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# NEW APPLICATION

**Lance J.M. Steinhart**  
Attorney At Law  
6455 East Johns Crossing  
Suite 285  
Duluth, Georgia 30097

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1999 DEC 29 A 11:07

AZ CORP COMMISSION  
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Also Admitted in New York  
and Maryland

December 28, 1999

## VIA OVERNIGHT DELIVERY

Docket Control Center  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

**DOCKET NO. T-03824A-99 0749**

Re: NetworkIP, LLC  
Requirements for Certified Switchless Resellers

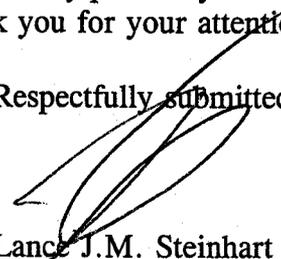
Dear Sir/Madam:

Enclosed please find for filing an original and ten (10) copies of NetworkIP, LLC's Application and Petition for Certificate of Public Convenience and Necessity to Provide Competitive Intrastate Telecommunications as a Reseller.

I have also enclosed an extra copy of this letter to be date stamped and returned to me in the enclosed, self addressed, postage prepaid envelope.

If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me. Thank you for your attention to this matter.

Respectfully submitted,



Lance J.M. Steinhart

Attorney for NetworkIP, LLC

Enclosures

cc: Toni Van Burkleo

# NEW APPLICATION

FORM A

## ARIZONA CORPORATION COMMISSION

### Application and Petition for Certificate of Convenience and Necessity to Provide Competitive Intrastate Telecommunications Services as a Long Distance Reseller

Mail original plus 10 copies  
of completed application to:

Docket Control Center  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

For Docket Control Only:  
(Place Stamp Here)

If you have current applications  
pending in Arizona for provision  
of reseller, AOS, or other  
telecommunication services,  
please identify:

**DOCKET NO.** T-03824A-99 0749

Type of Service:

Docket No.:

Date:

Docket No.:

Type of Service:

Docket No.:

Date:

Date Docketed:

#### A. Company and Telecommunications Service Information

(A-1) The name, address, and telephone number (including area code) of the applicant (company):

**NetworkIP, LLC**  
**119 West Tyler Street, Suite 168**  
**Longview, TX 75601**  
**(903) 323-4500**

(A-2) If doing business (dba) under a name other than the applicant (company) name listed above, specify:

(A-3) The name, address, telephone number, and facsimile number and email address of the management contact:

**Toni Van Burkleo**  
**NetworkIP, LLC**  
**119 West Tyler Street, Suite 168**  
**Longview, TX 75601**  
**(903) 323-4500/Phone**  
**(903) 323-4564/Fax**  
**tvb@networkip.net**

(A-4) The name, address, and telephone, facsimile number and email address of the attorney, if any, representing the applicant:

**Lance J.M. Steinhart**  
**Attorney at Law**  
**6455 East Johns Crossing**  
**Suite 285**  
**Duluth, Georgia 30097**  
**770-232-9200/Phone**  
**770-232-9208/Fax**  
**steinhart@mindspring.com**

(A-5) What type of legal entity is the applicant?

- Sole proprietorship
- Partnership  limited,  
 general,  
 Arizona,  
 Foreign
- Limited liability company
- Corporation  "S",  
 "C",  
 non-profit,  
 Arizona,  
 Foreign
- Other, specify:

(A-6) Include "Attachment A." Attachment A must list names of all owners, partners, limited liability company managers, or corporation officers and directors (specify), and indicate percentages of ownership.

*Application and Petition for Competitive Reseller CC&N*

- (A-7) 1. Is your company currently reselling telecommunication service in Arizona? If yes, provide the date or the approximate date that you began reselling service in Arizona.

**No.**

2. If the answer to 1. is "yes", identify the types of telecommunications services you resell; whether operator services are provided or resold and whether they are provided or resold to traffic aggregators (as defined in A.A.C. Rule R14-2-1001(3), a copy of which is attached); the number of customers in Arizona for each type of service; and the total number of intrastate minutes resold in the latest 12 month period for which data is available. Note: The Commission rules require that a separate CC&N, issued under Article 10, be obtained in order to provide operator services to traffic aggregators.
3. If the answer to 1. is "no", when does your company plan to begin reselling service in Arizona?

**Upon acceptance of application.**

- (A-8) Include "Attachment B." Attachment B, your proposed tariff, must include proposed rates and charges for each service to be provided, state the tariff (maximum) rate as well as the price to be charged, and state other terms and conditions, including deposits, that will apply to provision of the service(s) by your company.

The Commission provides pricing flexibility by allowing competitive telecommunications service companies to price their services at levels equal to or below the tariff (maximum) rates. The prices to be charged by the company are filed with the Commission in the form of price lists. See the "Illustrative Tariff/Price List Example" attached. Note: Price list rate changes that result in rates that are lower than the tariff rate are effective upon concurrent notice to the Commission (See Rule R14-2-1109(B)(2)). See Rule R14-2-1110 for the procedures to make price list changes that result in rates that are higher than the tariff rate.

*Application and Petition for Competitive Reseller CC&N*

(A-9)	<p>The geographic market to be served is:</p> <p><input checked="" type="checkbox"/> statewide.</p> <p><input type="checkbox"/> other, describe and provide a map depicting the area.</p>
(A-10)	<p>List the states in which you currently resell services similar to those you intend to resell in Arizona.</p> <p><b>Texas</b></p>
(A-11)	<p>Provide the name, address, and telephone number of the company's complaint contact person.</p> <p><b>Nichole Janner, Customer Service Manager NetworkIP, LLC 119 West Tyler Street, Suite 168 Longview, TX 75601 (877) 638-7762 Phone</b></p>
(A-12)	<p>Provide a list of states in which you have sought authority to resell telecommunications services and in which the state granted the authority <u>with major changes and conditions</u> or <u>did not grant</u> your application for those services. For each state listed, provide a copy of the Commission's decision modifying or denying your application for authority to provide telecommunications services.</p> <p><b>None.</b></p>
(A-13)	<p>Has the company been granted authority to provide or resell telecommunications services in any state where subsequently the <u>authority was revoked</u>? If "yes", provide copies of the State Regulatory Commission's decision revoking its authority.</p> <p><b>No.</b></p>

*Application and Petition for Competitive Reseller CC&N*

(A-14) Has the company been or is the company currently involved in any formal complaint proceedings before any state or Federal Regulatory Commission? If "yes", in which states is the company involved in proceedings and what is the substance of these complaints. Also, provide copies of Commission orders that have resolved any of these complaints.

**No.**

(A-15) Has the applicant been involved in any civil or criminal investigations related to the delivery of telecommunications services within the last five years? If "yes", in which states has the applicant been involved in investigations and why is the applicant being investigated?

**No.**

(A-16) Has the applicant had judgment entered against it in any civil matter or been convicted of criminal acts related to the delivery of telecommunications services within the last five years? If yes, list the states where judgment or conviction was entered and provide a copy of the court order.

**No.**

*Application and Petition for Competitive Reseller CC&N*

**B. Technical Information**

(B-1) If your company is a switchless reseller, provide the name of the company or companies whose services you resell and skip to question (B-2). If you are not a switchless reseller, complete the remainder of this section.

**Yes, the company intends to resell services provided by MCI  
WorldCom, Sprint & Frontier.**

Include "Attachment C." Attachment C should provide the following information: A diagram of the applicant's basic call network used to complete Arizona intrastate telecommunications traffic. This diagram should show how a typical call is routed in both its originating and terminating ends (i.e. show the access network and call completion network).

Also include on the diagram the carrier(s) used for each major network component and indicate if the carrier is facilities-based or not. If the carrier is not facilities-based, indicate who owns the facilities (within the State of Arizona) that are used to originate and terminate the applicant's intrastate telecommunications traffic (i.e. provide a list of the Arizona facilities-based long distance carriers whose facilities are used to complete the applicant's intrastate traffic).

(B-2) Will your customers be able to access alternative toll service providers or resellers via 1+ or 101XXXX access, if your system becomes non-operational?

**Yes.**

*Application and Petition for Competitive Reseller CC&N*

**C. Financial Information**

(C-1) Include "Attachment D." Attachment D **must** include copy of your Company's balance sheet, income statement, audit report (if audited) and all related notes to these financial statements for the two most recent years your Company has been in business. **See Attached Balance Sheet & Income Statement**

(C-2) If your Company does not have financial statements for the two most recent years, please give the date your Company began operations. **September 30, 1999**

(C-3) If the balance sheets you submit do not have retained earnings accounts, please provide this account information on a separate sheet for each of the two years. **N/A**

(C-4) If your Company is a subsidiary, please provide your Parent Company's financial statements, in addition to your Company's financial statements. **See Attached**

(C-5) If your Company intends to rely on the financial resources of its Parent Company, please provide a written statement from your Parent Company attesting that it will provide complete financial backing if your Company experienced a net loss or a business failure and that it will guarantee to payment of customers, advances, prepayments or deposits held by your Company if, for some reason, your Company cannot provide service or repay the deposits. **Not Applicable**

(C-6) Will your customers be required to (or have the option to) pay advances, prepayments, or deposits for any of your products or services.

YES   X   (If yes, provide an explanation of how and when these customers advances, prepayments, or deposits will be applied of reference the terms and conditions section of your Company's tariffs with this explanation. If this information is not explained in the tariff of this application, please provide it on a separate sheet.)

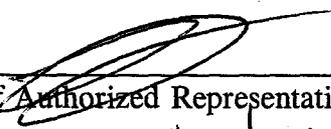
**See sheets 25 and 26 of the Company's tariff.**

NO \_\_\_\_\_ (Note: If at a later date, your Company decides it wants to offer or require customer advances, prepayments or deposits, it must submit financial statements as part of the tariff amendment process.)

*Application and Petition for Competitive Reseller CC&N*

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I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county and/or State agency approvals have been obtained. Upon signing of this application I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services and that the company will abide by Arizona State Law including the Arizona Corporation Commission Rules and Regulations. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

  
\_\_\_\_\_  
(Signature of Authorized Representative)

\_\_\_\_\_  
(Date)

12/28/99

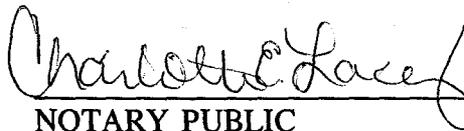
Lance Steinhart

(Printed Name of Authorized Representative)

Regulatory Counsel

(Title)

SUBSCRIBED AND SWORN to before me this 28<sup>th</sup> day of December, 1999.

  
\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires:

Charlotte E. Lacey  
Notary Public, Gwinnett County, Georgia  
My Commission Expires November 26, 2000

## ATTACHMENTS

### A - Officers and Directors

#### Officers:

Pete Pattullo	Chief Executive Officer
Toni Van Burkleo	Chief Financial Officer
Scott Reskey	Vice-President-Operations
Jet Thomas	Director of Network Operations
Darren Burns	Vice-President-Sales/Marketing

#### Directors:

None-Limited Liability Company has no board of directors

**B - Proposed Tariff**





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CHECK SHEET

The Sheets of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this sheet.

<u>SHEET</u>	<u>REVISION</u>
1	Original
2	Original
3	Original
4	Original
5	Original
6	Original
7	Original
8	Original
9	Original
10	Original
11	Original
12	Original
13	Original
14	Original
15	Original
16	Original
17	Original
18	Original
19	Original
20	Original
21	Original
22	Original
23	Original
24	Original
25	Original
26	Original
27	Original
28	Original
29	Original
30	Original
31	Original
32	Original
33	Original

\* New or Revised Sheet

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ISSUE DATE: December 29, 1999

EFFECTIVE DATE:

ISSUED BY:

Toni Van Burkleo, CFO  
119 West Tyler Street, Suite 168  
Longview, TX 75601

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ISSUE DATE: December 29, 1999      EFFECTIVE DATE:  
ISSUED BY:                      Toni Van Burkleo, CFO  
                                    119 West Tyler Street, Suite 168  
                                    Longview, TX 75601









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**SECTION 2 - RULES AND REGULATIONS****2.1 Undertaking of the Company**

This tariff contains the regulations and rates applicable to intrastate resale telecommunications services provided by NetworkIP for telecommunications between points within the State of Arizona. Resale services are furnished subject to the availability of facilities and subject to the terms and conditions of this tariff in compliance with limitations set forth in the Commission's rules. The Company's services are provided on a statewide basis and are not intended to be limited geographically. The Company offers service to all those who desire to purchase service from the Company consistent with all of the provisions of this tariff. Customers interested in the Company's services shall file a service application with the Company which fully identifies the Customer, the services requested and other information requested by the Company. The Company reserves the right to examine the credit record and check the references of all applicants and Customers prior to accepting the service order. The service application shall not in itself obligate the Company to provide services or to continue to provide service if a later check of applicant's credit record is, in the opinion of the Company, contrary to the best interest of the Company. The Company may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the Customer, to allow connection of a Customer's location to a service provided by the Company. The Customer shall be responsible for all charges due for such service arrangement.

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**ISSUE DATE: December 29, 1999****EFFECTIVE DATE:****ISSUED BY:****Toni Van Burkleo, CFO  
119 West Tyler Street, Suite 168  
Longview, TX 75601**

- 
- 2.1.1 The services provided by NetworkIP are not part of a joint undertaking with any other entity providing telecommunications channels, facilities, or services, but may involve the resale of the Message Toll Services (MTS) and Wide Area Telecommunications Services (WATS) of underlying common carriers subject to the jurisdiction of this Commission.
- 2.1.2 The rates and regulations contained in this tariff apply only to the resale services furnished by NetworkIP and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carriers for use in accessing the services of NetworkIP.
- 2.1.3 The Company reserves the right to limit the length of communications, to discontinue furnishing services, or limit the use of service necessitated by conditions beyond its control, including, without limitation: lack of satellite or other transmission medium capacity; the revision, alteration or repricing of the Underlying Carrier's tariffed offerings; or when the use of service becomes or is in violation of the law or the provisions of this tariff.

## 2.2 Use of Services

- 2.2.1 NetworkIP services may be used for any lawful purpose consistent with the transmission and switching parameters of the telecommunications facilities utilized in the provision of services, subject to any limitations set forth in this Section 2.2.
- 2.2.2 The use of NetworkIP services to make calls which might reasonably be expected to frighten, abuse, torment, or harass another or in such a way as to unreasonably interfere with use by others is prohibited.

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ISSUE DATE: December 29, 1999

EFFECTIVE DATE:

ISSUED BY:

Toni Van Burkleo, CFO  
119 West Tyler Street, Suite 168  
Longview, TX 75601

- 
- 2.2.3 The use of NetworkIP services without payment for service or attempting to avoid payment for service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards is prohibited.
- 2.2.4 NetworkIP services are available for use 24 hours per day, seven days per week.
- 2.2.5 NetworkIP does not transmit messages, but the services may be used for that purpose.
- 2.2.6 NetworkIP services may be denied for nonpayment of charges or for other violations of this tariff.
- 2.2.7 Customers shall not use the service provided under this tariff for any unlawful purpose.
- 2.2.8 The Customer is responsible for notifying the Company immediately of any unauthorized use of services.

### **2.3 Liability of the Company**

- 2.3.1 The Company shall not be liable for any claim, loss, expense or damage for any interruption, delay, error, omission, or defect in any service, facility or transmission provided under this tariff, if caused by the Underlying Carrier, an act of God, fire, war, civil disturbance, act of government, or due to any other causes beyond the Company's control.
- 2.3.2 The Company shall not be liable for, and shall be fully indemnified and held harmless by the Customer against any claim, loss, expense, or damage for defamation, libel, slander, invasion, infringement of copyright or patent, unauthorized use of any trademark, trade name or service mark, proprietary or creative right, or any other injury to any person, property or entity arising out of the material, data or information transmitted.

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ISSUE DATE: December 29, 1999

EFFECTIVE DATE:

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Toni Van Burkleo, CFO  
119 West Tyler Street, Suite 168  
Longview, TX 75601

- 
- 2.3.3 No agent or employee of any other carrier or entity shall be deemed to be an agent or employee of the Company.
- 2.3.4 The Company's liability for damages, resulting in whole or in part from or arising in connection with the furnishing of service under this tariff, including but not limited to mistakes, omissions, interruptions, delays, errors, or other defects or misrepresentations shall not exceed an amount equal to the charges provided for under this tariff for the long distance call for the period during which the call was affected. No other liability in any event shall attach to the Company.
- 2.3.5 The Company shall not be liable for and shall be indemnified and saved harmless by any Customer or by any other entity from any and all loss, claims, demands, suits, or other action or any liability whatsoever, whether suffered, made, instituted, or asserted by any Customer or any other entity for any personal injury to, or death of, any person or persons, and for any loss, damage, defacement or destruction of the premises of any Customer or any other entity or any other property whether owned or controlled by the Customer or others.
- 2.3.6 The Company shall not be liable for any indirect, special, incidental, or consequential damages under this tariff including, but not limited to, loss of revenue or profits, for any reason whatsoever, including the breakdown of facilities associated with the service, or for any mistakes, omissions, delays, errors, or defects in transmission occurring during the course of furnishing service.

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- 
- 2.4.6 The Customer shall ensure that the equipment and/or system is properly interfaced with NetworkIP facilities or services, the signals emitted into NetworkIP network are of the proper mode, bandwidth, power and signal level for the intended use of the subscriber and in compliance with criteria set forth in this tariff, the signals do not damage equipment, injure personnel, or degrade service to other Customers. If the FCC or some other appropriate certifying body certifies terminal equipment as being technically acceptable for direct electrical connection with interstate communications service, NetworkIP will permit such equipment to be connected with its channels without the use of protective interface devices. If the Customer fails to maintain the equipment and/or the system properly, with resulting imminent harm to NetworkIP equipment, personnel or the quality of service to other Customers, NetworkIP may, upon written notice, require the use of protective equipment at the Customer's expense. If this fails to produce satisfactory quality and safety, NetworkIP may, upon written notice, terminate the Customer's service.
- 2.4.7 The Customer must pay NetworkIP for replacement or repair of damage to the equipment or facilities of NetworkIP caused by negligence or willful act of the Customer or others, by improper use of the services, or by use of equipment provided by Customer or others.
- 2.4.8 The Customer must pay for the loss through theft of any NetworkIP equipment installed at Customer's premises.
- 2.4.9 If NetworkIP installs equipment at Customer's premises, the Customer shall be responsible for payment of any applicable installation charge.

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**2.11 Collection Costs**

In the event Company is required to initiate legal proceedings to collect any amounts due to Company for regulated or non-regulated services, equipment or facilities, or to enforce any judgment obtained against a Customer, or for the enforcement of any other provision of this tariff or applicable law, Customer shall, in addition to all amounts due, be liable to Company for all reasonable costs incurred by Company in such proceedings and enforcement actions, including reasonable attorneys' fees, collection agency fees or payments, and court costs. In any such proceeding, the amount of collection costs, including attorneys' fees, due to the Company, will be determined by the court.

**2.12 Taxes**

All federal, state and local taxes, assessments, surcharges, or fees, including sales taxes, use taxes, gross receipts taxes, and municipal utilities taxes, are billed as separate line items and are not included in the rates quoted herein.

**2.13 Late Charge**

A late fee of 1.5% per month or the amount otherwise authorized by law, whichever is lower, will be charged on any past due balances.

**2.14 Returned Check Charge**

A fee will be charged whenever a check or draft presented for payment for service is not accepted by the institution on which it is written.

**2.15 Reconnection Charge**

A reconnection fee of \$25 per occurrence will be charged when service is reestablished for Customers which have been disconnected due to non-payment. Payment of the reconnection fee and any other outstanding amounts will be due in full prior to reconnection of service.

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**ISSUE DATE:** December 29, 1999**EFFECTIVE DATE:****ISSUED BY:****Toni Van Burkleo, CFO**  
119 West Tyler Street, Suite 168  
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- 3.1.3 Timing begins when the called station is answered and two way communication is possible, as determined by standard industry methods generally in use for ascertaining answer, including hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. Recognition of answer supervision is the responsibility of the Underlying Carrier. Timing for each call ends when either party hangs up. NetworkIP will not bill for uncompleted calls.

**3.2 Customer Complaints and/or Billing Disputes**

Customer inquiries or complaints regarding service or accounting may be made in writing or by telephone to the Company at:

119 West Tyler Street, Suite 168  
Longview, TX 75601  
(877) 638-7762

Any objection to billed charges should be reported promptly to NetworkIP. Adjustments to Customers' bills shall be made to the extent that records are available and/or circumstances exist which reasonably indicate that such charges are not in accordance with approved rates or that an adjustment may otherwise be appropriate. Where overbilling of a subscriber occurs, due either to Company or subscriber error, no liability exists which will require the Company to pay any interest, dividend or other compensation on the amount overbilled.

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**D - Financial Statements**

NETWORK, LLC  
BALANCE SHEET  
(UNAUDITED)  
NOVEMBER 30, 1999

ASSETS

Current Assets		
Cash & Short Term Investments	\$300,000.00	
Total Current Assets		300,000.00
Other Assets		
Total Other Assets		.00
Long Term Assets		
Total Long Term Assets		.00
Fixed Assets		
Total Fixed Assets		.00
Total Assets		<u>300,000.00</u>

LIABILITIES & MEMBER'S EQUITY

Current Liabilities		
Total Current Liabilities		.00
Member's Equity		
Member Contributions	300,000.00	
Total Member's Equity		300,000.00
Total Liabilities and Member's Equity		<u>\$300,000.00</u>

NETWORK, LLC  
 INCOME STATEMENT  
 (UNAUDITED)

FOR THE ELEVEN PERIODS ENDED NOVEMBER 30, 1999

	PERIOD TO DATE		YEAR TO DATE	
	ACTUAL	%	ACTUAL	%
<b>Revenue</b>				
Total Revenue	\$ .00	.0 %	.00	.0
<b>Cost of Sales</b>				
Total Cost of Sales	.00	.0	.00	.0
Gross Profit	.00	.0	.00	.0
<b>Operating Expenses</b>				
Total Operating Expenses	.00	.0	.00	.0
Net Inc (Loss) from Oper Before Inc Tax	\$ .00	.0 %	.00	.0

BALANCE SHEET  
(UNAUDITED)  
SEPTEMBER 30, 1999

## ASSETS

## Current Assets

Cash & Short Term Investments	\$3,625,671.96
Accts Receivable, Net of Allow	2,769,663.07
Prepaid Expenses	76,136.04
Deposits	19,842.52
Notes Receivable - Current	443,750.00

Total Current Assets		6,935,063.59
----------------------	--	--------------

## Other Assets

Investment in Del Norte	425,882.55
-------------------------	------------

Total Other Assets		425,882.55
--------------------	--	------------

## Long Term Assets

Long Term Assets - LA	58,968.75
-----------------------	-----------

Total Long Term Assets		58,968.75
------------------------	--	-----------

## Fixed Assets

Office Furniture & Fixtures	36,567.94
Equipment	3,088,064.63
Software	417,894.16
Leaschold Improvements	403,592.54
Accumulated Depreciation	(1,448,389.55)

Total Fixed Assets		2,497,729.72
--------------------	--	--------------

Total Assets		9,917,644.61
--------------	--	--------------

## LIABILITIES &amp; PARTNERS' EQUITY

## Current Liabilities

Accounts Payable - Trade	3,746,972.64
A/P - Accruals	2,794,808.10
Other Liabilities	627,540.79
Customer Deposits Payable	347,410.19

Total Current Liabilities		7,516,731.72
---------------------------	--	--------------

## Partners' Equity

Partners' Contributions	506,002.78
Retained Earnings	1,894,910.11

Total Partners' Equity		2,400,912.89
------------------------	--	--------------

Total Liabilities and Partners' Equity		\$9,917,644.61
--	--	----------------

INCOME STATEMENT  
(UNAUDITED)

FOR THE NINE PERIODS ENDED SEPTEMBER 30, 1999

	PERIOD TO DATE		YEAR TO DATE	
	ACTUAL	%	ACTUAL	%
<b>Revenue</b>				
Sales - Service Bureau	\$5,860,147.84	99.9 %	51,895,956.23	99.9
Sales - Other	5,592.43	.1	45,593.22	.1
<b>Total Revenue</b>	<b>5,865,740.27</b>	<b>100.0</b>	<b>51,941,549.45</b>	<b>100.0</b>
<b>Cost of Sales</b>				
Telephone Services	4,625,216.52	78.9	43,845,022.97	84.4
Commissions	17,876.56	.3	201,158.30	.4
Bad Debt Expense	29,000.00	.5	226,339.72	.4
<b>Total Cost of Sales</b>	<b>4,672,093.08</b>	<b>79.7</b>	<b>44,272,520.99</b>	<b>85.2</b>
<b>Gross Profit</b>	<b>1,193,647.19</b>	<b>20.3</b>	<b>7,669,028.46</b>	<b>14.8</b>
<b>Operating Expenses</b>				
Admin Salaries & Benefits	105,567.53	1.8	1,005,198.49	1.9
Advertising	3,187.00	.1	22,684.05	.0
Automobile	556.79	.0	3,926.60	.0
Consulting	12,632.57	.2	92,066.96	.2
Contract Labor	.00	.0	30,548.71	.1
Customer Adjustments	8,469.05	.1	107,830.03	.2
Depreciation	96,867.77	1.7	797,501.50	1.5
Dues & Publications	.00	.0	7,912.25	.0
Employee Welfare	2,000.00	.0	6,761.27	.0
Emp. Seminar/Trade Show Fees	567.50	.0	8,557.27	.0
Equipment Expense	3,582.07	.1	46,780.21	.1
Freight	364.50	.0	25,887.35	.0
Insurance Expense	1,851.50	.0	22,417.00	.0
Interest Expense	23.57	.0	81.35	.0
Interest Income	(36,469.61)	(.6)	(217,705.18)	(.4)
Internet Expense	1,371.07	.0	13,912.69	.0
Janitorial Expense	650.00	.0	4,328.74	.0
Lease Expense - Equipment	15,379.49	.3	850,628.38	1.6
Legal & Professional	5,586.83	.1	41,226.11	.1
Licenses & Fees	20,117.05	.3	34,936.67	.1
(Gain)Loss on F/A Disposal	.00	.0	1,000.00	.0
Marketing Expense	8,789.60	.1	96,153.91	.2
Meals	2,123.96	.0	15,182.40	.0
Miscellaneous Expense	.00	.0	302.41	.0
Office Supplies	3,568.64	.1	38,091.80	.1
Pager Expense	236.72	.0	2,735.88	.0
Rent Expense	13,977.61	.2	87,611.18	.2
Repairs & Maintenance	193.11	.0	885.21	.0
Service Agreements	217,915.74	3.7	246,108.57	.5
Software Expense	45.00	.0	104.99	.0
Sales Tax on Fixed Assets	2,255.80	.0	76,603.99	.1
Taxes - Other	20,092.38	.3	130,339.85	.3
Telephone Expense	2,412.45	.0	48,977.31	.1
Travel and Entertainment	17,390.10	.3	77,628.27	.1
Utilities	2,354.00	.0	26,858.40	.1
<b>Total Operating Expenses</b>	<b>533,659.79</b>	<b>9.1</b>	<b>3,754,064.62</b>	<b>7.2</b>
<b>Net Inc (Loss) from Oper Before Inc Tax</b>	<b>\$659,987.40</b>	<b>11.3 %</b>	<b>3,914,963.84</b>	<b>7.5</b>

**Financial Statements**  
**Network Enhanced Telecom, LLP**  
**Year ended December 31, 1998**

**Network Enhanced Telecom, LLP**

**Financial Statements**

**Year ended December 31, 1998**

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## Report of Independent Auditors

### Partners

Network Enhanced Telecom, LLP

We have audited the accompanying balance sheet of Network Enhanced Telecom, LLP (the "Company"), as of December 31, 1998, and the related statements of income, partners' equity, and cash flow for the year 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 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 our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Network Enhanced Telecom, LLP, at December 31, 1998, and the results of its operations and its cash flow for the year then ended in conformity with generally accepted accounting principles.

July 14, 1999

*Ernst & Young LLP*

Network Enhanced Telecom, LLP

Balance Sheet

December 31, 1998

**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 500
Short-term investments	250,000
Note receivable from a partner (Note 4)	333,750
Accounts receivable	730,980
Receivables from employees	2,225
Prepaid expenses and deposits	248,717
Total current assets	<u>\$ 1,566,172</u>

LONG-TERM ASSETS 63,750

PROPERTY AND EQUIPMENT, NET (Note 3) 2,653,139

TOTAL ASSETS \$ 4,283,061

**LIABILITIES AND PARTNERS' EQUITY**

**CURRENT LIABILITIES:**

Accounts payable – trade	\$ 222,544
Accrued telecommunication expenses	979,396
Commissions payable (Note 7)	408,333
Other accrued expenses	1,436,839
Total current liabilities	<u>3,047,112</u>

PARTNERS' EQUITY 1,235,949

TOTAL LIABILITIES AND PARTNERS' EQUITY \$ 4,283,061

*See accompanying notes.*

Network Enhanced Telecom, LLP

Statement of Income

Year ended December 31, 1998

<b>REVENUES:</b>	
Service bureau revenues	\$ 21,869,783
<b>COSTS AND EXPENSES:</b>	
Costs of operations:	
Telephone services	17,532,490
Commissions	745,055
Bad debt expense	205,391
Depreciation	650,888
Selling, general, and administrative	1,003,540
Total costs and expenses	<u>20,137,364</u>
<b>OPERATING INCOME</b>	1,732,419
<b>OTHER INCOME (EXPENSE):</b>	
Interest expense	(905)
Interest income	23,432
Total other income (expense)	<u>22,527</u>
<b>NET INCOME</b>	<u>\$ 1,754,946</u>

*See accompanying notes.*

Network Enhanced Telecom, LLP

Statement of Partners' Equity

Year ended December 31, 1998

<b>BALANCE, DECEMBER 31, 1997</b>	\$ -
Net income	1,754,946
Contributions	506,003
Distributions	(1,025,000)
<b>BALANCE, DECEMBER 31, 1998</b>	<u>\$ 1,235,949</u>

*See accompanying notes.*

Network Enhanced Telecom, LLP

Statement of Cash Flows

Year ended December 31, 1998

**OPERATING ACTIVITIES:**

Net income	\$ 1,754,946
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	650,888
Bad debt expense	205,391
Changes in operating assets and liabilities:	
Accounts receivable	(936,371)
Receivables from employees	(2,225)
Other assets	(312,467)
Accounts payable – trade	222,544
Accrued telecommunication expenses	979,396
Commissions payable	408,333
Other accrued expenses	1,436,839
Net cash provided by operating activities	<u>\$ 4,407,274</u>

**INVESTING ACTIVITIES:**

Loans for note receivable	(500,000)
Proceeds from note receivable	166,250
Purchase of short-term investments	(250,000)
Additions to property and equipment	<u>(2,858,024)</u>
Net cash used in investing activities	<u>\$ (3,441,774)</u>

**FINANCING ACTIVITIES**

Contributions from partners	60,000
Distributions paid to partners	<u>(1,025,000)</u>
Net cash used in financing activities	<u>\$ (965,000)</u>

**NET INCREASE IN CASH**

Cash at beginning of year	500
Cash at end of year	<u><u>–</u></u>
	<u>\$ 500</u>

**NON-CASH TRANSACTIONS**

Property and equipment contributed by a partner	<u>\$ 446,003</u>
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*See accompanying notes.*

# Network Enhanced Telecom, LLP

## Notes to Financial Statements

December 31, 1998

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Business**

Network Enhanced Telecom, LLP (the "Company") was formed on January 1, 1998. The Company is a facilities-based e.telcom company which sells telecommunications services and other enhanced services to wholesale distributors of prepaid telecommunication services throughout the continental United States and Mexico.

#### **Revenues**

Revenues are recognized when a call is placed. Accounts receivable include revenues generated from processing origination and termination minutes through the Company's facilities and web-based processing systems.

#### **Short-Term Investments**

Short-term investments represents a certificate of deposit with a maturity date less than twelve months from December 31, 1998.

#### **Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the double declining balance method over the estimated useful lives of the related assets, which range primarily from five to seven years.

#### **Federal Income Taxes**

Federal income taxes are not provided, as the Company has elected the Limited Liability Partnership ("LLP") status under the Internal Revenue Code, with profits and losses reported by the partners in their individual income tax returns.

#### **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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## Network Enhanced Telecom, LLP

### Notes to Financial Statements (continued)

#### 2. SIGNIFICANT CUSTOMERS

Sales to certain customers exceeded 10% of total prepaid service bureau revenues for the year. The percentages of prepaid service bureau revenues represented by these customers are as follows:

Customer A	48%
Customer B (a related party)	18%

#### 3. PROPERTY AND EQUIPMENT

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

Equipment	\$ 2,709,598
Computer software	397,989
Construction in progress	196,440
Total	<u>3,304,027</u>
Less accumulated depreciation	(650,888)
Net property and equipment, at cost	<u>\$ 2,653,139</u>

#### 4. NOTE RECEIVABLE FROM A PARTNER

At December 31, 1998, the Company had a \$333,750 note receivable from a partner, due on demand, unsecured, bearing interest at the rate of 8% per annum.

#### 5. NOTES PAYABLE AND CREDIT

The Company maintains a bank line of credit for \$250,000. As of December 31, 1998 the Company had no borrowings against the line of credit.

Network Enhanced Telecom, LLP

Notes to Financial Statements (continued)

**6. LEASES**

Rent expense for 1998 was \$21,552. The Company entered into a lease agreement in February 1999 to lease office space for a new site in Los Angeles, California under a non-cancelable operating lease. Future minimum payments for this lease are as follows:

1999	\$ 88,700
2000	91,361
2001	94,102
2002	96,927
2003	99,832
Thereafter	446,085
Total minimum lease payments	<u>\$ 917,007</u>

**7. COMMISSIONS PAID**

In August of 1998, the Company entered into an agreement with a third-party agent to pay a one-time commission related to his marketing services. This agreement included \$700,000 of commissions to be paid to this agent over twelve months beginning in August of 1998. No additional commissions are expected to be paid to this agent for further services. The remaining commission due as of December 31, 1998 of \$408,333 is reflected as a current liability on the balance sheet.

**8. YEAR 2000 COMPLIANCE (Unaudited)**

The Company has undertaken a review of its computer systems, operational equipment, and software to identify the systems that may be impacted by the Year 2000 problem. Since most of the Company's equipment was new when purchased, and was purchased in 1998 and subsequent years, the majority of equipment and software was already Year 2000 compliant when purchased.

The Company is engaged in an effort to identify and address Year 2000 date-related issues and their impact on its products, services, and information technology environment. To facilitate this effort, the Company has contacted its vendors regarding the readiness of each component that comprises its network and support systems. The Company's prepaid calling card platform is comprised of an integration of products and equipment from various vendors. A review of each vendor's documentation shows that each component has been certified as being Year 2000 compliant.

Network Enhanced Telecom, LLP

Notes to Financial Statements (continued)

**8. YEAR 2000 COMPLIANCE (Unaudited) (continued)**

To date, costs incurred by the Company related solely to the Year 2000 problem have been minimal. In the opinion of management, the costs to complete the Year 2000 compliance program will not have a material effect on the Company's financial position, cash flow, or results of operations.