

ORIGINAL

991446-TX
991447-TX



UniversalAccess™

Income Statement

PRELIMINARY

*For the Quarter
Ending
June 30, 1999*

*For the Quarter
Ending
June 30, 1998*

Revenue	Access Revenue Co-Location Revenue Total Revenue
Operating Expenses	Cost of Services Operations & Administration Depreciation & Amortization Option Plan Compensation Operating Expenses
	Operating Income (Loss)
Other Income & Expense	Interest Income Interest Expense Total Other Income & Expense
	Net Income (Loss)

- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- MAS _____
- OPC _____
- PAI _____
- SEC _____
- WAW _____
- OTH _____

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING



UniversalAccess™

Balance Sheet

PRELIMINARY

June 30, 1999

June 30, 1998

Current Assets	Cash
	Accounts Receivable, net
	Prepaid Assets
	Security Deposits
	Current Assets
Long Term Assets	Property, Plant, & Equipment
	Less: Accumulated Depreciation
	Property, Plant, & Equipment, net
	Total Assets
Current Liabilities	Accounts Payable and Accrued Liabilities
	Unearned Revenue, Net
	Current Liabilities
	Notes Payable
	Other Liabilities
	Unissued Series A Preferred Stock
	Series A Preferred Stock
	Series B Preferred Stock
	Series C Preferred Stock
	Series D Preferred Stock
	Common Stock, No Par
	Common Stock Warrants
	Series A Preferred Stock Warrants
	Series B Preferred Stock Warrants
	Retained Earnings
	Deferred Option Plan Compensation
	Additional Paid-in-Capital
	Commitments & Contingencies (Note)
	Total Liabilities & Stockholder's Equity

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Statement of Cash Flows

*For the Quarter
Ending
June 30, 1999*

*For the Quarter
Ending
June 30, 1998*

PRELIMINARY

Cash Flow From Operating Activities

Net Income (loss)

*Adjustments to reconcile net income (loss) to net
cash provided by operating activities*

Depreciation Expense

Option Plan Compensation

Changes in operating assets and liabilities

Difference in Accounts Receivable

Difference in prepaid assets

Difference in security deposit

Difference in accounts payable

Difference in unearned revenue

Other Liabilities

Net cash used for operating activities

Cash Flows From Investing Activities

Increase in Note Receivable

Payment for purchase of property & plant

Net cash used for investing activities

Cash Flows From Financing Activities

Proceeds from Notes Payable

Proceeds from Unissued Series A Preferred Stock

Proceeds from Series A Preferred Stock

Proceeds from Series B Preferred Stock

Proceeds from Series C Preferred Stock

Proceeds from Series D Preferred Stock

Proceeds from Common Stock, No Par

Proceeds from Common Stock Warrants

Proceeds from Series A Preferred Stock Warrants

Proceeds from Series B Preferred Stock Warrants

Net cash provided by financing activities

Net Increase in Cash

Cash, March 31, 1999

Cash, June 30, 1999

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Income Statement

*For the Quarter Ending
March 31, 1999*

*For the Quarter Ending
March 31, 1998*

Revenue	Access Revenue
	Co-Location Revenue
	Total Revenue
Operating Expenses	Cost of Services
	Operations & Administration
	Depreciation & Amortization
	Option Plan Compensation
	Operating Expenses
	Operating Income (Loss)
Other Income & Expense	Interest Income, Net
	Other Expense, Net
	Total Other Income & Expense
	Net Income (Loss)

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Balance Sheet

March 31, 1999

March 31, 1998

Current Assets	Cash
	Accounts Receivable
	Less: Allowance
	Prepaid Assets
	Security Deposits
	Current Assets
Long Term Assets	Property, Plant, & Equipment
	Less: Accumulated Depreciation
	Property, Plant, & Equipment, net
	Total Assets
Current Liabilities	Accounts Payable and Accrued Liabilities
	Unearned Revenue, Net
	Current Liabilities
	Notes Payable
	Other Liabilities
	Unissued Series A Preferred Stock
	Series A Preferred Stock
	Series B Preferred Stock
	Common Stock, No Par
	Series A Preferred Stock Warrants
	Series B Preferred Stock Warrants
	Retained Earnings
	Deferred Option Plan Compensation
	Additional Paid-in-Capital
	Commitments & Contingencies (Note)
	Total Liabilities & Stockholder's Equity

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Statement of Cash Flows

For the Quarter Ending *For the Quarter Ending*
March 31, 1999 *March 31, 1998*

Cash Flow From Operating Activities

Net Income (loss)

Adjustments to reconcile net income (loss) to net cash provided by operating activities

Depreciation Expense

Option Plan Compensation

Allowance for Doubtful Accounts

Changes in operating assets and liabilities

Difference in Accounts Receivable

Difference in prepaid assets

Difference in security deposit

Difference in accounts payable

Difference in unearned revenue

Other Liabilities

Net cash used for operating activities

Cash Flows From Investing Activities

Payment for purchase of property & plant

Payment for purchase of co-location

Net cash used for investing activities

Cash Flows From Financing Activities

Proceeds from notes payable

Proceeds from Unissued Series A Preferred Stock

Proceeds from Series A Preferred Stock

Proceeds from Series B Preferred Stock

Proceeds from Common Stock, No Par

Proceeds from Series A Preferred Stock Warrants

Proceeds from Series B Preferred Stock Warrants

Net cash provided by financing activities

Net Increase in Cash

Cash, December 31, 1998

Cash, March 31, 1999

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Universal Access, Inc.

**Universal Access, Inc.
Audited Financial Statements**

1997-1998

**Filed in response to Questions 22 and 23 in Universal Access Inc.'s
Application for a Service Provider Certificate of Operating Authority**

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UNIVERSAL ACCESS, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998 AND
THE PERIOD FROM OCTOBER 2, 1997 (DATE OF
INCEPTION) TO DECEMBER 31, 1997

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**UNIVERSAL ACCESS, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

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Report of Independent Accountants

To the Board of Directors and
Shareholders of Universal Access, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of cash flows and of stockholders' equity present fairly, in all material respects, the financial position of Universal Access, Inc. (the Company) at December 31, 1998 and 1997, and the results of its operations and its cash flows for the year ended December 31, 1998 and the period from October 2, 1997 (date of inception) to December 31, 1997, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Chicago, Illinois
April 6, 1999

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UNIVERSAL ACCESS, INC.
BALANCE SHEETS

December 31,
1998

December 31,
1997

ASSETS

Current assets:

Cash and cash equivalents
Accounts receivable, net
Prepaid expenses and other current assets
Security deposits

Total current assets

Restricted cash
Property and equipment, net

Total assets

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:

Accounts payable
Accrued expenses and other current liabilities
Unearned revenue, net
Notes payable - shareholders

Total current liabilities

Note payable

Total liabilities

Commitments and contingencies (Note 5)

Stockholders' equity:

Redeemable Series A preferred stock
Redeemable Series A preferred stock warrants
Unissued redeemable Series A preferred stock
Common stock, no par value
Additional paid-in-capital
Deferred stock option plan compensation
Accumulated deficit

Total stockholders' equity (deficit)

Total liabilities and stockholders' equity (deficit)

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**UNIVERSAL ACCESS, INC.
STATEMENTS OF OPERATIONS**

	For the Year Ended December 31, 1998	From Inception to December 31, 1997
Revenues		
Access		
Co-location		
Total revenues		
Operating expenses:		
Cost of revenues		
Operations and administration		
Depreciation		
Stock option plan compensation		
Total operating expenses		
Operating loss		
Other income and expense:		
Interest expense		
Interest income		
Other expense		
Total other income and expense		
Net loss		
Accretion and dividends on redeemable preferred stock		
Net loss applicable to common stockholders		

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UNIVERSAL ACCESS, INC.
STATEMENTS OF CASH FLOWS

	For the Year Ended December 31, 1998	From Inception to December 31, 1997
Cash flows from operating activities:		
Net loss		
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation		
Stock option plan compensation		
Provision for doubtful accounts		
Changes in operating assets and liabilities:		
Accounts receivable		
Prepaid expenses and other current assets		
Security deposits		
Accounts payable		
Accrued expenses and other current liabilities		
Unearned revenue		
Net cash used for operating activities		
Cash flows from investing activities:		
Purchase of property and equipment		
Cash flows from financing activities:		
Proceeds from notes payable		
Proceeds from unissued redeemable Series A preferred stock		
Proceeds from redeemable Series A preferred stock		
Proceeds from common stock		
Proceeds from redeemable Series A preferred stock warrants		
Cash deposit to collateralize note payable		
Net cash provided by financing activities		
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning of period		
Cash and cash equivalents, end of period		
No amounts were paid for interest or income taxes during 1998 or 1997.		

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

UNIVERSAL ACCESS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
DECEMBER 31, 1998 AND 1997

Redeemable Series A Preferred Stock (\$3 Per Share Stated Value)		Redeemable Series A Preferred Stock Warrants	Unissued Redeemable Series A Preferred Stock	Common Stock		Additional Paid-In Capital	Deferred Stock Option Plan Compensation	Accumulated Deficit	Total
Shares Issued	No Par Value			Shares Issued	No Par Value				

Balance at October 2, 1997
 Issuance of common stock
 Net loss

Balance at December 31, 1997
 Issuance of common stock
 Exercise of stock options
 Deferred stock option plan
 compensation
 Stock option plan compensation
 Issuance of redeemable Series A
 preferred stock
 Issuance of redeemable Series A
 preferred stock warrants
 Accretion on redeemable Series A
 preferred stock
 Receipt of proceeds from unissued
 redeemable Series A
 preferred stock
 Accrued dividends on Series A
 preferred stock (\$0.06 per share)
 Net loss

Balance at December 31, 1998

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

UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Universal Access, Inc. (the "Company" or "UAI"), an Illinois corporation, was organized and commenced operations on October 2, 1997 for the purpose of providing provisioning, co-location and high-capacity bandwidth to "services providers" that include Internet, Applications, DSL and Telecommunications providers. The Company operated as a subchapter S-Corporation until September 27, 1998, at which time it converted to a C-Corporation.

Revenue Recognition

Access and co-location services are billed a month in advance under long-term contracts ranging from twelve to sixty months. UAI recognizes revenue in the month the service is provided. Advance billings are recorded by the Company as unearned revenue. UAI recognizes revenue from one-time fees for installation and maintenance when the related services are performed.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market funds and all investments with an initial maturity of three months or less. All cash equivalents are recorded at cost.

Accounts Receivable

The allowance for doubtful accounts was
respectively.

December 31, 1998 and 1997,

Financial instruments that could potentially subject UAI to concentration of credit risk primarily include accounts receivable.

UAI performs ongoing credit evaluations of its customers' financial condition and to date has not experienced significant losses from sales to any of its significant customers.

Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plan. Accordingly, when options are granted, a non-cash charge representing the difference between the exercise price and the fair market value of the Common Stock underlying the vested options on the date of grant is recorded as option plan compensation expense with the balance deferred and amortized over the remaining vesting period.

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UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided for using the straight-line method. Leasehold improvements are amortized over the life of the lease.

Furniture and fixtures	3 years
Co-location equipment	3 years
Equipment	3 years

Repairs and maintenance, which do not significantly increase the life of the related assets, are expensed as incurred.

Use of Estimates

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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company estimates the future cash flows expected to result from operations, and if the sum of the expected undiscounted future cash flows is less than the carrying amount of the long-lived asset, the Company recognizes an impairment loss by reducing the depreciated cost of the long-lived asset to its estimated fair value. To date the Company has not recognized impairment on any long-lived assets.

Income Taxes

On September 27, 1998, UAI changed status from an S-Corporation to a C-Corporation. As of this date, the Company established a deferred tax asset which reflects the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts. The deferred tax asset was recorded net of a valuation allowance to reduce the deferred tax asset an amount that is more likely than not to be realized.

Prior to September 27, 1998, all liabilities for federal income taxes passed through to the stockholders. Accordingly, no income tax provision or deferred tax amounts were recorded prior to this date.

Stock Splits

The Company effected a 500-for-1 common stock split in July 1998 and a 2-for-1 common stock split in February 1999. All share amounts have been retroactively restated to reflect such splits.

UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following, stated at cost:

	December 31, 1998	December 31, 1997
Furniture and fixtures		
Co-location equipment		
Equipment		
Less: Accumulated depreciation		
Property and equipment, net		

NOTE 3 - NOTES PAYABLE

Notes payable at December 31, 1998 and 1997 are summarized as follows:

	1998	1997
Note payable (interest at 7 ½%)		
Notes payable to shareholders (weighted average interest at 9.7%)		
Notes Payable		

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UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

In April 1998, the Company entered into a \$500,000 revolving line of credit agreement with a Bank. Borrowings are at the prime rate plus 0.5% (8.25% at December 31, 1998) and the agreement expires in May 1999. Borrowings under the revolving line of credit are unsecured. As of December 31, 1998, no borrowings were outstanding under this agreement.

The Company executed unsecured promissory notes with an investor dated December 29, 1998, in the original aggregate principal amount of \$100,000. The notes bear interest at a rate of 10% per year and are due upon demand, after March 31, 1999. The Company did not receive the proceeds of these promissory notes until after December 31, 1998, as such the notes payable are shown net of the proceeds receivable on the face of the balance sheet.

NOTE 4 - INCOME TAXES

There is no current provision or benefit for income taxes recorded for the period from September 27, 1998, the date of C-Corporation conversion, to December 31, 1998, as the Company has generated net operating losses for income taxes purposes for which there is no carryback potential. There is no deferred provision or benefit for income taxes recorded as the Company is in a net asset position for which a full valuation allowance has been recorded due to uncertainty of realization.

The components of the deferred income tax asset at December 31, 1998 are as follows:

- Net operating loss
- Stock option plan compensation
- Allowance for doubtful accounts
- Other

Valuation allowance

Total

At December 31, 1998, the Company had a federal net operating loss carryforward of which will expire in 2018.

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UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Company leases office facilities and certain equipment over periods ranging from two to three years. Total rent expense for the years ended December 31, 1998 and 1997 was \$46,000 and \$0, respectively. Future rentals for operating leases at December 31, 1998 are as follows:

1999	\$ 74,000
2000	78,000
2001	34,000
2002	<u> </u>
Total minimum lease payments	<u>\$186,000</u>

In addition to the above leases, the Company has entered into leased line agreements with telecommunications vendors for high-capacity bandwidth. These leases are cancelable at any time with a maximum 30-day notice. The Company, in turn, contracts with customers for the use of the leased high-capacity bandwidth. The customer contracts provide for cancellation penalties equal to the sum of all payments due through the remainder of the contract, less 6%.

The Company entered into an agreement with a telecommunications vendor, whereby the Company agreed to purchase a minimum of \$250,000 of network services per month, beginning June 29, 1999 and continuing for a period of ten years.

UAI has standby letters of credit which have been issued on its behalf totaling \$172,000 securing performance of certain contracts with carriers and landlords. All letters of credit expire within one year. On February 15, 1999, an outstanding letter of credit for \$100,000 was replaced by a \$250,000 letter of credit in support of certain ongoing contracts.

NOTE 6 - RELATED PARTY TRANSACTIONS

During 1998, UAI entered into certain transactions with shareholders and directors for the lease of office space and pager equipment. Rent expense for these leases approximated \$65,000 in 1998.

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UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - EMPLOYEE BENEFIT PLANS AND EMPLOYMENT AGREEMENTS

Employee Savings and Benefit Plans

As of January 1, 1999, UAI implemented a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code, which covers substantially all of the Company's employees. Employer contributions to the retirement savings plan are discretionary.

Employment Agreements

UAI has entered into employment agreements with several of its key employees which have initial terms ranging from one to three years, after which they are renewable for additional one-year periods. The employment agreements entitle the employee to receive certain severance payments for termination of employment without cause, as defined by the agreements.

Employee Stock Option Plan

In July of 1998, UAI's Board of Directors adopted the 1998 Employee Stock Option Plan (the "Plan") for the Company's directors, officers, employees and key advisors. The total number of UAI no par value Common Stock (the "Common Stock") reserved for issuance under the Plan is 3,000,000. Awards granted under the plan are at the discretion of the Company's Board of Directors, or a compensation committee appointed by the Board of Directors, and may be in the form of either incentive or nonqualified stock options. At December 31, 1998, 1,632,000 shares of Common Stock were available for additional awards under the plan.

If the Company had elected to recognize compensation cost based on the fair value of the options as prescribed by Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation", the following results would have occurred for the year ended December 31, 1998 using the Black-Scholes option-pricing model with the listed assumptions:

Volatility	0%
Dividend yield	0%
Risk-free interest rate	5%
Expected life in years	5

During 1998, the Company recognized _____ of option plan compensation expense and expects to recognize additional expense of approximately _____ over the next four years as such options vest.

The vesting term of options granted under the Plan shall be fixed by the Board of Directors, or compensation committee elected by the Board of Directors, but in no case shall be exercisable for more than 10 years after the date the option is granted.

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UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

The following information relates to stock options with an exercise price which was less than the fair market value of the underlying stock on the date of grant:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 1997	-	-
Granted	1,150,000	\$0.004
Exercised	(100,000)	0.00001
Forfeited	<u>-</u>	<u>-</u>
Balance at December 31, 1998	<u>1,050,000</u>	<u>\$0.0045</u>
Weighted average fair value of options granted during 1998	\$0.42	

The following information relates to stock options with an exercise price which equaled the fair market value of the underlying common stock on the date of grant:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 1997	-	-
Granted	218,000	\$0.27
Exercised	-	-
Forfeited	<u>-</u>	<u>-</u>
Balance at December 31, 1998	<u>218,000</u>	<u>\$0.27</u>
Weighted average fair value of options granted during 1998	\$0.06	

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UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

The following information relates to stock options as of December 31, 1998:

	<u>Exercise Prices</u>		
	<u>\$0.00001 to \$0.005</u>	<u>\$0.20 to \$0.33</u>	<u>\$0.76 to \$0.795</u>
Stock Options Outstanding			
Number	1,050,000	194,000	24,000
Weighted average exercise price	\$0.0045	\$0.21	\$0.79
Weighted average remaining contractual life (years)	4.67	4.51	4.91
Stock Options Exercisable			
Number	100,000	-	-
Weighted average exercise price	\$0.00001	-	-

The above disclosures include 200,000 stock options issued to non-employees for services rendered during 1998. These options were issued with an exercise price of \$0.00001 and were immediately exercisable. These non-employee options comprised \$40,000 of the \$65,000 stock option plan compensation expense recognized during 1998. During 1998, 100,000 of these non-employee options were exercised, and as of December 31, 1998, 100,000 of those non-employee options were outstanding.

NOTE 8 - REDEEMABLE CUMULATIVE CONVERTIBLE PREFERRED STOCK

Series A Redeemable Cumulative Convertible Preferred Stock

During 1998, UAI issued 335,334 shares of Series A Redeemable Cumulative Convertible Preferred Stock ("Series A Preferred Stock") for gross proceeds of \$1,006,000. Additionally, UAI received cash and accepted subscription documents for 385,830 shares of Series A Redeemable Cumulative Convertible Preferred Stock ("Unissued Series A Preferred Stock") for gross proceeds of \$1,157,000. As of December 31, 1998, the Company had authorized 333,332 shares of Series A Preferred Stock. Stock certificates for the Unissued Series A Preferred Stock were issued as of February 8, 1999.

Holder of the Series A Preferred Stock are entitled to cumulative dividends at an annual rate of 8%, payable in cash or stock, at the Company's discretion. The Series A Preferred Stock holders have the right to convert their shares at any time into shares of UAI Common Stock on a 2-for-1 basis. A qualified initial public offering of at least \$3 per share, triggers a mandatory conversion of the Series A Preferred Stock into Common Stock.

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UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

Holders of Series A Preferred Stock have the right to demand the Company to redeem one-third of the shares originally purchased on each of the fourth, fifth, and sixth anniversaries of the closing. UAI has the right to redeem not less than all of the outstanding Series A Preferred Stock between the third and sixth anniversaries of the closing. All redemptions are to be made at amount equal to the sum of the original purchase price of the Series A Preferred Stock plus accumulated but unpaid dividends.

Series A Preferred Stock holders vote as a class on all matters and are entitled to one vote per each Common Stock equivalent share. Series A Preferred Stock holders, as a class, may elect one representative to the Board of Directors.

Upon liquidation or dissolution, shareholders of Series A Preferred Stock will be distributed available assets up to the sum of the original purchase price plus accumulated but unpaid dividends. This distribution has preference over any distribution to common stock holders.

Series A Redeemable Cumulative Convertible Preferred Stock Warrants

In connection with the sale of Series A Preferred Stock, UAI issued warrants (the "Series A Warrants") to purchase an additional 33,334 shares of Series A Preferred Stock at \$3.00 per share, exercisable for a period of five years from September 21, 1998, the issuance date of the warrants.

The fair market value of the Series A Warrants was established at the time of issuance to be \$36,000, based on the Black-Scholes valuation model. The Series A Preferred Stock is shown net of the fair market value of the Series A Warrants.

NOTE 9 - COMMON STOCK

Common Stock

At December 31, 1998, UAI had authorized 100,000,000 shares of no par value Common Stock and 10,100,000 shares were issued and outstanding.

As of February 8, 1999, the Company ratified changes to the composition of its Board of Directors (the "New Board of Directors"). The New Board of Directors is composed of seven Directors; three Directors elected by the Common Stock holders, one Director elected by the Series A Preferred Stock holders, two Directors elected by the Series B Preferred Stock holders and one Director, who is to be an industry expert, nominated by the Common Stock holders and approved by all stock holders jointly.

The Company has a sufficient number of authorized Common Stock shares available to issue upon the conversion of the outstanding preferred stock, warrants and stock options.

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UNIVERSAL ACCESS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 1998, Common Stock shares reserved for issuance are as follows:

Redeemable Series A Preferred Stock	1,544,660
Employee stock options outstanding	1,168,000
Series A Warrants	<u>154,466</u>
Total	<u>2,867,126</u>

NOTE 10 - SUBSEQUENT EVENTS

On February 8, 1999, UAI issued 2,000,000 shares of Series B Redeemable Cumulative Convertible Preferred Stock ("Series B Preferred Stock") for gross proceeds of \$6,000,000. In conjunction with the issuance of the Series B Preferred Stock, the Company issued warrants to purchase an additional 400,000 shares of Series B Preferred Stock (the "Series B Warrants") at an exercise price of \$0.01 per share. Series B Preferred Stock is convertible into Common Stock on a 2-for-1 basis.

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