

Law Offices

HOLLAND & KNIGHT

A Registered Limited Liability Partnership

315 South Calhoun Street
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Tallahassee, Florida 32301
850-224-7000
FAX 850-224-8832

November 5, 1997

Atlanta	Orlando
Boca Raton	San Francisco
Fort Lauderdale	St. Petersburg
Jacksonville	Tallahassee
Lakeland	Tampa
Miami	Washington, D.C.
New York	West Palm Beach

KAREN D. WALKER
994-426-5812

Internet Address:
kwalker@hklaw.com

VIA HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

971455-TX

Re: In re: Application for Certificate to provide alternative local exchange telecommunications service by US LEC of Florida, Inc.

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 6 copies of US LEC of Florida, Inc.'s ("US LEC"'s) Application for Authority to Provide Alternative Local Exchange Telecommunications Service Within the State of Florida ("Application"). Also enclosed for filing are the original and 15 copies of US LEC's Notice of Intent to Request Confidential Classification of Exhibit "B" to the Application. Additionally, a check in the amount of \$250.00 is attached to cover the filing fee for the Application.

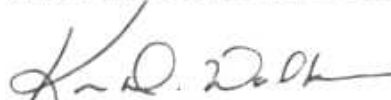
For our records, please acknowledge your receipt of this filing on the enclosed copy of this letter.

Ms. Blanca S. Bayo, Director
November 5, 1997
Page 2

Thank you for your consideration in this matter.

Sincerely,

HOLLAND & KNIGHT LLP



Karen D. Walker

Enclosures
KDW/sms

cc: Gary Grefrath (w/enclosures)

TAL-119232.1

1. This is an application for (check one):

Original authority (new company)

Approval of transfer (to another certificated company)

Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

Approval of assignment of existing certificate (to a noncertificated company)

Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

Approval for transfer of control (to another certificated company)

Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:

US LEC of Florida, Inc.

3. Name under which the applicant will do business (d/b/a):

US LEC of Florida, Inc.

4. If applicable, please provide proof of fictitious name (d/b/a) registration.

N/A

5. A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.

US LEC of Florida, Inc.
212 South Tryon Street
Suite 1540
Charlotte, North Carolina 28281
(704) 319-1000

B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

None at this time.

6. Structure of organization:

- | | | | |
|-------------------------------------|---------------------|--------------------------|------------------------|
| <input type="checkbox"/> | Individual | <input type="checkbox"/> | Corporation |
| <input checked="" type="checkbox"/> | Foreign Corporation | <input type="checkbox"/> | Foreign Partnership |
| <input type="checkbox"/> | General Partnership | <input type="checkbox"/> | Limited Partnership |
| <input type="checkbox"/> | Joint Venture | <input type="checkbox"/> | Other, Please explain: |

7. If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.

Not applicable.

8. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

No.

9. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Document Number: 297A00050618.

US LEC of Florida, Inc. is a North Carolina corporation, which is authorized by the Florida Secretary of State to transact business in Florida. Proof of its certification in North Carolina and authorization to transact business in Florida is attached as Composite Exhibit "A."

10. Please provide the name, title, address, telephone number, internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.

Gary D. Grefrath
Executive Vice President
Regulatory & Administration
212 South Tryon Street
Suite 1540
Charlotte, North Carolina 28281
Tel.: (704) 319-1000
Fax: (704) 319-1345
e-mail: gary@uslec.com

and

D. Bruce May
Karen D. Walker
Holland & Knight LLP
P.O. Drawer 810
Tallahassee, FL 32302
Tel.: (850) 224-7000
Fax: (850) 224-8832
e-mail: dbmay@hklaw.com
e-mail: kwalker@hklaw.com

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.

US LEC of Florida, Inc. is not currently providing local exchange or alternative local exchange service in any other states. Affiliates of US LEC, LLC, the parent company of US LEC of Florida, Inc., are certificated to provide alternative local exchange service in North Carolina, Virginia, Georgia and Tennessee. An affiliate of US LEC, LLC also has an application pending to provide alternative local exchange service in South Carolina.

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

No.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No.

14. Please indicate how a customer can file a service complaint with your company.

Complaints/inquiries from customers can be mailed to the attention of Vice President - Customer Services, US LEC of Florida, Inc., 212 South Tryon Street, Suite 1540, Charlotte, North Carolina 28281. Customers can also reach US LEC of Florida, Inc. by calling 1-800-978-7532. Customer service representatives answer this number between the hours of 8:00 a.m. and 5:00 p.m. on normal business days. During other hours, an automated system will contact a customer service representative who can assist the customer.

15. Please complete and file a price list in accordance with Commission Rule 25-24.825.

Prior to providing service, US LEC of Florida, Inc. will file with the Commission and maintain a current price list which will clearly set forth the information required by Rule 25-24.825, Florida Administrative Code.

16. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability.

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet
2. income statement
3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.
3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should attest that the financial statements are true and correct.

US LEC of Florida, Inc. is qualified financially to provide high quality alternative local exchange service in Florida. US LEC of Florida, Inc. is a start up company. Thus, historical financial information for US LEC of Florida, Inc. is limited. Exhibit "B" to this application is being filed contemporaneously with the application under cover of a Notice of Intent to Request Confidential Classification. Exhibit "B" contains a 12 year financial forecast for US LEC of Florida, Inc.

US LEC of Florida, Inc. is a subsidiary of US LEC, LLC and is relying on the financial strength and support of its parent company in beginning operations in Florida. Enclosed as Exhibit "C" is the audited financial statement of US LEC, LLC and its affiliates as of May 31, 1997.

B. Managerial capability.

US LEC of Florida, Inc.'s alternative local exchange operations will be under the direction of a highly skilled management team with extensive experience in the telecommunications industry. Relevant biographies of the company's management are attached as Composite Exhibit "D."

C. Technical capability.

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency service. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that provided by the local exchange companies in the areas to be served, describe in detail the difference.)

US LEC of Florida, Inc. is technically qualified to provide alternative local exchange telecommunications service in Florida. US LEC of Florida, Inc.'s proposed Florida network will utilize fully operational Lucent Technologies, Inc. 5ESS switches. New switching software will allow remote switching connectivity as far as 600 miles, insuring connectivity to all of Florida. The Company will create these new digital switching and leased fiber optic transmission networks in geographically attractive regions within Florida. Connectivity to customers will be provided by a digital central office switch, and by leasing fiber optic capacity from a variety of telecommunications carriers.

US LEC of Florida, Inc. will utilize the 911 services provided by the incumbent local exchange carrier under the respective interconnection agreement between US LEC of Florida, Inc. and the incumbent local exchange carrier. This generally provides for US LEC of Florida, Inc. to directly connect each 911 access tandem in the serving area.

US LEC of Florida, Inc. will use multiple new Lucent Technologies, Inc. 5ESS System 2000 switches, and the latest software upgrades which US LEC of Florida, Inc. believes is the best technology to meet the network and product/services requirements of its customers. US LEC of Florida, Inc. believes that its services will be equal in quality, if not superior, to those of Florida's existing alternative local exchange carriers. A copy of US LEC of Florida, Inc.'s Business Plan and Operational Plan, including a more detailed description of the Company's technical capability is attached as Composite Exhibit "E."

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083".

Official:

David P. [Signature]
Signature

4/3/97

Title:

Executive Vice President
Regulatory & Administration

(704) 310-1000
Telephone Number

Address:

212 South Tryon Street
Suite 1540
Charlotte, N.C. 28281

TAL-118991.1

State of Florida



Department of State

I certify the attached is a true and correct copy of the application by US LEC OF FLORIDA INC., a North Carolina corporation, authorized to transact business within the State of Florida on October 16, 1997 as shown by the records of this office.

The document number of this corporation is F97000005443.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Sixteenth day of October, 1997



CR2EO22 (2-95)

Sandra B. Northam

Sandra B. Northam
Secretary of State



FLORIDA DEPARTMENT OF STATE
Sandra B. Mortham
Secretary of State

October 16, 1997

CT CORPORATION SYSTEM

Qualification documents for US LEC OF FLORIDA INC. were filed on October 16, 1997 and assigned document number F97000C05443. Please refer to this number whenever corresponding with this office.

Your corporation is now qualified and authorized to transact business in Florida as of the file date.

The certification you requested is enclosed.

A corporation annual report will be due this office between January 1 and May 1 of the year following the calendar year of the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the corporate address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (850) 487-6091, the Foreign Qualification/Tax Lien Section.

Jennifer Sindt
Document Examiner
Division of Corporations

Letter Number: 297A00050618

APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION
TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS
SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE
STATE OF FLORIDA:

1. US LEC of Florida Inc.

(Name of corporation: must include the word "INCORPORATED", "COMPANY", "CORPORATION", or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.)

2. North Carolina

(State or country under the law of which it is incorporated)

3. Applied for

(FEI number, if applicable)

4. August 11, 1997

(Date of incorporation)

5. Perpetual

(Duration: Year corp. will cease to exist or "perpetual")

6. None

(Date first transacted business in Florida. (See sections 607.1501, 607.1502, and 817.156, F.S.))

7. 212 South Tryon Street, Suite 1540, Charlotte, North Carolina 28281

(Current mailing address)

8. any lawful business, including but not limited to telecommunication services
(Purpose(s) of corporation authorized in home state or country to be carried out in the state of Florida)

9. Name and street address of Florida registered agent:

Name: C T Corporation System

Office Address: c/o C T Corporation System, 1200 South Pine
Island Road

Plantation, Florida, 33324

(Zip Code)

10. Registered agent acceptance:

Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application. I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligation of my position as registered agent.

C T Corporation System

Connie Bryan
(Registered agent's signature) (Officer)
CONNIE BRYAN
SPECIAL ASSISTANT SECRETARY

(Type Name and Title of Officer)

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
97 OCT 16 PM 1:01

11. Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated.

12. Names and addresses of officers and/or directors:

A. DIRECTORS

Chairman: see attached list of directors

Address: _____

Vice Chairman: see attached list of directors

Address: _____

Director: see attached list of directors

Address: _____

Director: _____

Address: _____

B. OFFICERS

President: see attached list of officers

Address: _____

Vice President: _____

Address: _____

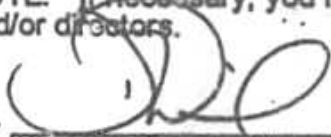
Secretary: _____

Address: _____

Treasurer: _____

Address: _____

NOTE: If necessary, you may attach an addendum to the application listing additional officers and/or directors.

13.  _____
(Signature of Chairman, Vice Chairman, or any officer listed in number 12 of the application)

14. David N. Vail, Executive Vice President, Finance and Chief Financial Officer
(Typed or printed name and capacity of person signing application)

FILED
SECRETARY OF STATE
DIVISION OF PROFESSIONS
97 OCT 16 PM 1:01

**Rider to
Application by Foreign Corporation for Authorization to
Transact Business in Florida**

12. Names and addresses of officers and/or directors:

A. Directors

Name	Address
Richard T. Aab	212 South Tryon Street, Suite 1540 Charlotte, North Carolina 28281
Tansukh V. Ganatra	212 South Tryon Street, Suite 1540 Charlotte, North Carolina 28281

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
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B. Officers

Name	Address	Office
Richard T. Aab	212 South Tryon Street, Suite 1540 Charlotte, North Carolina 28281	Chairman, Chief Executive Officer and Secretary
Tansukh V. Ganatra	212 South Tryon Street, Suite 1540 Charlotte, North Carolina 28281	President, Chief Operating Officer and Assistant Secretary
David N. Vail	212 South Tryon Street, Suite 1540 Charlotte, North Carolina 28281	Executive Vice President, Finance and Chief Financial Officer
Gary D. Grefrath	212 South Tryon Street, Suite 1540 Charlotte, North Carolina 28281	Executive Vice President Regulatory and Administration
Michael Simmons	212 South Tryon Street, Suite 1540 Charlotte, North Carolina 28281	Executive Vice President, Sales
David C. Conner	212 South Tryon Street, Suite 1540 Charlotte, North Carolina 28281	Executive Vice President Engineering and Operations
Craig K. Simpson	212 South Tryon Street, Suite 1540-	Senior Vice President Corporate Development

STATE OF NORTH CAROLINA



Department of The
Secretary of State

CERTIFICATE OF EXISTENCE

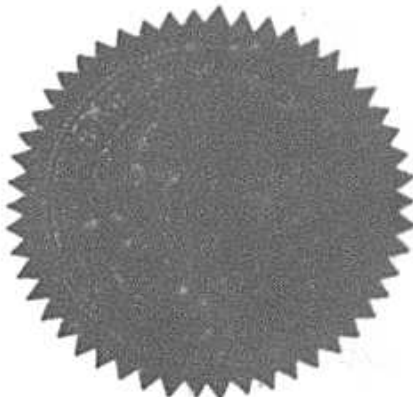
I, **ELAINE F. MARSHALL**, Secretary of State of the State of North Carolina, do hereby certify that

US LEC OF FLORIDA INC.

is a corporation duly incorporated under the laws of the State of North Carolina, having been incorporated on the 11th day of August, 1997, with its period of duration being perpetual.

I **FURTHER** certify that the said corporation's articles of incorporation are not suspended for failure to comply with the Revenue Act of the State of North Carolina; that the said corporation is not administratively dissolved for failure to comply with the provisions of the North Carolina Business Corporation Act; that its most recent annual report required by G.S. 55-16-22 has been delivered to the Secretary of State; and that the said corporation has not filed articles of dissolution as of the date of this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this 7th day of October, 1997.



Elaine F. Marshall

Secretary of State

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
97 OCT 16 PM 1:01

EXHIBIT "B"

**FILED SEPARATELY UNDER COVER OF
NOTICE OF INTENT TO REQUEST CONFIDENTIAL CLASSIFICATION**

FINANCIAL STATEMENT ON

US LEC, LLC

AS OF MAY 31, 1997

HUGGINS & COMPANY, CPA PA
Certified Public Accountants

EXHIBIT "C"

HUGGINS & COMPANY, CPA PA
Certified Public Accountants

P.O. Box 18323
Charlotte, N.C. 28297-8323
(704) 394-2364

6148-D Brookshire Blvd.
Charlotte, N.C. 28216

June 13, 1997

INDEPENDENT AUDITORS' REPORT

To The Members Of
US LEC, LLC
212 S. Tryon Street - Suite 1540
Charlotte, N.C. 28281

We have audited the accompanying combined balance sheet of US LEC, LLC and its Affiliates as of May 31, 1997, and the related combined statements of operations and members' equity, and cash flows for the five months then ended. 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 audit.

We conducted our audit 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 statement. 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 audit provides 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 US LEC, LLC and its Affiliates as of May 31, 1997, and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles.

Huggins + Company

**US LEC, LLC AND AFFILIATES
COMBINED BALANCE SHEET
AS OF MAY 31, 1997**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,353,337	
Accounts Receivable - Trade	89,915	
Due From Members	2,617,040	
Due From Employees	104,503	
Interest Receivable - Members	17,083	
Refundable Deposits	61,232	
Prepaid Expenses	<u>40,702</u>	
Total Current Assets		4,283,812

PROPERTY AND EQUIPMENT (Net Of Accumulated Depreciation Of \$74,021)		2,679,136
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OTHER ASSETS

Organization Costs (Net Of Accumulated Amortization Of \$957)		<u>4,268</u>
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TOTAL ASSETS

\$6,967,216

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	\$ 303,629	
Accrued Compensation	181,160	
Other Accrued Liabilities	192,479	
Interest Payable - Members	<u>74,860</u>	
Total Current Liabilities		752,128

LONG-TERM LIABILITIES

Notes Payable - Members		2,870,000
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MEMBERS' EQUITY

3,345,088

TOTAL LIABILITIES AND MEMBERS' EQUITY

\$6,967,216

See Accompanying Notes To Financial Statements

US LEC, LLC AND AFFILIATES
COMBINED STATEMENT OF OPERATIONS AND MEMBERS' EQUITY
FOR THE FIVE MONTHS ENDED MAY 31, 1997

REVENUES	\$ 88,667
COST OF REVENUES	<u>437,210</u>
Gross Margin (Loss)	(348,543)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>2,021,841</u>
Income (Loss) From Operations	<u>(2,370,384)</u>
OTHER INCOME (EXPENSE)	
Interest Income	28,295
Interest Expense	<u>(85,092)</u>
Total Other Income (Expense)	<u>(56,797)</u>
Net Income (Loss)	(2,427,181)
MEMBERS' EQUITY, January 1, 1997	(286,824)
Capital Contributions	<u>6,059,093</u>
MEMBERS' EQUITY, May 31, 1997	<u>\$3,345,088</u>

See Accompanying Notes To Financial Statements

**US LEC, LLC AND AFFILIATES
COMBINED STATEMENT OF CASH FLOWS
FOR THE FIVE MONTHS ENDED MAY 31, 1997**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	\$ (2,427,181)
Adjustments To Reconcile Net Loss To Net Cash Provided By Operating Activities:	
Depreciation And Amortization	70,918
Increase In Accounts Receivable	(89,915)
Increase In Employee Advances	(14,500)
Increase In Interest Receivable - Members	(17,083)
Increase In Prepaid Expenses	(5,440)
Increase In Refundable Deposits	(61,232)
Increase In Accounts Payable	255,503
Increase In Accrued Liabilities	373,639
Increase In Interest Payable - Members	<u>74,860</u>
Total Adjustments	<u>586,750</u>
Net Cash Used By Operating Activities	<u>(1,840,431)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash Payments For The Purchase Of Property	<u>(2,348,291)</u>
Net Cash Used By Investing Activities	<u>(2,348,291)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Loans From Members	1,199,000
Member Capital Contributions	<u>3,442,053</u>
Net Cash Provided By Financing Activities	<u>4,641,053</u>
Net Increase In Cash And Equivalents	452,331
CASH AND EQUIVALENTS, January 1, 1997	<u>901,006</u>
CASH AND EQUIVALENTS, May 31, 1997	<u>\$ 1,353,337</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

CASH PAID FOR:	
Interest	<u>\$ 6,330</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASE INVESTING AND
FINANCING ACTIVITIES:**

Acquisition Of Notes Receivable In Exchange For Member's Contributions	<u>\$ 2,617,040</u>
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See Accompanying Notes To Financial Statements

US LEC, LLC AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
AS OF MAY 31, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

The Company is engaged in providing local and long distance telecommunications services to numerous customers in the Southeastern states.

FORMATION OF THE COMPANY

Effective January 1, 1997, US LEC Corp. (an S corporation) was converted to US LEC, LLC (a limited liability company) through exchange of corporation shares for company units. For financial statement and tax reporting, assets and liabilities transferred to the company were recorded at the predecessor corporation's historical cost basis.

PRINCIPLES OF COMBINATION

The combined financial statements include the accounts of US LEC, LLC (the company), its operating affiliate, US LEC, of North Carolina, LLC, and its affiliates which have not yet started operations, US LEC of South Carolina, LLC, US LEC of Georgia, LLC, US LEC of Tennessee, LLC and US LEC of Virginia, LLC. All significant intercompany items have been eliminated.

CASH AND CASH EQUIVALENTS

The company considers all securities purchased with a maturity of three months or less to be cash equivalents.

PROPERTY AND DEPRECIATION

Property and equipment are carried at cost except for instances of impairment losses. At the point an impairment loss is noted, the assets will be written down to market value and any resulting loss will be included in operations. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. The cost of assets sold, retired or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Depreciation is provided using straight-line methods over the estimated useful lives of the assets which are as follows:

Telecommunications Equipment	5-9 Years
Computer Equipment	5 Years
Office Equipment	5 Years
Leasehold Improvements	5 Years

USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires members 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 could differ from those estimates.

INCOME TAXES

The Company is filing its tax returns as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for the Company. Members are taxed individually on their shares of the

US LEC, LLC AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
AS OF MAY 31, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES (CONTINUED)

Company's earnings. The Company's net income or loss is allocated among the members in accordance with the operating agreement between the members.

ADVERTISING COSTS

Advertising costs are expensed as incurred.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Company had \$1,113,259 on deposit at May 31, 1997 in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) limit. The FDIC currently insures up to \$100,000 for each depositor in a given bank.

NOTE 3 - DUE FROM MEMBERS

Due from members represents amounts due from three members for subscriptions for capital units and is collateralized by notes receivable with due dates of August 11, 1997. Interest is due at maturity based on the prime rate.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of May 31, 1997, consist of the following:

Telecommunications Equipment	\$ 2,524,818
Computer Equipment	99,274
Office Equipment	121,526
Leasehold Improvements	7,539
	<u>2,753,157</u>
Less Accumulated Depreciation	74,021
Total	<u>\$ 2,679,136</u>

Depreciation expense for the period ended May 31, 1997 was \$70,488.

NOTE 5 - NOTES PAYABLE - MEMBERS

The Company is obligated under a note agreement dated February 27, 1997 whereby Richard Aab, member, agrees to loan the Company up to \$5,000,000. The terms of the agreement provide for interest at prime plus 2%, payable annually, with the principal to be paid on July 25, 2000. Certain equipment is pledged as collateral. At May 31, 1997, \$2,500,000 had been loaned under the agreement.

The Company is obligated under a note agreement dated August 31, 1996 whereby Tansukh Ganatra, member, loaned the Company \$370,000. The terms of the agreement provide for interest at prime plus 2%, payable annually, with the principal to be paid on July 1, 1998. Certain equipment is pledged as collateral.

US LEC, LLC AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
AS OF MAY 31, 1997

NOTE 6 - LIMITED LIABILITY COMPANY

A Limited Liability Company must have limited life to receive the desired tax treatment. In order to comply with this requirement, US LEC, LLC and its Affiliates have provided in their operating agreements termination dates ranging from December 31, 2046 to December 31, 2097.

The operating agreements provide for two types of interests in the Company, voting and non-voting. The respective rights of each type member is outlined in the operating agreements. The management of the company is vested in a Board of Managers who solely have the right to participate in the management and affairs of the Company.

No member shall have any personal liability for any debts or losses of the Company beyond such member's interest solely by reason of being a member, manager, agent or employee of the Company.

NOTE 7 - COMMITMENTS

The Company has open purchase commitments for approximately \$527,000 of additional capital expenditures at May 31, 1997.

The Company rents operating facilities, office space and equipment under operating leases, some of which contain renewal options. Certain leases provide for adjustments relating to changes in real estate taxes and other operating expenses. Rental expense for the period ended May 31, 1997 was \$144,971. Future minimum lease commitments are as follows:

1998	\$ 517,604
1999	415,249
2000	234,008
2001	36,036
2002 And Thereafter	14,382

Certain agreements contain clauses that provide for additional rents based on usage. Those amounts, if any, are not included above.

US LEC of North Carolina
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RICHARD T. AAB
Chairman & Chief Executive Officer

Richard T. Aab is a pioneer in introducing competition into monopoly controlled service segments of the telecommunications industry. He co-founded US LEC in 1996. In 1982 he co-founded ACC Corp., an independently owned long distance resale company in New York State. He served as Chief Executive Officer of ACC from August 1983 through October 1995, director through October 1982, and Chairman of the Board of Directors since 1983 until his resignation in late 1996. He served as chairman of the Board of Directors of ACC TelEnterprises Ltd. from April 1993 through February 1994. He is currently Chairman of the Board's Strategic Planning committee.

ACC Corp. is a publicly traded (NASDAQ/ACCC) international telecommunications holding company with world headquarters in Rochester, New York. ACC Corp. provides worldwide long distance services to customers in the United States, Canada and the United Kingdom. ACC has provided local exchange services in New York State and Toronto, Ontario, Canada since 1994.

Under Mr. Aab's leadership, ACC has raised in excess of \$110 million in equity capital and has a current market capitalization of approximately \$600 million. On December 31, 1996, ACC Corp. employed more than 1000 employees world-wide, reported total revenues for 1996 exceeding \$309 million, had total assets of more than \$204 million and zero debt.

In 1984, Mr. Aab acquired a small U.S. private line reseller providing service between the U.S. and Canada. In 1988, he formed a corporation in Canada and participated in the demonopolization of the Canadian long distance industry, becoming the first U.S. company to own a long distance reseller in Canada. In addition, ACC was the first reseller to directly connect with Teleglobe Canada, Canada's monopoly-based international traffic carrier, bypassing Bell Canada. ACC TelEnterprises Ltd. is currently Canada's fifth largest long distance company with annualized revenues of over \$160 million (Can) and is the only long distance reseller currently profitable in the Canadian marketplace. In 1992, Mr. Aab incorporated a subsidiary of ACC in the United Kingdom to provide domestic and international long distance services. ACC received the world's first International Simple Resale License (ISRL) granted by the department of Trade and Industry in the U.K. allowing international traffic between the U.K. and Canada and providing an alternative to pre-existing international rules. In 1994, ACC received the first ISRL between the U.S. and U.K. ACC's U.K. long distance company reported \$96 million (U.S.) in revenues and turned profitable in 1996. Under Mr. Aab's direction, ACC obtained and built three cellular franchises in Kentucky during the late 1980's. The cellular franchises were subsequently sold by ACC in 1993 for \$43 million (U.S.). Mr. Aab holds a B.S. Degree in Economics from Clarkson University.

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TANSUKH GANATRA
President and Chief Operating Officer

Tansukh Ganatra co-founded US LEC in 1996. Mr. Ganatra is a recognized expert in the field of Intelligent switching technology and transport network systems. Mr. Ganatra served as President and Chief Operating Officer of ACC Corp. from December 1987 through June 1990. He served as President of ACC Long Distance from May 1987 through November 1987 and Vice President of Engineering and Operations from January 1987 through April 1987. He retired in June of 1990. In 1992 he re-joined ACC Corp. as Executive Vice President responsible for corporate network planning, technology development, network costs and corporate strategic planning, as well as long term strategic (overseas operations, local bypass, inter-city linkages, and local switching, etc.) plus ongoing operations (network planning, implementation, network costs, and resource management) for all of ACC Corp. subsidiaries.

ACC Corp. is a publicly traded (NASDAQ/ACCC) international telecommunications holding company with world headquarters in Rochester, New York. ACC Corp. provides worldwide long distance services to customers in the United States, Canada and the United Kingdom. ACC has provided local exchange services in New York State and Toronto, Ontario, Canada since 1994.

Prior to joining ACC Corp. in 1987, Mr. Ganatra held various positions with Rochester Telephone Corp. (now Frontier Corporation/NYSE/FRO), from 1969 to 1987 culminating with Director Network Engineering. In that capacity, he was responsible for all engineering aspects of analog/digital switching equipment and traffic engineering functions comprised of over 450,000 lines/120,000 trunks, TSPS (Traffic Service Positioning System), #1ESS® (Electronic Switching System), #4ESS® (toll), and #5ESS® (Local and Enhanced) switches. Furthermore, he was responsible for PBX's, circuit equipment provisioning and transmission facilities (including fiber optics, microwave and analog copper facilities) to accommodate the above networks. In his consulting role at Rochester Telephone Corp.'s subsidiaries, he was responsible for customer (Eastman Kodak Co. and Xerox Corp., etc.) owned networks and wire center studies.

Born in Masindi, Uganda, East Africa, Mr. Ganatra graduated with a B.S. Degree in Electrical Engineering from University College in Nairobi, Kenya, East Africa.

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GARY D. GREFRATH

*Executive Vice President - Customer Service
Regulatory & Administration*

Mr. Grefrath has over 26 years of experience in the telecommunication services industry. Before joining US LEC, Mr. Grefrath was employed by Rochester Telephone Corp. (now Frontier Corp/NYSE/FRO) from March 1969 to August 1996 where he was responsible for management of most major areas of administration for the company, including Customer Service, Regulatory, Accounting, Carrier Relations Marketing, Operator Services and MIS. He was also responsible for the preparation of tariff filings with the State of New York and the FCC and for all service and contractual relations with IXCs, including AT&T, MCI and Sprint. He was most recently responsible for the development of the Rochester Telephone's national Directory Assistance product and sales contract with Time Warner Communications for the provision of Operator Services and directory assistance. Mr. Grefrath holds an MBA and a BA degree in marketing from Western Michigan University.

DAVID CONNER

Executive Vice President - Engineering & Operations

Mr. Conner has over 12 years of Telecommunication Management and Technical operation experience. Prior to joining US LEC, Mr. Conner served in various positions with Rochester Telephone Corp. (now Frontier Corporation/NYSE/FRO) and ACC Corp. (NASDAQ/ACCC). Mr. Conner joined Rochester Telephone Corp. in 1985 and held several positions in Operations and MIS. He had significant responsibility in the development of operational support systems related to alarm system management and improving automation, the development and operation of 24x7 Network Control Center, and the coordination of the installation and repair of facilities. Mr. Conner joined ACC Corp. in 1990 as director of Operations for Danbury Cellular Telephone Company, and later as its Vice President of Engineering and Operations. While at Danbury, Mr. Conner's responsibilities included facilities installation, switch operations design and implementation of microwave systems and network planning and costs.

In 1993, Mr. Conner was transferred to ACC Long Distance where he was responsible for Switch Operations, Engineering, Network Operations, Network Security and the Network Operations Support Group. In 1995, Mr. Conner was appointed Operations director and Officer of ACC Long Distance UK Ltd., London, England, where he was responsible for Switch Operations, Engineering, Maintenance, Operational support Systems and the Network Operations Support Group. Mr. Conner holds a BS Political Science degree from SUNY, Geneseo.

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MICHAEL SIMMONS
Executive Vice President - Sales

Mr. Simmons has 15 years of telecommunication industry and management experience. Prior to joining US LEC in 1996, Mr. Simmons served Time Warner Communications as Vice President and General Manager of Western North Carolina Operations in Charlotte, North Carolina where he was responsible for the building and operation of Time Warner's 450 mile fiber optic SONET Ring Network serving that region. This network is Time Warner's largest system of the 20 they operate across the U.S. Prior to joining Time Warner Communications, Mr. Simmons was Branch Manager for MCI's Western North Carolina region. He spent eleven years with MCI in various sales, marketing and management positions in four states. Michael earned a BA from the University of Nebraska in 1980.

DAVID N. VAIL
*Executive Vice President - Finance and
Chief Financial Officer*

Mr. Vail is a Certified Public Accountant and has over 20 years experience in financial management, with both public and private sector firms. Prior to joining US LEC, Mr. Vail served as Controller of Harris Beach & Wilcox, LLP, a multi-state legal services firm with headquarters located in Rochester, New York, from 1986 through 1997, where he was responsible for the firm's financial and administrative operations, including mergers and acquisitions, evaluations and integrations. Mr. Vail also served as Controller of Voit Corporation, a publicly traded sporting goods manufacturer from 1984 through 1986 where he was responsible for day to day financial, operational and administrative functions, including Security and Exchange reporting. Prior to 1984, Mr. Vail spent eight years in public accounting with Naramore, Niles and Company, CPAs and Touche Ross and Company. Mr. Vail holds a BS degree in accounting from Rochester Institute of Technology.

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CRAIG SIMPSON
*Senior Vice President - Marketing and
Corporate Development*

Mr. Simpson has 10 years of telecommunications industry sales and management experience. Prior to joining US LEC in 1997, Mr. Simpson was employed by MCI from 1989 through February 1997. Since 1994, Mr. Simpson was Carrier Manager for MCI's North Carolina operations, responsible for sales to interexchange carriers, competitive local exchange carriers and independent telephone companies. Before 1988, Mr. Simpson spent 5 years employed by Unisys Corporation in computer mainframe sales and marketing. Mr. Simpson holds a BS degree in Marketing from Miami University.

III. THE BUSINESS PLAN

A. General Overview

U. S. LEC of Florida is an emerging telecommunications Company with a well trained management staff and a proposed network utilizing fully operational Lucent Technologies, Inc. 5ESS switches. The Company has been formed to provide local and long distance telephone service in Florida via strategically located switching centers, initially, in Tampa and Orlando.

New switching software will allow remote switching connectivity as far as 600 miles, insuring connectivity to all of Florida. The Company will create these new digital switching and leased fiber optic transmission networks in other geographically attractive regions within Florida.

Connectivity to customers will be provided by a digital central office switch in competition with the existing local exchange carriers, and by leasing fiber optic capacity from a variety of telecommunication carriers. Full connectivity will be achieved by negotiating interconnection agreements according to regulatory law, and by leasing access facilities from other telecommunication suppliers.

The Company will develop local telephone exchange networks utilizing modern switching system technology, which would enable the business to offer:

- Exchange access services to facilities and non-facilities based long distance, and competitive access carriers,
- Short haul long distance service,
- Resale of wireless services,
- Wholesale service (including exchange access and switching),
- Basic telephone and intraLATA toll service to telephone subscribers,
- An efficient wireless switching platform for new PCS companies.

Customers will include large companies, regional businesses, interexchange carriers, state and local governments and the educational and health services industries. In addition, strategic alliances, with cable TV, wireless, competitive access, and long distance carriers having a sizable customer base will be developed. Residential and small business markets will also be pursued to maximize on the operating efficiency of the noncoincident busy hour traffic patterns of the networks.

Product opportunities thus equate to those of a full service, regional telecommunications enterprise. The company will use multiple new Lucent Technologies, Inc. 5ESS System 2000 switch, with the latest software upgrades capable of providing both local and long distance from the same platform. Currently, this is the best technology to meet the network and product/services requirements proposed.

The opportunity is clear, as existing monopoly customers are demanding more services and lower rates, and more responsive service, incumbent telephone companies residential and business customers are vulnerable due to their relatively high local rates and low level of service commitment. The Company's state of the art switching and billing systems, low overhead and productivity enhancements will allow for lower rates than incumbent telephone companies. Demand for services will be strong, since customers will have a practical alternative to the long-standing monopoly. The new Company anticipates the same positive response from the Florida markets that we have seen in the existing markets. Customers will experience:

- Rates will be lower than existing telco rates by 15-20%.

- A variety of customer service and/or product packages will be offered that simplifies the customer's telecommunications requirements.
- Customer Service will be second to none.
- Sales and technical staff will consistently demonstrate a true partnership in meeting the customer's needs.

Knowledgeable staff of the Florida regulatory authority believe that the many emerging competitors entering the market now will attract meaningful market share, thus speed of entry into this marketplace is critical. The Company intends to offer superior service, state-of-the-art technology, streamlined operations, and will compete vigorously by packaging telecom products and services using diversified marketing techniques. The state-of-the-art-network, anchored by the Lucent Technologies, Inc. 5ESS System 2000 Switches, provides a unique blend of wireline and wireless products designed to meet the diversified needs of telecommunications users.

The nationwide market size for local services is approximately \$100 billion per year, composed of exchange access service, switchless reseller service, basic telephone services and intraLATA toll service. The Company initially deployed its services in North Carolina, and is now expanding to additional southeastern states that have implemented pro-competitive local regulations.

US LEC, L.L.C. and US LEC of North Carolina, L.L.C. were formed in 1996 to provide services throughout the State of North Carolina. Lucent Technology 5ESS switches have been installed in Raleigh and Charlotte, and are currently providing service to customers. US LEC has been certified to provide local and long distance service in North Carolina, Virginia, Tennessee, and Georgia. An application is pending in South Carolina.

Over the next five years, the Company will package long distance and local services with other telecom services that will be offered in the marketplace. In addition, the Company may resell its services to other telecommunication service providers including: long distance, competitive access, wireless, and cable TV carriers.

The Company believes that development of a fully competitive local exchange industry will parallel the development of the competitive long distance industry in many respects. The similarities may include an increase in overall market size (due to competitive pricing and service innovations), proliferation of suppliers and a shift in market share from incumbent monopolies.

Although the Company believes the local exchange market will increase, the Company's business plan is based on achieving a relatively piece of existing market share from the incumbent local exchange monopolies, as opposed to a growing market.

B. Public Telephone Network

Divestiture in 1984 resulted in two distinct segments of telecommunications service market: long distance service and local exchange service. The following chart shows the categories and primary providers of each service:

Telecommunications Services

<u>Service</u>	<u>Providers</u>
Long Distance	Long Distance Carrier
Local Exchange:	
Exchange Access Services	Local Exchange Carrier
Basic Telephone Services	Local Exchange Carrier
IntraLATA Toll Services	Local Exchange Carrier

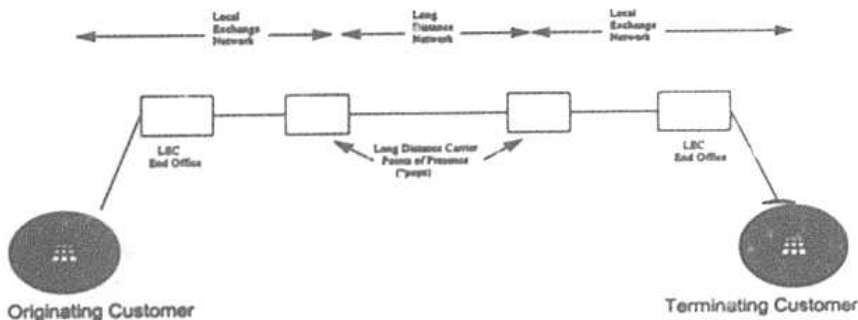
Long distance carriers transport telephone calls between LATAs and incur exchange access charges for originating and terminating calls from the local exchange companies. These access charges are the largest operating expense for the long distance carriers, representing approximately 35-40 percent of the carrier's revenue.

C. Long Distance Service

A typical long distance call consists of three parts. Starting with the originating telephone subscriber, a call travels to the local exchange Company's end office ("LEC end office or central office") along the local exchange network to the long distance carrier's switch. The call is then routed through the long distance network to the carrier's switch on the terminating end of the call, then to the LEC end office and to the terminating telephone subscriber's long distance carrier providing the connection between their switches. Local exchange companies charge long distance carriers exchange access charges for use of the local network at both the originating and terminating end of the call. The typical long distance call travels over three networks; the originating local Company's exchange network, the long distance carrier's network; and the terminating local exchange Company's network.

The following chart illustrates the network's connections:

TYPICAL LONG DISTANCE CALL



D. Local Exchange Service

Generally, local exchange service can be separated into exchange access service, basic telephone service and intraLATA toll service. The following table shows the type of service and customers of each service:

Local Exchange Service

<u>Service</u>	<u>Customer</u>
Exchange Access Service	Long Distance Carrier
Basic Telephone Service	Telephone subscriber
IntraLATA Toll Service	Telephone subscriber

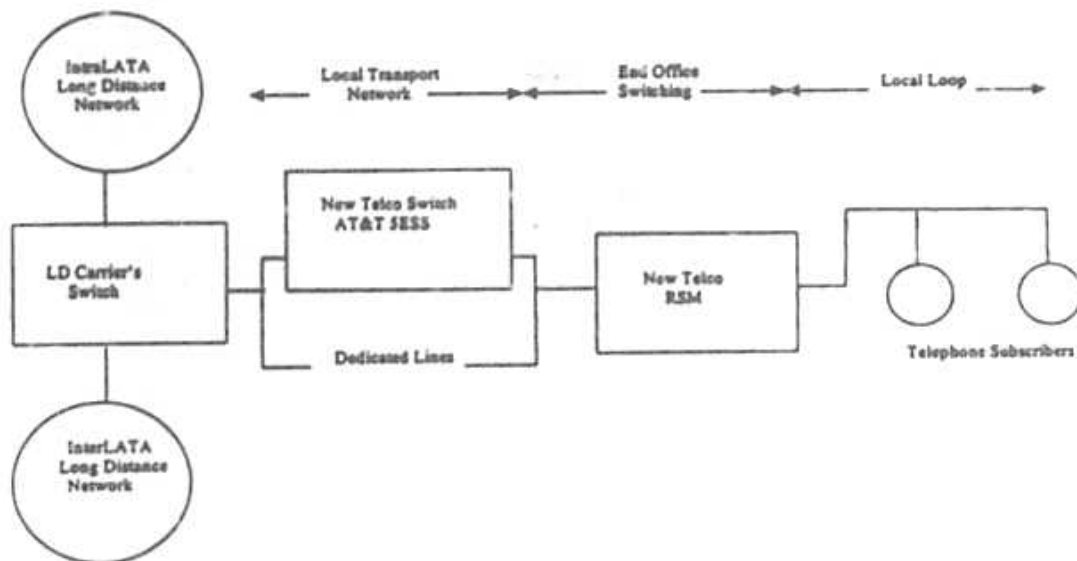
The Company estimates that the local exchange market will be \$100 billion in 1997 and beyond. Based on filings, the largest 35 local exchange companies generated approximately \$55 billion in annualized revenue.

The components of the local exchange network are as follows:

- Local Transport Network - The local network consists of: (a) transmission and switching facilities that interconnect the LEC end office with a long distance carrier's switch (exchange access), and (b) transmission and switching facilities that interconnect LEC end offices. Long distance carriers use the local exchange Company's tandem switching transport facilities, or in the case of a long distance carrier with significant message volume, dedicated lines to the LEC end office.
- End office switching - The LEC end office switching facility provides dial tone and local calling features (such as call forwarding, call waiting, and voice mail services) to telephone subscribers. Additionally, these switching facilities interconnect telephone subscribers to other local subscribers and route long distance calls to long distance carriers (via the local transport network).
- Local loops - Local loops provide the physical connection between a subscriber's telephone or equipment and the LEC end office (or the Company's switch).

The following chart illustrates the major components of the local exchange network:

LOCAL EXCHANGE NETWORK



Exchange Access Service - Exchange access service consists of:

(a) access to and from telephone subscriber lines over the local exchange network to the long distance carriers switch (as described above); and (b) dedicated point to point connections between heavy volume users and long distance carriers at fixed monthly rates.

The exchange access charges paid by the long distance carriers to the local exchange companies represents approximately 30% of the local exchange companies revenue. In contrast, exchange access costs are the largest single operating expense of the long distance carriers.

Basic Telephone Service - Basic telephone service includes monthly line charges, private line services, optional calling features (e.g. call forwarding) and in some states, local measured services billed to telephone subscribers. In Florida, the Company will be able to offer basic telephone service to subscribers in competition with the incumbent local exchange Company upon receiving the appropriate authorizations.

IntraLATA Toll Service - IntraLATA toll service includes charges for long distance calls within the LATA billed to telephone subscribers. Long distance carriers are the Company customers and will receive 1+ intraLATA toll revenue, while the Company will receive access charges for these calls, increasing revenue for both the Company and long distance carrier customers. Currently, local exchange companies handle all 1+ intraLATA toll calls on their own networks and long distance carriers are excluded from transporting these calls.

System technology will permit the Company to operate the network infrastructure and service large customer bases with relatively low labor costs and a highly centralized operation. Unit margins range from 29% when a customer is connected via the incumbent local exchange carrier to 70% when the customer is directly connected to the switch. Sales, marketing, General & Administrative expenses are expected to directly reflect the revenue growth. Billing services will be outsourced in order to package local, long-distance and wireless product on a single bill.

The Company expects to compete immediately against the incumbent local exchange companies, and other large entrants. However, the research indicates that these competitors are currently behind in their implementation schedules and hence an immediate advantage to the Company which plans to be operational by 4Q1998.

The Company intends to position itself as a local exchange service Company, providing other telecommunications services in a one-step format. As competition for basic telephone services becomes increasingly prevalent throughout the U. S., the Company's strategic objective is to provide the first-point-of-switching (i.e. providing dial tone) which will allow the opportunity to adapt to changing market conditions and new technologies. Providing dial tone will also allow the Company to create and market new communications applications and to participate in new markets regardless of the underlying transmission platform — copper wire, fiber optic or wireless.

The Company plans to be able to provide LATA-wide exchange access service to long distance carriers: (a) at rates below those currently charged by the incumbent local exchange Company, and (b) in a more cost effective manner than building proprietary local exchange networks. The Company plans to offer exchange access services for both originating and terminating long distance calls in the markets it services.

The Company expects to compete immediately against the incumbent local exchange companies, and other large entrants. However, the research indicates that these competitors are currently behind in their implementation schedules and hence an immediate advantage to the Company which plans to be operational by 4Q1998.

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IV. Operational Plan

A. Network

In order to provide for seamless interconnection, the Company has successfully negotiated interconnection agreements for US LEC of North Carolina, L.L.C. and expects no difficulties with existing LECs in Florida. The agreement with BellSouth has been filed with the Commission. Florida agreements are still required with GTE and Sprint. Fortunately, the Florida Public Service Commission has allowed for interconnection, collocating agreements and unbundled services to link. This will allow the Company to purchase local interconnect and ports, which are the only services, and/or facilities, necessary to complete it's network. Negotiations will also be required for emergency services, E911, operator services, directory, etc. No other obstacles are expected with other LECs in Florida.

B. Operations

The Company's integration of advanced telecommunications and information technology systems will enhance its ability to offer cost effective service. To manage the development of intelligent technology systems, the Company has negotiated two strategic alliances involving switching operations and information systems technology.

Lucent Technologies, Inc. Switch Operations - the Company has hired highly proficient personnel to staff the switching operations along with technical support from Lucent Technologies, Inc. personnel.

Information Technology Systems - the Company is using a third party vendor for billing for local exchange telephone services. As the Company implements its business plan, the Company will outsource most of its internal operating, billing and information technology Systems. The Company is currently seeking a vendor with capabilities of bundling local with long distance, CAP, wireless and other telecom products. Management believes outsourcing to a third party is

desirable at this time because of the Company's planned growth across a wide variety of telecommunication services.

Licenses & Interconnection agreements - Florida regulatory approvals are expected in the next several months and interconnection agreements with GTE and Sprint will be completed in early 1998. All of the corporate formation work is complete.

Contracts - The following contracts will be negotiated:

- Local Access with CAPS
- Access Services with IXCs
- Billing Services with external vendors