

ORIGINAL
NEW APPLICATION



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February 28, 2005

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007-2927

Arizona Corporation Commission
DOCKETED

FEB 28 2005

DOCKETED BY 

T-04310A-05-0127

**Re: ATX Licensing, Inc. - Application and Petition for Certificate of Convenience
and Necessity to Provide Resold Long Distance Telecommunications Services**

Dear Sir or Madam:

On behalf of ATX Licensing, Inc. ("ATX"), enclosed for filing are an original and thirteen (13) copies of the above-referenced Application.

Please date-stamp the extra copy of this filing and return it in the self-addressed, postage-paid envelope provided. Should you have any questions regarding this filing, please do not hesitate to contact Brett Ferenchak at (202) 424-7697.

Respectfully submitted,

Eric J. Branfman
Kathleen Greenan Ramsey
Brett P. Ferenchak

Enclosures

(A -2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

ATX Licensing, Inc. ("ATX" or "Applicant")
2100 Renaissance Boulevard
King of Prussia, PA 19406
Tel: (800) 220-2892
Fax: (610) 755-3290
www.atx.com

Applicant, its ultimate parent company, ATX Communications, Inc., and its affiliates (collectively, the "Debtors") currently operate their business as debtors-in-possession under the protections of chapter 11 of the U.S. Bankruptcy Code. *In re CoreComm New York, Inc.*, Chap. 11 Case No. 04-10214 (PCB) (Bankr. S.D.N.Y.). On January 24, 2005, the Debtors filed a First Amended Joint Plan of Reorganization ("Plan") with the Bankruptcy Court that would enable the Debtors, including Applicant, to emerge from bankruptcy on or about April 1, 2005. The Plan requires that the existing equity in the Debtors be cancelled and that all of the equity in the reorganized Debtors be issued to Leucadia National Corporation ("Leucadia"), the holder of the Debtors' senior secured debt. Thus, Leucadia will control the reorganized Debtors, including Applicant, once the Plan takes effect on or about April 1, 2005. The Plan also provides for (1) an exit facility of up to \$25 million, which will likely be guaranteed by Applicant and all, or substantially all, of its affiliates and secured by a lien on and security interest in substantially all of the assets of the reorganized Debtors, including those of Applicant and (2) the issuance to certain creditors of the Debtors of notes totaling \$2 million. It is Applicant's understanding that none of these transactions require Commission approval.

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2):

Not applicable.

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

Bruce Bennett
Vice President for External Affairs
ATX Licensing, Inc.
70 West Hubbard Street, Suite 410
Chicago, IL 60610
Tel: (312) 445-1161
Fax: (312) 445-1232
Email: Bruce.Bennett@atx.com

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

Eric J. Branfman
Kathleen Greenan Ramsey
Brett P. Ferenchak
Swidler Berlin LLP
3000 K Street, NW, Suite 300
Washington, DC 20007
Tel: (202) 424-7500
Fax: (202) 424-7643
Email: EJBranfman@swidlaw.com
KGRamsey@swidlaw.com
BPFFerenchak@swidlaw.com

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), E-mail address of the Applicant's Complaint Contact Person:

Cathleen McCormick, Director of Quality Services
ATX Licensing, Inc.
2100 Renaissance Blvd.
King of Prussia, PA 19406
Tel: (610) 755-4180
Fax: (610) 755-0266
Email: cathleen.mccormick@atx.com
ATXCustomerService@atx.com

Toll Free Customer Service Number: (800) 220-2892

(A-7) What type of legal entity is the Applicant?

- Sole proprietorship
- Partnership: ___ Limited, ___ General, ___ Arizona, ___ Foreign
- Limited Liability Company: ___ Arizona, ___ Foreign
- Corporation: ___ "S", X "C", ___ Non-profit
- Other, specify: _____

(A -8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in the State of Arizona.

Please see Attachment A.

2. A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify).

The following persons are officers of ATX:

Jeffrey Coursen, President
Neil C Peritz, Senior Vice President & Treasurer
Mark Soma, Senior Vice President Chief Software Architect
Timothy Allen, Senior Vice President Commercial Sales & Marketing
Guy Fardone, Senior Vice President & General Manager
Alex Khorram, Vice President of Corporate Development
Charles Jacobson, Vice President & Assistant Treasurer

The following persons are directors of ATX:

J. Barclay Knapp
Thomas J. Gravina
Michael A. Peterson

Following the Debtors' emergence from bankruptcy, the day-to-day operations of Applicant will continue to be managed by substantially the same team of individuals who are managing the business today. However, there will be changes to the Board of Directors. Joseph S. Steinberg, Ian M. Cumming, David Larsen and Thomas J. Gravina will serve on the Board of Directors with Thomas Gravina serving as Chairman of the Board. Other changes may occur and the Applicant will update the Commission as necessary.

3. Indicate percentages of ownership of each person listed in A-8.2.

ATX is a wholly owned, indirect subsidiary of ATX Communications, Inc.

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).
Please see Pages 28-33.
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).
Please see page 28-33.
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).
Please see Pages 11-24.
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).
Please see Page 23.
5. The proposed fee that will be charged for returned checks (reference by Tariff page number).
Please see Page 23.

(A-10) Indicate the geographic market to be served:



Statewide. (Applicant adopts statewide map of Arizona provided with this application).



Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.
4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

From over 20,000 existing customer accounts nationwide, ATX has received approximately 96 informal complaints or questions related to billing and service issues for the period January 2003 through January 2005. Most of these complaints related to local exchange services rather than long distance services. All such informal complaints have been resolved without a finding of unlawful action by ATX.

Applicant had a formal complaint brought by the Law Bureau Prosecutor Staff in the matter of PA PUC Law Bureau Prosecutory Staff v. ATX Licensing, Inc., Case No. C-2003 1394. The complaint was based on ATX Licensing, Inc.'s alleged failure to timely file annual reports and tariff adoption supplements with the PAPUC. The matter was settled on January 9, 2004, approved by the bankruptcy court on November 3, 2004, and paid on November 8, 2004. Copy of the PA PUC Order is provided in Attachment E.

APCC Services, Inc., DataNet Systems, LLC, Davel Communications, Inc., Jaroth, Inc. d/b/a Pacific Telemanagement Services and Intera Communications Corp. filed a formal complaint against Applicant with the Federal Communications Commission (FCC) alleging that Applicant has failed to pay per-phone compensation pursuant to the FCC's *Fifth Order on Reconsideration and Order on Remand*, CC Docket No. 96-128, FCC 02-292 (2002). Due to the bankruptcy, the case was stayed and remains pending. A copy of the Order staying the proceeding is provided in Attachment E.

ATX had its certification revoked in January 2002 by the Illinois Commission for failure to file an annual report. ATX was not aware of the revocation until it received a letter from the Illinois Commission's Office of General Counsel on or about April 22, 2004. After considering an Application by ATX, the certificate was reinstated by the Illinois Commission on October 6, 2004. Copies of the Orders revoking the certification and the Order granting a new certificate are provided in Attachment E.

ATX has also been the subject of seven formal complaints filed by customers with the PA PUC since 2002. These complaints were all settled with the respective customers without action by the PA PUC. See PA PUC Docket Nos. C-20030125, C-20031915, C-20030601, C-20039584, C-20039585, C-20027684, and C-20030654.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

Except as described above, neither Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgment entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

Yes

No

(A-14) Is applicant willing to post a Performance Bond? Please check appropriate box(s).

For Long Distance Resellers, a \$10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

Yes

No

If "No", continue to question (A-15).

For Local Exchange Resellers, a \$25,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

For Facilities-Based Providers of Long Distance, a \$100,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

For Facilities-Based Providers of Local Exchange, a \$100,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

Note: Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If No to any of the above, provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the applicant's superior financial position limits any risk to Arizona consumers.

Applicant will not collect advances, prepayments, or deposits from customers. See Page 23 of Tariff. As Applicant does not intend to market its services in Arizona and will only serve branch locations of business customers located in other states, Applicant expect only a small number of customers in Arizona. Further, as Applicant emerges from bankruptcy on or about April 1, 2005, Applicant will be sufficiently capitalized to provide resold interexchange service in Arizona. Therefore, there is a very limited risk to Arizona consumers.

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the applicant is requesting authority to provide service.

Note: For Resellers, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C" before Staff prepares and issues its report. Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication). For Facilities-Based Service Providers, the Hearing Division will advise the Applicant of the date of the hearing and the publication of legal notice. Do not publish legal notice or file affidavits of publication until your are advised to do so by the Hearing Division.

Applicant will submit copies of affidavits of publication when completed. Please see Attachment C for Applicant's proposed legal notice.

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in the State of Arizona:

Yes

No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

While ATX primarily uses Qwest as an underlying carrier, it may also resell the services of Sprint, AT&T, Global Crossing and WiTel.

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona:

Note: If the Applicant is currently approved to provide telecommunications services that the Applicant intends to provide in Arizona in less than six states, excluding Arizona, list the Public Utility Commission ("PUC") of each state that granted the authorization. For each PUC listed provide the name of the contact person, their phone number, mailing address including zip code, and e-mail address.

ATX is currently authorized to provide intrastate interexchange telecommunications services in California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Montana, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Virginia, and West Virginia. ATX is also authorized to provide local exchange telecommunications services in Delaware, the District of Columbia, Maryland, New Jersey, New York, and Pennsylvania.

(A -19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona.

Note: If the Applicant currently provides telecommunication services that the Applicant intends to provide in Arizona in six or more states, excluding Arizona, list the states. If the Applicant does not currently provide telecommunications services that the Applicant intends to provide in Arizona in five or less states, list the key personnel employed by the Applicant. Indicate each employee's name, title, position, description of their work experience, and years of service in the telecommunications services industry.

ATX currently provides intrastate interexchange telecommunications services in several states such as Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Montana, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Virginia, and West Virginia.

In good faith and in the interest of full disclosure, ATX informs the Commission that it is currently providing resold intrastate interexchange services in Arizona. ATX provides such incidental services to branch locations of forty-five (45) business customers whose principal service location is in another state in which ATX is authorized to provide interexchange services. The customers have not provided deposits to ATX, nor executed contracts. Instead, the contracts for service have been executed by the customer located at the principal service location in a different states.

ATX recently discovered that it was providing intrastate long distance services in Arizona without proper Commission authorization while conducting due diligence related to its impending emergence from bankruptcy. In an effort to rectify this situation, ATX has promptly prepared and filed this application for authority to provide telecommunications services in Arizona. In addition, ATX is in the process of developing and implementing a compliance program to protect against similar mistakes in the future. To the extent possible, and in recognition of ATX's voluntary disclosure, ATX respectfully requests that the Commission grant this application on a *nunc pro tunc* basis.

It is in the public interest to grant this application.

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

Applicant does not have any affiliates that are authorized to provide or provide telecommunications services in Arizona. Applicant does have affiliates that are authorized to provide telecommunications in other states, such as, ATX Telecommunications Services of Virginia, Inc., Corecomm Illinois, Inc., Corecomm Indiana, Inc., Corecomm Maryland, Inc., Corecomm Massachusetts, Inc., Corecomm Michigan, Inc., Corecomm Missouri, Inc., Corecomm New Jersey, Inc., Corecomm New York, Inc., Corecomm Newco, Inc., Corecomm Pennsylvania, Inc., Corecomm Rhode Island, Inc., Corecomm Vermont, Inc., Corecomm West Virginia, Inc., Corecomm Wisconsin, Inc., Digicom, Inc., and Horizon Telecommunications, Inc.

B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

Yes

No

If "No," explain why and give the date on which the Applicant began operations.

Applicant does not keep separate financial statements, but Applicant's financials are included with its parent's consolidated financial statements. As explained in A-1 above, Applicant, its ultimate parent company, ATX Communications, Inc. ("ATX Communications"), and its affiliates filed for Chapter 11 bankruptcy protection in January 2004. Therefore, the last audited financial statements that ATX Communications filed was its SEC Form 10-K for 2002. ATX Communications has been filing monthly operating reports with the bankruptcy court which include a monthly snapshot of Applicant's finances. The financial statement from the 2002 SEC Form 10-K and the most recent operating report are provided in Attachment D.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

Note: Make sure "most recent years" includes current calendar year or current year reporting period.

Applicant provides the consolidated financial statements of its parent, ATX Communications. Specifically, financial statements from the 2002 SEC Form 10-K and the most recent operating reports are provided in Attachment D.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

Applicant will rely on the financial resources of its ultimate parent company ATX Communications, Inc.

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.

Applicants operating revenue from intrastate telecommunications services for the previous 12 months was approximately \$5,410.

2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.

Applicants operating expenses from intrastate telecommunications services for the previous 12 months was approximately \$5,070.

3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.

Applicant does not have any Arizona jurisdictional assets used in the provision of intrastate telecommunications services to Arizona customers.

4. If the projected value of all assets is zero, please specifically state this in your response.

The current value of Arizona assets is zero.

5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

The current fair value of the assets is the same as the current net book value.

C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(C-1) Indicate if the Applicant has a resale agreement in operation,

Yes

No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

Not applicable.

D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in the State of Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

Yes No

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services for the State of Arizona.
2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in the State of Arizona.

Not applicable.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in the State of Arizona:

(D-2) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

- Decision # 64178 Resold Long Distance
- Decision # 64178 Resold LEC
- Decision # 64178 Facilities Based Long Distance
- Decision # 64178 Facilities Based LEC

E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59421:

Yes No

Not applicable.

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

Yes No

Not applicable.

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A):

Yes No

Not applicable.

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 (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. 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)

January 14, 2005

(Date)

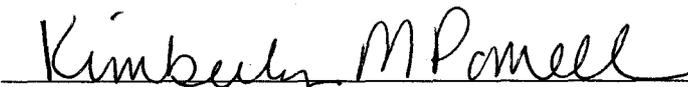
Bruce Bennett

(Print Name of Authorized Representative)

Vice President for External Affairs

(Title)

SUBSCRIBED AND SWORN to before me this 19th day of January, 2005



NOTARY PUBLIC

My Commission Expires _____

COMMONWEALTH OF PENNSYLVANIA

Notarial Seal
Kimberly M. Powell, Notary Public
Lower Merion Twp., Montgomery County
My Commission Expires Oct. 14, 2007

Member, Pennsylvania Association of Notaries

LIST OF ATTACHMENTS

Attachment A Certificate of Good Standing

Attachment B Proposed Interexchange Tariff

Attachment C Proposed Legal Notice

Attachment D Financial Statements

Attachment E Orders for Proceedings

ATTACHMENT A

Certificate of Good Standing

COMMISSIONERS
JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES



ARIZONA CORPORATION COMMISSION

BRIAN C. MCNEIL
Executive Secretary
DAVID RABER
Director, Corporations Division

January 28, 2005

NATIONAL REGISTERED AGENTS, IN
1850 N CENTRAL AVE STE.1160
PHOENIX, AZ 85004

RE: ATX LICENSING, INC.
File Number: F-1124224-9

We are pleased to notify you that your Application for Authority to transact business in Arizona was approved and filed on January 28, 2005.

You must publish a copy of your Application for Authority. The publication must be in a newspaper of general circulation in the county of the known place of business in Arizona, as filed with the Commission for three (3) consecutive publications. An affidavit from the newspaper, evidencing such publication, must be delivered to the Commission for filing WITHIN NINETY (90) DAYS from the date of this letter.

All corporations transacting business in Arizona are required to file an Annual Report with the Commission, on the anniversary of the date of incorporation. Each year, a preprinted Annual Report form will be mailed to the corporation's known place of business approximately two months prior to the due date of the report. Should the report fail to arrive, contact the Commission. It is imperative that corporations notify the Commission immediately (in writing) if they change their corporate address, statutory agent or agent address. Address change orders must be executed (signed) by a corporate officer. Postal forwarding orders are not sufficient.

The Commission strongly recommends that you periodically check Commission records regarding the corporation. The Commission web site www.cc.state.az.us/corp contains information specific to each corporation of record and is a good general source of information.

If you have any questions or need further information, please contact us at (602) 542-3135 in Phoenix, (520) 628-6560 in Tucson, or Toll Free (Arizona residents only) at 1-800-345-5819.

Sincerely,
DIANE YULE
Examiner
Corporations Division

CF:07, Rev: 01/2003

ATTACHMENT B

Proposed Interexchange Tariff

TARIFF APPLICABLE TO COMPETITIVE
INTEREXCHANGE TELECOMMUNICATIONS SERVICES
WITHIN THE STATE OF ARIZONA
PROVIDED BY
ATX LICENSING, INC. ("Company")

This tariff is on file with the Arizona Corporation Commission ("Commission"), and copies may be inspected, during normal business hours, at the Company's principal place of business.

Issued: February 28, 2005

Effective:

Bruce Bennett, Vice President - External Affairs
ATX Licensing, Inc.
2100 Renaissance Boulevard
King of Prussia, PA 19406

CHECK SHEET

The Title Page and Pages 1 through 36 inclusive are effective as of the date shown. Original and revised pages as named below contain all changes from the original tariff that are in effect on the date thereof.

PAGE	NUMBER OF REVISIONS	PAGE	NUMBER OF REVISIONS
Title	Original	31	Original
1	Original	32	Original
2	Original	33	Original
3	Original	34	Original
4	Original		
5	Original		
6	Original		
7	Original		
8	Original		
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29	Original		
30	Original		

Issued: February 28, 2005

Effective:

Bruce Bennett, Vice President - External Affairs
 ATX Licensing, Inc.
 2100 Renaissance Boulevard
 King of Prussia, PA 19406

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Issued: February 28, 2005

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Bruce Bennett, Vice President - External Affairs
 ATX Licensing, Inc.
 2100 Renaissance Boulevard
 King of Prussia, PA 19406

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Issued: February 28, 2005

Effective:

Bruce Bennett, Vice President - External Affairs
ATX Licensing, Inc.
2100 Renaissance Boulevard
King of Prussia, PA 19406

APPLICATION OF TARIFF

This tariff contains the regulations and changes applicable to intrastate interexchange telecommunications services provided by ATX Licensing, Inc. to customers within the State of Arizona.

SEVERABILITY

In case any one or more of the provisions contained on this Tariff shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Tariff shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

Issued: February 28, 2005

Effective:

Bruce Bennett, Vice President - External Affairs
ATX Licensing, Inc.
2100 Renaissance Boulevard
King of Prussia, PA 19406

**EXPLANATION OF SYMBOLS
AND ABBREVIATIONS**

The following are the only symbols used for the purposes indicated below:

- C – Changed regulation
- D - Delete or Discontinue
- I - Change Resulting in an Increase to a Customer's Bill
- M - Moved From Another Tariff Location
- N - New
- R - Change Resulting in a Reduction to a Customer's Bill
- S – Reissued matter
- T - Change In Text but no change in Regulation

The following are the only abbreviations used for the purposes indicated below:

LATA - Local Access and Transport Area

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TARIFF FORMAT

- A. PAGE NUMBERING** - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between pages already in effect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.
- B. PAGE REVISION NUMBERS** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised Page 14 cancels the 3rd revised Page 14. Because of various suspension periods, deferrals, etc. the Commission follows in its tariff approval process, the most current page number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the page currently in effect.
- C. PARAGRAPH NUMBERING SEQUENCE** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
 - 2.1.1.
 - 2.1.1.A.
 - 2.1.1.A.I.
 - 2.1.1.A.I.(a).
 - 2.1.1.A.I.(a).I.
 - 2.1.1.A.I.(a).I.(i).
 - 2.1.1.A.I.(a).I.(i).(l).

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TARIFF FORMAT (Con'd)

- D. CHECK SHEETS -When a tariff filing is made with the Commission, an updated Check Sheet accompanies the tariff filing. The Check Sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new pages are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this page if these are the only changes made to it (i.e. the format, etc. remain the same, just revised revision levels on some pages). The tariff user should refer to the latest Check Sheet to find out if a particular sheet is most current on file with the Commission.

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SECTION 1 -DEFINITION OF TERMS

ACCESS LINE - An arrangement from a local exchange telephone company or other common carrier, using either dedicated or switched access, which connects a subscriber's location to ATX Licensing, Inc.' location or switching center.

AUTHORIZATION CODE - A numerical code, one or more of which may be assigned to a subscriber, to enable ATX Licensing, Inc. to identify the origin of service user so it may rate and bill the call. All authorization codes shall be the sole property of ATX Licensing, Inc. and no subscriber shall have any property or other right or interest in the use of any particular authorization code. Automatic numbering identification (ANI) may be used as or in connection with the authorization code.

AUTOMATIC NUMBERING IDENTIFICATION (ANI) - A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

CARRIER - Used throughout this tariff to mean ATX Licensing, Inc.

COMMON CARRIER - A company or entity providing telecommunications services to the public.

HOLIDAY - New Year's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

LOCAL ACCESS AND TRANSPORT AREA (LATA) -The term "Local Access Transport Area" denotes a geographical area within which a local exchange company provides communications services.

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SECTION 1 - DEFINITION OF TERMS (Con'd)

TELECOMMUNICATIONS - The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission of data, facsimile, signaling, metering, or other similar communications.

CUSTOMER - The calling party utilizing Carrier's services and responsible for the payment of charges, unless that responsibility has been accepted by others, such as in the case of collect and third party calls.

USER DIALED CALLING CARDS CALLS - Calling Card Calls which do not require intervention by an attended operator position to complete.

SUBSCRIBER SURCHARGE - A surcharge imposed by the Subscriber, to be paid by the User, for the use of Subscriber's telephone instruments and other facilities in obtaining access to Carrier's services.

NON-RESIDENTIAL/COMMERCIAL SERVICE - Telephone service to a location other than a dwelling, except that service to a dwelling used for both residential and commercial purposes shall be considered non-residential/commercial service.

DWELLING - A house, apartment or other location where a person resides.

RESIDENTIAL SERVICE - Telephone service supplied to a dwelling, including service provided to a location used for both residential and commercial purposes if no concurrent commercial service is provided. The term does not include telephone service provided to a hotel or motel.

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SECTION 1 - DEFINITION OF TERMS (Con'd)

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SECTION 2 - RULES AND REGULATIONS

2.1 Application of Tariff

2.1.1 This tariff contains the regulations and rates applicable to resale telecommunications services provided by Carrier for telecommunications between points within the State of Arizona. The aforementioned services are furnished subject to the availability of facilities and subject to the terms and conditions of this tariff.

(a) Carrier may, from time to time, offer various enhanced services and information services within the State of Arizona. Such services will be provided pursuant to contract and will not be governed by this tariff.

(b) Carrier may also, from time to time, offer switching or transmission to other telecommunications carriers, for resale to such companies' customers. The rates for such services will be determined pursuant to contract, to the extent authorized by the Commission, and Section 4 of this tariff will not apply thereto.

2.1.2 The services of Carrier are not part of a joint undertaking with any other entity providing telecommunications channels, facilities or services.

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SECTION 2 -RULES AND REGULATIONS (Con'd)

2.1 Application of Tariff (Con'd)

2.1.3 The rates and regulations contained in this tariff apply only to services furnished by Carrier and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of Carrier.

2.1.4 Carrier's services are furnished to pre-subscribed authorized Customers. Carrier enters into arrangements with such Customers providing for the availability of Carrier's nationwide services, including the intrastate services offered under the terms and conditions of this tariff.

2.2 Use of Services

2.2.1 Carrier's 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.

2.2.2 The use of Carrier's 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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SECTION 2 - RULES AND REGULATIONS (Con'd)

2.2 Use of Services (Con'd)

2.2.3 The use of Carrier's 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 Carrier's services are available for use twenty-four hours a day, seven days per week.

2.2.5 Carrier does not transmit messages pursuant to this tariff, but its services may be used for that purpose.

2.2.6 Carrier's services may be denied for nonpayment of charges or other violations of this tariff.

2.3 Service Availability

2.3.1 The Carrier offers services to all those who desire to purchase service with the Carrier consistent with the provisions of this tariff, Customers interested in the Carrier's services shall file a service application with the Carrier which fully identifies the Customer and identifies the services requested.

2.3.2 Service is offered subject to the Carrier's ability to technically provide the service requested and subject to the availability of the necessary facilities and/or equipment.

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2.4 Liability of Carrier

- 2.4.1 Carrier shall not be liable for loss or damage sustained by reason of any failure in or breakdown of facilities associated with Carrier's services, whatever shall be the cause of such failure, breakdown, or interruption and whether negligent or otherwise and however long it shall last, In no event shall Carrier's liability for any service exceed the charges applicable under this tariff to such a service.
- 2.4.2 Carrier shall be indemnified and held harmless by any Customer, user or by any other entity against claims for libel, slander or the infringement of copyright arising from the material transmitted over its services; and against all other claims arising out of any act or omission of a Customer or of any other entity in connection with the services provided by Carrier.
- 2.4.3 Carrier is not liable for any act or omission of any entity furnishing facilities or services connected with or provided in conjunction with the services of Carrier.
- 2.4.4 Carrier shall not be liable for any personal injury, or death of any person or persons, and for any loss or damage sustained by reason of acts, mistakes, omissions, errors or defects in providing its services, whatever shall be the cause and whether negligent or otherwise.

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SECTION 2 RULES AND REGULATIONS (Con'd)**2.4 Liability of Carrier (Con'd)**

2.4.5 Carrier shall not be liable for and shall be indemnified by any Customer, user or other entity from any and all loss, claims, demands, suits, or other action or any liability whatever, whether suffered, made, instituted, or asserted by any Customer, user 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, user or any other entity or any other property whether owned or controlled by the Customer, user, or others, caused or claimed to have been caused, directly or indirectly, by any act or omission of the Customer, user or others, or by any installation of the Customer, user or others or by any installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of facilities or equipment provided by Carrier which is not the direct result of Carrier's negligence. No agents or employees of any other entity shall be deemed to be the agents or employees of Carrier.

2.4.6 Carrier shall not be liable for any failure of performance due to causes beyond its reasonable control, including, without being limited to, acts of God, fires, floods or other catastrophes, national emergencies, insurrections, riots or wars, strikes, lockouts, work stoppage or other labor difficulties, acts or omissions of other carriers, and any law, order, regulation or other action of any governing authority or agency thereof.

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SECTION 2 -RULES AND REGULATIONS (Con'd)

2.4 Liability of Carrier (Con'd)

2.4.7 The Carrier shall not be liable for :

- (a) Unlawful use or use by an unauthorized person of the Carrier's facilities and services;
- (b) Any claim resulting from furnishing, installation, operation, maintenance, or removal of facilities at the Customer's premises;
- (b) Any claim arising out of a breach in the privacy or security of communications transmitted over the Company's facilities;
- (d) Changes in any of the facilities, operations, services or procedures of the Carrier that render any facilities or services provided by the Customer obsolete, or require modification or alteration of such facilities or services, or otherwise affect their use or performance. The Carrier will endeavor to advise the Customer on a timely basis of such change.

2.5 Installation

Service is installed upon mutual agreement between the customer and the Carrier. The service agreement does not alter the rates specified in the Tariff.

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SECTION 2 -RULES AND REGULATIONS (Con'd)**2.6 Payment for Service**

- 2.6.1 The customer is responsible for payment of all charges for services and equipment furnished to the customer or to an Authorized User of the Customer by Carrier. All charges due by the Customer are payable to the Carrier or to any agency duly authorized to received such payments. The billing agency may be a local exchange telephone company, interexchange carrier, or other billing service. Terms of payment shall be according to the rules of regulations of the agency and subject to the rules of regulatory agencies, such as the Arizona ACC. Any objections to billed charges must be reported to the Carrier within thirty (30) days after receipt of the bill. If no objections are made within that time period, the charges will be considered as correct and undisputed. Adjustments to Customer's bills shall be made to the extent that circumstances reasonably indicated that such changes are appropriate. A late fee of 1.5% monthly will be charges on any past due balances.
- 2.6.2 In the event the Carrier incurs fees and expenses, including attorney's fees, in collecting or attempting to collect any charges owed the Carrier, the Customer will be liable to the Carrier, for the payment of all such fees and expenses reasonably incurred.

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SECTION 2 - RULES AND REGULATIONS (Con'd)

2.7 Cancellation by Customer

Customer may cancel service by providing thirty (30) days written notice to the Carrier.

2.8 Interconnection

Service furnished by Carrier may be interconnected with the services or facilities of other carriers or private systems. However, service furnished is provided solely by the Carrier and is not a joint undertaking with other parties.

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SECTION 2 - RULES AND REGULATIONS (Con'd)**2.9 Refusal or Discontinuance by Carrier**

Carrier may refuse or discontinue service under the following conditions, without incurring any liability for damages due to loss of telephone service to the Customer, provided that, unless otherwise stated, the Customer shall be given ten (10) days notice to comply with any rule or remedy any deficiency:

- (a) For noncompliance with or violation of any State, municipal or Federal law, ordinance or regulation pertaining to telephone service.
- (b) For use of telephone service for any other property or purpose than that described in the application.
- (c) For neglect or refusal to provide reasonable access to Carrier or its agents for the purpose of inspection and maintenance of equipment owned by Carrier or its agents.
- (d) For noncompliance with or violation of Commission regulation or Carrier's rules and regulations on file with the Commission, provided five (5) days' written notice is given before termination.
- (e) For nonpayment of bills, Carrier reserves the right to terminate/suspend service upon the following conditions:
 - (i) Residential customers: Suspension and/or termination of service shall not be made without five (5) days' written notice to the Customer, except in extreme cases.
 - (ii) Nonresidential customers: Suspension and/or termination of service shall not be made without twenty-four hours notice to the Customer, except in extreme cases.
- (f) Immediate suspension or termination, without notice, in the event of Customer or Authorized User use of equipment in such a manner as to adversely affect Carrier's equipment or services to others.

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SECTION 2 - RULES AND REGULATIONS (Con'd)2.9 Refusal or Discontinuance of Carrier (Con'd)

- (g) In the event of tampering with the equipment or services owned by Carrier or its agents.
- (h) For failure or refusal to provide the Carrier with a deposit or advance payment to insure payment of bills in accordance with the Carrier's regulations or failure to meet the Carrier's credit requirements, (See Section 2.13 of this Tariff for the Carrier's current deposit payment practices.)
- (i) Immediate suspension or termination, without notice, in the event of unauthorized or fraudulent use of service. Whenever service is discontinued for fraudulent use of service, Carrier may, before restoring service, require the Customer to make, at his or her own expense, all changes in facilities or equipment necessary to eliminate illegal use and to pay an amount reasonably estimated as the loss in revenue resulting from such fraudulent use.
- (j) Without notice by reason of any order or decision of the court or other government authority having jurisdiction which prohibits Carrier from furnishing such service.
- (k) For periods of inactivity over sixty (60) days.
- (l) For failure of the Customer to make proper application for service.

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SECTION 2 -RULES AND REGULATIONS (Con'd)2.9 Refusal or Discontinuance of Carrier (Con'd)

(m) Observance Of Internet Protocol

Customer shall observe all GANP (Generally Accepted Net Protocol) including but not limited to those relating to: (a) sales practices, including the prohibitions against mass unsolicited e-mail distributions (also known as "spamming"), and overt, direct advertising on discussion boards/newsgroups); (b) offensive flame wars (negative, inflammatory messages); (c) using alternate Internet access facilities from other service providers to route IP addresses furnished by Carrier or any of its backbone providers which is prohibited, and/or (d) any other behavior which reasonably could be considered harassment, including but not limited to foul language, impersonating another user or other individuals/entities, and other items. The Customer agrees to be held liable for Customer's actions and how they are interpreted by other Customers of the Internet.

In the event that Customer violates the aforementioned Internet protocol, the Customer's account may be terminated immediately at the sole discretion of Carrier without written, verbal or electronic notice and Customer will be subject to any and all remedies available to Carrier and/or its backbone providers. Furthermore, Carrier may charge, and Customer agrees to pay, for all time and effort, costs and expenses, including reasonable attorney's fees, that Carrier spends on enforcing this Internet policy.

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SECTION 2 -RULES AND REGULATIONS (Con'd)**2.10 Interruption of Service**

Credit allowances for interruptions of service which are not due to the Carrier's testing or adjusting, to the negligence of the Customer, or to the failure of channels, equipment or communications systems provided by the Customer, are subject to the general liability provisions set forth in Section 2.4, herein. Whenever service to any customer is inoperative, for reasons other than those stated above, and the service remains inoperative for more than twenty-four (24) consecutive hours after being reported by the customer or having been found to be interrupted by the Carrier, the Carrier shall refund, upon request of the customer, the prorated part of that month's monthly charge(s) for the period of days during which the telephone service was not provided. The maximum credit during a single billing period shall not exceed the amount of toll charges and monthly recurring charges. The Carrier shall have no liability for interruptions due to the negligence of the Customer, or the failure of Customer provided equipment and facilities. Interruptions caused by Customer-provided or Carrier provided automatic dialing equipment are not deemed an interruption of service as defined herein since the Customer has the option of using the long distance network via local exchange company access. Carrier shall have no other liability for service interruptions.

2.11 Inspection, Testing and Adjustment

Upon reasonable notice, the facilities provided by the Carrier shall be made available to the Carrier for tests and adjustments as deemed necessary by the Carrier for maintenance. No interruption allowance will be granted for the time during which such tests and adjustments are made.

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SECTION 2 - RULES AND REGULATIONS (Con'd)**2.12 Contested Charges**

All bills are presumed accurate, and shall be absolutely binding on the Customer unless objection is received by the Carrier within thirty (30) days after such bills are rendered. Billing disputes shall be processed by the Carrier consistent with Commission regulations. Customers unsatisfied with the Carrier's handling of a dispute may contact the Commission's Bureau of Consumer Affairs.

2.13 Deposits

The Carrier does not require deposits, prepayments or advances.

2.14 Returned Checks

The Carrier will charge a \$25.00 fee for returned checks (NSF), in accordance with Commission rules.

2.15 Taxes

Direct pass through charges, access fees, mandatory common carrier fees and charges, governmental surcharges and fees, and all federal, state and local taxes (i.e. gross receipts tax, sales tax, municipal utilities tax) are listed as separate bill items and are not included in the rates.

2.16 Reserved

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SECTION 2 -RULES AND REGULATIONS (Con'd)

2.17 Billing Arrangements

2.17.1. Collect, Calling Card and Third Party Calls

Charges for calls of this type will be included on the User's or called or third party's regular home or business telephone bill pursuant to billing and collection agreements established by Carrier or its intermediary with the applicable telephone company.

2.17.2. Credit Cards Calls

Charges for credit card calls will be included on the User's regular monthly statement from the card-issuing company.

2.18 Validation of End User Credit

Carrier reserves the right to validate the credit worthiness of Users through available credit card, calling card, calling number and room number verification procedures. Where a requested billing method cannot be validated, the User may be required to provide an acceptable alternative billing method or Carrier may refuse to place the call.

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SECTION 3 - DESCRIPTION OF SERVICE**3.1 Timing and Billing of Calls**

- 3.1.1 Billing for certain calls placed over the Carrier's network is based on the duration, distance and time of day of the call. Timing of each call begins as specified below, and ends when the called party hangs up.
- 3.1.2 Timing of each such call begins as specified below, 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.
- 3.1.3. Collect Calls - Timing begins when the called party accepts the responsibility for payment.
- 3.1.4. Person-to-Person Calls (other than Collect) - Timing begins when the designated party comes on the line, or when the caller agrees to speak with a substitute party.
- 3.1.5. All Other Calls - Timing begins when the called station is answered, as determined by standard industry methods generally in use for ascertaining answer, including hardware answer supervision.

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3.2 Calculation of Distance

Where charges for a service are specified based upon distance, the following rules apply:

Distance between two points is measured as airline distance between the rate centers of the originating and terminating telephone lines. The rate center is a set of geographic coordinates, as referenced in the Local Exchange Routing Guide issued by Bellcore, associated with each NPA-NXX combination (where NPA is the area code and NXX is the first three digits of a seven-digit telephone number). Where there is no telephone number associated with an access line on the Company's network (such as a dedicated 800 or WATS access line), the Company will apply the rate center of the Customer's main billing telephone number.

The airline distance between any two rate centers is determined as follows:

- A. Obtain the "V" (vertical) and "H" (horizontal) coordinates for each Rate Center from the above-referenced Bellcore document.
- B. Compute the difference between the "V" coordinates of the two rate centers; and the difference between the two "H" coordinates.
- C. Square each difference obtained in 3.2.B above.
- D. Add the square of the "V" difference and the square of the "H" difference obtained in step 3.2.C above.
- E. Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.
- F. Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.

G. FORMULA =
$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

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SECTION 3 -DESCRIPTION OF SERVICE (Con'd)

3.3 Services Offerings

Carrier's offers and provides numerous products including:

WATS - product providing users with services over regular or enhanced facilities and circuits, with distance sensitive rates which ensure optimal savings at higher calling volumes.

800 - product providing users with services over regular or enhanced facilities and circuits, noted for superior end user service, calling cost savings and options for customizing 800 numbers.

Travel Card - product providing users with travel card services via customized 800 numbers, with cost effective rates and volume discounts services to Subscriber and Users to whom services are provided.

IntraLATA Toll

InterLATA Toll

Additionally, Carrier offers operator assisted services which consist of the provision of collect, approved telephone company calling card, credit card, room charge, billed to a third number (third party) and person to person call services provided to users pursuant to arrangements established by Carrier's Subscribers. Service is available on a full time basis, twenty four (24) hours a day, seven (7) days a week. The applicable rates for these services are set forth in Section 4 of this tariff.

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SECTION 4 –RATES

4.1 Rate Descriptions

- 4.1.1 This section sets forth the rates and charges applicable to the Carrier's general services offering.
- 4.1.2 The total charge for certain completed call is dependent on the duration, distance and time of day of the call. The usage charge element is specified as a rate per time increment which applies to each time increment of call duration.
- 4.1.2 Each such completed call will be billed based upon a minimum initial call duration with additional fractional use being rounded up to the next full time increment. Calls originating in one time period and terminated in another will be rated according to the portion of the call applicable to each time period.
- 4.1.4 Charges for services which are not distance or time sensitive shall be billed according to call duration.

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SECTION 4 -RATES (Con'd)

4.2 Usage Charges: Inbound/Outbound Domestic WATS – Dedicated

Uniform Rate Period: All calls, placed at any time, will be billed at the following uniform rate:

Term	Current Rate	Maximum Rate
1 Year	\$0.0690	\$0.1000
2 Year	\$0.0625	\$0.9500
3 Year	\$0.0590	\$0.9000
Canadian Origination	\$0.1500	\$0.2500

- 30 second minimum/6 second increment billing
- Minimum 1 year term plan.
- PICC – The monthly recurring charge from the underlying carrier will be passed along as a \$3.20 per month charge (maximum \$6.00 per month).
- Each toll free number will be billed \$4.00 per month (maximum \$8.00 per month).

4.3 Usage Charges: Inbound/Outbound Domestic WATS – Switched

Term	Current Rate	Maximum Rate
1 Year	\$0.0690	\$0.1000
2 Year	\$0.0625	\$0.9500
3 Year	\$0.0590	\$0.9000
Canadian Origination	\$0.1500	\$0.2500

- 30 second minimum/6 second increment billing
- Minimum 1 year term plan.
- PICC – The monthly recurring charge from the underlying carrier will be passed along as a \$3.20 per month charge (maximum \$6.00 per month).
- Each toll free number will be billed \$4.00 per month (maximum \$8.00 per month).

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4.4 Usage Charges: Domestic Corporate Travel Service

Standard Rate: \$0.26 per minute Maximum Rate: \$0.50 Per minute

- Calls to Canadian and International Destinations: \$0.75 surcharge per call (maximum \$1.25 per call).
- Standard travel pricing applies to all other call card calls
- Full Minute Billing

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SECTION 4 -RATES (Con'd)

4.5 Usage Charges: Directory Assistance

Uniform Rate Period: All IntraLATA, Intrastate Directory Assistance calls, placed at any time, will be billed at the following uniform rate::

Rate Element	Current Cost per Call	Maximum Cost per Call
Local Directory Assistance – per local call	\$0.57	\$0.95
National Directory Assistance - per local call	\$0.95	\$1.45
National Directory Assistance - per LD/8XX call	\$1.48	\$1.98

4.6 Account Codes

- Verifiable Account Codes
 - Codes are available for both Dedicated and Switched Long Distance customers.
 - They are available in lengths of 2-12 digits on-switch, and 2-5 digits off-net.
 - A customer will be charged a \$5.00 fee per account/per month (maximum \$10.00) and a one-time installation fee of \$15.00 (maximum \$25.00).
- Non-Verifiable Account Codes
 - Codes are available for both Dedicated and Switched Long Distance customers.
 - They are available in lengths of 2-12 digits on-switch, and 2-5 digits off-net.
 - A customer will be charged a \$5.00 fee per account/per month (maximum \$10.00) and a one-time installation fee of \$15.00 (maximum \$25.00).

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SECTION 5- National Access and Federal Universal Service

5.1 National Access Fee (End User Common Line Charge/EUCL)

The National Access fee establishes a monthly per-line access charge. The fee pays local phone companies for the access to their networks, and it is imposed on all businesses and residences presubscribed to Interexchange Carriers, National Access will be imposed as follows:

<u>Service Type</u>	<u>Current Monthly Charge</u>	<u>Maximum Monthly Charge</u>
Single-Line Business	\$4.60 per line	\$6.60 per line
Multi-Line Business	\$4.70 per line	\$6.70 per line
Centrex	\$4.70 per line	\$6.70 per line
Primary Residential	\$6.50 per line	\$8.50 per line
Non-Primary Residential	\$6.50 per line	\$8.50 per line
ISDN BRI	\$4.64 per facility	\$6.64 per facility
ISDN PRI	\$22.90 per facility	\$29.90 per facility

5.2 Federal Universal Service

The Universal Service Fee (USF) recovers the Telephone Company's contribution to various federal universal service funds. The Telephone Company will apply the USF Fee through a monthly surcharge applied to the total billed charges for interstate access services ordered by end users, as described below. The FUSF Revenue Surcharge will be determined by multiplying the contribution factor determined by the FCC, by the end user's total interstate access services charges at the billing account level.

The FCC contribution factor for the current quarterly period can be found on the FCC website at the following URL:

http://www.fcc.gov/wcb/universal_service/quarter.html

The Administrative Fee recovers the costs of administering certain programs, including, but not limited to, the Universal Service Fund and Telecommunications Relay Service fund. The Administrative Fee is charged at a flat 2% rate of all taxable billed amounts.

Issued: February 28, 2005

Effective:

Bruce Bennett, Vice President - External Affairs
ATX Licensing, Inc.
2100 Renaissance Boulevard
King of Prussia, PA 19406

SECTION 6- PAYPHONE SURCHARGE

6.1 PAYPHONE SURCHARGE

The Payphone Surcharge shall apply to each coinless call placed by a Customer that is identified by the Company as placed from a domestic payphone by the Customer or its permitted users. This charge is for the use of the payphone instrument to access the Company's services.

Additionally, a per call surcharge shall apply to all calls to the Customer's 800/877/888 number that originate from a payphone.

Current Payphone Use Charge: \$0.65 per call

Maximum Payphone Use Charge: \$0.85 per call

Issued: February 28, 2005

Effective:

Bruce Bennett, Vice President - External Affairs
ATX Licensing, Inc.
2100 Renaissance Boulevard
King of Prussia, PA 19406

SECTION 7- GUARANTEED SAVINGS PLAN™ PROGRAM

The Guaranteed Savings Plan Program is offered, at the sole discretion of Carrier, to Carrier's business customers and/or potential business customers who meet certain minimum usage thresholds, In order to qualify for this program, the applicable customer must submit and pass any and all Carrier credit requirements, execute a Service Authorization Form and a Guaranteed Savings Plan Program Agreement and commit to a minimum service term. Carrier, at its sole option, will determine the rates, discounts, service terms and any and all other terms and conditions.

Issued: February 28, 2005

Effective:

Bruce Bennett, Vice President - External Affairs
ATX Licensing, Inc.
2100 Renaissance Boulevard
King of Prussia, PA 19406

ATTACHMENT C

Proposed Legal Notice

PROPOSED LEGAL NOTICE

**NOTICE OF APPLICATION FOR A CERTIFICATE OF
CONVENIENCE AND NECESSITY TO PROVIDE COMPETITIVE
RESOLD INTEREXCHANGE TELECOMMUNICATIONS
SERVICES BY ATX LICENSING, INC.**

ATX Licensing, Inc. ("Applicant") has filed with the Arizona Corporation Commission ("Commission") an application for a Certificate of Convenience and Necessity ("Certificate") to provide competitive resold interexchange telecommunications services in the State of Arizona. Applicant will be required by the Commission to provide this service under the rates and charges and terms and conditions established by the Commission.

A.R.S. § 40-282 provide that the Commission may act on an application for a Certificate to provide resold telecommunications services without a hearing, or with a hearing, if one is requested by any party. Applicant or any other party must request a hearing within twenty (20) days of the date of this notice, or the Commission will rule on the application without a hearing.

The application, report of the Commission's Utilities Division Staff, and any written exceptions to the Staff report prepared by the applicant are available for inspection during regular business hours at the offices of the Commission located at 1200 West Washington Street, Phoenix, Arizona, 85007, and at Applicant's offices at 70 West Hubbard Street, Suite 410, Chicago, IL 606107.

Under appropriate circumstances, interested parties may intervene in the proceedings and participate as a party. Intervention shall be in accordance with the A.A.C. R 14-3-105, except that all motions to intervene must be filed on or within twenty (20) days of the date of this notice. You may have the right to intervene in the proceedings, or you may make a statement for the record. If you have any comments, mail them to:

The Arizona Corporation Commission
Attention Docket Control
Re: ATX Licensing, Inc.
[DOCKET NO]
1200 West Washington Street
Phoenix, Arizona 85007

All Comments should be received within twenty (20) days of the date of this notice.

If you have any questions about this application or have any objections to its approval, you may contact Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request reasonable accommodations such as sign language interpreter, as well as request this document in an alternative format, by contacting Shelley Hood, ADA Coordinator, voice phone number (602) 542-3931, E-Mail shood@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the accommodation.

ATTACHMENT D

Financial Statements

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-49899

ATX COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation
or organization)

13-4078506

(I.R.S. Employer Identification No.)

50 Monument Road, Bala Cynwyd, Pennsylvania

(Address of principal executive offices)

19004

(Zip Code)

(610) 668-3000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.01 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. | |

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates as of the last business day of the registrant's most recently completed second quarter is: N/A – see Item 5 to Part II of this Annual Report entitled, "Market for Registrant's Common Equity and Related Stockholder Matters."

The number of shares outstanding of the issuer's common stock as of March 31, 2003 was 30,000,054.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Certain statements contained herein constitute "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. When used herein, the words "believe," "anticipate," "plan," "will," "expects," "estimates," "projects," "positioned," "strategy," and similar expressions identify such forward-looking statements. All references in this Safe Harbor legend to the Company shall be deemed to include ATX Communications and its subsidiaries and affiliates. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from those contemplated, projected, forecasted, estimated or budgeted, whether expressed or implied, by such forward-looking statements. Such factors include the following: the Company's ability to obtain trade credit, shipments and terms with vendors and service providers for current orders; the Company's ability to maintain contracts that are critical to its operations; potential adverse developments with respect to the Company's liquidity or results of operations; adverse developments in commercial disputes or legal proceedings, including the pending and any future litigation with Verizon, SBC or others; the Company's ability to fund and execute its business plan; the Company's ability to attract, retain and compensate key executives and employees; the Company's ability to attract and retain customers; general economic and business conditions; industry trends; technological developments; the Company's ability to continue to design and build its network, install facilities, obtain and maintain any required governmental licenses or approvals and finance construction and development, all in a timely manner, at reasonable costs and on satisfactory terms and conditions; assumptions about customer acceptance, churn rates, overall market penetration and competition from providers of alternative services; the impact of restructuring and integration actions; the impact of new business opportunities requiring significant up-front investment; interest rate fluctuations; and availability, terms and deployment of capital. The Company assumes no obligation to update the forward-looking statements contained herein to reflect actual results, changes in assumptions or changes in factors affecting such statements.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES**

The following consolidated financial statements of ATX Communications, Inc. are included in Item 15(a):

Report of Ernst & Young LLP, Independent Auditors	F-2
Consolidated Balance Sheets – December 31, 2002 and 2001	F-3
Consolidated Statements of Operations - Years Ended December 31, 2002, 2001 and 2000	F-4
Consolidated Statements of Shareholders' Equity (Deficiency) – Years Ended December 31, 2002, 2001 and 2000	F-5
Consolidated Statements of Cash Flows – Years Ended December 31, 2002, 2001 and 2000	F-6
Notes to Consolidated Financial Statements	F-7

The following consolidated financial statement schedules of ATX Communications, Inc. are included in Item 15(a):

Schedule I – Condensed Financial Information of Registrant	F-42
Schedule II – Valuation and Qualifying Accounts	F-48

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Report of Independent Auditors

Shareholders and Board of Directors
ATX Communications, Inc.

We have audited the consolidated balance sheets of ATX Communications, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity (deficiency) and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedules listed in the index at item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ATX Communications, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 4 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill and its related amortization.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
April 7, 2003

ATX COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 9,959,000	\$ 24,966,000
Accounts receivable — trade, less allowance for doubtful accounts of \$8,755,000 (2002) and \$9,759,000 (2001).....	35,150,000	32,261,000
Due from CCL Historical, Inc.....	—	646,000
Due from NTL Incorporated.....	1,120,000	—
Other.....	4,845,000	3,683,000
Total current assets.....	51,074,000	61,556,000
Fixed assets, net.....	37,861,000	86,722,000
Investment in CCL Historical, Inc.....	—	3,863,000
Goodwill.....	79,558,000	147,380,000
Intangible assets, net.....	—	5,706,000
Other, net of accumulated amortization of \$1,871,000 (2002) and \$1,045,000 (2001).....	10,570,000	11,393,000
	\$ 179,063,000	\$ 316,620,000
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable.....	\$ 65,799,000	\$ 37,348,000
Accrued expenses.....	53,060,000	67,766,000
Due to NTL Incorporated.....	—	917,000
Current portion of long-term debt.....	1,512,000	33,000
Current portion of capital lease obligations.....	9,534,000	9,634,000
Deferred revenue.....	21,928,000	29,652,000
Total current liabilities.....	151,833,000	145,350,000
Long-term debt, less unamortized discount.....	145,809,000	144,413,000
Notes payable to related parties, less unamortized discount.....	17,632,000	15,807,000
Capital lease obligations.....	—	267,000
Commitments and contingent liabilities		
Shareholders' equity (deficiency):		
Series A preferred stock — \$.01 par value, authorized 10,000,000 shares; issued and outstanding none.....	—	—
Common stock — \$.01 par value; authorized 250,000,000 shares; issued and outstanding 30,000,000 (2002) and 30,000,000 (2001) shares.....	300,000	300,000
Additional paid-in capital.....	1,030,613,000	1,022,634,000
(Deficit).....	(1,166,389,000)	(1,012,151,000)
Treasury stock at cost, 333,000	(135,476,000)	10,783,000
	(735,000)	—
	(136,211,000)	10,783,000
	\$ 179,063,000	\$ 316,620,000

See accompanying notes.

ATX COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2002	2001	2000
Revenues	\$ 293,721,000	\$ 292,681,000	\$ 131,526,000
Costs and expenses			
Operating	191,848,000	224,807,000	142,323,000
Selling, general and administrative	77,941,000	96,854,000	109,197,000
Corporate	5,053,000	5,648,000	11,224,000
Non-cash compensation	—	21,638,000	43,440,000
Recapitalization costs	5,835,000	—	—
Other charges	—	39,553,000	12,706,000
Charges for impaired assets	118,530,000	368,288,000	35,920,000
Depreciation	32,160,000	47,976,000	30,641,000
Amortization	251,000	97,388,000	42,396,000
	<u>431,618,000</u>	<u>902,152,000</u>	<u>427,847,000</u>
Operating loss	(137,897,000)	(609,471,000)	(296,321,000)
Other income (expense)			
Interest income and other, net	285,000	1,799,000	1,134,000
Interest expense	(16,376,000)	(25,647,000)	(5,929,000)
Loss before income taxes and extraordinary item	(153,988,000)	(633,319,000)	(301,116,000)
Income tax provision	(250,000)	(94,000)	(125,000)
Loss before extraordinary item	(154,238,000)	(633,413,000)	(301,241,000)
Gain from extinguishment of debt	—	39,498,000	—
Net loss	<u>\$(154,238,000)</u>	<u>\$(593,915,000)</u>	<u>\$(301,241,000)</u>
Basic and diluted net loss per share:			
Loss before extraordinary item	\$ (5.17)	\$ (22.15)	\$ (10.55)
Extraordinary item	—	1.38	—
Net loss	<u>\$ (5.17)</u>	<u>\$ (20.77)</u>	<u>\$ (10.55)</u>
Weighted average number of shares outstanding	<u>29,834,000</u>	<u>28,599,000</u>	<u>28,542,000</u>

See accompanying notes.

ATX COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

	Common Stock		Additional Paid-In Capital	Deferred Non-Cash Compensation	(Deficit)	Treasury Stock	
	Shares	Par				Shares	Amount
Balance, December 31, 1999	28,542,000	\$ 285,000	\$ 246,700,000	—	\$ (116,995,000)	—	—
Capital contributions	—	—	792,193,000	—	—	—	—
Deferred non-cash compensation	—	—	—	\$ (31,338,000)	—	—	—
Non-cash compensation expense	—	—	—	9,700,000	—	—	—
Net loss	—	—	—	—	(301,241,000)	—	—
Balance, December 31, 2000	28,542,000	285,000	1,038,893,000	(21,638,000)	(418,236,000)	—	—
Capital distributions	—	—	(23,164,000)	—	—	—	—
Shares issued in ATX recapitalization	1,458,000	15,000	1,413,000	—	—	—	—
Shares held by CoreComm Limited issued in ATX recapitalization	—	—	5,492,000	—	—	—	—
Non-cash compensation expense	—	—	—	21,638,000	—	—	—
Net loss	—	—	—	—	(593,915,000)	—	—
Balance, December 31, 2001	30,000,000	300,000	1,022,634,000	—	(1,012,151,000)	—	—
Exchange of shares	—	—	7,979,000	—	—	—	—
Common stock acquired upon merger with CCL Historical, Inc.	—	—	—	—	—	333,000	\$(735,000)
Net loss	—	—	—	—	(154,238,000)	—	—
Balance, December 31, 2002	30,000,000	\$ 300,000	\$ 1,030,613,000	\$ —	\$(1,166,389,000)	333,000	\$(735,000)

See accompanying notes.

ATX COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
Operating activities			
Net loss.....	\$ (154,238,000)	\$ (593,915,000)	\$ (301,241,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization.....	32,411,000	145,364,000	73,037,000
Gain from extinguishment of debt.....	—	(39,498,000)	—
Reorganization charges.....	—	26,932,000	—
Non-cash compensation.....	—	21,638,000	43,440,000
Amortization of debt discount.....	2,729,000	6,256,000	—
Amortization deferred financing costs.....	826,000	774,000	211,000
Provision for losses on accounts receivable.....	6,696,000	7,143,000	7,130,000
Charges for impaired assets.....	118,530,000	368,288,000	35,920,000
Accretion of interest on marketable securities.....	—	(51,000)	24,000
Interest accrued on PIK Notes.....	1,785,000	—	—
Other.....	—	(2,473,000)	996,000
Changes in operating assets and liabilities, net of effect from business acquisitions:			
Accounts receivable.....	(9,585,000)	(5,174,000)	(7,405,000)
Due from affiliates.....	(1,292,000)	18,140,000	(17,349,000)
Other current assets.....	(1,533,000)	2,369,000	576,000
Other assets.....	705,000	11,999,000	(1,460,000)
Accounts payable.....	21,654,000	(25,594,000)	17,574,000
Accrued expenses.....	(14,714,000)	21,073,000	(5,078,000)
Deferred revenue.....	(7,724,000)	(44,000)	17,213,000
Net cash used in operating activities.....	(3,750,000)	(36,773,000)	(136,412,000)
Investing activities			
Purchase of fixed assets.....	(11,327,000)	(5,221,000)	(65,211,000)
Acquisitions, net of cash acquired.....	—	—	(98,613,000)
Purchase of marketable securities.....	—	—	(2,710,000)
Proceeds from sale of marketable securities.....	—	2,737,000	—
Other.....	470,000	—	—
Net cash used in investing activities.....	(10,857,000)	(2,484,000)	(166,534,000)
Financing activities			
Capital (distributions) contributions.....	—	(28,614,000)	232,472,000
Proceeds from borrowings, net of financing costs.....	—	88,679,000	103,503,000
Principal payments on long-term debt.....	(33,000)	(10,508,000)	(5,936,000)
Principal payments of capital lease obligations.....	(367,000)	(8,107,000)	(15,568,000)
Net cash (used in) provided by financing activities.....	(400,000)	41,450,000	314,471,000
Net (decrease) increase in cash and cash equivalents.....	(15,007,000)	2,193,000	11,525,000
Cash and cash equivalents at beginning of period.....	24,966,000	22,773,000	11,248,000
Cash and cash equivalents at end of period.....	\$ 9,959,000	\$ 24,966,000	\$ 22,773,000
Supplemental disclosure of cash flow information			
Cash paid for interest.....	\$ 10,807,000	\$ 13,197,000	\$ 4,008,000
Income taxes paid.....	—	—	159,000
Supplemental schedule of non-cash investing activities			
Capital contributions of non-cash net assets.....	\$ —	\$ 5,450,000	\$ 559,721,000
Liabilities incurred to acquire fixed assets.....	386,000	6,595,000	35,626,000
Supplemental schedule of non-cash financing activities			
Shares issued in the ATX recapitalization.....	\$ —	\$ 6,905,000	\$ —
Shares issued to acquire CCL Historical, Inc.....	7,979,000	—	—

See accompanying notes.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Business

Organization

ATX Communications, Inc. (formerly CoreComm Holdco, Inc.), referred to as the Company, was formed in May 1998 as a Bermuda corporation. It was a wholly-owned subsidiary of CCL Historical, Inc. (formerly CoreComm Limited), referred to as CCL, until December 2001. In July 1999, the Company was domesticated under the laws of Delaware.

CCL, formerly a wholly-owned subsidiary of Cellular Communications of Puerto Rico, Inc., referred to as CCPR, was formed in March 1998 in order to succeed to the businesses and assets that were operated by OCOM Corporation. Operations commenced in April 1998. In September 1998, CCPR made a cash contribution to CCL of \$150,000,000 and distributed 100% of the outstanding shares of CCL on a one-for-one basis to CCPR's shareholders.

Business

The Company provides integrated local and toll-related telephone, Internet and high-speed data services to business and residential customers located principally in Pennsylvania, Ohio, New Jersey, Michigan, Wisconsin, Maryland, Illinois, New York, Virginia, Delaware, Massachusetts, Washington, D.C. and Indiana. The Company does not rely on any one customer for a significant portion of its revenue.

Liquidity

The Company's financial statements have been prepared assuming the Company can meet its obligations as they become due in the ordinary course of business. On March 31, 2003, the Company entered into an amendment to its senior secured credit facility, under which the lenders agreed to waive and/or amend certain financial covenants set forth in the credit agreement until February 2, 2004, during which time the loans will accrue interest at a rate of approximately 9.75%. However, based on its current business plan, the Company does not expect that it will have the cash available to fund the required deferred interest and principal payments on its senior secured credit facility on or before February 2, 2004, the date on which such payments become due. The Company intends to seek and consider strategic alternatives in order to reduce its overall indebtedness, including amounts under the senior secured credit facility. Such strategic alternatives may include, among other things, debt or equity financings or refinancings, recapitalizations, restructurings, mergers and acquisitions or other transactions.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 1. Organization and Business (continued)

There can be no assurance that: (1) actual costs will not exceed the amounts estimated or that additional funding will not be required, (2) the Company and its subsidiaries will be able to generate sufficient cash from operations to meet capital requirements, debt service and other obligations when required, (3) the Company will be able to continue to be in compliance with all required ratios and covenants contained in agreements governing its outstanding indebtedness, or that the Company will be able to modify the requirements or terms of such indebtedness, (4) the Company will be able to refinance its indebtedness as it comes due, (5) the Company will be able to sell assets or businesses (the net proceeds from a sale may be required to be used to repay certain indebtedness), or (6) the Company will not be adversely affected by interest rate fluctuations, (7) the Company will be able to access the cash flow of its subsidiaries or (8) the Company will be successful in identifying or implementing one or more strategic alternatives to reduce its indebtedness.

The Company's future capital requirements will depend on the success of the continued execution of the Company's business plan, and the amount of capital required to fund future capital expenditures and other working capital requirements that exceed net cash provided by operating activities.

The Company and its subsidiaries may not generate sufficient cash flow from operations to repay at maturity the entire principal amount of its outstanding indebtedness. Accordingly, the Company may be required to consider a number of measures, including: (1) refinancing all or a portion of such indebtedness, (2) seeking modifications to the terms of such indebtedness, (3) seeking additional debt financing, which may be subject to obtaining necessary lender consents, (4) seeking additional equity financing, (5) sales of assets or businesses or (6) a combination of the foregoing.

The Company's ability to raise additional capital in the future will be dependent on a number of factors, such as general economic and market conditions, which are beyond its control. If the Company is unable to obtain additional financing or obtain it on favorable terms, it may be required to further reduce its operations, forego attractive business opportunities, or take other actions, which could adversely affect its business, results of operations and financial condition.

Note 2. ATX Recapitalization

In April 2001, the Company and CCL completed a reevaluation of their business plans in light of market conditions and made significant modifications to the plans. The Company streamlined its strategy and operations to focus on its two most successful and promising lines of business. The first is integrated communications products and other high bandwidth/data/web-oriented services for the business market. The second is bundled local telephony and Internet products for the residential market, with a focus on using Internet interfaces, as well as call centers, to efficiently sell and install products and services for customers.

Also in April 2001, the Company and CCL commenced a process to potentially sell selected assets and businesses (now owned by the Company) that are not directly related to their competitive local exchange carrier, referred to as CLEC, business, and retained advisors for the purpose of conducting this sale. The Company's CLEC assets and businesses include its local and toll-related telephone services that compete with the incumbent local exchange carrier, referred to as ILEC, and other carriers.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 2. ATX Recapitalization (continued)

In October 2001, the Company and CCL commenced the ATX recapitalization. In the first phase of the ATX recapitalization, which was completed in December 2001, the Company and CCL entered into agreements with holders of approximately \$600 million of outstanding indebtedness and preferred stock whereby the holders agreed, among other things, to exchange their debt and preferred stock for approximately 87% of the Company's common stock. In addition, the holders of CCL's 6% Convertible Subordinated Notes due 2006 received the amount of an October 1, 2001 interest payment of \$4.8 million in the aggregate.

The following summarizes the indebtedness and preferred stock that was exchanged for shares of the Company's common stock in December 2001:

Description	Date Issued	Issuer	Principal Amount or Stated Value when Issued
10.75% Unsecured Convertible PIK Notes due 2011	April 2001	CCL and the Company	\$10.0 million
10.75% Senior Unsecured Convertible PIK Notes Due 2010	December 2000	CCL and the Company	\$16.1 million
Senior Unsecured Notes Due September 29, 2003	September 2000	CCL	\$108.7 million
6% Convertible Subordinated Notes Due 2006	October 1999	CCL	\$175.0 million(1)
Series A and Series A-1 Preferred Stock	September 2000	CCL	\$51.1 million
Series B Preferred Stock	September 2000	CCL	\$250.0 million

(1)\$164.75 million was outstanding as of December 31, 2001, of which \$160 million was exchanged.

The Company exchanged the approximately \$10.8 million principal and accrued interest of 10.75% Unsecured Convertible PIK Notes Due 2011 and the approximately \$18.0 million principal and accrued interest of 10.75% Senior Unsecured Convertible PIK Notes Due 2010 for shares of its common stock. The Company recorded an extraordinary gain of \$25.7 million from the extinguishment of these notes, and incurred costs of \$2.7 million in 2001 in connection with the ATX recapitalization. This gain is based on the fair value of \$0.9797 per share on December 31, 2001 for the shares issued by the Company in exchange for the notes.

The shareholders and noteholders who exchanged their shares and notes, respectively, received shares of common stock of the Company and no longer hold securities of CCL.

Following the completion of the first phase of the ATX recapitalization on December 28, 2001 (but prior to the completion of the second phase on July 1, 2002), approximately 87% of the Company's outstanding shares, or 26,056,806 shares, were owned by the former holders of indebtedness and preferred stock of the Company and CCL, and approximately 13% of the Company's outstanding shares, or 3,943,248 shares, were held by CCL.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 2. ATX Recapitalization (continued)

As a result of the completion of the first phase of the ATX recapitalization, the Company held \$160 million principal amount of CCL's 6% Convertible Subordinated Notes due 2006, approximately \$105.7 million principal amount of CCL's Senior Unsecured Notes due September 29, 2003, approximately 51,000 shares of CCL's Series A preferred stock and 250,000 shares of CCL's Series B preferred stock. As of December 31, 2001, prior to the consummation of the second phase of the ATX recapitalization, the Company's investment in CCL notes and preferred stock was \$3,863,000.

In the second phase of the ATX recapitalization, the Company offered to all holders of CCL common stock and all remaining holders of 6% Convertible Subordinated Notes due 2006 of CCL to exchange shares of the Company's common stock for their CCL common stock and their notes, respectively. The Company completed the exchange offer on July 1, 2002, and issued 3,610,624 shares of common stock to the former holders of CCL common stock and the holders of 6% Convertible Subordinated Notes due 2006 of CCL. The common stock issued under the exchange offer was valued at \$7,979,000 based on the average price per share for the five trading days following the completion of the recapitalization, which was based on the estimated fair value of the Company's common stock. Following the exchange offer, the Company transferred the shares of CCL common stock that it received in the exchange offer to a wholly owned subsidiary. The Company then merged this subsidiary into CCL, with CCL surviving the merger as a wholly owned subsidiary of the Company.

CCL has surrendered to the Company all of the shares of the Company's common stock that CCL held at the completion of the exchange offers, excluding 332,624 shares, of which 39,678 shares are being held for holders of the 6% Convertible Subordinated Notes who did not participate in the exchange offer and 292,946 shares are reserved for holders of CCL's warrants, 14,473 of which expired in May 2002. In exchange for CCL surrendering such shares of the Company's common stock, CCL and the Company have agreed to waivers and amendments to delay CCL from having to make any payments with respect to the CCL securities held by the Company through April 2003. Also, as part of the exchange agreement between the Company and CCL, the due date of CCL's Senior Unsecured Notes was extended until September 29, 2023.

In connection with the second phase of the ATX recapitalization, on July 1, 2002 the Company converted all of the 6% Convertible Subordinated Notes Due 2006 of CCL and all of the shares of Series A and B preferred stock of CCL that it owned into shares of CCL common stock. All of these shares of CCL were tendered in the exchange offer, and subsequently, all of the shares received by the Company in the exchange offer were cancelled. The Company continues to hold approximately \$105.7 million principal amount of CCL's Senior Unsecured Notes.

The Company incurred additional costs in connection with the ATX recapitalization, which consist primarily of employee incentives, legal fees, accounting fees and printing fees of \$5,835,000 during the twelve months ended December 31, 2002.

The merger with CCL has been accounted for as a purchase, and, accordingly the net assets and results of operations of CCL have been included in the consolidated financial statements from July 1, 2002. The aggregate purchase price of \$11,842,000 exceeded the estimated fair value of net tangible assets acquired by \$9,587,000, which was allocated to goodwill.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 2. ATX Recapitalization (continued)

The pro forma unaudited consolidated results of operations for the years ended December 31, 2002 and 2001, assuming consummation of the acquisition as of January 1, 2002 is as follows:

	Year Ended December 31,	
	2002	2001
Total revenue	\$293,972,000	\$293,207,000
Net loss	(155,497,000)	(619,590,000)
Basic and diluted net loss per share	(5.21)	(21.66)

In connection with the ATX recapitalization, on July 2, 2002, Nasdaq transferred CCL's listing on the Nasdaq National Market to the Company. On August 15, 2002, the Nasdaq Listing Qualifications Panel issued its decision to delist the Company's common stock. On August 16, 2002, the Company's common stock began trading on the Over-the-Counter Bulletin Board. The Company had requested a review of the Panel's decision by the Nasdaq Listing and Hearing Review Council and on October 28, 2002, the Listing Council affirmed the Panel's decision to delist the Company's common stock. The delisting of the Company's common stock from the Nasdaq National Market, could, among other things, have a negative impact on the trading activity and price of the common stock and could make it more difficult for the Company to raise equity capital in the future.

Note 3. Significant Accounting Policies

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. Such estimates and assumptions impact, among others, the following: the amount of uncollectible accounts receivable, the amount to be paid to terminate certain agreements included in reorganization costs, the amount to be paid to settle certain toll and interconnection liabilities, the amount to be paid as a result of certain sales and use tax audits, potential liabilities arising from other sales tax matters and estimates related to the value of long-lived assets, goodwill and other intangible assets. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

Cash equivalents are short-term highly liquid investments purchased with a maturity of three months or less. Cash equivalents were approximately \$4.8 million and \$24.3 million at December 31, 2002 and 2001, respectively, and consisted of corporate commercial paper.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 3. Significant Accounting Policies (continued)

Allowance for Doubtful Accounts

The Company records estimated allowances for uncollectible accounts receivable based on estimates of the collectibility of its receivables. These allowances were provided based on both the age of outstanding receivable balances and specific identification of customers. The Company identifies customer payment histories to determine if additional allowances are required. Since the Company has a limited operating history, the estimates are based on reviewing current customer balances and economic conditions on a monthly basis. In addition, the Company writes-off customer balances generally upon bankruptcy or other events where customer receipts are unlikely. The Company also requires security deposits in the normal course of business if customers do not meet its criteria established for offering credit. If the financial condition of the Company's customers were to deteriorate resulting in an impairment in their ability to make payments, additions to the allowance may be required.

The activity of allowances for bad debts for the three years ended December 31, 2002 is as follows:

Description	Allowance for Bad Debt at Beginning of Period	Additions to Allowance Based on Collectibility Estimates	Uncollectible Accounts Written-off	Additions to Allowance From Business Combinations	Allowance for Bad Debt at End of Period	Allowance as a Percentage of Accounts Receivable	Average Allowance as a Percentage of Annual Revenue
Year ended December 31, 2002	\$ 9,759,000	\$ 6,696,000	\$ (7,700,000)	\$ -	\$ 8,755,000	20%	3.2%
Year ended December 31, 2001	11,034,000	7,143,000	(8,418,000)	-	9,759,000	23%	3.6%
Year ended December 31, 2000	3,949,000	7,130,000	(9,269,000)	9,224,000	11,034,000	24%	5.7%

Fixed Assets

Fixed assets are stated at cost. Fixed assets are assigned useful lives, which impacts the annual depreciation expense. The assignment of useful lives involves significant judgments and the use of estimates. Changes in technology or changes in intended use of these assets may cause the estimated useful life to change. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows: operating equipment — 3 to 5 years, computer hardware and software — 3 or 5 years and other equipment — 2 to 7 years, except for leasehold improvements for which the estimated useful lives are the term of the lease.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 3. Significant Accounting Policies (continued)

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In analyzing potential impairments, projections of future cash flows from the asset are used. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. The projections are based on assumptions, judgments and estimates of growth rates for the related business, anticipated future economic, regulatory and political conditions, the assignment of discount rates relative to risk and estimates of terminal values. Changes to these variables in the future may necessitate impairment charges to reduce the carrying value to fair value.

Goodwill

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Goodwill is amortized on a straight-line basis over the period benefited, which is estimated to be five to seven years. The Company continually evaluates whether events and circumstances warrant revised estimates of useful lives or recognition of an impairment to the carrying amounts. The recoverability of goodwill is assessed at a reporting unit level whereby the carrying value of goodwill is adjusted to the present value of the future operating cash flows if the undiscounted cash flows analysis indicates it cannot be recovered over its remaining life. The present value of the future operating cash flows is calculated using a discount rate that is equivalent to the rate that would be required for a similar investment with like risks. The projections of future operating cash flow are based on assumptions, judgments and estimates of growth rates for the related business, anticipated future economic, regulatory and political conditions, the assignment of discount rates relative to risk and estimates of terminal values. Changes to these variables in the future may necessitate impairment charges to reduce the carrying value to fair value. If a portion or separable group of assets of an acquired company is being disposed of, goodwill would be allocated to the assets to be disposed of based on the relative fair values of those assets at the date of acquisition, unless another method of allocation is more appropriate.

LMDS License Costs

The costs incurred to acquire the Local Multipoint Distribution Service, referred to as LMDS, licenses from the Federal Communications Commission, referred to as the FCC, were deferred and were being amortized on a straight-line basis over the term of the licenses upon the commencement of operations. The Company continually reviewed the recoverability of the carrying value of LMDS licenses using the same methodology that it uses for the evaluation of its other long-lived assets and upon such evaluation, the Company determined that the remaining carrying value was impaired as of October 1, 2002.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 3. Significant Accounting Policies (continued)

Intangible Assets

Intangible assets include workforce and customer lists. These are acquisition-related assets, which are stated at their cost as of the date acquired less accumulated amortization. Amortization is recorded on a straight-line basis over estimated useful lives of two and seven years. The Company continually reviews the recoverability of the carrying value of the intangible assets using the same methodology that it uses for the evaluation of its other long-lived assets and upon such evaluation, the Company determined that the remaining carrying value was impaired as of October 1, 2002.

Other Assets

Other assets include deferred financing costs, certificates of deposit collateralizing letters of credit, and other non-current assets. Deferred financing costs were incurred in connection with the issuance of debt and are charged to interest expense over the term of the related debt.

Contingent Liabilities

The Company's determination of the treatment of contingent liabilities is based on a view of the expected outcome of the applicable contingency. The Company's legal counsel is consulted on matters related to litigation. Experts both within and outside the Company are consulted with respect to other matters that arise in the ordinary course of business. Examples of matters that are based on assumptions, judgments and estimates are the amount to be paid to terminate some agreements included in reorganization costs, the amounts to be paid to settle some toll and interconnection liabilities, the amount to be paid as a result of some sales and use tax audits and potential liabilities arising from other sales tax matters. A liability is accrued if the likelihood of an adverse outcome is probable of occurrence and the amount is estimable.

Net Loss Per Share

The Company reports its basic and diluted net loss per share in accordance with Financial Accounting Standards Board, referred to as FASB, Statement of Financial Accounting Standards, referred to as SFAS, No. 128, "Earnings Per Share." The weighted average shares used in the computation of net loss per share reflects the stock split in 2001 on a retroactive basis

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 3. Significant Accounting Policies (continued)

Revenue Recognition and Certain Cost Classifications

Revenues are recognized at the time the service is rendered to the customer or the performance of the service has been completed. Charges for services that are billed in advance are deferred and recognized when earned.

Operating costs includes direct costs of sales and network costs. Direct cost of sales includes the costs directly incurred primarily with other telecommunications carriers in order to render services to customers. Network costs include the costs of fiber and access, points of presence, repairs and maintenance, rent, utilities and property taxes of the telephone, Internet and data network, as well as salaries and related expenses of network personnel.

Advertising Expense

The Company charges the cost of advertising to expense as incurred. Advertising costs for the years ended December 31, 2002, 2001 and 2000 were \$2,203,000, \$3,581,000 and \$8,683,000, respectively.

Reorganization Charges

In 2001, reorganization charges were recorded as a result of additional actions to reorganize, re-size and reduce operating costs and create greater efficiency in various areas. These charges, for both severance and exit costs, required the use of estimates. Actual results could differ from those estimated for reorganization.

Stock-Based Compensation

The Company's employees participate in the ATX stock option plan. ATX applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. When applying APB Opinion No. 25, compensation expense for compensatory plans is measured based on "intrinsic value" (i.e., the excess of the market price of the stock over the exercise price on the measurement date). Under the intrinsic value method, compensation is determined on the measurement date; that is, the first date on which both the number of shares the employee is entitled to receive and the exercise price, if any, are known. Compensation expense, if any, generally is recognized over the equity award's vesting period. Compensation expense associated with awards that immediately are vested or attributable to past services is recognized when granted. Prior to the completion of the ATX recapitalization, the Company's employees participated in the CCL stock option plans.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 3. Significant Accounting Policies (continued)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. Following is the Company's pro forma information for the year ended December 31, 2002:

Net loss – as reported	\$(154,238,000)
Stock based compensation expenses under SFAS No. 123	<u>(3,582,000)</u>
Pro forma net loss	<u>\$(157,820,000)</u>
Basic and diluted per share information:	
Net loss – as reported	\$ (5.17)
Stock based compensation expenses under SFAS No. 123	<u>(.12)</u>
Pro forma net loss per share	<u>\$ (5.29)</u>

Note 4. Recent Accounting Pronouncements

On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure", which is effective for the year ended December 31, 2002. The Statement amends the disclosure provisions of SFAS No. 123 "Accounting for Stock-Based Compensation". SFAS No. 148 also provides alternative methods of transition to SFAS No. 123's fair value method of accounting for stock based employee compensation. The adoption of this new standard had no significant effect on the Company's results of operations, financial condition or cash flows.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Effective for the Company on January 1, 2003. SFAS 146 addresses the accounting and reporting for costs associated with exit or disposal activities. The adoption of this new standard is not expected to have a significant effect on the Company's results of operations, financial condition or cash flows.

In April 2002, the FASB issued SFAS, No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," effective for the Company on January 1, 2003. This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The adoption of this standard will require the Company to reclassify its gain from extinguishment of debt from extraordinary to continuing operations. The Company's loss before income taxes for the year ended December 31, 2001 will be \$593,915,000, upon adoption of SFAS No. 145. The adoption of SFAS No. 145 will not change the Company's net loss for the year ended December 31, 2001.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 4. Recent Accounting Pronouncements (continued)

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for the Company on January 1, 2002. This Statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and other related accounting guidance. The standard did not materially affect the amount of the \$41,121,000 impairment charge recorded by the Company in the fourth quarter of 2002. However, the charge was calculated in accordance with the provisions of this pronouncement resulted in asset impairment charges of \$41,121,000 during the fourth quarter of 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," effective for the Company on January 1, 2003. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible fixed assets and the associated asset retirement costs. The adoption of this new standard is not expected to have a significant effect on the results of operations, financial condition or cash flows of the Company.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is no longer permitted. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. SFAS No. 142 ends the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach to determine whether or not impairment exists rather than the undiscounted cash flow approach previously required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company adopted SFAS No. 142 on January 1, 2002.

Upon the adoption of SFAS No. 142, the Company also performed an evaluation for impairment of its goodwill as of January 1, 2002, and determined that no impairment charge was required. The Company performed its annual test to evaluate whether or not its goodwill was impaired as of October 1, 2002. This evaluation resulted in a goodwill impairment charge of \$77,409,000.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 4. Recent Accounting Pronouncements (continued)

The following table shows the Company's loss before extraordinary item and net loss had SFAS No. 142 been in effect during the two years ended December 31, 2001. Additionally, the table presents the effect on the Company's basic and diluted loss per share before extraordinary item and basic and diluted net loss per share.

	Year Ended December 31,		
	2002	2001	2000
Loss before extraordinary item- as reported	\$ (154,238,000)	\$(633,413,000)	\$ (301,241,000)
Goodwill amortization	—	96,973,000	39,330,000
Workforce amortization	—	52,000	532,000
Loss before extraordinary item - as adjusted	<u>\$ (154,238,000)</u>	<u>\$ (536,388,000)</u>	<u>\$ (261,379,000)</u>
Net loss – as reported	\$ (154,238,000)	\$ (593,915,000)	\$ (301,241,000)
Goodwill amortization	—	96,973,000	39,330,000
Workforce amortization	—	52,000	532,000
Net loss— as adjusted	<u>\$ (154,238,000)</u>	<u>\$ (496,890,000)</u>	<u>\$ (261,379,000)</u>
Basic and diluted per share information:			
Loss before extraordinary item- as reported	\$ (5.17)	\$ (22.15)	\$ (10.55)
Goodwill amortization	—	3.39	1.38
Workforce amortization	—	—	0.02
Loss before extraordinary item - as adjusted	<u>\$ (5.17)</u>	<u>\$ (18.76)</u>	<u>\$ (9.15)</u>
Net loss per share – as reported	\$ (5.17)	(20.77)	\$ (10.55)
Goodwill amortization	—	3.39	1.38
Workforce amortization	—	—	0.02
Net loss per share— as adjusted	<u>\$ (5.17)</u>	<u>\$ (17.38)</u>	<u>\$ (9.15)</u>

Note 5. Certain Risks and Uncertainties

The Company's performance is affected by, among other things, its ability to implement expanded interconnection and collocation with the facilities of ILECs and develop efficient and effective working relationships with the ILECs and other carriers. The Company has installed its own switches and related equipment in certain of its markets. The Company will continue to lease the unbundled local loop needed to connect its customers to its switches. The Company purchases capacity from the ILECs on a wholesale basis pursuant to contracts and sells it at retail rates to its customers. The Company depends upon the ILECs to maintain the quality of their service to the Company's customers. Also, the Company depends upon the ILECs for accurate and prompt billing information in order for the Company to bill certain of its customers.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 5. Certain Risks and Uncertainties (continued)

The Company's business is highly competitive, which results in pricing pressure and increasing customer acquisition costs. The competition in the local exchange business includes the larger, better capitalized ILECs as well as other CLECs, other providers of telecommunications services and cable television companies. The competition in the Internet services market includes established online services, such as AOL and the Microsoft Network, the ILECs, cable television companies and other local, regional and national Internet service providers. The competitive environment may result in price reductions in the Company's fees for services, increased spending on marketing and product development, a reduction in the Company's ability to increase revenues and gross margin from its core businesses, a limit on the Company's ability to grow its customer base or attrition in the Company's customer base. The Company's operating results and cash flows would be negatively impacted by any of these events.

The Company's business is subject to regulations by federal, state and local government agencies. These regulations are the subject of judicial proceedings, legislative hearings and administrative proposals, which could change in varying degrees the manner in which the telecommunications industry operates. Future regulations and legislation may be less favorable to the Company than current regulations or legislation and therefore could have a materially adverse effect on its financial condition or results of operations

Note 6. Revenues

	Year Ended December 31,		
	2002	2001	2000
Local Exchange Services	\$104,247,000	\$95,272,000	\$62,960,000
Internet, Data and Web-related Services	90,048,000	93,997,000	34,157,000
Toll-related Telephony Services	69,390,000	77,169,000	27,952,000
Other(a)	30,036,000	26,243,000	6,457,000
	\$293,721,000	\$292,681,000	\$131,526,000

(a) Other includes carrier access billing, reciprocal compensation, wireless, paging and information services.

Note 7. Charges for Impaired Assets

As of October 1, 2002, the Company performed an analysis of the carrying value of its long-lived assets, goodwill and other intangibles. During 1999 and 2000, the Company made acquisitions against a background of increasing consolidation and record valuations in the telecommunications industry. Additionally, during the same time period, the Company paid high prices for telecommunications equipment in an effort to rapidly expand its network. This analysis was initiated because of the overall decline in value for companies and for equipment within the telecommunications industry. The fair value of the Company's assets was determined by discounting the Company's estimates of the expected future cash flows related to these assets when the non-discounted cash flows indicated that the long-lived assets would not be recoverable. The Company recorded a write-down of goodwill of \$77,409,000 and a write-down of fixed assets of \$28,494,000 in the fourth quarter of 2002 as result of this analysis and review.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 7. Charges for Impaired Assets (continued)

Also at October 1, 2002, in connection with the fair value analysis of the Company's long-lived assets, the Company wrote-down the carrying amount of its LMDS licenses, customer lists and certain deposits related to long-term telecommunications contracts by \$4,230,000, \$1,225,000 and \$5,400,000 respectively to reflect their fair value.

As of December 31, 2001, the Company performed an analysis of the carrying values of its long-lived assets including goodwill. This analysis was initiated because of the decline in CCL's stock price and significantly lower valuations for companies within its industry. Additionally, at the time of the Company's analysis, the book value of the Company's net assets significantly exceeded its market capitalization. Accordingly, the Company performed an analysis of the recoverability of its long-lived assets and associated goodwill. The fair value of the Company's assets was determined by discounting the Company's estimates of the expected future cash flows related to these assets when the non-discounted cash flows indicated that the long-lived assets would not be recoverable. The Company recorded a write-down of goodwill of \$186,160,000 and a write-down of fixed assets of \$14,529,000 in the fourth quarter of 2001 as result of this analysis and review.

At March 31, 2001, the Company reduced the carrying amount of goodwill related to two of its acquisitions by \$167,599,000. In connection with the reevaluation of its business plan and the decision to sell its non-CLEC assets and business announced in April 2001, the Company was required to report all long-lived assets and identifiable intangibles to be disposed of at the lower of carrying amount or estimated fair value less cost to sell. The carrying amount of goodwill related to these acquisitions was eliminated before reducing the carrying amounts of other assets. The estimated fair value of these businesses was determined based on information provided by the investment bank retained for the purpose of conducting this sale.

At December 31, 2000, the Company wrote-off the carrying amount of intangible assets from certain business combinations. The aggregate write-off of \$14,784,000 included goodwill of \$6,690,000, workforce of \$577,000 and customer lists of \$7,517,000. These assets were primarily related to the Company's resale CLEC business, which was acquired in 1999. The underlying operations, customer relationships and future revenue streams had deteriorated significantly since the acquisition. These were indicators that the carrying amount of the resale-related assets was not recoverable. The Company estimated that the fair value of these assets was zero due to the lack of potential buyers, the overall deterioration of the resale CLEC business environment and because of the negative future cash flow of these resale businesses projected at that time for the foreseeable future. The goodwill had useful lives of 5 and 10 years, and the other intangibles had useful lives of 3 and 5 years.

Also at December 31, 2000, in connection with the reevaluation of its business plan announced in April 2001, the Company reduced the carrying amount of its LMDS licenses by \$21,136,000 to \$4,230,000 to reflect their estimated fair value. The estimated fair value was determined based on an analysis of sales of other LMDS licenses by third parties.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 8. Acquisitions

On September 29, 2000, the CCL completed two significant acquisitions. CCL acquired ATX Telecommunications Services, Inc., referred to as ATX Services, a CLEC providing integrated voice and high-speed data services, including long distance, local, wireless and network services through the use of telephone switching equipment and other physical facilities in the New York — Virginia corridor. ATX Services was acquired for approximately \$39.4 million in cash, approximately \$108.7 million principal amount of CCL's senior unsecured notes due 2003, 12,398,000 shares of CCL's common stock and 250,000 shares of CCL's Series B preferred stock with a stated value of \$250.0 million. The common stock was valued at \$178.7 million, the fair value at the time of the third amendment to the ATX Services merger agreement on July 31, 2000. The senior unsecured notes and the Series B preferred stock were valued at \$94.0 million and \$67.3 million, respectively, the fair value on the date of issuance. In addition, CCL incurred acquisition related costs of approximately \$9.7 million.

CCL also acquired Voyager.net, Inc., referred to as Voyager, a large independent Internet communications company focused on the Midwestern United States. Voyager was acquired for approximately \$36.1 million in cash and 19,435,000 shares of CCL's common stock. The common stock was valued at \$154.6 million, the fair value at the time of the closing of the transaction. In addition, CCL incurred acquisition related costs of approximately \$9.4 million and repaid approximately \$24.0 million of Voyager debt including accrued interest.

The assets of ATX Services and Voyager were contributed to subsidiaries of the Company.

These acquisitions have been accounted for as purchases, and, accordingly the net assets and results of operations of the acquired businesses have been included in the consolidated financial statements from the date of acquisition. The aggregate purchase price of \$613.2 million exceeded the estimated fair value of net tangible assets acquired by \$585.8 million, which was allocated to goodwill.

Note 9. Fixed Assets

Fixed assets consist of:

	December 31,	
	2002	2001
Operating equipment.....	\$26,528,000	\$102,529,000
Computer hardware and software	13,121,000	53,313,000
Other equipment.....	3,010,000	12,956,000
Construction-in-progress.....	446,000	—
	43,105,000	168,798,000
Accumulated depreciation.....	(5,244,000)	(82,076,000)
	\$37,861,000	\$86,722,000

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 10. Accrued Expenses

Accrued expenses consist of:

	December 31,	
	2002	2001
Payroll and related	\$5,792,000	\$7,517,000
Professional fees	1,185,000	935,000
Taxes, including income taxes	11,473,000	16,534,000
Accrued equipment purchases	1,414,000	385,000
Toll and interconnect	23,016,000	28,668,000
Reorganization costs	4,542,000	7,273,000
Other.....	5,638,000	6,454,000
	\$53,060,000	\$67,766,000

Note 11. Long-Term Debt

Long-term debt consists of:

	December 31,	
	2002	2001
Senior secured credit facility, less unamortized discount of \$10,291,000 (2002) and \$11,687,000 (2001)	\$145,809,000	\$144,413,000
6% Convertible Notes, less unamortized discount of \$2,846,000 (2002)	1,512,000	—
Other.....	—	33,000
	147,321,000	144,446,000
Less current portion	(1,512,000)	(33,000)
	\$145,809,000	\$144,413,000

In September 2000, subsidiaries of the Company entered into a senior secured credit facility. CCL and the Company have unconditionally guaranteed payment under the facility. The facility was amended and restated in April 2001. The senior secured credit facility provides for both a term loan facility and a revolving credit facility. The aggregate amount available was amended to \$156.1 million, of which the term loan facility is \$106.1 million and the revolving credit facility is \$50 million. As of April 2001, the entire amount available under the senior secured credit facility had been borrowed. The senior secured credit facility is collateralized by substantially all of the Company's assets.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 11. Long-Term Debt (continued)

On March 31, 2003, the Company entered into an amendment to its senior secured credit facility. Under this amendment, the lenders under the facility agreed to defer interest payments on the outstanding loans during the period beginning March 12, 2003 until February 2, 2004, during which time the loans will accrue interest at a rate of 5.5% per annum plus the base rate, which is the higher of the prime rate or the federal funds effective rate plus 0.5% per annum. This rate will be approximately 9.75%. In addition, the required principal payments originally scheduled for 2003, which totaled \$1.95 million, were deferred to February 2, 2004. The lenders have also agreed to waive and/or amend certain financial covenants set forth in the credit agreement until January 31, 2004, and added other financial covenants, in order to better reflect the Company's current operations.

The term loan facility will amortize in quarterly installments of principal commencing on February 2, 2004 with a final maturity on September 22, 2008. The revolving credit facility shall be automatically and permanently reduced in increasing quarterly installments of principal commencing on February 2, 2004 with a termination date on September 22, 2008. In the event CCL's remaining approximately \$4.358 million principal amount of 6% Convertible Subordinated Notes have not been converted or refinanced on or prior to April 1, 2006, then the facilities become payable in full on April 1, 2006.

The interest rate on the senior secured credit facility was initially, at the Company's option, either 3.25% per annum plus the base rate, which is the higher of the prime rate or the federal funds effective rate plus 0.5% per annum; or the reserve-adjusted London Interbank Offered Rate plus 4.25% per annum. In April 2001 the interest rate was amended to, at the Company's option, 3.5% per annum plus the base rate or the reserve-adjusted London Interbank Offered Rate plus 4.5% per annum. Interest is payable monthly on the facility and, as noted above, the interest rate was adjusted further on March 31, 2003 in conjunction with the amendment signed on that date. The unused portion of the facility is subject to a commitment fee equal to 1.25% per annum payable quarterly, subject to reduction to 1.00% per annum based upon the amount borrowed under the facility. At December 31, 2002 and 2001, the effective interest rate on the amounts outstanding was 6.22% and 6.86%, respectively.

In addition, in connection with the financing in April 2001, CCL issued warrants to purchase shares of its common stock. The estimated value of the warrants plus the excess of other commitments over their estimated fair value to the Company aggregating \$12,454,000 was recorded as a debt discount in April 2001.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 11. Long-Term Debt (continued)

The Company's consolidated balance sheet includes \$4,358,000 aggregate principal amount of CCL's 6% Convertible Subordinated Notes upon the completion of the merger of CCL on July 1, 2002. The Company recorded the notes at \$219,000, their fair value as of the acquisition date. The resulting discount of \$4,139,000 is being amortized to interest expense over the remaining life of the notes, which are due October 1, 2006. The Company recorded amortization expense of \$1,293,000 during 2002. Under the terms of the exchange offer in 2002, the holder of the notes could convert each \$1,000 in aggregate principal amount into 9.1047 shares of common stock and \$30.00 in cash. There are 39,678 shares of common stock reserved for issuance upon conversion of the notes. The interest payments that were due under the outstanding notes on April 1 and October 1, 2002 have not been made and CCL is in default under these notes. As such, the notes and the accrued interest thereon are currently due and payable in full. These notes are obligations of CCL and do not represent obligations of the Company.

In 1998, MegsINet entered into a working capital promissory note and a note payable for operating equipment. MegsINet was required to make monthly principal and interest payments through January 2002 for the working capital note and through September 2001 for the equipment note. In 2001, the holders of these notes agreed to accept cash of \$400,000 and \$800,000 in full settlement of all amounts due under the working capital note and certain capital leases and the equipment note, respectively. Extraordinary gains aggregating \$4,067,000 were recorded as a result of these settlements.

In May 2001, the Company entered into an agreement with one of its equipment vendors whereby \$17,166,000 due to the vendor was originally to be paid in three payments in January, May and August 2002. In December 2001, the Company and the vendor agreed to a modification of this arrangement in which the Company paid \$2,000,000 and returned certain of the equipment in full settlement of the amount due. The Company recorded an extraordinary gain of \$7,628,000 as a result of this transaction.

In April 2001, the Company and CCL as co-obligators issued to Booth American Company \$10 million aggregate principal amount of 10.75% Unsecured Convertible PIK Notes Due April 2011. Interest on the notes was at an annual rate of 10.75% payable semiannually on October 15 and April 15 of each year, commencing October 15, 2001. The interest was payable in kind by the issuance of additional 10.75% Unsecured Convertible PIK Notes due April 2011 in such principal amount as shall equal the interest payment that was then due. The notes were convertible into CCL's common stock prior to maturity at a conversion price of \$1.00 per share, subject to adjustment. Additional notes issued for interest had an initial conversion price equal to 120% of the weighted average closing price of CCL's common stock for a specified period. All of the outstanding 10.75% Unsecured Convertible PIK Notes Due April 2011 were exchanged for shares of the Company in December 2001.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 11. Long-Term Debt (continued)

The Company exchanged the approximately \$10.8 million principal and accrued interest of 10.75% Unsecured Convertible PIK Notes Due 2011 and the approximately \$18.0 million principal and accrued interest of 10.75% Senior Unsecured Convertible PIK Notes Due 2010 (that were included in notes payable to related parties) for shares of its common stock. The Company recorded an extraordinary gain of \$25,677,000 from the extinguishment of these notes. During 2001, costs of \$2,655,000 were incurred in connection with the ATX recapitalization, which were included as an offset to the extraordinary gain. In addition, the Company recorded an extraordinary gain of \$4,781,000 in 2001 related to the settlement of other liabilities.

The senior secured credit facility restricts the payment of cash dividends and loans to the Company.

As of December 31, 2002, the aggregate principal amounts of long-term debt scheduled for repayment are as follows:

Year Ending December 31,	
2003	\$4,358,000
2004	11,700,000
2005	25,350,000
2006	50,700,000
2007	39,000,000
Thereafter	29,350,000
	<u>\$160,458,000</u>

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Notes 12. Other Charges

Other charges in 2001 include reorganization charges of \$37,372,000 and an adjustment to the reserve for notes receivable from former officers of Voyager of \$2,181,000. The reorganization charges relate to the Company's announcements in May and July 2001 that it was taking additional actions to reorganize, re-size and reduce operating costs and create greater efficiency in various areas of the Company. A total of \$21,386,000 of these costs are for equipment and other assets that will not require any future cash outlays. The employee severance and related costs in 2001 were for approximately 630 employees to be terminated, none of whom were still employed by the Company as of December 31, 2001. The major actions involved in the 2001 reorganization included: (1) consolidation of functions such as network operations, customer service and finance, (2) initiatives to increase gross margins and (3) agreements with vendors to reduce or eliminate purchase commitments. The consolidation of functions resulted in employee terminations and the closing of offices. Employee severance and related costs, lease exit costs and fixed assets and prepayment write-downs include charges related to these actions. Initiatives to increase gross margins resulted in consolidation of network assets and elimination of redundant and less profitable facilities. Charges for these actions include lease exit costs and fixed assets and prepayment write-downs. Finally, reductions or elimination of purchase commitments resulted in agreement termination charges. All of these actions were completed during 2002 and the remaining accrued expenses are anticipated to be paid out over the next 36 months. Fixed assets and prepayments written-off include \$5,300,000 related to vacated offices, \$13,400,000 for network assets in abandoned markets and \$2,700,000 for prepayments in respect of ILEC facilities in abandoned markets.

Other charges in 2000 include a reserve of \$8,700,000 for notes receivable from former officers of Voyager, and reorganization charges of \$4,006,000. The employee severance and related costs in 2000 were for approximately 250 employees to be terminated, none of whom were still employed by the Company as of December 31, 2000.

The following table summarizes the reorganization charges incurred and utilized in during the three years ended December 31, 2002:

	Employee Severance and Related Costs	Lease Exit Costs	Agreement Terminations	Fixed Assets and Prepayments	Total
	(in thousands)				
Charged to expense	\$2,089	\$1,917	\$	\$	\$4,006
Utilized	(775)	(1,396)	—	—	(2,171)
Balance, December 31, 2000 ..	1,314	521			1,835
Charged to expense	3,409	6,928	6,572	21,772	38,681
Utilized	(4,214)	(4,343)	(2,914)	(21,772)	(33,243)
Balance, December 31, 2001 ..	509	3,106	3,658		7,273
Utilized	(509)	(1,722)	(500)	—	(2,731)
Balance, December 31, 2002 ..	\$	\$1,384	\$3,158	\$	\$4,542

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 13. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets approximate fair value because of their liquid nature.

Accounts receivable and payable: The carrying amounts reporting in the consolidated balance sheets are deemed to approximate fair value because of their short-term nature.

Long-term debt: The carrying amount of the variable rate senior secured credit facility approximates the fair value because the effective interest rates are deemed to be representative of rates the Company could obtain under current market conditions. The fair value of the Company's other notes payable are estimated using discounted cash flow analyses, based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Cash and cash equivalents.....	\$9,959	\$9,959	\$24,966	\$24,966
Long-term debt:				
Senior secured credit facility	145,809	156,100	144,413	156,100
Notes payable to related parties	17,632	17,959	15,807	16,174
Other.....	1,512	146	33	33

Note 14. Leases

The Company has capital leases for certain of its operating equipment. Leased property included in operating equipment consists of:

	December 31,	
	2002	2001
Operating equipment.....	\$ 623,000	\$29,108,000
Accumulated depreciation.....	(104,000)	(14,963,000)
	\$ 519,000	\$14,145,000

Depreciation expense for operating equipment acquired by capital lease totaled \$3,619,000, \$6,487,000 and \$1,394,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 14. Leases (continued)

Future minimum annual payments under these leases at December 31, 2002 are as follows:

Total minimum lease payments due during the year ending December 31, 2003	\$9,558,000
Less amount representing interest (at rates ranging from 5.8% to 23.4%)	<u>(24,000)</u>
Present value of net minimum obligations	<u>\$9,534,000</u>

As of December 31, 2002, the Company had leases for office space and equipment, which extend through 2013. Total rent expense for the years ended December 31, 2002, 2001 and 2000 under operating leases was \$8,035,000, \$8,791,000 and \$7,764,000 respectively.

Future minimum annual lease payments under noncancellable operating leases at December 31, 2002 are as follows: \$7,522,000 (2003); \$5,146,000 (2004); \$4,229,000 (2005); \$3,026,000 (2006) \$2,729,000 (2007) and \$4,475,000 thereafter.

Note 15. Related Party Transactions

Notes payable to related parties consists of:

	December 31,	
	2002	2001
10.75% Unsecured Convertible PIK Notes Due April 2011, plus accrued interest, less unamortized discount of \$327,000 (2002) and \$367,000 (2001).....	\$17,632,000	\$15,807,000

Some of the directors of the Company were or are officers or directors of NTL Incorporated, referred to as NTL. In April 2001, CCL and the Company as co-obligors issued to NTL \$15 million aggregate principal amount of 10.75% Unsecured Convertible PIK Notes Due April 2011. In addition, in April 2001, CCL issued warrants to NTL, and CCL and the Company entered into a network and software agreement with NTL. The estimated value of the warrants of \$397,000 was recorded as a debt discount in April 2001. Pursuant to the network and software agreement with NTL, the Company will provide U.S. network access for U.K. Internet traffic from NTL's U.K. customers for three years, as well as a royalty free license to use certain provisioning software and know-how.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 15. Related Party Transactions (continued)

Interest on the 10.75% Unsecured Convertible PIK Notes Due April 2011 is at an annual rate of 10.75% payable semiannually on October 15 and April 15 of each year, which commenced on October 15, 2001. The interest is payable in kind by the issuance of additional unsecured convertible notes in principal amount equal to the interest payment that is then due. Additional unsecured convertible PIK notes, dated October 15, 2001, April 15, 2002, and October 15, 2002 were issued in the principal amount of approximately \$0.8 million, \$0.9 million, and \$0.9 million respectively, as interest payments. The additional notes issued for interest will have an initial conversion price equal to the greater of \$38.90 or 120% of the weighted average closing price of the Company's common stock for a specified period. The April 2001 note, the October 2001 note, the April 2002 and the October 2002 note were each convertible into CCL common stock prior to maturity at a conversion price of \$38.90 per share, subject to adjustment. Pursuant to letter agreements between the Company, NTL and CCL, at the completion of the exchange offers on July 1, 2002, the convertibility feature of these notes was altered so that rather than the notes being convertible into shares of CCL common stock, they are convertible into shares of the Company's common stock. At that time, the conversion prices of these notes was equitably adjusted by applying the exchange ratio in the exchange offer for CCL common stock, which resulted in a new conversion price of \$38.90 per share of the Company's common stock for each of these notes. These notes are redeemable, in whole or in part, at the Company's option, at any time after April 12, 2003, at a redemption price of 103.429% that declines annually to 100% in April 2007, in each case together with accrued and unpaid interest to the redemption date.

Until 2002, NTL provided the Company with management, financial, legal and technical services, access to office space and equipment and use of supplies. Amounts charged to the Company by NTL consist of salaries and direct costs allocated to the Company where identifiable, and a percentage of the portion of NTL's corporate overhead, which cannot be specifically allocated to NTL. Effective January 1, 2001, the percentage used to allocate estimated corporate overhead was reduced. It is not practicable to determine the amounts of these expenses that would have been incurred had the Company operated as an unaffiliated entity. The estimated allocations exceeded the actual costs incurred by approximately \$2.8 million, of which \$2.2 million was provided for as a reduction of corporate expenses in the quarter ended December 31, 2002. Taking this into effect for the year ended December 31, 2002, corporate expenses were reduced by \$2,064,000. For the years ended December 31, 2001 and 2000, expenses related to NTL were \$446,000 and \$1,186,000, respectively, which is included in corporate expenses.

Until 2001 the Company provided NTL with access to office space and equipment and the use of supplies. In the fourth quarter of 1999, the Company began charging NTL a percentage of the Company's office rent and supplies expense. It is not practicable to determine the amounts of these expenses that would have been incurred had the Company operated as an unaffiliated entity. In the opinion of management, this allocation method is reasonable. In 2001 and 2000, the Company charged NTL \$121,000 and \$267,000, respectively, which reduced corporate expenses.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 15. Related Party Transactions (continued)

A subsidiary of the Company provides billing and software development services to subsidiaries of NTL. During the third quarter of 2002, the Company began recording the billings for these services as revenue, which totaled \$1,438,000 for the year ended December 31, 2002. The Company historically recorded these billings as a reduction of general and administrative expenses. Expenses were reduced by \$1,508,000 and \$1,883,000 for the year ended December 31, 2002 and 2001, respectively, as a result of billing for these services.

In 2001, the Company and NTL entered into a license agreement whereby NTL was granted an exclusive, irrevocable, perpetual license to use certain billing software developed by the Company for telephony rating, digital television events rating, fraud management and other tasks. The sales price was cash of \$12.8 million. The billing software was being used by NTL at the time of this agreement, and was being maintained and modified by the Company under an ongoing software maintenance and development outsourcing arrangement between the companies. The Company recorded the \$12.8 million as deferred revenue to be recognized over a period of three years, which was the estimated amount of time the Company expected to provide service under this arrangement. The Company recognized \$4.3 million and \$2.5 million of this revenue in 2002 and 2001, respectively.

In March 2000, the Company and NTL announced that they had entered into an agreement to link their networks in order to create an international Internet backbone that commenced operations in February 2001. The Company recognized revenue of \$327,000 for the network usage in the year ended December 31, 2001.

The Company leases office space from entities controlled by an individual who owns 32% of the outstanding shares of the Company's common stock. Rent expense for these leases for the year ended December 31, 2002 and 2001 was approximately \$1.4 million and \$1.6 million, respectively.

During 2002, the Company engaged B/G Enterprises, LLC, a company affiliated with a Director of the Company, to provide travel related services. These services totaled \$33,000 during 2002.

Notes 16. 401(k) Plan

The Company, through one of its subsidiaries, sponsors a 401(k) Plan in which all full-time employees who have completed 90 days of employment and are 21 years of age may participate. The Company's matching contribution is determined annually by the Board of Directors. Participants may make salary deferral contributions of 1% to 25% of their compensation not to exceed the maximum allowed by law. The expense for the years ended December 31, 2002, 2001 and 2000 was \$281,000, \$380,000 and \$486,000, respectively.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 17. Shareholders' Equity

Stock Splits

The Company declared a 6,342,944-to-1 stock split which was effective on December 17, 2001. The Company's outstanding shares increased from 1,500 to 9,514,416 as a result of this stock split. On April 12, 2002, the Company declared a 3-for-1 stock split by way of a stock dividend, which was paid on the declaration date. The Company's outstanding shares increased from 9,514,416 to 28,543,248. The consolidated financial statements and the notes thereto give retroactive effect to the stock split.

Non-Cash Compensation

In June 2001, CCL's Board of Directors approved the repricing of certain CCL stock options granted to employees of the Company. All of these options have since been cancelled. George Blumenthal, the then Chairman of the Board of Directors of CCL, Barclay Knapp, the then President of CCL, and the members of the Board of Directors of CCL did not participate in the repricing. Options to purchase an aggregate of approximately 10.2 million shares of CCL's common stock with an average exercise price of \$10.70 per share were repriced to \$.25, \$.75 or \$1.25 per share of CCL, depending upon the original exercise price. The Company recognized non-cash compensation expense for the difference between the quoted market price of the common stock and the exercise price of the repriced options. The CCL Board of Directors took this action in 2001 to continue to provide the appropriate performance incentives to those affected.

In April 2000, the compensation and option committee of the CCL Board of Directors approved the issuance of options to purchase approximately 2,747,000 shares of CCL's common stock to employees of the Company at an exercise price of \$14.55, which was less than the fair market value of CCL's common stock on the date of the grant. All of these options have since been cancelled. In accordance with APB Opinion No. 25, in April 2000, the Company recorded non-cash compensation expense of approximately \$29.0 million and a non-cash deferred expense of approximately \$31.3 million. From April 2000 to December 31, 2000, \$9.7 million of the deferred non-cash compensation was charged to expense. In 2001, the remaining \$21.6 million of the deferred non-cash compensation was charged to expense.

In November 2000, the Board of Directors of CCL approved the rescission of certain previously exercised employee stock options. CCL issued notes to employees of the Company for the repurchase of the 671,000 shares of CCL's common stock for an aggregate of \$6,803,000, which exceeded the fair market value of CCL's common stock on the date of repurchase. The notes earned interest at a rate of 4.5% and were redeemed by CCL in December 2000. The Company recorded non-cash compensation of \$4.7 million from these transactions.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 17. Shareholders' Equity (continued)

Stockholder Rights Plan

The Company adopted a stockholder rights plan in December 2001. In connection with the stockholder rights plan, the Board of Directors declared and paid a dividend of one preferred share purchase right for each share of common stock outstanding on December 17, 2001. Each right entitles the holder, under certain potential takeover events, to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, referred to as Series A Preferred Stock, at an initial exercise price of \$8.82 as determined on July 10, 2002. The exercise price is subject to future adjustment. The rights expire on December 17, 2011 unless an exchange or redemption or the completion of a merger occurs first. There are 1,000,000 shares of Series A Preferred Stock authorized for issuance under the plan. No shares of Series A Preferred Stock are issued or outstanding.

If any shares of Series A Preferred Stock are issued they will be entitled to a minimum preferential quarterly dividend payment of an amount equal to the greater of \$.01 per share or 1,000 times the aggregate per share amount of all dividends declared on the Company's common stock. If any shares of Series A Preferred Stock are issued they will be entitled to a minimum preferential quarterly dividend payment of an amount equal to the greater of \$.01 per share or 1,000 times the aggregate per share amount of all dividends declared on the Company's common stock since the immediately preceding dividend payment date. In the event of liquidation, the holders of Series A Preferred Stock will be entitled to a liquidation payment of \$1 per share plus accrued and unpaid dividends. Each share of Series A Preferred Stock will have 1,000 votes on all matters and will vote as a single class with the holders of the Company's common stock.

Warrants

In connection with the amendment and restatement of the senior secured credit facility in April 2001, CCL issued to its lenders warrants to purchase approximately 10.6 million shares of its common stock at an exercise price of \$.01 per share that expire in April 2011. Warrants to purchase an aggregate of approximately 1.4 million shares of CCL common stock issued in December 2000 and January 2001 were canceled upon the issuance of these new warrants.

Warrants issued by CCL in 1999 to purchase an aggregate of 563,000 shares of CCL common stock at \$13.33 per share expired in May 2002.

Upon the completions of the exchange offer on July 1, 2002 all of then outstanding warrants of CCL were exercisable into common shares of the Company on an as-converted basis, subject to the exchange ratio in the exchange offer of 1/38.9. The Company has the following warrants outstanding as of December 31, 2002:

Year of Issue	Number of Shares	Exercise Price	Expiration Date
1999	1,000	\$534.88	August 2008
1999	6,000	\$864.36	May 2004
2001	272,000	\$0.39	April 2011

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 17. Shareholders' Equity (continued)

CCL Stock Options

As of the completion of the exchange offer, on July 1, 2002, CCL had approximately 22.2 million options and distribution warrants outstanding. Distribution warrants were warrants issued by CCL in connection with the distribution of CCL to CCPR shareholders. As of December 2001, all of the outstanding options and distributions warrants were fully vested and exercisable into CCL common shares. Effective November 15, 2002, the CCL Board of Directors cancelled all of the outstanding options and distribution warrants to acquire shares of CCL common stock.

ATX Stock Options

In December 2001, the Company adopted a new stock option plan for its employees. A total of 8.7 million shares of common stock were reserved for issuance under the plan, which represents 22.5% of the total fully diluted shares of the Company. During 2002, the Board of Directors approved grants of options to purchase an aggregate of approximately 7.8 million shares of the Company's common stock, representing approximately 20% of the total fully diluted shares. The exercise price of these options is \$1.00 per share. The number of shares available under the plan and the number of shares into which each option is exercisable are subject to adjustment in the event of stock splits and other similar transactions.

The Company's option plan provides that incentive stock options be granted at the fair market value of the Company's common stock on the date of grant, and nonqualified stock options be granted at a price determined by the Compensation and Option Committee of the Company's Board of Directors. Options are generally exercisable as to 34% of the shares subject thereto on the date of grant and become exercisable as to an additional 33% of the shares subject thereto on each January 1 thereafter, while the option holder remains an employee of the Company or its affiliates. Options will expire ten years after the date of the grant.

Pro forma information regarding net loss and net loss per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2002: risk-free interest rate of 4.81%, dividend yield of 0%, volatility factor of the expected market price of the Company's common stock of 1.743 and a weighted-average expected life of the options of 10 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its distribution warrants and stock options.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 17. Shareholders' Equity (continued)

A summary of the Company's stock option activity and related information for the year ended December 31, 2002 is as follows:

	Number of Options	Weighted- Average Exercise Price
Granted	7,816,000	\$1.00
Exercised	(4,000)	1.00
Forfeited	(633,000)	1.00
Outstanding, December 31, 2002	7,179,000	\$1.00
Exercisable, December 31, 2002	2,441,000	\$1.00

Weighted-average fair value of options, calculated using the Black-Scholes option pricing model, granted during 2002 is \$1.00. The weighted average remaining contractual life of the Company's options is 9.0 years

Shares Reserved for Future Issuance

At December 31, 2002, the Company had reserved the following shares of common stock for future issuance:

Common stock options outstanding	7,179,000
Common stock options available to grant	1,521,000
Common stock warrants	279,000
6% Convertible Notes	40,000
	9,019,000

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 18. Income Taxes

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2002	2001	2000
Current:			
Federal.....	\$ —	\$ —	\$ —
State and local	250,000	94,000	125,000
Total current.....	250,000	94,000	125,000
Deferred:			
Federal.....	—	—	—
State and local	—	—	—
Total deferred.....	—	—	—
	\$ 250,000	\$ 94,000	\$ 125,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2002	2001
Deferred tax assets:		
Depreciation	\$11,682,000	\$8,503,000
Net operating losses	93,393,000	95,932,000
Allowance for doubtful accounts and other	7,428,000	7,435,000
Amortization of goodwill.....	2,731,000	11,140,000
Accrued expenses.....	9,446,000	17,336,000
Asset impairments.....	51,708,000	16,737,000
Other.....	(82,000)	562,000
	176,306,000	157,645,000
Valuation allowance for deferred tax assets	(176,306,000)	(157,645,000)
Net deferred tax assets	\$—	\$—

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 18. Income Taxes (continued)

The deferred tax assets have been fully offset by a valuation allowance due to the uncertainty of realizing such tax benefit. The deferred tax assets include \$38 million, which, if realized, would be accounted for as a reduction of goodwill or an increase in equity.

Due to the completion of the debt cancellation in the first phase of the ATX recapitalization in December 2001, CCL realized for tax purposes approximately \$265 million of income, most of which is not subject to tax as a result of an exception set forth in the Internal Revenue Code. To the extent that such amount is excluded from taxable income, taxable attributes of the Company and subsidiaries, consisting of net operating loss, referred to as NOL, carryforwards are subject to reduction. After reduction, NOL carryforwards at December 31, 2002 are \$226 million, which include 2002 net operating losses of \$167 million. These NOL carryforwards expire in various years through 2022. Furthermore, the ATX recapitalization caused an ownership change pursuant to section 382 of the Internal Revenue Code, which imposes an annual limitation on the utilization of NOL carryforwards. Utilization of the Company's remaining NOL carryforwards through December 28, 2001 will be significantly restricted by the section 382 limitation triggered by the ownership change.

The reconciliation of income taxes computed at U.S. federal statutory rates to income tax expense is as follows:

	Year Ended December 31,		
	2002	2001	2000
Benefit at federal statutory rate (35%).....	\$(53,896,000)	\$(207,837,000)	\$(105,391,000)
State and local income taxes	250,000	94,000	125,000
Expenses not deductible for tax purposes	29,285,000	135,313,000	33,619,000
Valuation allowance.....	24,611,000	72,524,000	71,772,000
	<u>\$250,000</u>	<u>\$94,000</u>	<u>\$125,000</u>

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 19. Commitments and Contingent Liabilities

As of December 31, 2002, the Company had purchase commitments of approximately \$4,975,000 outstanding, of which all are due during 2003. Additionally, the Company has standby letters of credit of approximately \$3,590,000 outstanding as of December 31, 2002, which are fully collateralized by certificates of deposit.

The Company is involved in various disputes, arising in the ordinary course of its business, which may result in pending or threatened litigation. None of these matters are expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Some of these disputes, regardless of their merit, could subject the Company to costly litigation and the diversion of technical and/or management personnel. In light of the Company's ongoing litigation with the local exchange carriers, on which the Company depends for certain services, from time to time, those carriers have and will likely continue to threaten service disruptions or termination. Any service disruptions or terminations, if actually implemented, could have a material adverse effect on the Company's business.

Currently, the Company has the following outstanding matters, which if resolved unfavorably, could have a material adverse effect:

- On August 12, 2002, Verizon Communications, Inc. and several of its subsidiaries filed a complaint in the United States District Court for the District of Delaware against the Company and several of its indirect wholly-owned subsidiaries, referred to as the defendants, seeking payment of approximately \$37 million allegedly owed to Verizon under various contracts and state and federal law. Verizon also asked the Court to issue a declaratory ruling that it has not violated the antitrust laws.

The defendants believe that they have meritorious defenses to the complaint, and further, that the amounts owed are substantially less than the amounts claimed by Verizon. For example, defendants believe the figure specified in the complaint includes payments that have been made by the defendants to Verizon (including in excess of \$14 million paid soon after the filing of the complaint), credits that Verizon has issued to the Company since the filing of the complaint, and additional disputes for which Verizon owes credits to the defendants. The defendants have filed an answer to Verizon's complaint denying Verizon's claims, in part, and have asserted various counterclaims against Verizon, including claims seeking damages for breach of contract and treble damages for violating the antitrust laws. Defendants have also moved to dismiss Verizon's request for declaratory ruling on the antitrust claims, which Verizon has opposed.

On November 18, 2002, Verizon filed a motion to dismiss defendants' antitrust counterclaims, relying heavily on a decision by the United States Court of Appeals for the 7th Circuit in *Goldwasser v. Ameritech Corp.*, 222 F.3d 390 (7th Cir. 2000) dismissing antitrust claims brought on behalf of a class of consumers who had purchased services from Ameritech in Illinois. On January 9, 2003, defendants filed their opposition to Verizon's motion, noting not only that the *Goldwasser* case is distinguishable from defendants' antitrust claims here, but also that the appellate court's rationale in *Goldwasser* had been effectively repudiated by the appellate courts of the 2nd and 11th circuits, as well as by a federal trial court in the antitrust claim raised by the Company against SBC/Ameritech in the United States District Court for the Northern District of Ohio.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 19. Commitments and Contingent Liabilities (continued)

Oral argument on the parties' respective motions was originally scheduled for March 31, 2003. However, on March 20, 2003, the court issued an order postponing oral argument and denying the motions without prejudice to renew, pending a decision by the United States Supreme Court in *Verizon Communications, Inc. vs. Law Office of Curtis Trinko, LLP*, Supreme Court Docket No. 02-682 (cert. granted March 10, 2002). Defendants intend to pursue all available remedies and counterclaims and to defend themselves vigorously; however, the defendants cannot be certain how or when these matters will be resolved or the outcome of the litigation.

- On March 7, 2002, CoreComm Massachusetts, Inc., an indirect wholly-owned subsidiary of the Company, initiated litigation against Verizon New England d/b/a Verizon Massachusetts in the Suffolk Superior Court, Massachusetts, alleging breach of contract and seeking a temporary restraining order against Verizon Massachusetts. Verizon has filed its answer to CoreComm Massachusetts' complaint and filed counterclaims seeking payment of approximately \$1.2 million allegedly owed by CoreComm Massachusetts under the parties' interconnection agreement and Verizon's tariffs. During the course of discovery, Verizon conceded that it had over-billed CoreComm Massachusetts by approximately \$800,000. As a result, CoreComm Massachusetts amended its complaint to include claims against Verizon for unfair and deceptive acts or practices in violation of Massachusetts' fair trade practice laws. Verizon subsequently amended its complaint to specify a revised claim of \$1.1 million. CoreComm Massachusetts ceased providing telephone services in Massachusetts on or about December 2002. The Company's withdrawal from providing telephone services in Massachusetts has not had material adverse affect on the Company's consolidated business.
- On April 4, 2003, the Company received a notice from Verizon claiming that Verizon is owed approximately \$8.4 million by one of the Company's subsidiaries, CoreComm New York, Inc., for services allegedly purchased in the state of New York. Although it has not yet fully reviewed Verizon's claims, CoreComm New York, Inc. has the right to dispute charges that are not owed and intends to fully dispute any charges that are incorrect or without merit. CoreComm New York, Inc. intends to pursue all remedies available to it and defend itself vigorously, however, it is not presently possible to predict how these matters will be resolved. The operations of CoreComm New York, Inc. do not represent a material component of the Company's revenue, profits or operations.
- The Company and CoreComm Newco, Inc., an indirect, wholly-owned subsidiary of the Company, are currently in litigation with SBC Corp., Ameritech Ohio and other SBC subsidiaries over various billing and performance issues, including SBC/Ameritech's alleged violation of the antitrust laws and the adequacy of SBC/Ameritech's performance under a 1998 contract between CoreComm Newco and Ameritech Ohio. This litigation began in June 2001 when Ameritech threatened to stop processing new orders following CoreComm Newco's exercise of its right under the contract to withhold payments for Ameritech's performance failures. On October 9, 2001, Ameritech filed an amended complaint in the United States District Court, Northern District of Ohio seeking a total of approximately \$14,400,000 in alleged outstanding charges.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 19. Commitments and Contingent Liabilities (continued)

On December 26, 2001, CoreComm Newco filed its answer to Ameritech's amended complaint and simultaneously filed three counterclaims against SBC Corp., Ameritech Ohio and certain of their respective subsidiaries and affiliates, alleging breach of contract, antitrust violations, and fraudulent or negligent misrepresentation claims. On July 25, 2002, the district court issued a decision denying a motion to dismiss from Ameritech and upholding CoreComm Newco's right to proceed with its antitrust, breach of contract and misrepresentation claims against all counter-defendants. On January 21, 2003 CoreComm Newco amended its complaint to include the Company and other affiliates as additional claimants and to add additional allegations supporting its claims, and on February 17, 2003, SBC/Ameritech filed its answer to the amended complaint.

The Company believes that CoreComm Newco has meritorious defenses to Ameritech's amended complaint that could reduce the amount currently in dispute. For example, the figure specified in Ameritech's complaint may not account for various amounts that have been properly disputed by CoreComm Newco as a result of billing errors and other improper charges, various refunds that Ameritech contends it has already credited to CoreComm Newco's accounts since the filing of the complaint, and payments that were made by CoreComm Newco in the ordinary course after the time of Ameritech's submission. However, the Company cannot be certain how or when the matter will be resolved. The Company also believes that, to the extent Ameritech prevails with respect to any of its claims, Ameritech's award may be offset in whole or in part by amounts that the Company and CoreComm Newco are seeking to obtain from SBC/Ameritech under their counterclaims. The Company and CoreComm Newco intend to pursue all available remedies and to defend themselves vigorously. However, it is impossible at this time to predict the outcome of the litigation.

- On December 3, 2001, General Electric Capital Corp., referred to as GECC, filed a civil lawsuit in the Circuit Court of Cook County, Illinois against CCL and MegsINet, Inc., an indirect subsidiary of the Company, seeking approximately \$8 million in allegedly past due amounts and the return of equipment under a capital equipment lease agreement between Ascend and MegsINet.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 19. Commitments and Contingent Liabilities (continued)

Thereafter, GECC filed a second complaint in the Circuit Court of Cook County, Illinois against MegsINet, CCL and the Company seeking a court order allowing it to take repossession of its alleged equipment. On September 24, 2002, the Court issued an order granting GECC's request for repossession of the equipment. MegsINet has allowed GECC to take possession of the equipment, which has not had any material impact on the Company's business or operations. Defendants intend to defend themselves vigorously and to pursue all available claims and defenses. However, it is impossible at this time to predict the outcome of the litigation. MegsINet does not represent a material component of the Company's revenue, profits or operations, and MegsINet is an obligor under the Company's \$156 million senior secured credit facility.

- On May 25, 2001, KMC Telecom, Inc. and some of its operating subsidiaries filed an action in the Supreme Court of New York for New York County against CCL, Cellular Communications of Puerto Rico, Inc., CoreComm New York, Inc. and MegsINet. KMC contends that it is owed approximately \$2 million, primarily in respect of alleged early termination liabilities, under a services agreement and a co-location agreement with MegsINet. The defendants have denied KMC's claims and have asserted that the contracts at issue were signed without proper authorization, that KMC failed to perform under the alleged contracts, and that the termination penalties are not enforceable. On March 27, 2002, certain of the defendants initiated litigation against several former principals of MegsINet seeking indemnification and contribution against KMC's claims for breach of various representations and warranties made under the merger agreement pursuant to which MegsINet became a subsidiary of the Company. Defendants have also initiated coverage under an insurance policy designed to protect against such claims; the insurance carrier has initially declined coverage and it may be necessary to pursue litigation to obtain coverage in the event of a loss under the policy.
- On September 24, 2002, GATX Technologies, Inc., known as GATX, filed an action in the Thirteenth Judicial Circuit in Florida against CoreComm-Voyager, Inc., an indirect wholly-owned subsidiary of the Company, seeking recovery of amounts allegedly owed under an equipment lease totaling approximately \$150,000. On October 21, 2002, CoreComm-Voyager moved to dismiss GATX's action for lack of jurisdiction. The motion is now pending with the Court. On October 28, 2002, 3Com Corporation, known as 3Com, filed an action against the Company in the Court of Common Pleas, Montgomery County, Pennsylvania seeking payment of approximately \$900,000 under an equipment lease. Should either action proceed further, the defendants will defend themselves vigorously and pursue all available claims. However, it is not possible at this time to predict how or when either of these matters will be resolved.

ATX COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 19. Commitments and Contingent Liabilities (continued)

- On March 1, 2002, Easton Telecom Services, LLC initiated litigation in the Northern District of Ohio against CoreComm Internet Group, Inc. seeking payment of approximately \$4.9 million, primarily in respect of alleged early termination penalties for telecommunications services purportedly provided under alleged contracts. On August 23, 2002, the Court issued an order dismissing approximately \$4 million of Easton's claims as invalid. Upon the conclusion of a jury trial that ended on November 8, 2002, Easton obtained a judgment against CoreComm Internet Group, Inc., Voyager Information Networks, Inc. and MegsINet in the total amount of \$1,085,000. On February 4, 2003, the defendants filed an appeal in this matter with the United States Court of Appeals for the Sixth Circuit, and the plaintiff has filed a cross-appeal. Plaintiff is currently pursuing discovery in aid of execution on its judgment against defendants. All of the assets of the Company and its subsidiaries, including those of the defendants, are subject to a first priority security interest in favor of the senior lenders under the \$156,100,000 senior credit facility.
- On June 7, 2002, the Board of Revenue and Finance of the Commonwealth of Pennsylvania issued an order granting in part and denying in part a petition for review of a decision by a lower administrative authority relating to the Company's alleged liability for sales and use tax for the period September 1, 1997 through July 31, 2000. Pursuant to the June 7 order, the Company has been assessed sales and use tax for the period at issue in the amount of \$631,429, which has been accrued for in the Company's consolidated financial statements. On July 8, 2002, the Company filed a petition for review of the board's order in the Commonwealth Court of Pennsylvania seeking a further reduction of the assessment. The Company believes that it has meritorious defenses and that the assessment should be reduced; however it is not possible to predict how this matter will be resolved.
- On January 3, 2003, the Company and its indirect subsidiary MegsINet, Inc. filed a complaint against Broadwing in the U.S. District Court for the Eastern District of Pennsylvania seeking the return of approximately \$700,000 in taxes billed by Broadwing in alleged violation of two Master Service Agreements. On February 24, 2003, Broadwing filed a motion to stay the action pending their request to arbitrate the matter before the American Arbitration Association. The matter is still pending before the court, and plaintiffs intend to pursue their claims vigorously.
- On February 28, 2003, Focal Communications Corp. and certain of its subsidiaries initiated adversarial proceedings in Focal's Chapter 11 case under the U.S. Bankruptcy laws against the Company and certain of its subsidiaries seeking payment of approximately \$802,687 in charges for interstate and intrastate switch access services allegedly provided by Focal's subsidiaries in Illinois, Pennsylvania, Delaware and New York. The defendants are currently reviewing Focal's claims and intend to defend themselves vigorously and pursue all available counterclaims, including claims for any amounts owed by Focal to any of the defendants. However, it is not possible at this time to predict how or when this matter will be resolved.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF ATX COMMUNICATIONS, INC.

CONDENSED BALANCE SHEETS

	December 31,	
	2002	2001
ASSETS		
Current assets:		
Prepaid expense	\$ 929,000	\$ 476,000
Total current assets	929,000	476,000
Investment in and loans to subsidiaries	-	21,151,000
Investment in CCL Historical, Inc.	-	3,863,000
Other	1,115,000	1,100,000
	<u>\$ 2,044,000</u>	<u>\$ 26,590,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Notes payable to related parties	17,632,000	15,807,000
Commitments and contingent liabilities		
Shareholders' equity (deficiency):		
Common stock	300,000	300,000
Additional paid-in capital	1,030,613,000	1,022,634,000
(Deficit)	(1,046,501,000)	(1,012,151,000)
	<u>(15,588,000)</u>	<u>10,783,000</u>
	<u>\$ 2,044,000</u>	<u>\$ 26,590,000</u>

See accompanying notes.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF ATX COMMUNICATIONS, INC.

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2002	2001	2000
Costs and expenses			
Corporate	\$ 758,000	\$ -	\$ -
Operating loss	(758,000)	-	-
Other income (expense)			
Interest income and other, net	18,000	4,025,000	2,787,000
Interest expense	(1,827,000)	(3,767,000)	(70,000)
Income before equity in net loss of subsidiaries and extraordinary item	(2,567,000)	258,000	2,717,000
Equity in net loss of subsidiaries	(31,783,000)	(619,850,000)	(303,958,000)
Loss before extraordinary item	(34,350,000)	(619,592,000)	(301,241,000)
Gain from extinguishment of debt	-	25,677,000	-
Net loss	\$ (34,350,000)	\$ (593,915,000)	\$ (301,241,000)

See accompanying notes.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF ATX COMMUNICATIONS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
Net cash provided by (used in) operating activities	\$ (32,993,000)	\$ 4,712,000	\$ 539,000
Investing activities			
Acquisitions, net of cash acquired	-	-	(98,613,000)
Purchase of marketable of securities	-	-	(1,343,000)
Proceeds from the sale of marketable securities	-	1,343,000	-
Decrease in investments in and loans to subsidiaries	32,993,000	(14,089,000)	(144,909,000)
Net cash provided by (used in) investing activities	32,993,000	(12,746,000)	(244,865,000)
Financing activities			
Capital contributions (distributions)	-	(23,164,000)	232,472,000
Proceeds from borrowings, net of financing costs	-	25,000,000	16,170,000
Net cash provided financing activities	-	1,836,000	248,642,000
Net cash increase (decrease) in cash equivalents	-	(6,198,000)	4,316,000
Cash and cash equivalents at beginning of period	-	6,198,000	1,882,000
Cash and cash equivalents at end of period	\$ -	\$ -	\$ 6,198,000
Supplemental schedule of non-cash investing activities			
Capital contributions of non-cash net assets	\$ -	\$ -	\$ 559,721,000
Shares issued to acquire CCL Historical, Inc.	\$ 7,979,000	\$ -	\$ -

See accompanying notes.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF ATX COMMUNICATIONS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 1. **Organization**

ATX Communications, Inc., referred to as the Company, was formed in May 1998 as a Bermuda corporation. It was a wholly-owned subsidiary of CCL Historical Inc., referred to as CCL, until December 2001. In July 1999, the Company was domesticated under the laws of Delaware.

Note 2. **Basis of Presentation**

In the Company's condensed financial statements, the Company's investment in subsidiaries is stated at cost plus equity in the undistributed earnings of the subsidiaries. The Company's share of net loss of its subsidiaries is included in net loss using the equity method of accounting. The condensed financial statements should be read in conjunction with the Company's consolidated financial statements.

Note 3. **ATX Recapitalization**

In the second phase of the ATX recapitalization, the Company offered to all holders of CCL common stock and all remaining holders of 6% Convertible Subordinated Notes due 2006 of CCL to exchange shares of the Company's common stock for their CCL common stock and their notes, respectively. The Company completed the exchange offer on July 1, 2002, and issued 3,610,624 shares of common stock to former holders of CCL common stock and holders of 6% Convertible Subordinated Notes due 2006 of CCL. The common stock issued under the exchange offer was valued at \$7,979,000, which was based on the estimated fair value of the Company's common stock. Following the exchange offer, the Company transferred the shares of CCL common stock that it received in the exchange offer to a wholly owned subsidiary. The Company then merged this subsidiary into CCL, with CCL surviving the merger as a wholly owned subsidiary of the Company.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF ATX COMMUNICATIONS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 4. Notes Payable

Notes payable to related parties consists of:

	December 31,	
	2002	2001
10.75% Unsecured Convertible PIK Notes Due April 2011, plus accrued interest, less unamortized discount of \$327,000 (2002) and \$367,000 (2001).....	\$17,632,000	\$15,807,000

Some of the officers and directors of the Company are also officers or directors of NTL Incorporated, referred to as NTL. In April 2001, CCL and the Company as co-obligors issued to NTL \$15 million aggregate principal amount of 10.75% Unsecured Convertible PIK Notes Due April 2011. In addition, in April 2001, CCL issued warrants to NTL, and CCL and the Company entered into a network and software agreement with NTL. The estimated value of the warrants of \$397,000 was recorded as a debt discount in April 2001.

Interest on the 10.75% Unsecured Convertible PIK Notes Due April 2011 is at an annual rate of 10.75% payable semiannually on October 15 and April 15 of each year, which commenced on October 15, 2001. The interest is payable in kind by the issuance of additional unsecured convertible notes in principal amount equal to the interest payment that is then due. Additional unsecured convertible PIK notes, dated October 15, 2001, April 15, 2002, and October 15, 2002 were issued in the principal amount of approximately \$0.8 million, \$0.9 million, and \$0.9 million respectively, as interest payments. The additional notes issued for interest will have an initial conversion price equal to the greater of \$38.90 or 120% of the weighted average closing price of the Company's common stock for a specified period. The April 2001 note, the October 2001 note, the April 2002 and the October 2002 note were each convertible into CCL common stock prior to maturity at a conversion price of \$38.90 per share, subject to adjustment. Pursuant to letter agreements between the Company, NTL and CCL, at the completion of the exchange offers on July 1, 2002, the convertibility feature of these notes was altered so that rather than the notes being convertible into shares of CCL common stock, they are convertible into shares of the Company's common stock. At that time, the conversion prices of these notes was equitably adjusted by applying the exchange ratio in the exchange offer for CCL common stock, which resulted in a new conversion price of \$38.90 per share of the Company's common stock for each of these notes. These notes are redeemable, in whole or in part, at the Company's option, at any time after April 12, 2003, at a redemption price of 103.429% that declines annually to 100% in April 2007, in each case together with accrued and unpaid interest to the redemption date.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF ATX COMMUNICATIONS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 5. Guarantees of the Registrant

In September 2000, subsidiaries of the Company entered into a senior secured credit facility. The facility was amended and restated in April 2001. As of April 2001, the entire amount available under the senior secured credit facility of \$156.1 million has been borrowed. The Company has unconditionally guaranteed payment under the facility.

Note 6. Other

No cash dividends were paid to the registrant by subsidiaries from January 1, 1999 through December 31, 2002.

On April 12, 2002, ATX Communications declared a 3-for-1 stock split by way of a stock dividend. The condensed financial statements and the notes thereto give retroactive effect to the stock split.

ATX COMMUNICATIONS, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Col. A	Col. B	Col. C		Col. D	Col. E
Description	Balance at Beginning of Period	Additions		Deductions- Describe	Balance at End of Period
		(1) Charged to Costs and Expenses	(2) Charged to Other Accounts- Describe		
Year ended December 31, 2002: Allowance for doubtful accounts	\$9,759,000	\$6,696,000	\$ —	\$(7,700,000)(a)	\$8,755,000
Year ended December 31, 2001: Allowance for doubtful accounts	11,034,000	7,143,000	—	(8,418,000)(a)	9,759,000
Year ended December 31, 2000: Allowance for doubtful accounts	3,949,000	7,130,000	—	(45,000)(b)	11,034,000

- (a) Uncollectible accounts written-off, net of recoveries.
- (b) Uncollectible accounts written-off, net of recoveries, of \$9,269,000 offset by \$9,224,000 allowance for doubtful accounts as of acquisition date from business combinations.
- (c) Uncollectible accounts written-off, net of recoveries, of \$24,688,000 offset by \$24,654,000 allowance for doubtful accounts as of acquisition date from business combinations.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Chapter 11

In re:

CORECOMM NEW YORK, INC., et al.,
Debtor(s)

04-10214(PCB)
Case No.

CONSOLIDATED MONTHLY OPERATING REPORT FOR THE PERIOD
FROM DECEMBER 1, 2004 TO DECEMBER 31, 2004

DEBTORS' ADDRESS¹:

CORECOMM NEW YORK, INC., et
al.
Attn: Mr. Thomas Gravina
Mr. Stephen Marotta
2100 Renaissance Boulevard
King of Prussia, PA19406

DEBTORS' ATTORNEY:

Willkie Farr & Gallagher LLP
Attn: Paul Shalhoub, Esq.
Dan McElhinney, Esq.
787 Seventh Avenue
New York, NY 10019

CONSOLIDATED MONTHLY DISBURSEMENTS:

(\$ in thousands)
\$20,857

CONSOLIDATED MONTHLY OPERATING PROFIT (LOSS):

\$(1,786)

The undersigned, having reviewed the attached report and being familiar with the Debtors' financial affairs, verifies under penalty of perjury, that the information contained therein is complete, accurate and truthful to the best of my knowledge.



Neil Peritz
Senior Vice President of Finance, Treasurer and
Controller

January 31, 2005
Date

¹ Certain of the Debtors are located at 75 Broad Street, New York, NY 10014.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
As of December 31, 2004 and November 31, 2004

	<u>December 31,</u> <u>2004</u>	<u>November 30,</u> <u>2004</u>
<i>Dollars in 000's</i>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,302	\$ 10,904
Accounts receivable, net	30,317	30,691
Other	3,753	4,193
Total current assets	45,372	45,788
Fixed assets, net	22,944	23,947
Goodwill	79,558	79,558
Other assets, net	5,602	5,834
	\$ 153,476	\$ 155,127
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 19,059	\$ 17,105
Post-petition term loan	5,000	5,000
Deferred revenue	11,967	12,097
Total current liabilities	36,026	34,202
Liabilities subject to compromise		
Senior secured credit facility, including accrued interest	170,213	170,213
10.75% PIK notes, including accrued interest	20,023	20,023
6% convertible notes, including accrued interest	4,974	4,974
Priority claims	2,418	2,418
Non-priority claims	77,539	77,539
Other contingent & accrued liabilities	38,028	38,408
Total liabilities subject to compromise	313,195	313,575
Shareholders' deficiency:		
Preferred stock	-	-
Common stock	300	300
Additional paid-in capital	1,030,048	1,030,044
Deficit	(1,226,017)	(1,222,918)
	(195,669)	(192,574)
Treasury stock at cost	(76)	(76)
Total shareholders' deficiency	(195,745)	(192,650)
	\$ 153,476	\$ 155,127

See accompanying notes.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
UNAUDITED CONDENSED STATEMENT OF OPERATIONS
For the Month Ended December 31, 2004

Dollars in 000's

Revenues	\$ 19,758
Costs and expenses:	
Operating	12,379
Selling, general and administrative	6,493
Corporate	866
Depreciation	<u>1,168</u>
	<u>20,906</u>
Operating loss	(1,148)
Other income (expense):	
Other, net	12
Interest expense	<u>(85)</u>
Net loss before reorganization charges and income taxes	(1,221)
Reorganization charges	<u>(523)</u>
Net loss before income taxes	(1,744)
Income tax provision	<u>(42)</u>
Net loss	<u>\$ (1,786)</u>
Basic and diluted net loss per share	<u>\$ (0.06)</u>
Weighted average number of shares	<u>29,963,000</u>

See accompanying notes.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
For the Month Ended December 31, 2004

Dollars in 000's

Operating activities	
Net loss	\$ (1,786)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	1,168
Provision for losses on accounts receivable	357
Amortization of deferred financing costs	38
Gain on sale of fixed assets	(33)
Changes in operating assets and liabilities:	
Accounts receivable	144
Other current assets	440
Other assets	(189)
Accounts payable and accrued expenses	648
Deferred revenue	(130)
Net cash provided by operating activities:	<u>657</u>
Investing activities	
Purchase of fixed assets	(361)
Proceeds from sales of fixed assets	<u>102</u>
Net cash used in investing activities	(259)
Financing activities	
Net cash provided by financing activities	<u>-</u>
Net increase in cash and cash equivalents	398
Cash and cash equivalents at beginning of period	<u>10,904</u>
Cash and cash equivalents at end of period	<u><u>\$ 11,302</u></u>

See accompanying notes.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
UNAUDITED SCHEDULE OF FEDERAL, STATE AND LOCAL TAXES
For the Month Ended December 31, 2004

Dollars in 000's

Gross Wages and Salaries Paid	\$	4,661
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Payroll Taxes:

Payroll taxes withheld	\$	1,112
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Employer payroll tax contributions		265
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Total Payroll taxes	\$	1,377
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Payroll taxes remitted to taxing agency	\$	1,377
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Date(s) remitted to taxing agency		various
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Sales, Excise and Gross Receipts Taxes:

Estimated taxes accrued	\$	1,833
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Taxes remitted to taxing agency

December 3, 2004	\$	-
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December 10, 2004		1,067
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December 17, 2004		21
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December 24, 2004		55
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December 31, 2004		-
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	\$	1,143
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CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
DETAIL OF ALLOCATED DISBURSEMENTS BY DEBTOR ENTITY
For the Month Ended December 31, 2004

Dollars in 000's

Debtor Name	Case Number	Allocated Disbursements
CoreComm New York, Inc.	04-10214	\$ 124
CoreComm Services LLC	04-10215	993
ATX Telecommunications Svcs of Virginia, LLC	04-10216	-0-
ATX Communications, Inc.	04-10217	-0-
CCL Historical, Inc.	04-10218	-0-
Fiberstream, Inc.	04-10219	-0-
Corecomm Communications, Inc.	04-10220	-0-
CoreComm Indiana, Inc.	04-10221	24
Fiberstream of New York, Inc.	04-10222	-0-
CoreComm Michigan, Inc.	04-10223	839
CoreComm Illinois, Inc.	04-10224	471
CoreComm Newco, Inc.	04-10225	1,837
CoreComm Massachusetts, Inc.	04-10226	-0-
CoreComm Missouri, Inc.	04-10227	-0-
CoreComm Vermont, Inc.	04-10228	-0-
CoreComm New Jersey, Inc.	04-10229	2
CoreComm Ohio, Inc.	04-10230	-0-
CoreComm Wisconsin, Inc.	04-10231	123
CoreComm Pennsylvania, Inc.	04-10232	6
FCC Holdco I, Inc.	04-10233	-0-
CoreComm Rhode Island, Inc.	04-10234	-0-
CoreComm West Virginia, Inc.	04-10235	-0-
Cortelyou Communications Corp.	04-10236	-0-
ATX Licensing, Inc.	04-10237	-0-
Digicom, Inc.	04-10238	-0-
CoreComm-Voyager, Inc.	04-10239	1,971
CoreComm-ATX, Inc.	04-10240	14,198
Voyager Data Services, Inc.	04-10241	-0-
Voyager Information Networks, Inc.	04-10242	-0-
CoreComm Internet Group, Inc.	04-10243	-0-
Horizon Telecommunications, Inc.	04-10244	-0-
Megslnet Internet, Inc.	04-10245	267
CoreComm Maryland, Inc.	04-11610	2
Total		\$ 20,857

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 1. General

~~On January 15, 2004, CoreComm New York, Inc. and each of its affiliates (collectively, and including CoreComm Maryland, Inc., the "Debtors" or the "Company"), other than CoreComm Maryland Inc. ("CoreComm MD") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations. CoreComm MD filed its voluntary Chapter 11 petition with the Bankruptcy Court on March 10, 2004. Pursuant to orders of the Bankruptcy Court dated January 16, 2004 and March 31, 2004, the Debtors cases (Nos. 04-10214 through 04-10245 and 04-11610) are being jointly administered for procedural purposes only.~~

Pursuant to applicable sections of the Bankruptcy Code, each of the Debtors is a "debtor-in-possession." In general, as debtors-in-possession, the Debtors are authorized to continue to operate their businesses and maintain their properties while in Chapter 11, although they are precluded from engaging in transactions outside of the ordinary course of their respective businesses without the prior approval of the Bankruptcy Court.

The Debtors are facilities-based integrated communications providers that offer local and long distance, telephone, Internet, high-speed data and related communications services to business and residential customers in targeted markets throughout the Mid-Atlantic and Mid-West regions of the United States. The Company's Mid-Atlantic customers are located principally in Pennsylvania, New Jersey, Maryland, New York, Virginia, Delaware and Washington D.C., and their Mid-West customers are located principally in Ohio, Michigan, Wisconsin, Illinois and Indiana.

Under Section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against the Company, including most actions to collect pre-petition indebtedness or to exercise control over property of the Company's bankruptcy estate. Absent an order of the Bankruptcy Court, we anticipate that substantially all of the Company's pre-petition liabilities will be addressed under a chapter 11 plan.

Under Section 365 of the Bankruptcy Code, the Company may assume or reject certain executory contracts and unexpired leases, including leases of real property, subject to the approval of the Bankruptcy Court and, the satisfaction of certain other conditions. In general, claims arising from the rejection of an unexpired lease or executory contract are treated as pre-petition claims. Counter parties to these rejected contracts or leases may file proofs of claim against the applicable Debtor's estate for damages relating to such rejection. The Company cannot presently determine with certainty the ultimate aggregate liability that may result from the filing of claims related to contracts or leases that have been or may be rejected.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 1. General (continued):

The United States Trustee for the Southern District of New York has appointed an official committee of unsecured creditors (the ~~"Creditors' Committee" or "UCC"~~). ~~The Creditors' Committee is a party in interest and may be heard on matters that come before the Bankruptcy Court. On May 14, 2004, the UCC filed a Motion of the Official Committee of Unsecured Creditors to Dismiss the Debtors' Bankruptcy Case or, in the Alternative, for the Appointment of a Chapter 11 Trustee (the Dismissal/Trustee Motion").~~ The UCC adjourned this Dismissal/Trustee Motion without return date on July 15, 2004. We anticipate that the rights and claims of various creditors and security holders will be determined under a chapter 11 plan that is confirmed by the Bankruptcy Court. Under the priority rules established by the Bankruptcy Code, certain post-petition liabilities and certain pre-petition liabilities are given priority over general unsecured pre-petition indebtedness, and are required to be satisfied before general unsecured creditors or stockholders are entitled to any distribution.

In order to exit Chapter 11 successfully, the Company will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. On June 1, 2004, the Debtors filed their Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Plan") and related disclosure statement. On January 24, 2005, the Debtors filed their First Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Amended Plan") and related disclosure statement (the "Amended Disclosure Statement"). A hearing has been scheduled for February 23, 2005 at 2:30 pm (prevailing Eastern Time) to consider approval of the Amended Disclosure Statement. At this time, and until a plan is confirmed, it is not possible to predict accurately the effect of the chapter 11 reorganization process on the Company's business, creditors or stockholders or when the Company may emerge from chapter 11. The Company's future results depend on the timely and successful confirmation and implementation of a plan of reorganization.

On September 15, 2004, the Bankruptcy Court approved an order authorizing the Debtors to enter into a Post-Petition Term Loan Agreement ("DIP Agreement") with Leucadia National Corporation ("Leucadia"), the Debtors' pre-petition secured lender. The DIP Agreement became effective on October 1, 2004. On October 8, 2004, the Debtors borrowed \$5,000,000, the maximum advance available under the DIP Agreement. The advance under the DIP Agreement is fully due and payable (with interest) at the Termination Date (as defined in the DIP Agreement), which is the earlier of: (a) the date 180 days from the closing date; (b) the effective date of an approved Plan of Reorganization (as defined in the DIP Agreement); (c) the acceleration of the loans by Leucadia in accordance with certain conditions under the DIP Agreement; or (d) the completion of the sale or liquidation of the Debtors or substantially all of their assets. Interest is calculated on the daily outstanding principal balance of the loan at a rate of 10% per annum and is payable on the Termination Date. The Debtors are subject to certain financial and non-financial covenants as set forth in the DIP Agreement. The loan is secured by substantially all of the Debtors' assets.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 2. Basis of Presentation:

This Operating Report is in a format prescribed by the applicable bankruptcy law and guidelines. ~~The Company cautions the reader not to place undue reliance upon the information contained in the Operating Report.~~ The information in the Operating Report has been prepared in accordance with accounting standards generally accepted in the United States of America for interim reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. There can be no assurance that the Operating Report is complete, and the Company undertakes no obligation to update or revise this Operating Report. The Operating Report has not been audited or reviewed by independent accountants.

The unaudited information in the Operating Report is subject to further review and potential adjustments including those arising from the completion of the Company's Form 10K and 10Q for the year ended December 31, 2003 and the quarters ended March 31, June 30 and September 30, 2004, respectively, and is not necessarily indicative of the results that may be expected for the quarters ending March 31, June 30 and September 30, 2004, or the year ending December 31, 2004. In addition, the Operating Report contains information for periods which may be shorter or otherwise different from those contained in the Company's reports pursuant to the Securities Exchange Act of 1934, as amended. Accordingly, the substance and format of the Operating Report does not allow for meaningful comparison with the Company's publicly disclosed consolidated financial statements.

The unaudited condensed consolidated financial statements contained herein have been prepared in accordance with generally accepted accounting principles applicable to a going concern, and do not purport to reflect or to provide all of the possible consequences of the ongoing Chapter 11 reorganization cases. Specifically, the unaudited condensed consolidated financial statements do not present the amount, which will ultimately be paid to settle liabilities and contingencies, which may be required in the Chapter 11 reorganization. The Company filed the Amended Plan on January 24, 2005, however, it is subject to further modification and/or amendment and, ultimately, acceptance or deemed acceptance by the required impaired creditors and approval by the Bankruptcy Court.

Because of the ongoing nature of these Chapter 11 cases, the outcome of which is not presently determinable, the unaudited condensed consolidated financial statements contained herein are subject to material uncertainties and may not be indicative of the results of the Company's future operations or financial position. No assurance can be given that the Company will be successful in reorganizing its affairs within its Chapter 11 bankruptcy proceedings.

As a result of the items discussed above, there is substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon, but not limited to confirmation of a plan of reorganization and the ability to obtain positive results of operations.

The Operating Report does not include any adjustments to the recorded amounts or reflect any amounts that ultimately may be paid to settle liabilities and contingencies which may be required in the Chapter 11 reorganization or the effect of any changes, which may be made in connection with the Company's operations resulting from a plan of reorganization.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 2. Basis of Presentation (continued):

The consolidated Operating Report has been prepared in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position 90-7 "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). Pursuant to SOP 90-7, the Company's pre-petition liabilities that are subject to compromise are reported separately on the balance sheet as an estimate of the amount that will ultimately be allowed by the Bankruptcy Court.

Pursuant to SOP 90-7, an objective of financial statements issued by an entity in Chapter 11 is to reflect its financial evolution during the proceeding. For that purpose, the financial statements for periods including and subsequent to filing the Chapter 11 petition should distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Certain expenses, realized gains and losses and provisions for losses not directly related to ongoing operations are reflected separately in the consolidated statement of operations as reorganization charges. Reorganization charges for the month ended December 31, 2004 consist of the following:

Dollars in 000s

Professional fees	\$	432
Circuit termination charges		68
Trustee fees		23
	<u>\$</u>	<u>523</u>

Additionally, pre-petition debt that is subject to compromise must be recorded at the allowed claim amount, which generally results in the elimination of any deferred financing amounts associated with the debt. Other than those obligations authorized to be paid by the Court, no claims relating to pre-petition debt have been allowed by the Bankruptcy Court as of the date of this Operating Report. As a result, pre-petition debt subject to compromise is recorded at pre-petition value (i.e., book value as of January 15, 2004, subject to adjustments based on subsequent information obtained, as well as any Court-authorized payments of such obligations).

Note 3. Significant Accounting Policies:

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. Such estimates and assumptions impact, among others, the following: the amount of uncollectible accounts receivable, the amount to be paid to terminate certain agreements included in reorganization costs, the amount to be paid to settle certain toll and interconnection liabilities, the amount to be paid as a result of certain sales and use tax audits, potential liabilities arising from other sales tax matters and estimates related to the value of long-lived assets and goodwill. Actual results could differ from those estimates.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 3. Significant Accounting Policies (continued):

Principles of Consolidation

The consolidated financial statements include the accounts of the Debtors. Significant intercompany accounts and transactions among the Debtors have been eliminated as a result of the consolidation of the Debtors for purposes of preparing this report.

Contingent Liabilities

The Company's determination of the treatment of contingent liabilities is based on a view of the expected outcome of the applicable contingency. The Company's assigned legal counsel is consulted on matters related to litigation. Experts both within and outside the Company are consulted with respect to other matters that arise in the ordinary course of business. Examples of matters that are based on assumptions, judgments and estimates are the amount to be paid to terminate some agreements included in reorganization costs, the amounts to be paid to settle some toll and interconnection liabilities, the amount to be paid as a result of some sales and use tax audits and potential liabilities arising from other sales tax matters, and potential liabilities arising from litigation. A liability is accrued if the likelihood of an adverse outcome is probable of occurrence and the amount is estimable.

In the ordinary course of its business the Company maintains an annual performance incentive program for its employees. While the Company's board has approved a \$1,500,000 program for 2004, the performance measurement targets and metrics for the program have not been finalized. Therefore, the Company has not yet provided for any liability for this program. Additionally, the Company has recorded a post-petition expense of \$1,925,000 through December 31, 2004 for bonuses to certain key executives in accordance with the terms of their employment contracts. To date these bonuses have not been paid.

The Company has been in discussions with one of its equipment lessors who has asserted claims of approximately \$1,600,000 relating to post-petition obligations under certain equipment leases. It is not possible at this time to predict how or when this claim will be resolved. Additionally, the Company is not presently able to estimate the amounts due under these equipment leases, if any. Accordingly, the Company has not recorded a liability in connection with this claim.

Net Loss Per Share

The Company reports its basic and diluted net loss per share in accordance with Financial Accounting Standards Board, referred to as FASB, Statement of Financial Accounting Standards, referred to as SFAS, No. 128, "Earnings Per Share."

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 3. Significant Accounting Policies (continued):

Revenue Recognition and Certain Cost Classifications

Revenues are recognized at the time the service is rendered to the customer or the performance of the service has been completed. Charges for services that are billed in advance are deferred and recognized when earned.

Operating costs includes direct costs of sales and network costs. Direct costs of sales include the costs directly incurred primarily with other telecommunications carriers in order to render services to customers. Network costs include the costs of fiber and access, points of presence, repairs and maintenance, rent, utilities and property taxes of the telephone, Internet and data network, as well as salaries and related expenses of network personnel.

Note 4. Commitments and Contingent Liabilities:

The Company had standby letters of credit of approximately \$568,000 outstanding as of December 31, 2004, which are fully collateralized by certificates of deposit included in other assets.

Note 5. Insurance:

All insurance policy premiums, including those relating to applicable workers' compensation and disability insurance, covering the period December 1, 2004 through December 31, 2004 have been paid.

Note 6. Liabilities subject to compromise:

As discussed in Note 1, the Debtors have been operating as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the provisions of the Bankruptcy Code.

In the condensed balance sheet, the caption "Liabilities subject to compromise" reflects the Company's current estimate of pre-petition claims against the Debtors.

Pursuant to Bankruptcy Court orders, the Company has been authorized to pay certain pre-petition liabilities. For the period December 1, 2004 through December 31, 2004, the Company did not make any payments on account of such pre-petition liabilities. Certain Court-authorized setoffs of pre-petition liabilities may have occurred during that period.

As permitted under the Bankruptcy Code Section 365, the Company has rejected certain of its pre-petition contracts and leases. The Debtors are in the process of calculating their estimated liabilities subject to compromise to the unsecured creditors affected by these lease/contract rejections.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 6. Liabilities subject to compromise (continued):

The Debtors have notified all known claimants subject to the bar date of their right to file certain proofs of claim against the Debtors' estates. ~~A bar date is the date by which claims against the Debtors must be filed if the claimants wish to receive any distribution in the Chapter 11 cases.~~ The Bankruptcy Court previously set May 24, 2004 as the bar date for proofs of claim relating pre-petition amounts owed by the Debtors to any person or entity (other than a governmental unit). The Bankruptcy Court also established July 13, 2004 as the bar date for such claims of governmental units. Differences between liability amounts estimated by the Company and claims filed by creditors will be investigated, and the Bankruptcy Court will make a final determination of the allowable claim. The determination of how liabilities will ultimately be settled and treated cannot be made until the Bankruptcy Court approves the Chapter 11 plan.

The Debtors will continue to evaluate the amount and classification of their pre-petition liabilities in general through the remainder of their Chapter 11 cases. Should the Debtors, through its ongoing evaluation, identify additional liabilities subject to compromise, such amounts will be recognized accordingly. As a result, "Liabilities subject to compromise" are subject to change. Claims classified as "Liabilities subject to compromise" include both secured, as well as unsecured claims.

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 7. Prior Period Adjustments:

As discussed in Note 2, the unaudited information included in the Operating Report is subject to further review and potential adjustments including those arising from the completion of the Company's Form 10K and 10Q for the year ended December 31, 2003 and the quarters ended March 31, June 30, 2004 and September 30, respectively. The following table reflects the prior period adjustments included in the results for the month ended December 31, 2004.

	Results for the Month Ended December 31, 2004	Prior Period Adjustments in December Results	Results for the Month Ended December 31, 2004 (as reported)
<i>Dollars in 000s</i>			
Revenues	\$ 19,755	\$ 3	\$ 19,758
Costs and expenses:			
Operating	12,814	(435)	12,379
Selling, general and administrative	6,493	-	6,493
Corporate	866	-	866
Depreciation	1,168	-	1,168
	<u>21,341</u>	<u>(435)</u>	<u>20,906</u>
Operating income	(1,586)	438	(1,148)
Other income (expense):			
Other, net	18	(6)	12
Interest expense	(85)	-	(85)
Net loss before reorganization charges and income taxes	(1,653)	432	(1,221)
Reorganization charges	(523)	-	(523)
Net loss before income taxes	(2,176)	432	(1,744)
Income tax provision	(42)	-	(42)
Net income loss	<u>\$ (2,218)</u>	<u>\$ 432</u>	<u>\$ (1,786)</u>
Basic and diluted net loss per share	<u>\$ (0.07)</u>		<u>\$ (0.06)</u>
Weighted average number of shares	<u>29,963,000</u>		<u>29,963,000</u>

CORECOMM NEW YORK INC., et al.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED MONTHLY OPERATING REPORT

Note 7. Prior Period Adjustments (continued):

The Debtors have recorded adjustments increasing the accumulated deficit as of December 31, 2004 by ~~\$1,313,000~~. Adjustments of \$930,000 and \$383,000 were made to properly reflect accrued liabilities and deferred collocation costs, respectively, as of December 31, 2003 and January 14, 2004.

Dollars in 000s

Retained Earnings – November 30, 2004	\$	(1,222,918)
Net Loss		(1,786)
Prior Period Adjustments		(1,313)
Retained Earnings – December 31, 2004	\$	<u>(1,226,017)</u>

ATTACHMENT E

Orders for Proceedings



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

October 5, 2004

IN REPLY PLEASE
REFER TO OUR FILE

C-20031394

TAMAR FINN ERIC BRANFMAN M DONAHUE
SWIDLER BERLIN SHEREFF & FRIEDMAN
3000 K STREET NW STE 300
WASHINGTON DC 20007

Pennsylvania Public Utility Commission Prosecutory Staff
V.
ATX Licensing, Inc.

To Whom It May Concern:

This is to advise you that the Commission in Public Meeting on September 30, 2004, has adopted an Opinion and Order in the above entitled proceeding.

An Opinion and Order has been enclosed for your records.

Very truly yours,

James J. McNulty
Secretary

mk
encls
cert. mail

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held September 30, 2004

Commissioners Present:

Terrance J. Fitzpatrick, Chairman
Robert K. Bloom, Vice Chairman
Glen R. Thomas
Kim Pizzingrilli
Wendell F. Holland

Pennsylvania Public Utility Commission
Prosecutory Staff

C-20031394

v.

ATX Licensing, Inc.

OPINION AND ORDER

BY THE COMMISSION:

Before the Commission for consideration and disposition are the Formal Complaint filed against ATX Licensing, Inc. (Respondent) by Law Bureau Prosecutory Staff (Prosecutory Staff) on October 16, 2003, the Answer and New Matter filed by the Respondent on November 26, 2003, the proposed Settlement filed by the Respondent and Prosecutory Staff on or about January 21, 2004, the Respondent's Supplemental Statement in Support of Settlement Agreement filed on April 23, 2004, and the Prosecutory Staff's Statement in Support of Settlement Agreement filed on April 29, 2004.

History of the Proceeding

On October 16, 2003, Prosecutory Staff filed a Formal Complaint against the Respondent in which it alleged that Respondent had violated the Public Utility Code (Code), 66 Pa. C.S. §§. 101, *et. seq.*, and Commission Regulations by failing to file complete and accurate annual reports for the years 2000 through 2002. The Prosecutory Staff also alleged that the Respondent failed to file tariff adoption supplements within the time frame required by our Opinion and Order in *Joint Application of non-jurisdictional entity CoreComm Limited, et al.*, A-310992F0002, *et al.* (Order entered September 6, 2000). As a result of the Respondent's failure to file the required tariff supplements, Prosecutory Staff alleged that the Respondent had engaged in unlawful operations. Prosecutory Staff requested a civil penalty of \$1,814,500.

After receiving an extension of time within which to file an Answer, the Respondent filed an Answer and New Matter to the Complaint on November 26, 2003. In its Answer, the Respondent denied the material allegations of the Complaint. The Respondent's New Matter raised the affirmative defense that the Complaint failed to state a cause of action upon which relief may be granted. On or about January 21, 2004, the Parties filed the proposed Settlement. The material terms of the Settlement will be set forth below.

By Order entered March 11, 2004, we directed the Parties to file a supplement to the proposed Settlement in order to provide additional information to enable an informed decision on the proposed resolution. On or about April 23, 2004, the Respondent filed its supplemental statement in support of the proposed Settlement. On or

about April 29, 2004, the Prosecutory Staff filed its supplemental statement in support of the proposed Settlement.

Discussion

Pursuant to our Regulations at 52 Pa. Code § 5.231, it is the Commission's policy to promote settlements. However, the Commission must review proposed settlements to determine whether the terms are in the public interest. *Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, M-00031768 (Order entered January 7, 2004). It is expected that a petition seeking approval of a proposed settlement will provide the Commission with sufficient information upon which to make that determination. (*Id.*).

In the proceeding before us, Prosecutory Staff alleged that the Respondent violated the Code, this Commission's Regulations and a prior Commission Order by failing to file complete and accurate Annual Reports for three years, failing to adopt tariff supplements as directed and providing regulated utility service without the benefit of a certificate of public convenience. The allegations of the Complaint set forth a series of communications between Commission Staff and the Respondent which reveal that the Respondent failed to address the underlying issues until the initiation of formal litigation by Prosecutory Staff. The allegations also indicated that the Respondent had not completed the steps necessary to correct some of problems described as of the filing of the Complaint.

The proposed Settlement stated that the Parties had reached agreement in an effort to resolve the Formal Complaint without further litigation or use of Commission resources. Without admitting any of the allegations of the Complaint, or agreeing that it

had violated the Code, the Respondent agreed to enter into the proposed Settlement “for the purpose of resolving the matter and avoiding the burden and expense of litigation for itself and its affiliates.” (Settlement at 2).

The material terms of the proposed Settlement are set forth at Page 3 of that document and include the following:

6. To date, ATX [Respondent] has taken significant steps to improve its annual reports. ATX agrees to use its best efforts in the future to ensure that its annual reports comply fully with Pennsylvania law and Commission regulations.
7. ATX agrees to submit to the Commission a check payable to the Commonwealth of Pennsylvania for the sum of \$30,000 within four (4) days of the execution of the Agreement.
8. ATX agrees to file its year 2003, 2004, and 2005 annual reports within the time specified in 52 Pa. Code § 57.47. The Secretary may reasonably extend the time for filing upon written request. By executing this Agreement, the parties agree that this proceeding shall be closed, pending formal Commission approval pursuant to 52 Pa. Code §§ 1.1, et. seq. If ATX fails to comply with the filing requirements set forth in this paragraph, ATX shall be subject to a fine of \$100 a day for each day of its 2003, 2004 or 2005 Annual Reports are filed late.

In *Joseph A. Rosi v. Bell-Atlantic-Pennsylvania, Inc. And Sprint Communications Company, L.P.*, C-00992409 (Order entered March 16, 2000), the Commission adopted standards to be applied to determine the amount of the civil penalty in slamming cases. We have subsequently determined that all violations of the Code and

Commission Regulations, not just slamming cases, shall be subject to review under the standards enunciated in *Rosi. Pa. P.U.C. v. NCIC Operator Services*, M-00001440 (Order entered December 21, 2000). Ongoing cooperation with a Commission investigation and actions proposed to improve compliance are key mitigating factors under *Rosi. Rosi* at 10.

As we set forth in our Order of March 11, 2004, the proposed Settlement did not provide specific information regarding the steps taken by the Respondent to improve its annual reports nor did it describe steps which address the Respondent's apparent reluctance or inability to respond to Commission Staff until the onset of formal litigation. For those reasons, we were unable to determine whether the proposed Settlement was in the public interest and directed the Parties to provide additional information.

The Prosecutory Staff provided a *Rosi* analysis of the proposed remedies. First, the Prosecutory Staff highlights that no customers were directly affected by the actions which lead to the Complaint in this matter. Thus, *Rosi* factors such as restitution and number of customers affected are not relevant in this proceeding. The Prosecutory Staff notes that other than this proceeding, the Respondent has no compliance issues before the Commission. (Prosecutory Staff Supplemental St. at 3-4). The Prosecutory Staff states that no specific preventative measures have been imposed to ensure future compliance. However, there is a substantial penalty imposed for the activities at issue in the Complaint as well as an agreement for automatic penalties for the next three years should the Respondent again fail to timely file its Annual Reports. The Prosecutory Staff notes that the penalty of \$30,000 for failure to file Annual Reports appears to be more stringent than prior actions of this nature. (*Id.* at 6).

The Prosecutory Staff suggests that much of the Respondent's difficulties could be attributed to the loss of an employee in charge of state regulatory compliance issues, as well as the financial condition of the company. The Prosecutory Staff also states that the public interest has not been directly affected by the Respondent's filing issues and, after the Complaint was filed, the Respondent fully cooperated with the Commission to get its filing obligations completed. (Prosecutory Staff Supplemental St. at 7).

The Respondent states that during November and December of 2003, it met with Prosecutory Staff and Commission Staff to determine what was necessary to ensure that its Annual Reports met Commission requirements. According to the Respondent, the Annual Reports at issue in this proceeding were complete in all respects as of December 16, 2003. (Respondent Supplemental St. at 2). The Respondent asserts that it has developed and instituted internal procedures to ensure that Commission communications are addressed without undue delay and has educated its personnel regarding Commission Annual Report requirements. (*Id.* at 3).

Our review of the Settlement Agreement as well as the two Supplemental Statements in Support leads us to conclude that the Settlement Agreement is in the public interest and should be approved. We note that the filing requirements at issue do not have a direct impact on the Respondent's customers or the quality of service provided in the Commonwealth. The Respondent has provided sufficient information to enable us to conclude that it has revised its internal procedures sufficiently to ensure compliance with the Annual Report filing requirements in the future. In particular, the Respondent directed our attention to its conferences with Commission Staff in which the filing requirements were explained in detail. (Respondent Supplemental St. at 3). In addition, we agree with the Prosecutory Staff that the penalty imposed and the agreed upon future

penalties in the event of non-compliance should serve as substantial deterrents to the potential for future violations of this nature.

Conclusion

For the foregoing reasons, we will approve the Settlement Agreement filed January 21, 2004; **THEREFORE,**

IT IS ORDERED:

1. That the proposed Settlement filed on or about January 21, 2004, in this matter is approved.

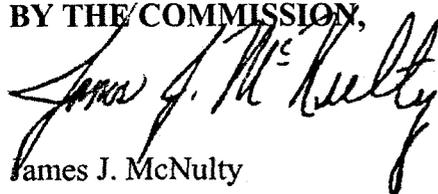
2. That ATX Licensing, Inc. shall pay a civil penalty in the amount of \$30,000 by certified check or money order, within twenty (20) days of the entry of this Opinion and Order to:

Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

3. That ATX Licensing, Inc. shall be subject to a penalty of \$100 per day for each day that its 2003, 2004 or 2005 Annual Reports are filed beyond the time set forth in the Commission's Regulations, together with any extensions granted consistent with Paragraph 8. of the Settlement Agreement approved by this Opinion and Order.

4. That ATX Licensing, Inc. shall cease and desist from further violations of the Public Utility Code and the Commission's Regulations.

BY THE COMMISSION,


James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: September 30, 2004

ORDER ENTERED: **OCTOBER 05 2004**

FEDERAL COMMUNICATIONS COMMISSION
Enforcement Bureau
Market Disputes Resolution Division
445 12th St., S.W.
Washington, D.C. 20554

APCC Services, Inc.; Data Net Systems, LLC, Davel Communications, Inc.; Jaroth, Inc. d/b/a Pacific Telemanagement Services; and Intera Communications Corp.,

Complainants,

v.

File No. EB-03-MD-018

ATX Telecommunications Services; Michael Karp d/b/a/ ATX Telecommunications Services; University City Housing Company; ATX Telecommunications Services, Ltd.; CCL Historical, Inc.; ATX Licensing, Inc.; And ATX Communications, Inc.

Defendants.

ORDER

Adopted: March 19, 2004

Released: March 22, 2004

By the Deputy Chief, Market Disputes Resolution Division, Enforcement Bureau:

1. On October 10, 2003, APCC Services, Inc., Data Net Systems, LLC, Davel Communications, Inc. Jaroth, Inc. d/b/a Pacific Telemanagement Services, and Intera Communications Corp. ("Complainants) filed with this Commission a formal complaint ("Complaint") against ATX Telecommunications Services; Michael Karp d/b/a/ ATX Telecommunications Services; University City Housing Company; ATX Telecommunications Services, Ltd.; CCL Historical, Inc.; ATX Licensing, Inc. and ATX Communications, Inc. ("Defendants") pursuant to section 208 of the Communications Act of 1934, as amended (the "Act"), 47 U.S.C. § 208. On January 15, 2004, counsel for the Defendants notified the Commission that ATX Communications, Inc. and certain associated entities filed petitions in the

United States District Court for the Southern District of New York for protection under Chapter 11 of the United States Bankruptcy Code.¹ The Notification further stated that, pursuant to Section 362 of the Bankruptcy Act, such filing results in the automatic stay of the above-captioned matter.²

2. On March 5, 2004, the Complainants and certain Defendants filed a joint motion.³ The Joint Motion explains that, of the Defendants, only the following are subject to the automatic stay: CCL Historical, Inc., ATX Licensing, Inc., and ATX Communications, Inc. ("Defendants in Bankruptcy").⁴ The Joint Motion further explains that, to save both the Complainants and the Movant Defendants the substantial legal expense of continuing the proceeding, the "Complainants and Movant Defendants request that the Commission dismiss the complaint with respect to the Movant Defendants without prejudice to the Complainants re-filing a complaint at some future date."⁵ We are satisfied that granting the parties' Joint Motion will serve the public interest by postponing the need for further litigation and expenditure of further time and resources of the parties and of this Commission until such time as may actually be necessary.

3. Regarding the Defendants in Bankruptcy, for administrative purposes only, we revise the status of the formal complaint to an informal complaint.⁶ As we have informed the parties, we do this for purposes of internal docket organization only, and we do not intend this action to affect the rights and obligations of any party.⁷ When the proceeding resumes, it will do so under its current designation, File No. EB-03-MD-018. The relation of this formal complaint to prior informal complaints, including the relation-back provision of section 1.718 of the Commission's rules, will be unaffected by this purely organizational action. While the Defendants in Bankruptcy remain in bankruptcy the Complainants must file a report on the status

¹ Letter from Eric J. Branfman and Kathleen Grocman Ramsey, attorneys for Defendants, to Marlene H. Dortch, Secretary, Federal Communications Commission (Jan. 15, 2004) ("Notification").

² Notification at 1.

³ Letter from Kathy L. Cooper, attorney for Movant Defendants, to Marlene H. Dortch, Secretary, Federal Communications Commission (Mar. 5, 2004) ("Joint Motion"). All of the Defendants except those in bankruptcy participated in the Joint Motion. They are: ATX Telecommunications Services; Michael Karp d/b/a/ ATX Telecommunications Services; University City Housing Company; and ATX Telecommunications Services, Ltd. ("Movant Defendants"); see Joint Motion at 1-2.

⁴ Joint Motion at 2.

⁵ Joint Motion at 3-4.

⁶ 47 U.S.C. §§ 4(i) and (j). The temporary informal complaint that will substitute for File No. EB-03-MD-018 is File No. EB-04-MDIC-0001.

⁷ Conference call between Radhika V. Karmarkar, Deputy Chief Market Disputes Resolution Division, Enforcement Bureau, Federal Communications Commission, Allan C. Hubbard, Attorney for Complainants, and Eric J. Branfman, attorney for Defendants (Mar. 12, 2004).

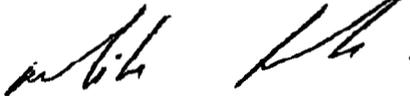
of the bankruptcy proceedings every four months. Failure to file such a status report will result in dismissal of the complaint for failure to prosecute.⁸

4. Accordingly, IT IS ORDERED, pursuant to sections 4(i), 4(j), and 208 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), and 208, and sections 1.720-1.736 of the Commission's rules, 47 C.F.R. §§ 1.720-36, and the authority delegated in sections 0.111 and 0.311 of the Commission's rules, 47 C.F.R. §§ 0.111, 0.311, that the Joint Motion to Dismiss Without Prejudice the Complaint against the Remaining Defendants IS GRANTED.

5. IT IS FURTHER ORDERED, pursuant to sections 4(i), 4(j), and 208 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), and 208, and sections 1.3, 1.716-18, and 1.720-1.736 of the Commission's rules, 47 C.F.R. §§ 1.3, 1.716-18, 1.720-36, and the authority delegated in sections 0.111 and 0.311 of the Commission's rules, 47 C.F.R. §§ 0.111, 0.311, that the Complainants' formal complaint is converted to an informal complaint, and that the formal complaint and answer filed in the above-captioned proceeding satisfy sections 1.716-17 of the Commission's rules, 47 C.F.R. §§ 1.716-17.

6. IT IS FURTHER ORDERED, pursuant to sections 4(i), 4(j), and 208 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), and 208, and sections 1.3, 1.716-18, and 1.720-1.736 of the Commission's rules, 47 C.F.R. §§ 1.3, 1.716-18, 1.720-36, and the authority delegated in sections 0.111 and 0.311 of the Commission's rules, 47 C.F.R. §§ 0.111, 0.311, that the file number for the informal complaint is EB-04-MDIC-0001.

FEDERAL COMMUNICATIONS COMMISSION



Radhika V. Karmarkar
Deputy Chief
Market Disputes Resolution Division
Enforcement Bureau

⁸ 47 C.F.R. § 1.720(g). During the bankruptcy, the Complainants should file the required 4-monthly status report in informal complaint File, No. EB-04-MDIC-0001.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission :
On Its Own Motion :
-vs- :
ATX Licensing, Inc. : 01-0718
: :
Citation for failure to file Annual Report :

ORDER

By the Commission:

On November 7, 2001, the Illinois Commerce Commission ("Commission") entered an Order citing ATX Licensing, Inc. ("Respondent") for failure to file its 2000 Annual Report. The Order directed Respondent to appear at a hearing in Springfield, Illinois on November 27, 2001 to show cause why the Commission should not rescind its certificate or take other action. A Staff Report dated October 11, 2001 recounts that Respondent failed to file its Annual Report by April 2, 2001, as required by Section 5-109 of the Public Utilities Act and 83 Ill. Adm. Code 210.

This matter came on for hearing before a duly authorized Administrative Law Judge at the designated time and place. Respondent did not appear. Counsel for Commission Staff appeared and recommended that Respondent's certificate be revoked for failure to file its 2000 Annual Report. The record was marked "Heard and Taken." A proposed order revoking the certificate was served on Respondent. No Brief on Exceptions was received.

The Commission, having reviewed the entire record, finds that the certificate granted to Respondent should be cancelled and revoked.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the certificate of service authority granted to ATX Licensing, Inc. is hereby cancelled and revoked.

IT IS FURTHER ORDERED that resolution of this citation proceeding does not relieve Respondent from the requirements of the Public Utilities Act to file annual reports or to pay any penalty for failure to do so.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 24th day of January, 2002.

(SIGNED) RICHARD L. MATHIAS

Chairman

(S E A L)

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ATX Licensing, Inc. :
: :
Application for Certification to : 04-0470
Provide Interexchange Services in :
the State of Illinois. :

ORDER

By the Commission:

On July 19, 2004, ATX Licensing, Inc. ("Applicant") filed an application with the Illinois Commerce Commission ("Commission") seeking certificates of service authority authorizing it to provide facilities-based and resold interexchange telecommunications services throughout the State of Illinois pursuant to Sections 13-403 and 13-404 of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq. Applicant also requests waivers of Parts 710 and 735 of Title 83 of the Illinois Administrative Code and permission under Part 250 to maintain its books and records outside of Illinois.

Pursuant to due notice, a hearing was held in this matter before a duly authorized Administrative Law Judge of the Commission at its offices in Springfield, Illinois on September 8, 2004. Counsel for Applicant entered an appearance and called Austin McIntire, Applicant's Senior Manager of External Affairs, as Applicant's sole witness. Commission Staff did not participate in this docket; nor were any petitions to intervene filed in this proceeding. At the conclusion of the hearing, the record was marked "Heard and Taken."

Applicant was incorporated in the State of Delaware on March 22, 2000 and is authorized to conduct business in Illinois. Applicant is authorized to provide interexchange and/or local telecommunications services in 20 states and the District of Columbia. Applicant reports that it was previously authorized to provide telecommunications services in Illinois but that that authority was revoked through a Commission Order entered in Docket No. 01-0718 for failure to file its Annual Report for calendar year 2000. Applicant states that it was not aware of the revocation until it received a letter from the Commission's Office of General Counsel on or about April 22, 2004. Applicant admits that it did not file its 2000 Annual Report and states that the reasons for this failure "have been obscured by the passage of time." Applicant maintains that it filed subsequent Annual Reports. As for its failure to participate in Docket No. 01-0718, Applicant suggests that its moving offices and related mail delivery problems resulted in its not receiving notice of the initiation of Docket No. 01-0718 and subsequent notices. Applicant asserts that it has put processes in place to prevent the type of regulatory compliance failures that this

application is attempting to remedy. Specifically, Applicant states that it has developed a spreadsheet reflecting the regulatory requirements of all of the states in which it operates. Applicant adds that it has never had its certification revoked or suspended in any other jurisdiction in this or another name.

To receive authority to provide facilities-based or resold interexchange telecommunications services, Sections 13-403 and 13-404 require Applicant to demonstrate that it possesses sufficient technical, financial, and managerial resources and abilities to provide such services. As evidence of its technical and managerial resources and abilities, Applicant attached to its application as Attachment 4 brief biographies of three key personnel. These individuals possess several years of experience in the telecommunications industry. As to financial resources and abilities, key personnel among Applicant's employees possess finance and accounting experience. Attachment 7 to the application and Exhibit 1 reflect Applicant's financial situation. Although Applicant and its affiliates have operated under Chapter 11 bankruptcy since January of 2004, Applicant anticipates that it will emerge from bankruptcy by the end of 2004. Applicant notes that it submitted a reorganization plan in June of 2004 and continues to discuss matters with its creditors.

Customers may contact Applicant 24 hours a day, seven days a week for billing and service-related issues by calling a toll free number. If a customer is not satisfied with the answer to an inquiry, Applicant adds that the customer will be informed that he or she may contact the Commission for assistance. Applicant also indicates that it will abide by all federal and state "slamming" and "cramming" laws.

As indicated above, Applicant requests waivers of Parts 710 and 735. Part 710 is entitled "Uniform System of Accounts for Telecommunications Carriers" and Part 735 is entitled "Procedures Governing the Establishment of Credit, Billing Deposits, Termination of Service and Issuance of Telephone Directories for Local Exchange Telecommunications Carriers in the State of Illinois." With regard to Part 710, Applicant states that it currently keeps its books and records in accordance with generally accepted accounting principles. Applicant requests a waiver from the requirement to abide by the Commission's uniform system of accounts to avoid the burdens associated with maintaining two sets of books. Applicant understands that a waiver from Part 710 will not excuse it from compliance with future Commission rules or amendments of Part 710 that are otherwise applicable to it.

As for Part 735, Section 735.50 states that a permanent variance from this Part may be granted where the Commission finds that the provision from which the variance is granted is not statutorily mandated, no party will be injured by the granting of the variance, and the rule from which the variance is granted would be unreasonable or unnecessarily burdensome if applied. Applicant seeks a waiver from Part 735 to the extent that such a waiver is routinely or customarily granted to interexchange carriers.

Applicant currently maintains its books and records at its headquarters at 2100 Renaissance Boulevard, King of Prussia, Pennsylvania. Applicant seeks permission to

keep its books and records at this location and not in Illinois under Section 250.20 of 83 Ill. Adm. Code Part 250. According to Applicant, requiring it to maintain two separate sets of books would be costly, burdensome, and unnecessary. Should it be necessary for the Commission to have access to Applicant's books and records, Applicant states that it will facilitate such access expeditiously and at its own expense.

Based on the foregoing, the Commission concludes that granting Applicant's application is consistent with Sections 13-403 and 13-404 of the Act, and that Applicant possesses sufficient technical, financial, and managerial resources and abilities to provide the proposed telecommunications services. The Commission also concludes that a waiver of Part 710 should be granted pursuant to Section 13-402 of the Act and the Order entered in Docket Nos. 84-0538 and 84-0539, in order to reduce the economic burdens of regulation on a telecommunications carrier which only provides competitive services. In addition, the Commission finds that a waiver of Part 735 should be granted pursuant to Section 13-402 as well. The provisions of Part 735 are not statutorily mandated for interexchange carriers, no party will be injured by the granting of the variance, and the rules found in Part 735 are unreasonable and/or unnecessarily burdensome with regard to interexchange carriers. The Commission notes that it has granted waivers of Parts 710 and 735 to other carriers seeking authority to offer resold and facilities-based interexchange services. Applicant should also be permitted to maintain its books and records at its corporate headquarters in King of Prussia, Pennsylvania. Although the Commission has some concerns about Applicant's bankruptcy status, in light of the fact that Applicant would still be certificated if not for its failure to file its 2000 Annual Report and in light of the likelihood that Applicant will emerge from bankruptcy, the Commission does not believe that it would be appropriate to allow Applicant's bankruptcy status to bar it from receiving the relief that it requests.

The Commission, having examined the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Applicant is a Delaware corporation authorized to conduct business in Illinois seeking certificates of service authority to provide, pursuant to Sections 13-403 and 13-404 of the Act, facilities-based and resold interexchange telecommunications services throughout Illinois;
- (2) the Commission has jurisdiction over the Applicant and the subject matter of this proceeding;
- (3) the recital of facts and conclusions reached in the prefatory portions of this Order are supported by the record and are hereby adopted as findings of fact;
- (4) as required by Sections 13-403 and 13-404, Applicant possesses sufficient technical, financial, and managerial resources and abilities to provide

facilities-based and resold interexchange telecommunications services within the State of Illinois;

- (5) with regard to Applicant's provision of interexchange telecommunications services, Applicant should be granted a waiver from 83 Ill. Adm. Code Part 710, concerning the Uniform System of Accounts, so long as Applicant maintains its records in accordance with generally accepted accounting principles; such waiver will reduce the economic burden of regulation and is consistent with the Act;
- (6) with regard to Applicant's provision of interexchange telecommunications services, Applicant should be granted a waiver from 83 Ill. Adm. Code Part 735, which governs the establishment of credit, billing deposits, termination of service, and issuance of telephone directories for local exchange telecommunications carriers;
- (7) Applicant should be permitted to maintain its books and records outside of Illinois at its corporate headquarters pursuant to Part 250; and
- (8) Applicant should file with the Commission the necessary tariffs, consisting of its rates, rules, and regulations to be effective upon proper filing, before commencing the proposed interexchange services.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that ATX Licensing, Inc. is hereby granted Certificates a Service Authority pursuant to Sections 13-403 and 13-404 of the Public Utilities Act for the provision of resold and facilities-based interexchange service; said certificates should read as follows:

CERTIFICATE OF INTEREXCHANGE SERVICE AUTHORITY

IT IS HEREBY CERTIFIED that ATX Licensing, Inc. is authorized, pursuant to Section 13-403 of the Public Utilities Act, to provide facilities-based interexchange telecommunications services within the State of Illinois.

CERTIFICATE OF SERVICE AUTHORITY

IT IS HEREBY CERTIFIED that ATX Licensing, Inc. is authorized, pursuant to Section 13-404 of the Public Utilities Act, to provide resold interexchange telecommunications services within the State of Illinois.

IT IS FURTHER ORDERED that ATX Licensing, Inc. is granted a waiver from 83 Ill. Adm. Code Part 710 regarding the Uniform System of Accounts as set forth in Finding (5) above, with regard to its provision of interexchange telecommunications service.

IT IS FURTHER ORDERED that ATX Licensing, Inc. is granted a waiver from 83 Ill. Adm. Code Part 735 which governs the establishment of credit, billing deposits,

termination of service, and issuance of telephone directories for local exchange telecommunications carriers as set forth in Finding (6) above, with regard to its provision of interexchange telecommunications service.

IT IS FURTHER ORDERED that ATX Licensing, Inc. is authorized to maintain its books and records outside of the State of Illinois as described the prefatory portion of this Order pursuant to 83 Ill. Adm. Code Part 250.

IT IS FURTHER ORDERED that ATX Licensing, Inc. shall file with this Commission the necessary tariffs, consisting of its rates, rules, and regulations to be effective upon proper filing, before commencing any of the proposed interexchange services.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 6th day of October, 2004.

(SIGNED) EDWARD C. HURLEY

Chairman