TelePacific
COMMUNICATIONS

Financial Statements
Nine Months Ended September 30, 1999

TelePacific Communications
September 1999 Balance Sheet

Assets
- Cash and Cash Equivalents
- Cash on Demand
- Marketable Equity Securities

- Accounts Receivable
- Bad Debt Reserve
  - Account Receivable Net

- Prepaids

- Fixed Assets
- Accumulated Depreciation
  - Net Fixed Assets

TOTAL ASSETS

Current Liabilities
- Accounts Payable
- Accrued Liabilities & Other
- Capital Lease Obligations

Total Current Liabilities

Long Term Liabilities
- Capital Leases
- Notes Payable
- Debt Issuance Costs

Total Long Term Liabilities

Total Liabilities

Shareholders Equity
- Preferred Stock, Common Stock, and Warrants
- Issuance Costs
- Retained Earnings
  - **Total Stockholders Equity**

TOTAL LIABILITIES & SE

TELEPACIFIC COMMUNICATIONS
INCOME STATEMENT 1999
MTD & YTD

	Act MTD Jan-99	Act MTD Feb-99	Act MTD Mar-99	Act MTD Apr-99	Act MTD May-99	Act MTD Jun-99	Act MTD Jul-99	Act MTD Aug-99	Act MTD Sep-99
ıtal Revenue									
OGS									
Variable operating costs									
Fixed operating costs									
Depr. & amort.									
Total COGS									
Gross profit									
G&A									
EBIT									
ITEREST									
Interest income									
Interest expense									
et Interest Income/(Expense)									
oss on sale of Marketable Securities									
EBT									
ax									
et Income / (Loss)									
BITDA									

	Act YTD Sep-99
tal Revenue	
OGS	
Variable operating costs	
Fixed operating costs	
Depr. & amort.	
Total COGS	
Gross profit	
G&A	
EBIT	
ITEREST	
Interest income	
Interest expense	
t Interest Income/(Expense)	
ss on sale of Marketable Securities	
EBT	
x	
t Income / (Loss)	
BITDA	

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TELEPACIFIC COMMUNICATIONS
YTD CASH FLOW AS OF SEPTEMBER 30, 1999

	Actual YTD Sep-99
CASH FLOW FROM OPERATING ACTIVITIES	
NET LOSS	$
Adjustment to reconcile net loss to net cash used by operating activities:	
Depreciation & amortization	
Non-cash loss on marketable equity securities	
Net change in operating assets and liabilities:	
Change in net accounts receivable	
Change in prepaids	
Change in accounts payable	
Change in accrued liabilities	
Net Cash Used by Operating Activities	
CASH USED FOR INVESTING ACTIVITIES	
Purchase of Marketable Equity Securities	
Cash from sale of Marketable Equity Securities	
Capital Expenditures	
Net Cash Used by Investing Activities	
CASH FLOWS FROM FINANCING ACTIVITIES	
Paid in Equity	
Equity issuance costs	
Drawdown of available funds	
Debt issuance costs	
Paydown of Sanwa note	
Principal payments on capital leases	
Total cash from financing activities	
NET INCREASE / (DECREASE) IN CASH	
Cash at beginning of period	
Cash at end of period	
NON-CASH TRANSACTIONS:	
Equity Issuance Costs	
Debt Issuance Costs	
Acquired Fixed Assets	

U.S. TelePacific Corp.

Notes to Financial Statements:

Note 1 - Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting.

Note 2 - 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, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Note 3 - Consolidated Statements:

The financial statements represent the activity of U.S. TelePacific Corp dba TelePacific Communications. No activity exists in any subsidiaries. Therefore, consolidating financial statements are not provided.

Note 4 - Subsequent Events:

On November 9, 1999, the Company signed an agreement to sell $ f Series B preferred stock to G.E. Capital Equity Investments, Inc.

TelePacific
COMMUNICATIONS

Financial Statements
Year Ended December 31, 1998

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Report of Independent Accountants
For the Year Ended December 31, 1998

To the Shareholders of
U.S. Telepacific Corp.

In our opinion, the accompanying balance sheet and the related statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of U.S. Telepacific Corp. as of December 31, 1998, and the results of its operations and its cash flows for the year ended December 31, 1998, 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 audit. We conducted our audit 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. 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 the opinion expressed above.

July 14, 1999

U.S. TelePacific Corp.

Balance Sheet
December 31, 1998

CURRENT ASSETS	
Cash and Cash Equivalents	$
Accounts Receivable	
Total Current Assets	
Property and Equipment, Net	
TOTAL ASSETS	$
CURRENT LIABILITIES	
Line of Credit	$
Accounts Payable	
Accrued Liabilities	
Current Portion of Capital Leases	
Total Current Liabilities	
LONG-TERM LIABILITIES	
Capital Lease Obligations, Net of Current Portion	
Total Liabilities	
SHAREHOLDERS' EQUITY	
Common Stock, No Par (100,000,000 authorized, 9,999,930 issued and outstanding)	
Accumulated Deficit	
Total Shareholders' Equity	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$

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See accompanying notes to the financial statements

Statement of Operations
For the Year Ended December 31, 1998

REVENUES:	
Revenues	$
TOTAL REVENUES	
COST OF REVENUES:	
Variable Operating Costs	
Fixed Operating Costs	
Depreciation & Amortization	
TOTAL COST OF REVENUES	
GROSS MARGIN	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	
LOSS FROM OPERATIONS	
OTHER INCOME AND (EXPENSE):	
Interest Income	
Interest Expense	
TOTAL OTHER INOME AND (EXPENSE)	
NET LOSS	$

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See accompanying notes to the financial statements

U.S. TelePacific Corp.

Statement of Shareholders' Equity
For the Year Ended December 31, 1998

	Common Stock		Accumulated	
	Shares	**Amount**	**Deficit**	**Total**
Balances, January 1, 1998				
Common stock sold for cash				
Net Loss			$	
Balances, December 31, 1998		$	$	$

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See accompanying notes to the financial statements

U.S. TelePacific Corp.

Statement of Cash Flows
For the Year Ended December 31, 1998

CASH FLOWS FROM OPERATING ACTIVITIES	
NET LOSS	$
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	
Net change in operating assets and liabilities:	
Accounts receivable	
Accounts payable	
Accrued liabilities	
Net Cash Used by Operating Activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	
Net Cash Used by Investing Activities	
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from line of credit	
Proceeds from sale of common stock	
Proceeds from note payable from related party	
Repayment of note payable from related party	
Principal payments on capital leases	
Net Cash Provided by Financing Activities	
Net Increase in Cash and Cash Equivalents	
Cash and Cash Equivalents	
Cash at Beginning of Year	
Cash at End of Year	

Supplemental Disclosures of Cash Flow Information

Cash paid for interest	$

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See accompanying notes to the financial statements

NOTE 1:
THE COMPANY

U.S. TelePacific Corp. (the "Company"), a California corporation, was organized under the name Justice Long Distance Corp. effective July 17, 1996, and remained inactive until 1998. The Company's name was changed to U.S. TelePacific Corp. (dba TelePacific Communications) as of July 27, 1998. The Company is a "next generation" competitive local exchange carrier ("CLEC"), focused on providing telecommunications services primarily in large urban markets throughout California and Nevada serving the local and long distance voice, data, internet and multimedia needs of its clients. The Company was in its start-up phase prior to December 15, 1998, when it began operations. The Company's operations are subject to significant risks and uncertainties including competitive, financial, developmental, operational, growth and expansion, technological, regulatory, and other risks associated with developing the Company's business.

NOTE 2:
SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting.

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, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents - The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

Revenue Recognition – The Company recognizes revenue on telecommunications and enhanced communications services in the period that services are provided to customers.

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Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of property and equipment are as follows:

Telecommunications Equipment:	10 years
Furniture, Fixtures and Office Equipment:	5 years
Computers and software:	3 years
Leasehold improvements:	Lesser of estimated useful life or term of lease

The Company capitalizes costs associated with the construction, installation and expansion of the Company's network. Capitalized costs generally include personnel and related costs incurred in the enhancement and implementation of the network.

Equipment Under Capital Leases – The Company leases certain of its furniture and office equipment under capital lease agreements. The assets and liabilities under capital leases are recorded at the lesser of the present value of aggregate future minimum lease payments or fair value of the assets under lease, whichever is less. Assets under capital lease are amortized over the lesser of the lease term or useful life of the assets.

Income Taxes - The Company provides for income taxes utilizing the liability method in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". Under the liability method, current income tax expense or benefit represents income taxes expected to be payable or refundable for the current period. Deferred income tax assets and liabilities are established for both the impact of differences between the financial reporting bases and tax bases of assets and liabilities and for the expected future tax benefit to be derived from tax credits and tax loss carryforwards. Deferred income tax expense or benefit represents the change during the reporting period in the net deferred income tax assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments – SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," as amended by SFAS No. 119, "Disclosures About Derivative Financial Instruments and Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available for identical or comparable financial instruments, fair values are based on estimates using the present value of estimated cash flow or other valuation techniques. The resulting fair values can be significantly affected by amounts and timing of future cash flows.

The following methods and assumptions were used to estimate the fair value for financial instruments:

> ***Cash and Cash Equivalents:*** The carrying amount approximates fair value.
>
> ***Borrowings:*** The fair values of borrowings, including long-term debt and other obligations, were estimated based on quoted market prices, where available, or by discounting the future cash flows using estimated borrowing rates at which similar types of borrowing arrangements with the same remaining maturities could be obtained by the company. For all borrowings outstanding at December 31, 1998, fair value approximates recorded value.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash in excess of operating requirements is conservatively invested in money market funds, certificates of deposit with high-quality financial institutions, obligations of the U.S. Government and its agencies and investment grade A commercial paper. The Company continually evaluates the creditworthiness of its customers.

Key Suppliers – The Company is dependent on limited source of suppliers for certain equipment used to provide its services. The Company has generally been able to obtain an adequate supply of equipment. However, an extended interruption in the supply of equipment currently obtained from limited source suppliers could adversely affect the Company's business and results of operations.

New Accounting Pronouncements – In April 1998, the AICPA released Statement of Position 98-5, "Reporting on the costs of Start-up Activities" ("SOP 98-5"). The new standard requires that all entities expense costs of start-up activities as those costs are incurred. The Company has expensed start-up costs incurred directly relating to its pre-operating, pre-opening, and organization activities as defined in SOP 98-5.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1998 consisted of the following components:

Telecommunications Equipment	$
Furniture, Fixtures and Office Equipment	
Computers	
Software	
Leasehold Improvements	
Accumulated Depreciation	
Property and Equipment, Net	$

Capitalized labor costs for the year ended December 31, 1998 was $.

NOTE 4: LINE OF CREDIT

On April 12, 1998, the Company entered into a $ Line of Credit Agreement (the "Agreement") with Sanwa Bank for purchase of a Lucent 5EES system 2000 switch. Borrowings against the Agreement were $ at December 31, 1998. The Agreement provides for interest-only payments on the outstanding principal. Interest expense incurred through December 31, 1998, was $ with an average annum rate of 6.7%. The principal balance was initially due on March 31, 1999, but an amendment to the Agreement dated March 31, 1999, revised the repayment of the principal date to March 31, 2000. The Agreement is collateralized by equipment, cash and cash equivalents and other property in possession of the Company and is personally guaranteed by the Company's Chairman of the Board and Chief Executive Officer, his father and Justice Technology Corporation.

NOTE 5: LEASES

The Company has entered into capital lease arrangements to finance the acquisition of certain office equipment and furniture. The principal value of these leases was $ and was equivalent to the fair value of the assets leased. In addition, the Company leases office space under an operating lease.

Future minimum obligations for leases in effect at December 31, 1998, were as follows:

Year Ending December 31,	Capital	Operating
1999	$	$
2000		
2001		
2002		
2003		
Thereafter	-	
Total minimum lease payments		$
Less amount representing interest		
Present value of net minimum lease payments		
Less current portion		
Capital lease obligations, net of current Portion	$	

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NOTE 6: STOCK OPTIONS

In 1998, the Company adopted the U.S. TelePacific Corp. 1998 Stock Incentive Plan ("the Plan"). The Plan provides for the grant of stock purchase rights and options to purchase shares of common stock to employees and consultants from time to time as determined by the Board of Directors. The options and rights expire 10 years from the date of grant, provided that in the case of an incentive stock option granted to a holder of ten percent or more of the Company's common stock, the terms of such option shall be 5 years from the date of grant. As of December 31, 1998, the Company has reserved 2,500,000 shares of its common stock for sale and issuance under the Plan at prices to be determined by the Board of Directors. Options vest over a four year period. There were no stock purchase rights granted during the year ended December 31, 1998.

The following summarizes stock option activity for the year ended December 31, 1998:

	Number of Options	Weighted Average Exercise Price
Options outstanding at January 1, 1998:	-	-
Granted		
Exercised	-	-
Canceled	-	-
Options outstanding at December 31, 1998:		$

The following is a summary of stock options outstanding at December 31, 1998:

Exercise Price Range	Number Outstanding	Weighted Average Life Remaining	Weighted Average Exercise Price	Options Exercisable

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The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and related interpretations in accounting for its employee stock options. Under APB 25, compensation expense is recognized based on the amount by which the fair value of the underlying common stock exceeds the exercise price of stock options at the date of grant.

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting and disclosure of Stock-Based Compensation". Had compensation expense for the Company's Plan been determined based on the fair value method of accounting for stock-based compensation, the Company's net loss for the year ended December 31, 1998 would have increased by $ For the purposes of determining this compensation expense, the fair value of each option grant is estimated on the grant date using the Black Scholes option pricing model with the following weighted average assumptions used for grants during the year ended December 31, 1998: No dividend yield, risk free interest rate of 4.78%, expected volatility of nil and expected term of five years.

NOTE 7:
INCOME TAXES

As of December 31, 1998, the Company had a net operating loss carryforward of approximately $, which is available to offset future taxable income, if any, through 2013 for federal taxes and 2003 for state taxes, subject to the limitations of Internal Revenue Code Section 382 relating to changes in ownership of the Company, and other state limitations.

Components of deferred income taxes for December 31, 1998, are as follows:

Deferred Tax Assets:	
Net operating loss carryforwards....................	$
Deferred Tax Liabilities:	
Depreciation...	
Net Deferred Tax Asset................................	
Valuation Allowance..................................	
Net Deferred Income Tax Asset.......................	$ -

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NOTE 9: RELATED PARTY TRANSACTIONS

Justice Technology Corporation, a shareholder of the Company and who is controlled by the Company's Chairman of the Board and Chief Executive Officer is paid for services rendered and equipment purchased on behalf of the Company. Equipment is transferred to the Company at cost. Such amounts totaled $ for the year ended December 31, 1998, of which approximately $ was owed to Justice Technology at December 31, 1998 and is included in accounts payable on the accompanying balance sheet. It is anticipated that Justice Technology will continue to provide limited services on behalf of the Company in the future.

NOTE 10: SUBSEQUENT EVENTS

On March 17, 1999, the Company sold an additional shares of its common stock for cash of $.

On April 7, 1999, the Company sold an additional shares of its common stock for cash of $

On April 12, 1999, the Company completed the acquisition of Digital Velocity, an internet service provider and web hosting firm based in Los Angeles in exchange for common stock options of the Company with an exercise price of $ per share.

On April 14, 1999, the Company amended its Articles of Incorporation authorizing the Company to issue two classes of stock to be designated, respectively, "Preferred Stock" and "Common Stock". The total number of shares which the Company shall have authority to issue is shares Preferred Stock and shares Common Stock).

On April 14, 1999, the Company agreed to a $ investment offer from Rader Reinfrank & Co., LLC and issued 150 shares of Series A Convertible Preferred Stock at $ per share with a liquidation preference.

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ORIGINAL

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March 28, 2000

VIA OVERNIGHT DELIVERY

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Bldg.
Tallahassee, Florida 32399-0850

000378-TX

Re: US TelePacific Corp. d/b/a TelePacific Communications
CONFIDENTIAL TREATMENT REQUESTED

Dear Sir/Madam:

Enclosed please find three (3) copies of US TelePacific Corp. d/b/a TelePacific Communication's audited financial statements for the year ended December 31, 1998 and unaudited financial statements for the period ended September 30, 1999, which is being filed in conjunction with US TelePacific Corp. d/b/a TelePacific Communication's Application for Authority to Provide Alternate Local Exchange Telecommunications Service Within the State of Florida. The Applicant hereby requests confidential treatment for its financial information.

I have enclosed one original copy and two edited copies in which the information claimed as confidential is blacked out.

Please return a stamped copy of the extra copy of this letter in the enclosed preaddressed prepaid envelope. If you have any questions, please do not hesitate to call me. Thank you for your attention to this matter.

Sincerely,

This claim of confidentiality was filed by or on behalf of a "telco" for Confidential DN 03887-00. The document is in locked storage pending advice on handling. To access the material, your name must be on the CASR. If undocketed, your division director must obtain written EXD/Tech permission before you can access it.

Lance J.M. Steinhart, Esq.
Attorney for US TelePacific Corp. d/b/a TelePacific Communications

Enclosures
cc: Jane Delahanty

edited
DOCUMENT NUMBER-DATE
0[redacted] MAR 29 8
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