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March 14, 2001

Arizona Corporation Commission
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Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007-2929

RE: Application for Certificate of Public Convenience and Necessity Metropolitan Telecommunications of Arizona, Inc., d/b/a MetTel (Docket No. T-03991A-01-0125

As required by the Commission, enclosed for filing in association with the above referenced application for Certificate of Public Convenience and Necessity, are the originals and ten (10) copies of the Affidavit of Publication, Manhattan Telecommunication's, parent company of the Applicant, financials as well as an Attestation relative to financial backing.

Please date stamp the enclosed copy of this letter and return to us in the self-addressed stamped envelope provided.

Should you need any additional information or have questions, please contact Terri Firestein at 301-842-1437.

Respectfully submitted,

Marj

Marj Kimmett
Regulatory Specialist

Enclosure

CALVERT METRO BUILDING · 6811 KENILWORTH AVENUE · SUITE 302 · RIVERDALE, MARYLAND 20737
PHONE 301-699-5300 · FAX 301-699-5080

PUBLIC NOTICE OF FILING BY METROPOLITAN OF ARIZONA, INC., d/b/a METTEL TO PROVIDE COMPETITIVE INTRASTATE TELECOMMUNICATIONS SERVICE

On February 2, 2001, Metropolitan Telecommunications of Arizona, Inc., d/b/a MetTel filed an application and petition with the Arizona Corporation Commission for a Certificate of Convenience and Necessity to provide competitive local resale and facilities-based, access communication services, inter-exchange (interLATA and intraLATA) communicatios services, throughout the State of Arizona at the rates and terms specified in the tariffs filed with the application. The Company's application and petition are available for inspection during regular business hours at the offices of the Arizona Corporation Commission in Phoenix, Arizona at 1200 West Washington Street and at the address of the Applicant's consultant, CCG Consulting, Inc., 6811 Kenilworth Avenue, Suite 302, Riverdale, MD 20737. Interested persons shall have twenty (20) days from the publication of this notice to file objections to the application and petition. The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in this matter. Persons desiring to intervene must file a written motion to intervene with the Commission within twenty (20) days from the date of publication of this notice. This motion should be sent to the Company or its counsel and to all parties of record, and which, at the minimum, shall contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, a competitor, etc.)
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

A.A.C. R14-3-105 shall govern the granting of motions to intervene. The granting of intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and making a statement on their own behalf.

If you have any questions concerning this application, or want information on intervention, you should contact the Consumer Services Section of the Commission by calling 1-800-222-7000.

01168-March 6, 2001

AFFIDAVIT OF PUBLICATION

THE ARIZONA REPUBLIC

STATE OF ARIZONA
COUNTY OF MARICOPA } SS.

TOM BIANCO, being first duly sworn, upon oath deposes and says: That he is the legal advertising manager of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic

March 6, 2001

Tom Bianco

Sworn to before me this
7 day of
March A.D. 2001

OFFICIAL SEAL
MARILYN GREENWOOD
NOTARY PUBLIC-ARIZONA
MARICOPA COUNTY
My Comm. Expires May 23, 2003

Marilyn Greenwood
Notary Public

ORIGINAL

Manhattan Telecommunications Corporation and Subsidiaries

Consolidated Financial Statements
As of December 31, 1999 and 1998 and for the years ended December 31, 1999, 1998 and 1997

Report of Independent Accountants

To the Board of Directors and Stockholders of
Manhattan Telecommunications Corporation and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Manhattan Telecommunications Corporation and its subsidiaries at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

June 9, 2000, except as to the second sentence of paragraph 6
of Note 4, for which the date is June 26, 2000

Manhattan Telecommunications Corporation and Subsidiaries
Consolidated Balance Sheets
as of December 31,

	1999	1998
Assets		
Current assets		
Cash and cash equivalents	$ 2,387,223	$ 160,347
Accounts receivable, less allowance of $1,974,179 and 202,862, respectively	4,954,213	1,692,223
Prepaid and other current assets	65,127	52
Total current assets	7,406,563	1,852,622
Fixed assets, net	1,563,909	540,117
Deferred debt issuance costs, net	9,185,535	-
Other assets	350,034	111,834
Total assets	$ 18,506,041	$ 2,504,573
Liabilities and Stockholders' (deficit) equity		
Current *liabilities*		
Accounts payable and accrued expenses	$ 4,711,463	$ 2,601,053
Capital lease obligations, current portion	231,051	35,040
Operating taxes payable	2,547,874	347,260
Debt financing fees payable, current portion	197,500	-
Deferred rent payable, current portion	30,229	-
Total current liabilities	7,718,117	2,983,353
Capital lease obligations, net of current portion	110,077	41,134
Debt financing fees payable, net of current portion	197,500	-
Deferred rent payable, net of current portion	79,392	-
Notes payable	6,000,000	646,970
Total liabilities	14,105,086	3,671,457
Redeemable warrant	151,193	-
Commitments and contingencies		
Stockholders' equity (deficit)		
Common stock - no par value, 2,500 shares authorized, issued and outstanding	-	-
Additional paid-in capital	10,392,495	1,253,619
Accumulated deficit	(6,142,733)	(2,420,503)
	4,249,762	(1,166,884)
Total liabilities and stockholders' equity	$ 18,506,041	$ 2,504,573

The accompanying notes are an integral part of these financial statements

Manhattan Telecommunications Corporation and Subsidiaries
Consolidated Statements of Operations
For the years ended December 31,

	1999	1998	1997
Revenues	$ 24,478,133	$ 5,414,276	$ 45,341
Operating costs and expenses			
Cost of revenues	15,075,014	3,806,560	66,704
Selling, general and administrative	11,486,197	2,968,093	821,627
Depreciation and amortization	360,604	32,333	10,608
Total operating cost and expenses	26,921,815	6,806,986	898,939
Loss from operations	(2,443,682)	(1,392,710)	(853,598)
Other expense			
Interest expenses	1,243,288	71,618	-
Other	35,260		
Net loss	$ (3,722,230)	$ (1,464,328)	$ (853,598)

The accompanying notes are an integral part of these financial statements

Manhattan Telecommunications Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at January 1, 1997	2,500	-	$ 50,000	$ (102,577)	$ (52,577)
Contribution by stockholders	-	-	760,664	-	760,664
Redistribution of common stock, net	-	-	6,636	-	6,636
Net loss	-	-	-	(853,598)	(853,598)
Balance at December 31, 1997	2,500	-	817,300	(956,175)	(138,875)
Contribution by stockholders	-	-	394,291	-	394,291
Redistribution of common stock, net	-	-	42,028	-	42,028
Net loss	-	-	-	(1,464,328)	(1,464,328)
Balance at December 31, 1998	2,500	-	1,253,619	(2,420,503)	(1,166,884)
Redistribution of common stock, net	-	-	(740)	-	(740)
Issuance of warrants in connection with debt issuance	-	-	9,290,809	-	9,290,809
Accretion of redeemable warrants	-	-	(151,193)	-	(151,193)
Net loss	-	-	-	(3,722,230)	(3,722,230)
Balance at December 31, 1999	2,500	-	$ 10,392,495	$ (6,142,733)	$ 4,249,762

The accompanying notes are an integral part of these financial statements

Manhattan Telecommunications Corporation and Subsidiaries

Consolidated Statements of Cash Flows
For the years ended December 31,

	1999	1998	1997
Cash flows from operating activities			
Net loss	$ (3,722,230)	$ (1,464,328)	$ (853,598)
Adjustments to reconcile net income to net cash used in operating activities			
Bad debt expense	2,605,000	750,000	-
Depreciation and amortization	372,598	32,333	12,141
Amortization of debt issuance costs	682,006	-	-
Noncash compensation	(740)	42,028	6,636
Loss on disposal of fixed assets	35,260	-	-
Changes in assets and liabilities affecting operating cash flows			
Accounts receivable	(5,866,989)	(2,396,515)	(45,709)
Prepaid expenses and other current assets	(65,075)	228	(280)
Other assets	(238,201)	(31,544)	(80,288)
Accounts payable and accrued expenses	2,110,410	2,273,858	281,319
Operating taxes payable	2,200,614	337,090	10,170
Deferred rent payable	109,621	-	-
Other liabilities	-	-	(24,000)
Net cash used in operating activities	(1,777,726)	(456,850)	(693,609)
Cash flows used in investing activity			
Purchases of fixed assets	(1,431,650)	(494,174)	(78,119)
Net cash used in investing activity	(1,431,650)	(494,174)	(78,119)
Cash flows from financing activities			
Proceeds from notes payable	8,740,000	2,550,000	-
Repayment of notes payable	(3,386,970)	(1,903,030)	-
Deferred debt issuance costs	(181,732)	-	-
Repayment of capital lease obligation	264,954	76,174	-
Proceeds from capital contributions	-	394,291	760,664
Net cash provided by financing activities	5,436,252	1,117,435	760,664
Net increase (decrease) in cash and cash equivalents	2,226,876	166,411	(11,064)
Cash and cash equivalents at beginning of period	160,347	(6,064)	5,000
Cash and cash equivalents at end of period	$ 2,387,223	$ 160,347	$ (6,064)
Supplemental disclosure of cash flow information			
Cash paid for interest	$ 573,484	$ 69,984	$ -
Noncash investing activity			
Acquisition of equipment under capital leases	$ 459,681	$ 117,025	$ -

The accompanying notes are an integral part of these financial statements

1. Description of Business

Manhattan Telecommunications Corporation, doing business as Metropolitan Telecommunications, also known as MetTel (the "Company"), is a licensed competitive local exchange carrier ("CLEC") whose principal business consists of providing a complete line of local, long distance, internet and data services to businesses and residences located in New York State. The Company was incorporated in April 1996 under the laws of the state of Delaware. The consolidated financial statements include the accounts of the Company and its currently inactive subsidiaries.

2. Summary of Significant Accounting Policies

Cash equivalents

The Company considers all highly liquid investments purchased with an initial maturity of 90 days or less to be cash equivalents. The Company maintains its cash balances in highly rated financial institutions. At times, such cash balances may exceed federally insurable limits.

Revenue recognition

Revenue is recognized in the period in which the service is provided. All costs related to services provided are expensed as incurred. Unbilled revenue included in accounts receivable represents revenue for earned services which will be billed in the subsequent month and totalled $1,278,514 and $423,190 as of December 31, 1999 and 1998, respectively.

Fair value of financial instruments

Statement of Financial Accounting Standard ("SFAS") No. 107 "Disclosure about Fair Value of Financial Instruments," requires disclosure of fair value about certain financial instruments, whether or not reported on the balance sheet. The Company's financial instruments include cash, accounts receivable and accounts payable which are carried at cost that approximates fair value because of the short term nature of these instruments.

The carrying value of the Company's borrowings under its line of credit and credit facility agreement approximate fair value as the interest rate is the Company's available market interest rate.

Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Changes in such estimates could affect amounts reported in future periods. Estimates are used when accounting for the allowance for doubtful accounts, fixed asset depreciable lives, and the deferred tax valuation allowance, among others.

Fixed Assets
Depreciation is calculated using the straight-line method over the estimated useful lives of the related asset, generally three to five years. Amortization of leasehold improvements is provided over the straight-line method over the shorter of the estimated useful life or the lease term. The costs of additions and betterments are capitalized, and repairs and maintenance costs are charged to operations in the periods incurred.

Software Development Costs
Certain costs incurred in the development of internal use software are capitalized in accordance with the Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and are amortized over their useful life of 3 years.

Long-lived assets
The Company reviews for the impairment of long-lived assets whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated, undiscounted, future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. If such assets are considered impaired, the amount of the impairment loss recognized is measured as the amount by which the carrying value of the asset exceeds the fair value of the asset. To date, the Company has identified no such impairment losses.

Significant Risks and Uncertainties
The Company has experienced net operating losses and negative cash flow since its inception. To date, the Company has funded its operations with capital contributions and external financing through debt issuance. The Company's growth anticipates substantial capital expenditures. The Company's ability to fund these expenditures will be dependent upon the Company raising additional financing. Failure to raise sufficient capital could compel the Company to delay or modify some of its expansion plans and/or capital expenditures. However, management believes that the Company's current cash resources and credit facility together with expected revenue growth will be sufficient to fund the Company's operations for the next twelve months.

The Company is dependent on Bell Atlantic as sole provider of the local telecommunications service which the Company provides to its customers. Accordingly, a negative impact on the operations of Bell Atlantic could adversely affect the Company.

Advertising costs
The Company expenses the costs of advertising in the period in which the costs are incurred. Advertising expenses were $49,761, $10,367 and $1,509 for the years ended December 31, 1999, 1998 and 1997, respectively.

Income taxes
The Company recognizes deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Comprehensive Income
In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income". This statement requires companies to classify items of their comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. SFAS No. 130 is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company adopted SFAS No. 130 in fiscal year 1998. There was no difference between net income and comprehensive income for the years ended December 31, 1999 and 1998.

Segment Reporting
In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which established standards for reporting information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS No. 131 was adopted by the Company in fiscal year 1998. Adoption of SFAS No. 131 had no impact on the Company's results of operations, financial position or cash flow as the Company operates only in the landline telecommunications segment.

Recent Accounting Pronouncements
In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities" ("SFAS 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not expect the adoption of this statement to have a significant impact on the Company's results of operations, cash flow or financial position.

In December 1999, the Staff of the Securities and Exchange Commission released Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition". SAB 101 provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company is in the process of determining the effects of the additional guidance provided by SAB 101 on the Company's financial statements.

3. Fixed Assets

Fixed assets consist of the following:

	December 31, 1999	December 31, 1998
Computer equipment	$ 622,658	$ 238,496
Furniture and fixtures	198,839	19,206
Leasehold improvements	124,561	36,489
Capitalized software costs	948,933	288,867
	1,894,991	583,058
Less: accumulated depreciation and amortization	(331,082)	(42,941)
Total net fixed assets	$ 1,563,909	$ 540,117

Included in computer equipment are $476,706 and $117,025 of assets under capital lease at December 31, 1999 and 1998, respectively.

4. Notes Payable

Line of Credit

In September 1998, the Company entered into a line of credit agreement with a financial institution under which it could borrow up to $1,000,000. The line of credit was collateralized by receivables, equipment and certain real property. The Company repaid the line in full in May 1999.

Credit Facility Agreement

In May 1999, the Company entered into a credit facility with a financial institution. The credit line allows for up to $5,000,000 to be drawn down subject to a formula based on eligible accounts receivable cash collections. As additional consideration, the Company granted to the financial institution a warrant to purchase 7.5% of the Company's then outstanding common stock (see Note 5).

In December 1999, the credit facility was amended and increased to $9,000,000 and can be increased up to $12,000,000 upon the Company meeting certain financial performance benchmarks. As additional consideration, the Company granted the financial institution warrants to purchase an additional 5.5% of the Company's outstanding common stock (see Note 5). At December 31, 1999, $6,000,000 of Notes were drawn down under the facility. The Notes mature on April 30, 2002. The Notes bear interest at a variable rate selected by the borrower equal to prime rate plus 7% per annum or the adjusted LIBOR plus 8.5% per annum. In addition, there is 6.5% of interest that is deferred. The deferred interest is not payable in the event that the lendor exercises the warrant referred to above.

The Company incurred origination fees of $395,000, which have been recorded as a deferred asset and are being amortized over the life of the loan. The Company also pays annual commitment fees of 0.5% on the unused amount of the facility. At December 31, 1999, the Company was eligible to draw an additional $1,300,000 under the facility based on the value of eligible accounts receivable cash collections.

The credit facility is collateralized by receivables, inventories, equipment and certain real property and is guaranteed by certain stockholders, but is subordinate to capitalized lease obligations. Under the terms of the agreement, the Company is required to maintain certain financial conditions, number of access lines and level of customer turnover. The agreement also prohibits the Company from incurring certain additional indebtedness, limits certain investments, advances or loans and restricts substantial asset sales, capital expenditures and cash dividends.

At December 31, 1999, the Company was in violation of the covenant to have customer turnover percentage below a certain level, for which they obtained a waiver of default from the applicable lender on June 26, 2000. In addition, on June 26, 2000, the covenants related to the number of access lines and level of customer turnover were modified to make them less restrictive.

5. Warrants

In May 1999, in connection with the execution of the May 1999 credit facility agreement, the Company granted fully vested warrants to the financial institution. Upon exercise of the warrant, the financial institution may acquire 187.5 shares (7.5%) of the Company's issued and outstanding shares of no par value, common stock at an exercise price of $.01 per share. The warrant is exercisable through April 2009. If the warrant is exercised, the financial institution shall forgo the collection of deferred interest which is accruing on the outstanding balance of the debt at a rate of 6.5%. At December 31, 1999 the deferred interest on the debt was approximately $151,193.

In December 1999, as a result of the amendment of the credit facility agreement, the Company issued additional warrants to the lendor to acquire up to 157.62 shares (5.5%) of the Company's issued and outstanding no par common stock. At December 31, 1999, 114.63 shares of no par value common stock relating to this amendment had vested. The remaining 42.99 shares vest only upon the increase in the available line of credit to $12 million. The warrant is exercisable through April 2009.

The grant of the warrants was considered for accounting purposes to be an additional debt issuance cost. The fair value of the warrants on the date of issuance was recorded as a deferred asset and is being amortized into the statement of operations as interest expense over the life of the Notes.

6. Related Party Transactions

General and administrative
The Company received legal and consulting services from a firm in which an executive officer of the Company is a principal stockholder. These expenses aggregated approximately $212,000, $163,000 and $110,250 in 1999, 1998 and 1997, respectively.

During 1997, the Company expensed approximately $60,500 of legal fees paid to officers of the Company.

Capital Contributions
During 1998 and 1997, certain officers performed services for the Company for which they were not compensated. Such contributions are not recorded in the financial statements.

Common stock redistribution
During 1997 and 1998, 161.29 and 34.56 shares of common stock were granted to officers of the Company. At the date of each grant, no additional shares of the Company stock were authorized to be granted. Accordingly, each existing stockholder made a pro-rata constructive transfer to the officers. The Company recorded compensation expense for the fair value of the redistributed shares.

In 1999, 3.85 shares of vested common stock were returned to the Company in connection with a severance agreement. The returned shares were redistributed on a pro-rata basis to the existing shareholders. The Company recorded a credit for the amount of compensation expense previously recognized in connection with the initial grant of these shares.

7. Income Taxes

The Company accounts for income tax under the provisions of SFAS No. 109, "Accounting for Income Taxes". SFAS 109 requires an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements. The Company had approximately $2,144,500 and $1,278,000 of net operating loss carryforwards for federal income tax purposes at December 31, 1999 and 1998, respectively. The net operating loss carryforwards will begin to expire in the year 2016 if not utilized. The Company has recorded a valuation allowance equal to the net deferred tax assets at December 31, 1999 and 1998, due to the uncertainty of future operating results. The valuation allowance will be reduced at such time as management believes it to be more likely than not that the net deferred tax assets will be realized.

The components of the net deferred tax asset as of December 31, 1999 and 1998 consist of the following:

	1999	1998
Deferred tax assets:		
Net federal and state operating loss carryforwards	$ 1,486,421	$ 757,263
Property and equipment		3,741
Allowance for doubtful accounts	671,221	68,973
Gross deferred tax asset	2,157,642	829,977
Deferred tax liabilities:		
Property and equipment	(271,533)	
Less: Valuation allowance	(1,886,109)	(829,977)
Net deferred tax asset	$ -	$ -

8. Commitments

Operating and Capital leases

The Company leases office facilities and equipment under operating leases expiring through 2009. The company also leases telephone and other office equipment under capital leases expiring through 2001. Future minimum lease payments due under noncancellable operating leases and capital leases were as follows:

	Operating	Capital
Year ending December 31,		
2000	$ 758,548	$ 263,023
2001	648,487	122,288
2002	495,813	-
2003	456,041	-
2004	471,703	-
Thereafter	1,991,556	-
Total minimum lease payments	$ 4,822,148	385,311
Less: amount representing interest		(44,183)
Present value of future minimum lease payments		341,128
Less: current portion		(231,051)
Capital lease obligations, net of current portion		$ 110,077

Rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately $222,000, $110,000 and $110,000, respectively.

In March 2000, the Company entered into a new operating lease for additional office space. Future minimum lease payments under this lease aggregate approximately $1,945,000.

Employment agreements

In the normal course of business, The Company has entered into employment agreements with certain of its officers. These agreements call for aggregate payments over the next four years of $375,000 per year. Upon attaining certain performance requirements, these individuals are eligible for a defined bonus.

General and administrative

In April 1999, the Company entered into a three-year agreement to receive legal services from a related party. Under the terms of this agreement, the Company is required to pay weekly fees of $4,000 (see Note 6).

9. Contingencies

Litigation
There are various claims, lawsuits and pending actions against the Company incidental to the operations of its business. It is the opinion of management, after consultation with counsel, that the ultimate resolution of such claims, lawsuits and pending actions will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

Other
The Company is subject to state public utilities commission, Federal Communications Commission and court decisions as they relate to the interpretation and implementation of the Telecommunications Act, the interpretation of CLEC interconnection agreements in general and the Company's interconnection agreements in particular. In some cases the Company may be bound by the results of ongoing proceedings of these bodies or the legal outcomes of other contested interconnection agreements that are similar to the Company's agreements. The Company cannot estimate the effect, if any, of these proceedings.

10. Subsequent events

On May 22, 2000 the Company amended its Certificate of Incorporation to increase the number of authorized shares of common stock from 2,500 to 5,000. Concurrently, the Company declared a stock dividend of 0.085 of a share of common stock for each share of common stock outstanding.

In March of 2000, the Company drew down an additional $2,000,000 of its available credit facility.

Manhattan Telecommunications
Statement of Operations

	6mos ended 6/30/00		6mos ended 6/30/99		3mos ended 6/30/00		3mos ended 3/31/00	
Revenues	22,856,775		7,788,839		10,073,922		12,762,852	
Operating costs and expenses								
Cost of revenues	12,002,475	52.51%	5,485,571	70.43%	5,988,055	59.45%	6,013,420	47.04%
Selling, general and administrative	10,560,703	46.20%	3,057,742	39.26%	5,885,415	58.42%	4,675,288	36.57%
Total operating cost and expenses	22,563,177		8,543,313		11,874,470		10,688,708	
EBITDA	293,597	1.28%	(754,474)	-9.69%	(1,800,547)	-17.87%	2,094,144	16.38%
Depreciation & Amortization	449,695	1.97%	192,833	2.48%	238,857	2.37%	210,836	1.65%
Interest expense	678,551	2.97%	210,445	2.70%	350,127	3.48%	328,424	2.57%
Interest Amortization	1,858,902	8.13%	-	0.00%	929,451	9.23%	929,451	7.27%
Net loss	(2,693,551)	-11.78%	(1,157,752)	-14.86%	(3,318,983)	-32.95%	625,431	4.89%

Manhattan Telecommunications Corporation

Balance Sheet

ASSETS	
	06/30/00
Current Assets:	
Cash & Cash Equivalents	$1,239,754
Accounts Receivable, net	$5,833,830
Prepaid & Other Current Assets	$61,196
Total Current Assets	$7,134,781
Fixed Assets, net	$2,380,006
Deferred Debt Issuance Costs, net	$6,832,807
Other Assets, net	$1,169,963
Total Assets	$17,517,557
LIABILITIES AND CAPITAL	
Current Liabilities:	
Accounts Payable & Accrued Expenses	$3,502,196
Current Portion of Lease Payment	$616,734
Operating Taxes Payable	$3,192,807
Debt Financing Fees Payable	$228,398
Deferred Rent Payble, Current Portion	$30,229
Total Current Liabilities	$7,570,364
Equipment Lease Obligation, net of Current	$141,000
Debt Financing Fees Payable, net of Current	$0
Deferred Rent Payble, net of Current	$98,787
Notes Payable, net of Current	$8,000,000
Total Liabilities	$15,810,151
Redeemable Warrant	$388,082
Capital	
Common Stock	$0
Paid-in Capital	$10,155,608
Retained Earnings	-$6,142,731
Net Income	-$2,693,551
Total Capital	$1,319,324
Total Liabilities & Capital	$17,517,557

Unaudited - For Management Purposes Only

Manhattan Telecommunications Corporation

Consolidated Balance Sheet

ASSETS	As At Dec. 31,2000
Current Assets:	
Cash & Cash Equivalents	641,168
Accounts Receivable, net	5,235,850
Prepaid & Other Current Assets	219,787
Total Current Assets	6,096,804
Fixed Assets, net	5,029,506
Deferred Debt Issuance Costs, net	5,313,847
Other Assets, net	597,862
Total Assets	17,038,018
LIABILITIES AND CAPITAL	
Current Liabilities:	
Accounts Payable & Accrued Expenses	6,992,521
Current Portion of Lease Payment	267,002
Operating Taxes Payable	4,915,329
Debt Financing Fees Payable	30,898
Deferred Rent Payable, Current Portion	-
Total Current Liabilities	12,205,751
Equipment Lease Obligation, net of Current	931,256
Origination Fee - LT	197,500
Debt Financing Fees Payable, net of Current	-
Deferred Rent Payble, net of Current	207,028
Notes Payable, net of Current	9,500,000
Total Liabilities	23,041,535
Redeemable Warrant	671,572
Capital	
Common Stock	-
Paid-in Capital	9,872,116
Retained Earnings	(6,142,731)
Net Income	(10,404,473)
Total Capital	(6,675,089)
Total Liabilities & Capital	17,038,018

Unaudited - For Management Purposes Only

Manhattan Telecommunications Consolidated Statement of Operations	Twelve Mos. End 12/31/00	
Revenues	47,164,341	
Operating costs and expenses		
Cost of revenues	25,102,364	53%
Selling, general and administrative	26,116,639	55%
Total operating cost and exp.	51,219,003	
EBITDA	(4,054,663)	-9%
Depreciation & Amortization	1,164,958	2%
Interest expense	1,446,620	3%
Interest Amortization	3,738,232	8%
Net loss	(10,404,473)	-22%

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