. (a corporation organized under the laws of the State of Texas), is a nondominant carrier authorized by the Commission to provide telecommunications services in the State of Florida. The transactions do not involve any assignment of Genesis's Florida certificates.

As described below, ATSI will acquire control of Genesis through a series of transactions. Following consummation of the transactions, Genesis will be a wholly-owned subsidiary of ATSI. Although Genesis will have a new corporate parent, Genesis will continue to provide services to its existing customers under existing service arrangements pursuant to its certificate granted by this Commission. The proposed transactions, therefore, will be virtually transparent to Genesis's Florida customers. Attached hereto as Exhibit A is a chart that illustrates the corporate structure of the parties prior to and immediately following consummation of the proposed transfer of control.

In support of this Application, the Applicants state as follows:

I. DESCRIPTION OF THE COMPANIES

A. American TeleSource International, Inc.

ATSI is a Delaware company headquartered in San Antonio, Texas. The shares of ATSI are publicly traded on the American Exchange under the symbol AI. ATSI's financial information from its most recent SEC Form 10-K is attached hereto as Exhibit B.

ATSI, through its subsidiaries, is a provider of international telecommunications services between the United States and specific markets with Latin America, most notably Mexico. ATSI's subsidiaries are facilities-based carriers transporting both wholesale and retail voice and data communications traffic through a network of fiber and satellite-based transmission and receiving facilities in San Antonio and Dallas, Texas as well as Mexico, Guatemala, El Salvador and Costa Rica. ATSI's subsidiary, also known as American TeleSource International, Inc., a corporation organized under the laws of the State of Texas, holds authority to provide interexchange and alternative operator services pursuant to Certificate No. 4024 granted by Commission Order No. PSC-95-0559-FOF-TI in Docket No. 950191-TI on May 8, 1995.

B. Genesis Communications International, Inc.

Genesis is a privately-held California corporation headquartered in San Diego, California. Genesis provides local and interexchange services to more than 65,000 customers in Arizona, California, Colorado, Illinois, Nevada, New Mexico, Oregon and Texas and holds authority to provide local and interexchange services in numerous additional states. Genesis also is authorized to provide international telecommunications services pursuant to a Section 214 authorization granted by the Federal Communications Commission. In Florida, Genesis is authorized to provide local exchange and interexchange telecommunications services in the State of Florida pursuant to Commission Orders issued on April 14, 2000 in Docket Nos. 000057-TI and 000058-TX, respectively. (Consummating Orders in both dockets were issued on May 10, 2000). Further information concerning Genesis's technical, managerial, and financial qualifications to provide telecommunications service in Florida was filed with its application for authority to provide service. That information is, therefore, already a matter of public record at the Commission, and Applicants respectfully request that it be incorporated by reference herein.

III. DESCRIPTION OF THE TRANSACTION

ATSI and Genesis have determined that they will realize significant economic and marketing efficiencies by establishing Genesis as a direct subsidiary of ATSI. ATSI will acquire Genesis through a series of transactions including the merger of Genesis and ATSI Merger Corp. ("Merger Sub"), a direct and wholly-owned subsidiary of ATSI. Merger Sub is a newly-formed California corporation formed exclusively for the purpose of effecting the proposed transactions.

Pursuant to the Applicants' agreement, Merger Sub will merge with and into Genesis, with Genesis surviving the merger as a wholly-owned subsidiary of ATSI. At the time of the merger, each issued and outstanding share of common stock of Genesis will be converted into the right to receive a number of shares of common stock of ATSI, based on a formula agreed to by the Applicants. Each of the issued and outstanding shares of Merger Sub will be converted into one share of common stock of Genesis. As a result, Genesis will become a direct, wholly-owned subsidiary of ATSI, and the separate existence of Merger Sub shall cease.

The corporation surviving the merger, Genesis, shall possess all the rights, privileges, powers, franchises, all property, real personal and mixed, and all debts due to Genesis and Merger Sub prior to the merger. Although the proposed transactions will transfer ownership and control of Genesis to ATSI, the transactions will not involve a change in the manner in which Genesis provides service to its customers. Following consummation of the merger, Genesis will continue to provide high quality telecommunications services to customers pursuant to its certification, with no change in the rates or terms and conditions of service currently enjoyed by its existing customers. As such, the transactions will not cause inconvenience or confusion to Genesis's customers nor otherwise have a negative impact on the operations of Genesis. The transfer of control of Genesis to ATSI, therefore, will be virtually transparent to Genesis's customers in terms of the services that they receive.

III. <u>DESIGNATED CONTACTS</u>

Inquiries or copies of any correspondence, orders, or other materials pertaining to this Application should be directed to:

Katherine A. Rolph, Esq.
Jennifer A. Schneider, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
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with copies to:

Arthur L. Smith
American TeleSource International, Inc.
6000 Northwest Parkway
Suite 110
San Antonio, Texas 78240
Tel: (210) 547-1000
Fax: (210) 547-1001

and:

Derek Gietzen
Genesis Communications International, Inc.
11995 El Camino Real
Suite 102
San Diego, CA 92130-2565
Tel: (858) 792-2400
Fax: (858) 793-8339

IV. PUBLIC INTEREST CONSIDERATIONS

Consummation of the transactions described herein serves the public interest in promoting competition among providers of local and interexchange telecommunications services. The transactions will result in a company better equipped to accelerate its growth as a competitive telecommunications service provider by combining the financial resources and complementary managerial skills and experience of ATSI and Genesis. The resulting corporate structure and improved financial condition are expected to enhance Genesis's operational flexibility and efficiency, as well as its long term financial viability. The proposed transactions will therefore ensure the continued provision of high quality and innovative telecommunications services to the existing customers of Genesis and should promote competition in the Florida local exchange and interexchange telecommunications marketplace.

V. CONCLUSION

WHEREFORE, for the reasons stated herein, ATSI and Genesis respectfully request that the Commission approve this Application to permit Applicants to consummate the proposed transfer of control as soon as possible, and grant all other relief as necessary and appropriate to effectuate the transactions described herein.

Please date-stamp the enclosed extra copy of this Application and return it to us in the self-addressed, stamped envelope provided herein. Should you have any questions or comments regarding this transaction, please do not hesitate to contact me or Jennifer Schneider at (202) 424-7742.

Respectfully submitted,

Katherine A. Rolph

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Counsel for the Applicants

EXHIBIT A

Illustrative Chart of Proposed Transfer of Control

EXHIBIT B

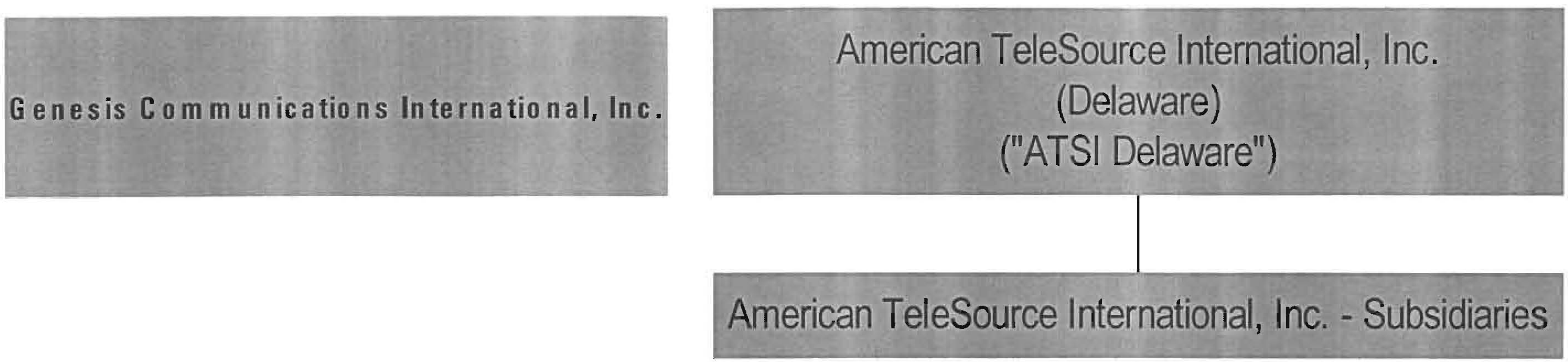
ATSI's Financial Information from 1999 SEC Form 10-K

VERIFICATIONS

EXHIBIT A

ILLUSTRATIVE CHART OF
PROPOSED TRANSFER OF CONTROL

PRE-MERGER


Genesis Communications International, Inc.
American TeleSource International, Inc.
(Delaware)
("ATSI Delaware")
American TeleSource International, Inc. - Subsidiaries

POST-MERGER


American TeleSource International, Inc.
(Delaware)
("ATSI Delaware")
Genesis Communications International, Inc.
American TeleSource International, Inc. - Subsidiaries

EXHIBIT B

ATSI's Financial Information from 1999 SEC Form 10-K

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of American TeleSource International, Inc.:

We have audited the accompanying consolidated balance sheets of American TeleSource International, Inc. (a Delaware corporation) and subsidiaries (the Company) as of July 31, 1998 and 1999, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years ended July 31, 1997, 1998 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American TeleSource International, Inc. and subsidiaries as of July 31, 1998 and 1999, and the results of their operations and their cash flows for the years ended July 31, 1997, 1998 and 1999, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has a working capital deficit, has suffered recurring losses from operations since inception, has negative cash flows from operations and has limited capital resources available to support further development of its operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts including goodwill and other intangibles or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ ARTHUR ANDERSEN LLP

San Antonio, Texas
October 5, 1999

AMERICAN TELESOURCE INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)

	July 31, 1998	July 31, 1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,091	$ 379
Accounts receivable, net of allowance of $209 and $1,600, respectively	3,748	3,693
Prepaid expenses and other	844	987
Total current assets	5,683	5,059
PROPERTY AND EQUIPMENT (At cost):	14,233	16,669
Less - Accumulated depreciation and amortization	(2,418)	(4,713)
Net property and equipment	11,815	11,956
OTHER ASSETS, net		
Goodwill, net	5,091	5,032
Contracts, net	1,173	703
Trademarks, net	-	789
Other assets	489	615
Total assets	$ 24,251	$ 24,154
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 5,683	$ 4,164
Accrued liabilities	2,113	3,239
Current portion of notes payable	688	961
Current portion of convertible long-term debt	-	1,942
Current portion of obligations under capital leases	2,351	1,430
Deferred revenue	535	233
Total current liabilities	11,370	11,969
LONG-TERM LIABILITIES:		
Notes payable, less current portion	719	312
Convertible long-term debt, less current portion	1,604	-
Obligations under capital leases, less current portion	2,941	5,523
Other	530	213
Total long-term liabilities	5,794	6,048
COMMITMENTS AND CONTINGENCIES: (See Note 13)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized,		
Series A Cumulative Convertible Preferred Stock, 50,000 authorized, no shares issued and outstanding at July 31, 24,145 shares issued and outstanding at July 31, 1999	-	-
Series B Cumulative Convertible Preferred Stock, 2,000 authorized, no shares issued and outstanding at July 31, 2,000 shares issued and outstanding at July 31, 1999	-	-
Common stock, $0.001 par value, 100,000,000 shares authorized, 45,603,566 issued and outstanding at July 31, 1998 48,685,287 issued and outstanding at July 31, 1999	46	49
Additional paid in capital	22,248	29,399
Accumulated deficit	(14,396)	(21,987)
Deferred compensation	(667)	(466)
Other comprehensive income	(144)	(858)
Total stockholders' equity	7,087	6,137
Total liabilities and stockholders' equity	$ 24,251	$ 24,154

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN TELESOURCE INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Years Ended July 31, 1997	1998	1999
OPERATING REVENUES:			
Network management services	$ 1,698	$ 13,362	$ 19,250
Call services	12,545	13,547	6,602
Direct dial services	1,421	6,085	6,024
Internet e-commerce	564	1,526	2,642
Total operating revenues	16,228	34,520	34,518
OPERATING EXPENSES:			
Cost of services	12,792	22,287	21,312
Selling, general and administrative	6,312	12,853	12,652
Bad debt expense	735	1,024	2,346
Depreciation and amortization	591	1,822	3,248
Total operating expenses	20,430	37,986	39,558
OPERATING LOSS	(4,202)	(3,466)	(5,040)
OTHER INCOME (EXPENSE):			
Interest income	27	76	59
Other income	68	32	
Other expense	(27)	(24)	(10)
Interest expense	(513)	(1,573)	(1,745)
Total other income (expense)	(445)	(1,489)	(1,696)
LOSS BEFORE INCOME TAX EXPENSE AND MINORITY INTEREST	(4,647)	(4,955)	(6,736)
FOREIGN INCOME TAX EXPENSE	-	(139)	-
MINORITY INTEREST	(48)	-	-
NET LOSS	($4,695)	($5,094)	($6,736)
LESS: PREFERRED STOCK DIVIDENDS	-	-	(855)
NET LOSS TO COMMON SHAREHOLDERS	($4,695)	($5,094)	($7,591)
BASIC AND DILUTED LOSS PER SHARE	($0.18)	($0.12)	($0.16)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	26,807	41,093	47,467

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN TELESOURCE INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	For the Years Ended July 31,		
	1997	1998	1999
Net loss	($4,695)	($5,094)	($7,591)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	$ 12	($160)	($714)
Comprehensive loss to common stockholders	($4,683)	($5,254)	($8,305)

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN TELESOURCE INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Preferred Shares		Common Stock				Cumulative		
	Shares	Amount	Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Translation Adjustment	Deferred Compensation	Total Stockholders' Equity
BALANCE, July 31, 1996			23,775	$ 6,288	$	($ 4,607)	$ 4	($ 55)	$1,830
Issuances of common shares for cash	-	-	5,760	4,736					4,736
Conversion of convertible dept to common shares	-	-	3,612	1,967					1,967
Issuance of common shares for acquisition	-	-	2,718	1,847					1,847
Issuances of common shares for services	-	-	925	154					154
Deferred compensation	-	-	-	1,394				(1,394)	0
Compensation expense	-	-	-					295	295
Warrants issued with restoration long term debt	-	-	-	990					990
Cumulative effect of translation adjustment	-	-	-				12		12
Net loss	-	-	-			(4,695)			(4,695)
BALANCE, July 31, 1997	-	-	36,788	$ 17,376		($ 9,302)	$ 16	($1,154)	$8,936
Issuances of common shares for cash	-	-	5,500	3,496					3,496
Issuances of common shares for reduction in indebtedness	-	-	2,871	1,076					1,076
Conversion of convertible debt to common shares	-	-	200	100					100
Issuances of common shares for services	-	-	248	246					246
Compensation expense	-	-	-					487	487
Cumulative effect of transition adjustments	-	-	-				(160)		(160)
Exchange of common shares for common stock	-	-	-	(22,248)	22,248				0
Net loss	-	-	-			(5,094)			(5,094)
BALANCE, July 31, 1998	-	-	45,604	$ 46	$ 22,248	($14,356)	($144)	($ 667)	$7,087
Issuances of common shares for cash	-	-	2,706	3	1,037				1,640
Issuances of common shares for services	-	-	96		40				40
Issuances of common shares for acquisition	-	-	279		179				179
Issuances of preferred stock	26	-	-		1,176				4,176
Deferred compensation	-	-	-		344			(344)	0
Dividend expense	-	-	-			(80)			(80)
Amortization of equity amount	-	-	-		775	(775)			0
Compensation expense	-	-	-					545	545
Cumulative effect of transition adjustment	-	-	-				(714)		(714)
Net loss	-	-	-			(6,736)		(6,736)	(6,736)
BALANCE, July 31, 1999	26	-	48,685	$ 49	$ 29,399	($21,987)	($853)	($ 486)	$6,137

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN TELESOURCE INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Years Ended July 31, 1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	($4,695)	($5,094)	($6,736)
Adjustments to reconcile net loss to net cash used in operating activities-			
Depreciation and amortization	591	1,822	3,248
Amortization of debt discount	87	307	346
Deferred compensation	295	487	545
Provision for losses on accounts receivable	735	1,024	2,346
Minority interest	48	-	-
Changes in operating assets and liabilities-			
Increase in accounts receivable	(1,983)	(2,723)	(2,207)
(Increase) decrease in prepaid expenses and other	(849)	197	(1,632)
Increase (decrease) in accounts payable	(1,025)	3,479	(1,139)
Increase (decrease) in accrued liabilities	884	(192)	1,857
Increase (decrease) in deferred revenue	378	71	(191)
Other	4	-	-
Net cash used in operating activities	(5,530)	(622)	(3,563)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(590)	(3,297)	(956)
Acquisition of business, net of cash acquired	73	(2,112)	(171)
Payments received on notes receivable	101	-	-
Net cash used in investing activities	(416)	(5,409)	(1,127)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of debt	3,632	2,547	437
Net increase (decrease) in short-term borrowings	281	353	(488)
Payments on debt	-	(1,141)	(679)
Capital lease payments	(401)	(1,044)	(941)
Payments on long-term liabilities	-	(67)	(123)
Proceeds from issuance of preferred stock, net of issuance costs	-	-	4,176
Proceeds from issuance of common stock, net of issuance costs	3,699	4,553	1,596
Net cash provided by financing activities	7,211	5,201	3,978
NET INCREASE (DECREASE) IN CASH	1,265	(830)	(712)
CASH AND CASH EQUIVALENTS, beginning of period	656	1,921	1,091
CASH AND CASH EQUIVALENTS, end of period	$1,921	$1,091	$ 379

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN TELESOURCE INTERNATIONAL, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

The accompanying consolidated financial statements are those of American TeleSource International, Inc. and its subsidiaries ("ATSI" or the "Company"). The Company was formed on June 6, 1996 under the laws of the state of Delaware for the express purpose of effecting a "Plan of Arrangement" with American TeleSource International, Inc., which was incorporated under the laws of the province of Ontario, Canada (hereinafter referred to as "ATSI-Canada"). The Plan of Arrangement called for the stockholders of ATSI-Canada to exchange their shares on a one-for-one basis for shares of the Company. On April 30, 1998, shareholders of ATSI-Canada approved the Plan of Arrangement, and on May 11, 1998, ATSI-Canada became a wholly owned subsidiary of the Company. The Company is publicly traded on the OTC Bulletin Board under the symbol "AMTI".

The accompanying consolidated balance sheet dated July 31, 1998 includes the assets, liabilities and shareholders' equity of ATSI-Canada which were transferred to the Company on May 11, 1998, and the accompanying statements of operations for the years ended July 31, 1997 and 1998 include the consolidated operations of ATSI-Canada through May 11, 1998.

In May 1997, ATSI-Canada entered into an agreement to purchase up to 100% of the outstanding shares of Sistema de Telefonia Computarizada, S.A. de C.V. ("Computel"), the largest privately owned operator of casetas (public calling stations) in Mexico. Under the terms of the agreement, ATSI-Canada acquired 55% of the shares of Computel effective May 1, 1997 and the remaining 45% effective August 28, 1997. As ATSI-Canada acquired majority ownership effective May 1, 1997, the Company has recorded 100% of the net assets and liabilities of Computel as of that date. The Company's consolidated financial statements for the period May 1, 1997 to July 31, 1997 include the impact of the 45% minority ownership interest. For the years ended July 31, 1998 and July 31, 1999, the Company's consolidated financial statements include 100% of the activities of Computel.

In July 1997, American TeleSource International de Mexico, S.A. de C.V. ("ATSI-Mexico") acquired 100% of the outstanding stock of Servicios de Infraestructura, S.A. de C.V. ("Sinfra"). In April 1998, TeleSpan, Inc. ("Telespan") purchased 100% of the outstanding stock of Sinfra from ATSI-Mexico. In March 1998, ATSI-Delaware acquired 100% of the outstanding stock of Soluciones Internactionales de Mercadeo, S.A. and subsequently changed the name to ATSI de CentroAmerica, S.A.

Through its subsidiaries, the Company provides retail and wholesale communications services within and between the United States and select markets within Latin America. Utilizing a framework of licenses, interconnection and service agreements, network facilities and distribution channels, the Company aims to provide U.S standards of reliability to Mexico and other markets within Latin America which have historically been underserved by telecommunications monopolies. As of July 31, 1999, the Company's operating subsidiaries are as follows:

American TeleSource International, Inc. ("ATSI-Texas" a Texas corporation)

ATSI-Texas owns and operates a switching facility and multilingual call center in San Antonio, Texas. This facility provides U.S. based call services to public telephones owned by ATSI-Mexico and casetas owned by Computel in Mexico, as well as to third party-owned public telephones, casetas and hotels in Mexico. Although these calls originate in Mexico, they are terminated and billed in the United States and Mexico by ATSI-Texas. In July 1998, ATSI-Texas also began providing domestic U.S. and international call services to residential customers in the U.S.

American TeleSource International de Mexico, S.A. de C.V.

("ATSI-Mexico" a Mexican corporation)

ATSI-Mexico owns and operates coin-operated public telephones in Mexico. Utilizing its 20-year comercializadora license, ATSI purchases telephone lines and resells local, long distance and international calls from public telephones connected to the lines. Direct dial calls may be made from the telephones using pesos or quarters, and users may use the services of ATSI-Texas to place calls to the U.S. by billing calls to valid third parties, credit cards or calling cards.

Computel (a Mexican corporation)

Computel is the largest private operator of casetas in Mexico, operating approximately 126 casetas in 66 cities. Direct dial calls may be made from the casetas using cash or credit cards, and users may use the services of ATSI-Texas to place calls to the U.S. by billing calls to valid third parties, credit cards or calling cards. Computel utilizes telephone lines owned by ATSI-Mexico.

Sinfra (a Mexican corporation)

Utilizing its 20-year Teleport and Satellite Network license, Sinfra owns and operates the Company's teleport facilities in Cancun, Monterrey and Mexico City, Mexico. These facilities are used for the provision of international private network services. Sinfra also owns a 15-year Packet Switching Network license.

TeleSpan, Inc. ("TeleSpan" a Texas corporation)

TeleSpan owns and operates the Company's teleport facilities in the United States and Costa Rica. TeleSpan contracts with U.S. based entities and carriers seeking facilities or increased capacity into Mexico, Costa Rica, El Salvador and Guatemala. For network services into Mexico, TeleSpan utilizes facilities owned by Sinfra.

GlobalScape, Inc. ("GlobalSCAPE" a Texas corporation)

GlobalSCAPE markets CuteFTP and other digitally downloadable software products and distributes them over the Internet utilizing electronic software distribution ("ESD").

ATSI de CentroAmerica (a Costa Rican corporation)

ATSI de CentroAmerica markets international private network services in Costa Rica and other Latin American countries and looks to develop corporate development opportunities in Latin American countries through joint ventures and interconnection agreements with existing telecommunication monopolies.

2. FUTURE OPERATIONS, LIQUIDITY, CAPITAL RESOURCES AND VULNERABILITY DUE TO CERTAIN CONDITIONS

The accompanying consolidated financial statements of the Company have been prepared on the basis of accounting principles applicable to a going concern. For the period from December 17, 1993 to July 31, 1999, the Company has incurred cumulative net losses of $21.9 million. Further, the Company had a working capital deficit of $5.7 million at July 31, 1998 and $6.7 million at July 31, 1999. Further, the Company had negative cash flows from operations of $5.5 million, $.6 million and $3.6 million for the years ended July 31, 1997, 1998 and 1999, respectively. The Company has limited capital resources available to it, and these resources may not be available to support its ongoing operations until such time as the Company is able to generate positive cash flow from operations. There is no assurance the Company will be able to achieve future revenue levels sufficient to support operations or recover its investment in property and equipment, goodwill and other intangible assets. These matters raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the ongoing support of its stockholders and customers, its ability to obtain capital resources to support operations and its ability to successfully market its services.

The Company is likely to require additional financial resources in the near term and could require additional financial resources in the long-term to support its ongoing operations. The Company has retained various financial advisers to assist it in refining its strategic growth plan, defining its capital needs and obtaining the funds required to meet those needs. The plan includes securing funds through equity offerings and entering into lease or long-term debt financing agreements to raise capital. There can be no assurances, however, that such equity offerings or other financing arrangements will actually be consummated or that such funds, if received, will be sufficient to support existing operations until revenue levels are achieved sufficient to generate positive cash flow from operations. If the Company is not successful in completing additional equity offerings or entering into other financial arrangements, or if the funds raised in such stock offerings or other financial arrangements are not adequate to support the Company until a successful level of operations is attained, the Company has limited additional sources of debt or equity capital and would likely be unable to continue operating as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the accrual basis of accounting under generally accepted accounting principles of the U.S. All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified for comparative purposes.

Estimates in Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition Policies

The Company recognizes revenue from its call services and direct dial services as such services are performed, net of unbillable calls. Revenue from network management service contracts is recognized when service commences for service commencement fees and monthly thereafter as services are provided. The Company recognizes revenue from equipment sales when the title for the equipment transfers to the customer and from equipment installation projects when they are completed. Revenues related to the Company's Internet product are recognized at the point of delivery, as the Company bears no additional obligation beyond the provision of its software product other than post-contract customer service.

Foreign Currency Translation

Until January 1, 1999, Mexico's economy was designated as highly inflationary. Generally Accepted Accounting Principles, "GAAP" require the functional currency of highly inflationary economies to be the same as the reporting currency. Accordingly, the consolidated financial statements of ATSI-Mexico and Computel, whose functional currency is the peso, were remeasured from the peso into the U.S. dollar for consolidation. Monetary and nonmonetary assets and liabilities were remeasured into U.S. dollars using current and historical exchange rates, respectively. The operating activities of ATSI-Mexico and Computel were remeasured into U.S. dollars using a weighted-average exchange rate. The resulting translation gains and losses were charged directly to operations. As of January 1, 1999, Mexico's economy was deemed to be no longer highly inflationary. According to GAAP requirements the change from highly inflationary to non-highly inflationary requires that the nonmonetary assets be remeasured using not the historical exchange rates, but the exchange rate in place as of the date the economy changes from highly inflationary to non-highly inflationary. As such, the Company's non-monetary assets in ATSI-Mexico and Computel have been remeasured using the exchange rate as of January 1, 1999. Subsequent to January 1, 1999, monetary assets and non-monetary assets are translated using current exchange rates and operating activity of ATSI-Mexico and Computel are remeasured in to U.S. dollars using a weighted average exchange rate. The effect of these translation adjustments are reflected in the cumulative translation account shown in equity.

Accounts Receivable

The Company utilizes the services of credit card processing companies for the billing of commercial credit card calls. The Company receives cash from these calls, net of transaction and billing fees, generally within 20 days from the dates the calls are delivered. All other calls (calling card, collect, person-to-person and third party billed) are billed under an agreement between the Company and a billing clearinghouse. This agreement allows ATSI to submit call detail records to the clearinghouse, which in turn forwards these records to the local telephone company to be billed. The clearinghouse collects the funds from the local telephone company and then remits the funds, net of charges, to ATSI. Because this collection process can take up to 90 days to complete, ATSI participates in an advance funding program offered by the clearinghouse whereby 100% of the call records are purchased for 75% of their value within five days of presentment. The remaining 25% value of the call records are remitted to ATSI, net of interest and billing charges and an estimate for uncollectible calls, as the clearinghouse collects the funds from the local telephone companies. Under the advanced funding agreement, the collection clearinghouse has a security interest in the unfunded portion of the receivables as well as future receivables generated by the Company's long distance business. The allowance for doubtful accounts reflects the Company's estimate of uncollectible calls at July 31, 1998 and 1999 and includes $1.5 million of specific accounts identified by the Company as potentially uncollectible. ATSI currently pays a funding charge of prime plus 4% per annum on the amounts that are advanced to ATSI. Receivables sold with recourse during fiscal years 1997, 1998, and 1999 were $8,530,665, $11,127,221 and $6,138,549 respectively. At July 31, 1997, 1998 and 1999, $577,256, $484,381 and $444,398 of such receivables were uncollected, respectively. See Note 5 for additional disclosure regarding advanced funding.

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This statement provides accounting and reporting standards for, among other things, the transfer and servicing of financial assets, such as factoring receivables with recourse. The adoption of these statements has not had a material impact on the financial position or results of operations of the Company.

Impuesto al Valor Agregado (Value-Added Tax) ("IVA")

The Company's Mexican subsidiaries are required to report a value-added tax related to both purchases and sales of services and assets, for local tax reporting. Accordingly, each subsidiary maintains both an IVA receivable and IVA payable account on their subsidiary ledgers. For consolidated reporting purposes, the Company nets its Mexican subsidiaries IVA receivable and IVA payable accounts as allowed by regulatory requirements in Mexico. For the years ended July 31, 1998 and 1999, this netting of IVA accounts resulted in the elimination of IVA payable and a corresponding reduction in IVA receivable of approximately $197,000 and $1.2 million, respectively.

Basic and Diluted Loss Per Share

Loss per share was calculated using the weighted average number of common shares outstanding for the years ended July 31, 1997, 1998 and 1999. Common stock equivalents, which consist of the stock purchase warrants and options described in Note 9, were excluded from the computation of the weighted average number of common shares outstanding because their effect was antidilutive. Additionally, the Company has excluded the convertible preferred stock described in Note 8, from the computation of the weighted average number of common shares outstanding, as their effect will also be antidilutive.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, which range from five to fifteen years. Expenditures for maintenance and repairs are charged to expense as incurred. Direct installation costs and major improvements are capitalized.

Effective for the fiscal years beginning after July 31, 1996, the Company follows rules as prescribed under Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"). SFAS 121 requires an assessment of the recoverability of the Company's investment in long-lived assets to be held and used in operations whenever events or circumstances indicate that their carrying amounts may not be recoverable. Such assessment requires that the future cash flows associated with the long-lived assets be estimated over their remaining useful lives and an impairment loss be recognized when the undiscounted future cash flows are less than the carrying value of such assets. As of July 31, 1999, the Company has determined that the estimated undiscounted future cash flows associated with its long-lived assets are greater than the carrying value of such assets and that no impairment loss needs to be recognized.

Goodwill, Trademarks, Contracts and Other Assets

As of the years ended July 31, 1998 and 1999, other assets include goodwill, primarily related to the purchase of Computel, of $5,216,646 and $5,296,646, respectively, net of accumulated amortization of $126,668 and $265,089, respectively. Goodwill is amortized over

40 years. As of July 31, 1998 and 1999 other assets include acquisition costs of $1,417,870, and $1,596,620, respectively, related to the Company's acquisitions of several of its independent marketing representatives, net of accumulated amortization of $244,652, and $893,212, respectively. These acquisition costs are being amortized over the life of the contracts, which approximates three years. As of July 31, 1999, other assets include $898,943 related to the purchase of the rights to CuteFTP, net of accumulated amortization of $110,352. This trademark is being amortized over an estimated five-year life. Additionally, as of July 31, 1998 and 1999, other assets include approximately $489,000 and $615,000 of other assets, not specifically identified as goodwill, acquisition costs or trademarks. As it relates to SFAS 121, as of July 31, 1999, the Company has determined that the estimated future cash flows associated with its goodwill and other intangible assets are greater than the carrying value of such assets and that no impairment loss needs to be recognized. For the years ended July 31, 1997, 1998 and 1999, the Company recorded amortization expense of $55,491, $369,219 and $925,440, respectively related to its other assets.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under the provisions of SFAS 109, the Company recognizes deferred tax liabilities and assets based on enacted income tax rates that are expected to be in effect in the period in which the deferred tax liability or asset is expected to be settled or realized. A change in the tax laws or rates results in adjustments in the period in which the tax laws or rates are changed.

Statements of Cash Flows

Cash payments and non-cash investing and financing activities during the periods indicated were as follows:

	For the Years Ended July 31,		
	1997	1998	1999
Cash payments for interest	$ 416,756	$1,349,679	$1,101,771
Cash payments for taxes	$ -	$ 148,097	$ -
Common shares issued for services	$ 153,885	$ 246,591	$ 40,000
Common shares issued for acquisition of Computel and other	$1,846,569	$ -	$ 178,750
Assets acquired in acquisition of Computel	$3,418,753	$ -	$ -
Liabilities assumed in acquisition of Computel	$4,205,404	$ -	$ -
Conversion of convertible debt to common shares	$1,966,531	$ 100,000	$ -

Capital lease obligations incurred	$1,521,875	$4,635,693	$ -
Common share subscriptions sold	$1,113,170	$ -	$ 42,500

For purposes of determining cash flows, the Company considers all temporary cash investments with an original maturity of three months or less to be cash and cash equivalents.

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and disclosure of comprehensive income and its components in a full set of financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997, and requires reclassification of comparative financial statements for earlier periods. The adoption of SFAS No. 130 has resulted in the presentation of comprehensive income (loss) that differs from net income (loss) as presented in the accompanying financial statements to the extent of foreign currency translation adjustments as shown in the accompanying consolidated statements of comprehensive income (loss). The Company presentation of its comprehensive income component, foreign currency translation adjustments, is presented net of tax, which is $0 for all periods presented, in light of the Company's current net operating loss carryforward position.

Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument held by the Company:

Current assets and liabilities: The carrying value approximates fair value due to the short maturity of these items.

Long-term debt and convertible debt: Since the Company's debt is not quoted, estimates are based on each obligations' characteristics, including remaining maturity, interest rate, credit rating, collateral, amortization schedule and liquidity (without consideration for the convertibility of the notes). The Company believes that the carrying amount does not differ materially from the fair value.

4. PROPERTY AND EQUIPMENT, NET (at cost)

Following is a summary of the Company's property and equipment at July 31, 1998 and 1999:

	July 31, 1998	July 31, 1999
Telecommunications equipment	$ 6,084,771	$ 6,476,395
Land and buildings	892,507	447,748
Furniture and fixtures	882,449	902,873

Equipment under capital leases	5,585,291	7,758,739
Leasehold improvements	281,014	474,748
Other	517,192	608,914
	14,233,224	16,669,417
Less: accumulated depreciation and amortization	(2,418,514)	(4,712,671)
Total - property and equipment, net	$11,814,710	$11,956,746

Depreciation expense as reported in the Company's Consolidated Statements of Operations includes depreciation expense related to the Company's capital leases. For the years ended July 31, 1997, 1998 and 1999, the Company recorded approximately $536,000, $1,453,000 and $2,323,0000, respectively of depreciation expense related to its fixed assets.

5. NOTES PAYABLE AND CONVERTIBLE DEBT

Notes Payable

Notes payable are comprised of the following:	July 31,	
	1998	1999
Note payable to a company, see terms below.	$ 25,320	$ 137,071
Note payable to an individual, see terms below.	-	150,000
Note payable to a bank, see terms below.	-	150,000
Notes payable to related parties, see terms below.	-	100,000
Note payable to an individual, see terms below.	-	368,768
Notes payable to various banks, see terms below	416,846	56,878
Notes payable to a company, net of discount, see terms below.	364,803	309,588
	$1,406,969	$1,272,305
Less: current portion	$ 688,005	$ 960,523
Total non-current notes payable	$ 718,964	$ 311,782

During November 1996, the Company entered into an agreement with a financing company under which the Company is advanced an additional 13.75% of its receivables sold to a billing clearinghouse, as discussed in Note 3. These advances are typically outstanding for periods of less than 90 days, and are repaid, including accrued interest, by the clearinghouse on behalf of the Company as its receivables from long distance call services are collected. The Company was charged 4% per month for these fundings. When the agreement with the financing company expired in November 1998, it was renewed on a month-to-month basis, and the Company ceased using the factoring arrangement altogether in April 1999 as part of its ongoing effort to minimize costs. The approximate $137,000 outstanding represents advances to be repaid by the clearinghouse to the financing company upon its subsequent collection of its receivables from long distance call services.

During February 1999, the Company entered into a note payable with an individual, for working capital purposes, in the amount of $150,000. Interest accrues at an interest rate of 12% per year, principal and interest due at maturity. The note originally matured in May 1999, but the Company has extended the note with the individual for an additional six months.

During January 1999, one of the Company's subsidiaries entered into a note payable with a bank in the amount of $180,000 related to its acquisition of a computer software program known as "CuteFTP". (See Note 10). The note calls for principal payments of $5,000 per month for twelve months and $10,000 per month for twelve months. Interest accrues monthly at an interest rate of the Lender's "Prime Rate" plus 1%. At July 31, 1999, the Lender's "Prime Rate" was 8.00%.

In February 1999, the Company entered into notes payable with related parties, all of whom were officers or directors of the Company in the amount of $250,000. The notes accrue interest at a rate of 12% per year until paid in full. As of July 31, 1999, $100,000 of the notes remain outstanding.

In January 1999, one of the Company's subsidiaries entered into an agreement with an individual related to its acquisition of a computer software program known as "CuteFTP". (See Note 10). The agreement calls for twelve principal and interest payments of $63,000 per month beginning February 28, 1999. The Company has imputed interest using an interest rate of 12% per annum.

As of July 31, 1998 and July 31, 1999, the Company through its acquisition of Computel had approximately $416,846 and $56,878, respectively, of bank notes payable to various banks in Mexico. The notes have interest rates ranging from 8% to 15%, with monthly principal and interest payments of approximately $7,500. The notes mature between October 1999 and December 2015 and are collaterized by the assets of Computel. In the year ended July 31, 1999, the Company through Computel exchanged certain assets collaterized by the notes for a reduction in its indebtedness. The notes remaining mature during the year ended July 2000.

During October 1997, the Company entered into a note payable with a company in the amount of $1,000,000. The note calls for quarterly payments of principal and interest beginning in January 1998 and continuing until October 2004. Interest accrues on the unpaid principal at the rate of 13% per year. The Company also issued 250,000 warrants to the note holder which carry an exercise price of $3.56 per warrant. These warrants expire in October 2000. The amount of debt discount recorded by the Company related to the issuance of these warrants was $103,333. The fair value of the warrants was calculated on the date of issuance using an option pricing model with the following assumptions: Dividend yield of 0.0%, expected volatility of 30%, risk-free interest rate of 6.00%, and an expected life of three years. The warrants expire three years from their date of issuance, and are not exercisable for a period of one year after their initial issuance. In January 1998, the noteholder exercised 700,000 warrants at an exercise price of $0.70, unrelated to the warrants noted above, in consideration of a $490,000 reduction of the principal balance outstanding on the note.

Convertible Debt

In March and May 1997, the Company issued $2.2 million in convertible notes, interest at 10%. The principal and interest, which accrues quarterly, is due and payable three years from the date of issuance. The convertible notes convert into fully redeemable preferred stock at the Company's option. In addition, for each $50,000 unit of convertible debt, each holder was issued 108,549 warrants to purchase an equal number of shares of common stock at $0.27 per share. The fair value of the warrants was determined to be $0.37 per share and the Company assigned $990,000 to the value of the warrants in stockholders' equity. The fair value of the warrants was calculated on the date of issuance using an option pricing model with the following assumptions: Dividend yield of 0.0%, expected volatility of 62%, risk-free interest rate of 6.35%, and an expected life of three years. The warrants expire three years from their date of issuance, and were not exercisable for a period of one year after their initial issuance. The Company has recorded the $990,000 as debt discount and is amortizing the discount over the term of the debt based on the effective interest method. Principal outstanding as of July 31, 1998 and July 31, 1999, net of debt discount, was $1,603,802 and $1,942,614, respectively. All of the outstanding principal at July 31, 1999 is reflected in the current portion of convertible long-term debt.

Maturities of notes payable and convertible debt as of July 31, 1999 were as follows:

Year Ending July 31, 2000	$2,903,137
2001	107,983
2002	56,949
2003	67,138
2004	78,718
Thereafter	994
Total	$3,214,919

6. LEASES

Operating Leases

The Company leases office space, furniture, equipment and network capacity under noncancelable operating leases and certain month-to-month leases. During fiscal 1997, 1998 and 1999, the Company also leased certain equipment under capital leasing arrangements. Rental expense under operating leases for the years ended July 31, 1997, 1998 and 1999, was $176,700, $942,750 and $2,952,710, respectively. Future minimum lease payments under the noncancelable operating leases at July 31, 1999 are as follows:

2000	$ 2,929,328
2001	3,284,740
2002	2,598,753
2003	583,524
2004	574,542
Thereafter	1,864,863
Total minimum lease payments	$11,835,750

Capital Leases

Future minimum lease payments under the capital leases together with the present value of the net minimum lease payment at July 31, 1999 are as follows:

2000	$ 2,295,036
2001	2,246,127
2002	2,022,825
2003	1,758,391
2004	562,335
Thereafter	277,435
Total minimum lease payments	9,162,149
Less: Amount representing taxes	(45,302)
Net minimum lease payments	9,116,847
Less: Amount representing interest	(2,164,572)
Present value of minimum lease payments	$ 6,952,275

In April 1997, the Company, through ATSI-Mexico secured a capital lease facility with IBM de Mexico to purchase intelligent pay telephones for installation in Mexico. The capital lease facility of approximately $1.725 million has allowed the Company to install U.S. standard intelligent pay telephones in various Mexican markets. In April 1998, the Company through ATSI-Mexico secured an additional capital lease facility with IBM de Mexico for approximately $2.9 million to increase network capacity and to fund the purchase and installation of public telephones in Mexico. In May 1999, the Company restructured its capital lease obligation with IBM de Mexico by extending the payment of its total obligation. The restructured lease facility calls for monthly payments of principal and interest of approximately $108,000 beginning in July 1999 and extending through June 2003. Interest accrues on the facility at an interest rate of approximately 13% per year. The obligation outstanding under said facility at July 31, 1998 and July 31, 1999 was approximately $4,272,000 and $3,826,000, respectively.

In December 1998, the Company ordered a DMS 250/300 International gateway switch from Northern Telecom, Inc. at a cost of approximately $1.8 million. As of July 31, 1999, the Company entered into a capital lease transaction with NTFC Capital Corporation, ("NTFC") to finance the switch and an additional approximate $200,000 of equipment over a five and a half-year period with payments delayed for six months. Quarterly payments approximate $139,000 and the capital lease has an interest rate of approximately 11%. The lease facility requires that the Company meet certain financial covenants on a quarterly basis beginning October 31, 1999, including minimum revenue levels, gross margin levels, EBITDA results and debt to equity ratios. Due primarily to pricing pressures in the Company's network transport services business, the Company may not be able to meet some of the financial covenants in the facility, which, if not cured, would allow NTFC to demand payment in full of the amount outstanding. However, because management does not believe that non-compliance is a certainty, the majority of the amount outstanding under the facility has been classified as non-current in the accompanying balance sheet. The Company also has certain affirmative covenants under the facility, including a covenant on Year 2000 compliance, under which the Company gives assurance that the Company's systems will be able to process transactions effectively before, on and after January 1, 2000.

The Company secured a capital lease for approximately $500,000 in December 1998 for the purchase of ATM equipment from Network Equipment Technologies ("N.E.T"). The capital lease is for thirty-six months with monthly payments of approximately $16,000 a month. The Company's capital leases have interest rates ranging from 11% to 14%.

7. DEFERRED REVENUE

The Company records deferred revenue related to the private network services it provides. Customers may be required to advance cash to the Company prior to service commencement to partially cover the cost of equipment and related installation costs. Any cash received prior to the actual commencement of services is recorded as deferred revenue until services are provided by the Company, at which time the Company recognizes service commencement revenue.

8. SHARE CAPITAL

As discussed in Note 1, in May 1998, the Company completed its Plan of Arrangement whereby the shareholders of ATSI-Canada exchanged their shares on a one-for-one basis for shares of ATSI-Delaware stock. The exchange of shares resulted in the recording on the Company's books of $0.001 par value stock and additional paid-in capital.

During the year ended July 31, 1997, the Company issued 13,012,448 common shares. Of this total, 5,760,355 shares were issued for approximately $4,737,000 of net cash proceeds, 924,761 shares were issued for services rendered to the Company, 3,611,786 shares were issued for the conversion of convertible debt to common shares, and 2,715,546 shares were issued related to the Company's acquisition of Computel. (See Note 10).

During the year ended July 31, 1998, the Company issued 8,816,461 common shares. Of this total, 7,765,174 shares were issued for approximately $3.2 million of net cash proceeds and reductions in indebtedness of approximately $1.1 million through the exercise of 7,765,174 warrants and options, 245,016 shares were issued for services rendered to the Company, 200,000 were issued resulting from the conversion of a $100,000 convertible note and 606,271 shares were issued for approximately $333,000 in net cash proceeds.

During the year ended July 31, 1999, the Company issued 3,081,721 common shares. Of this total, 2,203,160 shares were issued for approximately $1.3 million of net cash through the exercise of 2,203,160 warrants and options, 36,643 shares were issued for consulting services rendered to the Company, 59,101 shares were issued to a shareholder in exchange for a guarantee of up to $500,000 of Company debt, 503,387 shares and an equal number of warrants to purchase the Company's common stock for $0.70 per share were issued in exchange for approximately $300,000 in net cash proceeds and 279,430 shares were issued related to the Company's acquisition of certain customer contracts in previous years. The shares issued for services rendered, the guarantee of Company debt, and the shares issued for the $300,000 in cash proceeds (including the shares underlying the warrants issued) have not been registered by the Company, nor does the Company have any obligation to register such shares.

At July 31, 1999, stock subscription receivables of $42,500, were outstanding related to sales of common stock. Such amounts were collected by the Company subsequent to said date. No dividends were paid on the Company's stock during the years ended July 31, 1997, 1998 and 1999.

The shareholders of ATSI-Canada approved the creation of a class of preferred stock at the Company's annual shareholders meeting on May 21, 1997. Effective June 25, 1997, the class of preferred stock was authorized under the Ontario Business Corporations Act. According to the Company's amended Articles of Incorporation, the Company's Board of Directors may issue, in series, an unlimited number of preferred shares, without par value. No preferred shares have been issued as of July 31, 1999.

Pursuant to ATSI-Delaware's Certificate of Incorporation, the Company's Board of Directors may issue, in series, an unlimited number of preferred shares, with a par value of $0.001. In March and April 1999, the Company issued a total of 24,146 shares of Series A Preferred Stock for cash proceeds of approximately $2.4 million and in July 1999 the Company issued 2,000 shares of Series B Preferred Stock for cash proceeds of approximately $2.0 million. The Series A Preferred Stock accrues cumulative dividends at the rate of 10% per annum payable quarterly, while the Series B Preferred Stock accrues cumulative dividends at the rate of 6% per annum.

In September 1999, the Company issued 500 shares of Series C Preferred Stock for cash proceeds of approximately $500,000. The Series C Preferred Stock accrues cumulative dividends at the rate of 6% per annum.

The Series A Preferred Stock and any accumulated, unpaid dividends may be converted into Common Stock for up to one year at the average closing price of the Common Stock for twenty (20) trading days preceding the Date of Closing (the "Initial Conversion Price"). On each Anniversary Date up to and including the fifth Anniversary Date, the Conversion price on any unconverted Preferred Stock, will be reset to be equal to 75% of the average closing price of the stock for the then twenty (20) preceding days provided that the Conversion price can not be reset any lower than 75% of the Initial Conversion Price. The Series B Preferred Stock and any accumulated, unpaid dividends may be converted into Common Stock for up to two years at the lesser of a) the market price on the day prior to closing or b) 78% of the five lowest closing bid prices on the ten days preceding conversion. As these conversion features are considered a "beneficial conversion feature" to the holder, the Company allocated approximately $1.6 million and $1.1 million, respectively of the approximate $2.4 million and $2.0 million, respectively, in proceeds to additional paid-in capital as a discount to be amortized over a twelve month and three month period, respectively. The Series A Preferred Stock is callable and redeemable by the Company at 100% of its face value, plus any accumulated, unpaid dividends at the Company's option any time after the Common Stock of the Company has traded at 200% or more of the conversion price in effect for at least twenty (20) consecutive trading days, so long as the Company does not call the Preferred Stock prior to the first anniversary date of the Date of Closing. The Series B Preferred Stock is callable and redeemable by the Company at 127% of its face value, plus any accumulated, unpaid dividends at the Company's option any time prior to the second anniversary date of the Date of Closing.

The Series C Preferred Stock and any accumulated, unpaid dividends may be converted into Common Stock for up to two years at the lesser of a) the market price on the day prior to closing or b) 78% of the five lowest closing bid prices on the ten days preceding conversion. Consistent with the accounting for the Company's Series A and Series B Preferred Stock, this is considered a "beneficial conversion feature" to the holder. The Company will allocate approximately $139,000 of the proceeds to additional paid-in capital as a discount to be amortized over a three-month period.

The terms of the Company's Series A, Series B and Series C Preferred Stock restrict the Company from declaring and paying on its common stock until such time as all outstanding dividends have been fulfilled related to the Preferred Stock.

9. STOCK PURCHASE WARRANTS AND STOCK OPTIONS

During the year ended July 31, 1999, certain shareholders and holders of convertible debt of the Company were issued warrants to purchase shares of common stock at exercise prices ranging from $0.70 to $1.06 per share. Following is a summary of warrant activity from August 1, 1996 through July 31, 1999:

	Year Ending July 31,		
	1997	1998	1999
Warrants outstanding, beginning	8,097,463	14,489,942	7,562,168
Warrants issued	9,931,854	667,400	933,387
Warrants expired	(777,200)	-	(2,386,470)
Warrants exercised	(2,762,175)	(7,595,174)	(1,905,160)
Warrants outstanding, ending	14,489,942	7,562,168	4,203,925

Warrants outstanding at July 31, 1999 expire as follows:

Number of Warrants	Exercise Price	Expiration Date
80,000	$1.06	November 6, 1999
30,000	$0.50	December 31, 1999
367,400	$0.85	January 1, 2000
550,824	$0.85	February 7, 2000
1,030,060	$0.27	February 17, 2000
1,000,000	$0.70	February 28, 2000
192,254	$0.75	April 7, 2000
503,387	$0.70	April 13, 2000
50,000	$2.00	June 20, 2000
250,000	$3.56	October 14, 2000
50,000	$3.09	March 9, 2002
100,000	$1.25	July 2, 2004

The Company had two fixed stock plans during 1997. The Company had a stock option plan that was in existence since May 1994 (the Canadian Plan). No options were ever issued as part of the Canadian Plan, even though the Company had the ability to issue options to acquire approximately 2,800,000 shares of the Company's common stock. In February 1997, the Company's Board of Directors adopted the 1997 Stock Option Plan, which replaced the Canadian Plan. Under the 1997 Stock Option Plan, options to purchase up to 5,000,000 shares of common stock may be granted to employees, directors, consultants and advisers. The 1997 Stock Option Plan is intended to permit the Company to retain and attract qualified individuals who will contribute to the Company's overall success. The exercise price of all of the options is equal to the market price of the shares of common stock as of the date of grant. The options vest pursuant to the individual stock option agreements, usually 33 percent per year beginning one year from the grant date with unexercised options expiring ten years after the date of the grant. On February 10, 1997, the Board of Directors granted a total of 4,488,000 options to purchase Common Shares to directors and employees of the Company. Certain grants were considered vested based on past service as of February 10, 1997. The 1997 Stock Option Plan was approved by a vote of the stockholders at the Company's Annual Meeting of Shareholders on May 21, 1997.

In September 1998, the Company's Board of Directors adopted the 1998 Stock Option Plan. Under the 1998 Stock Option Plan, options to purchase up to 2,000,000 shares of common stock may be granted to employees, directors and certain other persons. The 1997 and 1998 Stock Option Plans are intended to permit the Company to retain and attract qualified individuals who will contribute to the Company's overall success. The exercise price of all of the options is equal to the market price of the shares of common stock as of the date of grant. The options vest pursuant to the individual stock option agreements, usually 33 percent per year beginning one year from the grant date with unexercised options expiring ten years after the date of the grant. On September 9, 1998, the Board of Directors granted a total of 1,541,000 options to purchase common stock to directors and employees of the Company. On December 16, 1998, the Board approved the granting of an additional 302,300 in options to employees of the Company. The 1998 Stock Option Plan was approved by a vote of the stockholders at the Company's Annual Meeting of Shareholders on December 17, 1998.

A summary of the status of the Company's 1997 and 1998 Stock Option Plans for the years ended July 31, 1997, 1998 and 1999 and changes during the periods are presented below:

1997 Stock Option Plan	Years Ended July 31,			
	1997		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighed Average Exercise Price
Outstanding, beginning of year	-	-	4,483,000	$0.58
Granted	4,488,000	$0.58	429,000	$2.33
Exercised	-	-	(245,000)	$0.58
Forfeited	(5,000)	$0.58	(11,667)	$1.28
Outstanding, end of year	4,483,000	$0.58	4,655,333	$0.74
	=========	=====	=========	=====
Options exercisable at end of year	1,786,332	$0.58	2,571,332	$0.58
	=========	=====	=========	=====
Weighted average fair value of options granted during the year		$0.45		$1.50
		=====		=====

1997 Stock Option Plan	Year Ended July 31,	
	1999	
	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	4,655,333	$0.74
Granted	-	-
Exercised	(298,000)	$0.58
Forfeited	(134,666)	$0.71
Outstanding, end of year	4,222,667	$0.75
	=========	=====
Options exercisable at end of year	3,271,333	$0.60
	=========	=====
Weighted average fair value of options granted during the year		$0.00
		=====

1998 Stock Option Plan	Year Ended July 31, 1999 Shares	Weighted Average Exercise Price
Outstanding, beginning of year	-	-
Granted	1,843,300	$0.60
Exercised	-	-
Forfeited	(57,500)	$0.78
Outstanding, end of year	1,785,800	$0.60
Options exercisable at end of year	-	-
Weighted average fair value of options granted during the year		$0.64

The weighted average remaining contractual life of the stock options outstanding at July 31, 1999 is approximately 7.5 years for options granted under the 1997 Stock Option Plan and approximately 9 years for options granted under the 1998 Stock Option Plan.

In October 1995, SFAS No. 123, "Accounting for Stock-Based Compensation" was issued. SFAS 123 defines a fair value based method of accounting for employee stock options or similar equity instruments and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period of the award, which is usually the vesting period. However, SFAS 123 also allows entities to continue to measure compensation costs for employee stock compensation plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). The Company has adopted SFAS 123 effective August 1, 1996, and has elected to remain with the accounting prescribed by APB 25. The Company has made the required disclosures prescribed by SFAS 123.

In accordance with APB 25, the Company recorded approximately $1.4 million in deferred compensation related to approximately 1.5 million of the options granted based on the increase in the Company's stock price from February 10, 1997 when the options were granted, to May 21, 1997, when the underlying 1997 Stock Option Plan was approved by the Company's shareholders. Additionally, the Company recorded approximately $340,000 in deferred compensation related to approximately 1.5 million of the options granted based on the increase in the Company's stock price from September 9, 1998 to December 17, 1998, when the underlying 1998 Stock Option Plan was approved by the Company's shareholders.

As of July 31, 1998 and July 31, 1999, the Company had $666,899 and $465,487, respectively, of deferred compensation related to options granted.

Because the Company has elected to remain with the accounting prescribed by APB 25, no compensation cost has been recognized for its fixed stock option plan based on SFAS 123. Had compensation cost for the Company's stock-based compensation plans been determined on the fair value of the grant dates for awards under the fixed stock option plans consistent with the method of SFAS 123, the Company's net loss (in thousands) and loss per share would have been increased to the pro forma amounts indicated below:

	Year Ended July 31, 1997	Year Ended July 31, 1998	Year Ended July 31, 1999
Net Loss to common stockholders			
As reported	$(4,695)	$(5,094)	$(7,591)
Pro forma	$(5,235)	$(5,936)	$(7,312)
Basic and Diluted Loss per share			
As reported	$ (0.18)	$ (0.12)	$ (0.16)
Pro forma	$ (0.20)	$ (0.14)	$ (0.15)

The fair value of the option grant is estimated based on the date of grant using an option pricing model with the following assumptions used for the grants in 1997, 1998 and 1999: Dividend yield of 0.0%, expected volatility of 60%, 46% and 62%, respectively, risk-free interest rate of 6.41%, 5.10% and 6.50%, respectively, and an expected life of ten years.

10. ACQUISITIONS

As discussed in Note 1, the Company acquired 55% of Computel in May 1997 and acquired the remaining shares in August 1997. The total purchase price for the acquisition of Computel was approximately $3.6 million, of which $1.1 million was paid in cash, $700,000 in a note receivable forgiven by the Company and approximately $1.8 million in common stock, representing 2,715,546 shares. The Company recorded the assets and liabilities of Computel as of May 1, 1997. As Computel had net liabilities at May 1, 1997, the Company recorded goodwill of $2,279,231 related to the acquisition. The remaining 45% ownership interest is reflected as minority interest at July 31, 1997. Per the terms of the agreement, the remaining shares of Computel were acquired in August 1997 for the previously mentioned cash payment of approximately $1.1 million and forgiveness of the aforementioned note receivable. The Company recorded additional goodwill of approximately $2,857,000.

The following unaudited pro forma results of operations for the year ended July 31, 1997, assumes the acquisition of Computel occurred as of the beginning of the period. Such pro forma information is not necessarily indicative of the results of future operations.

	Year Ended July 31, 1997 (Unaudited)
Operating revenues	$ 20,312,000
Net loss	($5,408,000)
Basic and Diluted net loss per share	($0.19)

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments such as additional amortization of goodwill as a result of the acquisition, and the elimination of intercompany transactions. The unaudited pro forma information is not necessarily indicative of the results that would have occurred had such transactions actually taken place at the beginning of the period specified nor does such information purport to project the results of operations for any future date or period.

Pro forma results of operations for the year ended July 31, 1998 have been omitted, as pro forma results would not materially differ from actual results of operations for the period.

In January 1999, the Company acquired the rights to the source code of a computer software program known as "CuteFTP". Prior to January 1999, the Company had been the distributor of this software under an exclusive distribution agreement executed in June 1996 with the software's author. The Company acquired the rights to CuteFTP in exchange for cash payments totaling approximately $190,000 in January and February 1999 and an additional $756,000 to be paid in twelve monthly installments.

11. SEGMENT REPORTING

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes standards for reporting information about operating segments in annual and interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. SFAS No. 131 need not be applied to interim financial statements in the initial year of its application, but comparative information for interim periods in the initial year of application is to be reported in financial statements for interim periods in the second year of application. In an attempt to identify its reportable operating segments, the Company considered a number of factors or criteria. These criteria included segmenting based upon geographic boundaries only, segmenting based on the products and services provided, segmenting based on legal entity and segmenting by business focus. Based on these criteria or factors the Company has determined that it has three reportable operating segments: (1) U.S. Telco; (2) Mexico Telco; and (3) Internet e-commerce. Clearly, the Company's Internet e-commerce subsidiary, GlobalSCAPE, Inc. and its operations can be differentiated from the telecommunication focus of the rest of the Company. Additionally, the Company believes that its U.S. and Mexican subsidiaries should be separate segments in spite of the fact that many of the products are borderless. Both, the U.S. Telco and Mexican Telco segments include revenues generated from Integrated Prepaid, Postpaid, and Private Network Services. The Company's Carrier Services revenues, generated as a part of its U.S. Telco segment, are the only revenues not currently generated by both the U.S. Telco and Mexico Telco segments. The Company has included the operations of ATSI-Canada, ATSI-Delaware and all businesses falling below the reporting threshold in the "Other" segment. The "Other" segment also includes intercompany eliminations.

	As of and for the years ending		
	July 31, 1997	July 31, 1998	July 31, 1999
U.S. Telco			
External revenues	$ 13,714,251	$ 26,695,690	$ 25,516,665
Intercompany revenues	$ 330,362	$ 1,300,000	$ 800,012
Total revenues	$ 14,044,613	$ 27,995,690	$ 26,316,677
Earnings before interest, taxes, depreciation and amortization (EBITDA)	($3,131,841)	($16,807)	($1,485,045)
Operating loss	($3,603,447)	($1,294,037)	($3,342,035)
Net loss	($3,806,889)	($1,819,986)	($3,866,051)
Total assets	$ 6,450,033	$ 10,049,021	$ 9,606,263
Mexico Telco			
External revenues	$ 1,949,755	$ 6,298,620	$ 6,359,238
Intercompany revenues	$ 1,359,891	$ 5,136,541	$ 5,052,890
Total revenues	$ 3,309,646	$ 11,435,161	$ 11,412,128
EBITDA	($183,002)	($1,434,261)	($1,071,502)
Operating loss	($273,740)	($1,927,928)	($2,253,037)
Net loss	($364,402)	($2,564,103)	($2,691,450)
Total assets	$ 9,097,780	$ 17,228,025	$ 13,236,868
Internet e-commerce			
External revenues	$ 564,381	$ 1,525,517	$ 2,642,376
Intercompany revenues	-	25,000	-
Total revenues	$ 564,381	$ 1,550,517	$ 2,642,376
EBITDA	$ 39,197	$ 215,051	$ 1,052,015
Operating income	$ 36,483	$ 188,658	$ 873,832

Net income	$ 38,282	$ 197,698	$ 854,068
Total assets	$ 266,955	$ 537,289	$ 1,222,238
Other			
External revenues	-	-	-
Intercompany revenues	($1,690,253)	($6,461,541)	($5,852,902)
Total revenues	($1,690,253)	($6,461,541)	($5,852,902)
EBITDA	($ 335,325)	($408,783)	($287,110)
Operating loss	($361,013)	($433,683)	($318,274)
Net loss	($562,119)	($907,570)	($1,887,651)
Total assets	$ 5,940	($3,563,743)	$ 88,924
Total			
External revenues	$ 16,228,387	$ 34,519,827	$ 34,518,279
Intercompany revenues	-	-	-
Total revenues	$ 16,228,387	$ 34,519,827	$ 34,518,279
EBITDA	($3,610,971)	($1,644,800)	($1,791,642)
Depreciation, Depletion and Amortization	($590,746)	($1,822,190)	($3,247,872)
Operating loss	($4,201,717)	($3,466,990)	($5,039,514)
Net loss	($4,695,128)	($5,093,961)	($7,591,084)
Total assets	$15,820,708	$24,250,592	$24,154,293

12. INCOME TAXES

As of July 31,1999, the Company had net operating loss carryforwards of approximately $9,335,000 for U.S. federal income tax purposes which are available to reduce future taxable income of which $534,000 will expire in 2009, $2,385,000 will expire in 2010, $2,083,000 will expire in 2011, $2,894,000 will expire in 2012 and $1,439,000 will expire in 2019. The availability of the net operating loss (NOL) carryforwards to reduce U.S. federal taxable income is subject to various limitations in the event of an ownership change as defined in Section 382 of the Internal Revenue Code of 1986 (the "Code"). The Company experienced a change in ownership in excess of 50 percent, as defined in the Code, during the year ended July 31, 1998. This change in ownership limits the annual utilization of NOL under the Code to $1,284,000 per year, but does not impact its ability to utilize its NOL's because the annual limitation under the Code would allow full utilization within the statutory carryforward period.

The tax effects of significant temporary differences representing deferred income tax assets and liabilities are as follows as of July 31, 1998 and 1999:

	July 31, 1998	July 31,1999
Net operating loss carryforward	$ 2,919,000	$ 3,174,000
Other tax differences, net	628,000	839,000
Valuation allowance	(3,547,000)	(4,013,000)
Total deferred income tax assets	$ -	$ -

A valuation reserve of $3,547,000 and $4,013,000, as of July 31, 1998 and 1999, respectively, representing the total of net deferred tax assets has been recognized by the Company as it cannot determine that it is more likely than not that all of the deferred tax assets will be realized.

Additionally, the Company's effective tax rate differs from the statutory rate as the tax benefits have not been recorded on the losses incurred for the years ended July 31, 1997, 1998 and 1999.

13. COMMITMENTS AND CONTINGENCIES

During the years ended July 31, 1998 and 1999, nine officers of the Company entered into employment agreements with ATSI-Texas or ATSI-Delaware, generally for periods of up to three years (with automatic one-year extensions) unless terminated earlier in accordance with the terms of the respective agreements. The annual base salary under such agreements for each of these nine officers range from $75,000 to $100,000 per annum, and is subject to increase within the discretion of the Board. In addition, each of these officers is eligible to receive a bonus in such amount as may be determined by the Board of Directors from time to time. Bonuses may not exceed 50% of the executive's base salary in any fiscal year. No bonuses were paid during fiscal 1999.

Effective August 1998, two of the aforementioned officers entered into employment agreements with ATSI-Delaware, which superceded their previous agreements, each for a period of three years (with automatic one-year extensions) unless terminated earlier in accordance with the terms of the respective agreements. The annual base salary under such agreements for each of these two officers may not be less than $127,000 and $130,000, respectively, per annum, and is subject to increase within the discretion of the Board. In addition, each of these officers is eligible to receive a bonus in such amount as may be determined by the Board of Directors from time to time. Bonuses may not exceed 50% of the executive's base salary in any fiscal year. No such bonuses were awarded for fiscal 1999.

Subsequent to July 31, 1999, three officers whose employment agreements were to expire January 1, 2000 were informed that their agreements would not be renewed under the current terms and conditions. Two of the three officers have since entered into new employment agreements with ATSI-Delaware, each for a period of one year unless earlier terminated in accordance with the terms of the respective agreements. The annual base salaries under such agreements may not be less than approximately $101,000 and $105,000, respectively, per annum, and is subject to increase within the discretion of the Board. In addition, each of these officers is eligible to receive a bonus in such amount as may be determined by the Board of Directors from time to time. Bonuses may not exceed 50% of the executive's base salary in any fiscal year.

14. RISKS AND UNCERTAINTIES AND CONCENTRATIONS

The Company's business is dependent upon key pieces of equipment, switching and transmission facilities, fiber capacity and the Solaridad satellites. Should the Company experience service interruptions from its underlying carriers, equipment failures or should there be damage or destruction to the Solaridad satellites or leased fiber lines there would likely be a temporary interruption of the Company's services which could adversely or materially affect the Company's operations. The Company believes that suitable arrangements could be obtained with other satellite or fiber optic network operators to provide transmission capacity. Additionally, the Company's network control center is protected by an uninterruptible power supply system which, upon commercial power failure, utilizes battery back-up until an on-site generator is automatically triggered to supply power.

During the year ended July 31, 1999, the Company's wholesale transport business had two customers, whose aggregated revenues approximated 10% of the Company's total revenues for the year. No other customer generated revenues individually greater than 5% during the year.

15. RELATED PARTY TRANSACTIONS

In January 1997, ATSI-Canada entered into an agreement with an international consulting firm, of which ATSI-Delaware director Carlos K. Kauachi is president, for international business development support. Under the terms of the agreement, the Company paid the consulting firm $8,000 per month for a period of twelve months. In January 1998, the agreement was renewed at $10,000 per month for a period of twelve months. In March 1999, the agreement was renewed at $6,000 per month for a period of twelve months.

In April 1998, the Company engaged two companies for billing and administrative services related to network management services it provides. The companies, which are owned by Tomas Revesz, an ATSI-Delaware director, were paid approximately $140,000 for their services during fiscal 1998. Subsequent to year-end, the Company entered into an agreement with the two companies capping their combined monthly fees at $18,500 per month. For fiscal 1999, the companies were paid approximately $180,000 for their services. Additionally, the Company has a payable to Mr. Revesz of $90,000.

In February 1999, the Company entered into notes payable with related parties, all of whom were officers or directors of the Company in the amount of $250,000. The notes accrue interest at a rate of 12% per year until paid in full. As of July 31, 1999, $100,000 of the notes remain outstanding.

The Company has entered into a month-to-month agreement with Technology Impact Partners, a consulting firm of which Company director Richard C. Benkendorf, is principal and owner. Under the agreement, Technology Impact Partners provides the Company with various services that include strategic planning, business development and financial advisory services. Under the terms of the agreement, the Company pays the consulting firm $3,750 per month plus expenses. At July 31, 1999, the Company has a payable to Technology Impact Partners of approximately $74,000.

16. LEGAL PROCEEDINGS

On January 29, 1999, one of the Company's customers, Twister Communications, Inc. filed a Demand for Arbitration seeking damages for breach of contract before the American Arbitration Association. The customer claims that the Company wrongfully terminated an International Carrier Services Agreement executed by the parties in June 1998 under which the Company provided wholesale carrier services from June 1998 to January 1999. The customer's claims for damages represent amounts that it claims it had to pay in order to replace the service provided by the Company. The Company disputes that it terminated the contract wrongfully and asserts that the customer breached the agreement by failing to pay for services rendered and by intentionally making false representation regarding its traffic patterns and on March 3, 1999 filed a Demand for Arbitration seeking damages for breach of contract in an amount equal to the amounts due to the Company for services rendered plus interest, plus additional damages for fraud. An arbitration panel was selected and the parties are now completing written discovery.

While the Company believes that it has a justifiable basis for its arbitration demand and that it will be able to resolve the dispute without a material adverse effect on the Company's financial condition; until the arbitration proceedings take place, the Company can not reasonably estimate the possible loss, if any, and there can be no assurance that the resolution of this dispute would not have an adverse effect on the Company's results of operations.

On June 16, 1999, the Company's subsidiary, ATSI Texas initiated a lawsuit in District Court, Bexar County, Texas against PrimeTEC International, Inc., Mike Moehle and Vartec Telecom, Inc. claiming misrepresentation and breach of conduct. Under an agreement the Company signed in late 1998, PrimeTEC was to provide quality fiber optic capacity in January 1999. Mike Moehle is PrimeTEC's former president who negotiated the fiber lease and Vartec is PrimeTEC's parent. The delivery of the route in early 1999 was a significant component of the Company's operational and sales goal for the year and the failure of its vendor to provide the capacity led to the Company negotiating an alternative agreement with Bestel, S.A. de C.V. at a higher cost. While the total economic impact is still being assessed, the Company believes lost revenues and incremental costs are in excess of $15 million. While the Company's contract contains certain limitations regarding the type and amounts of damages that can be pursued, the Company has authorized its attorneys to pursue all relief to which it is entitled under law. As such, the Company can not reasonably estimate the ultimate outcome of neither this lawsuit nor the additional costs that may be incurred in the pursuit of its case.

The Company is also a party to additional claims and legal proceedings arising in the ordinary course of business. The Company believes it is unlikely that the final outcome of any

VERIFICATIONS

VERIFICATION

STATE OF CALIFORNIA	)
COUNTY OF SAN DIEGO	)

I, Derek Gietzen, hereby declare under penalty of perjury that I am President and Chief Executive Officer of Genesis Communications International, Inc.; that I am authorized to provide this verification on its behalf; and that the facts stated in the foregoing documents are true and correct to the best of my knowledge, information and belief.

I declare under penalty of perjury that the foregoing is true and correct.

SIGNATURE: Derek Gietzen

NAME: Derek Gietzen

TITLE: President and Chief Executive Office

Subscribed and sworn to before me this 17 day of July, 2000.

Elaine Hope Blackburn
Notary Public

ELAINE HOPE BLACKBURN
Commission # 1171837
Notary Public - California
San Diego County
My Comm. Expires Jan 31, 2002

My Commission expires on January 31, 2000.

340642

VERIFICATION

STATE OF TEXAS	)
COUNTY OF BEXAR	)

I, Arthur L. Smith, hereby declare under penalty of perjury that I am Chief Executive Officer of American TeleSource International, Inc.; that I am authorized to provide this verification on its behalf; and that the facts stated in the foregoing documents are true and correct to the best of my knowledge, information, and belief.

I declare under penalty of perjury that the foregoing is true and correct.

SIGNATURE: ______________________

NAME: Arthur L. Smith

TITLE: Chief Executive Officer

Subscribed and sworn to before me this 17th day of July, 2000.

KATHLEEN KELLER
Notary Public, State of Texas
My Commission Expires 01-24-03

Notary Public

My Commission expires on 01/24/03.