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August 19, 2003

Docket Control Center
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Re: Docket No. T-03253A-96-0464
US South Communications, Inc. d/b/a US South and d/b/a INCOMM

Dear Sir:

US South Communications, Inc. d/b/a US South and d/b/a INCOMM ("US South") herewith files its audited financial statements for 2000 and 2001. US South requests an extension until August 31, 2003 to file its audited financial statements for 2002 and the remainder of its responses to staff's third set of data requests in the above referenced Docket. US South apologizes for this delay but prefers to wait to file its 2002 financial statements with the audiitor's report.

An original and 13 copies are enclosed. Please acknowledge receipt of this filing by date stamping the extra copy of this transmittal letter and returning it in the enclosed prepaid envelope. Inquiries pertaining to this filing should be directed to me at (205) 330-1703.

Yours truly,

Bobbi Ferguson

Bobbi Ferguson
Consultant to
US South Communications, Inc.

Enclosures

16061 Carmel Bay Drive • Northport • Alabama 35475

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

U.S. SOUTH COMMUNICATIONS, INC. AND SUBSIDIARY

December 31, 2001 and 2000

CONTENTS

Accountants and Management Consultants
Grant Thornton LLP
The US Member Firm of
Grant Thornton International

Grant Thornton

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
U. S. South Communications, Inc. and Subsidiary
Atlanta, Georgia

We have audited the consolidated balance sheets of U. S. South Communications, Inc. and Subsidiary, as of December 31, 2001 and 2000 and the related consolidated statements of earnings, changes in accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 U. S. South Communications, Inc. and Subsidiary as of December 31, 2001 and 2000 and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Atlanta, Georgia
May 3, 2002

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235 Peachtree St. N.E.
Atlanta, GA 30303-1499
Tel 404 330-2000
Fax 404 330-2047

U. S. South Communications, Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS

December 31,

ASSETS

		2001		2000
CURRENT ASSETS				
Cash and cash equivalents	$	1,168,363	$	2,138,728
Trade accounts receivable, net of an allowance for doubtful accounts of $114,789 and $178,159, respectively		6,110,980		7,850,561
Inventories		785,819		95,891
Prepaid expenses		166,079		144,201
Note receivable		143,177		253,132
Deferred tax asset		-		171,000
Other current assets		61,693		57,505
Total current assets		8,436,111		10,711,018
PROPERTY AND EQUIPMENT, NET		6,819,085		6,303,024
OTHER ASSETS				
Software development costs, net		325,383		356,971
Costs in excess of net assets acquired, net		1,939,748		1,641,245
Licenses and trademarks, net		211,813		162,013
Due from related party		17,505		9,255
		2,494,449		2,169,484
	$	17,749,645	$	19,183,526

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDER'S EQUITY

	2001	2000
CURRENT LIABILITIES		
Line of credit	$ 993,162	$ -
Current maturities of long-term debt	1,248,996	484,566
Trade accounts payable	6,512,245	9,830,913
Deferred revenue	1,332,643	2,049,157
Due to seller (Note B)	16,263	849,392
Accrued liabilities	1,386,569	1,028,046
Customer deposits	13,180	1,637,157
Total current liabilities	11,503,058	15,879,231
LONG TERM DEBT, NET OF CURRENT MATURITIES	4,148,432	2,282,291
DEFERRED TAX LIABILITY	-	563,000
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDER'S EQUITY		
Common stock, no par value, 25,000 shares authorized, 25,000 shares issued and outstanding	10	10
Retained earnings	2,098,145	458,994
	2,098,155	459,004
	$ 17,749,645	$ 19,183,526

U. S. South Communications, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF EARNINGS AND CHANGES IN RETAINED EARNINGS

Years ending December 31,

	2001	2000
Revenue (Note J)	$ 52,982,324	$ 41,977,042
Less: Discounts	8,814,712	7,429,966
Net revenue	44,167,612	34,547,076
Cost of revenue (Note G)	25,703,731	21,565,114
Gross profit	18,463,881	12,981,962
Selling, general and administrative Expenses	16,869,162	11,886,883
Operating profit	1,594,719	1,095,079
Other income (expenses)		
Interest expense	(471,157)	(176,374)
Interest income	52,678	96,229
Other income	86,373	-
Net earnings before income taxes	1,262,613	1,014,934
Income taxes (Note I)	376,538	(404,242)
Net earnings	1,639,151	610,692
Retained earnings (deficit), beginning	458,994	(151,698)
Retained earnings, end	$ 2,098,145	$ 458,994

The accompanying notes are an integral part of these statements.

U. S. South Communications, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31,

	2001	2000
Cash flows from operating activities:		
Net earnings	$ 1,639,151	$ 610,692
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for doubtful accounts	342,878	98,112
Depreciation and amortization	1,758,148	1,241,069
Changes in operating assets and liabilities:		
Accounts receivable	1,396,703	(4,759,573)
Notes receivable	109,955	(253,132)
Due from related party	(8,250)	70,122
Inventories	(689,928)	35,634
Prepaid expenses	(21,878)	1,162
Other assets	(4,188)	(26,875)
Accounts payable and accrued liabilities	(3,793,274)	5,757,712
Deferred revenue	(716,514)	388,169
Deferred taxes	(392,000)	392,000
Customer deposits	(1,623,977)	1,605,096
Net cash provided by (used in) operating activities	(2,003,174)	5,160,188
Cash flows from investing activities:		
Payment for business acquired	(482,781)	(2,670,726)
Capital expenditures	(1,859,656)	(3,771,786)
Payment for licenses and trademarks	(61,607)	-
Capitalized software development costs	(186,880)	(18,850)
Net cash used in investing activities	(2,590,924)	(6,461,362)
Cash flows from financing activities:		
Net proceeds from (payments on) debt	3,623,733	1,254,848
Net cash used in financing activities	3,623,733	1,254,848
Net increase (decrease) in cash	(970,365)	(46,326)
Cash at beginning of period	2,138,728	2,185,054
Cash at end of period	$ 1,168,363	$ 2,138,728
<u>Supplemental Disclosures of Cash Flow Information</u>		
Cash paid during the period for interest	$ 471,156	$ 176,374
Cash paid for income taxes	$ 41,506	$ 3,532

The accompanying notes are an integral part of these statements.

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

U. S. South Communications, Inc. (the "Company") was incorporated in October 1994. The Company provides prepaid telecommunications services to customers throughout the United States through its proprietary switching platform.

1. Principles of Consolidation

The accompanying financial statements have been prepared on a consolidated basis. They include the accounts of the Company, its 100% owned subsidiary, Interactive Communications International, Inc. Interactive Communications International, Inc. also provides prepaid telecommunications services to customers throughout the United States. During 2001, the sole shareholder of U.S. South Communications, Inc. transferred his 20% ownership of Interactive Communications International, Inc. to the Company. All significant intercompany accounts and transactions have been eliminated.

The December 31, 2000 financial statements have been prepared on a combined basis.

2. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 (see Note J).

3. Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of one year or less when purchased to be cash equivalents. The carrying value of cash equivalents approximates fair value.

4. Restricted Cash

At December 31, 2001 and 2000, $60,000 and $80,000 of cash equivalents was pledged as collateral on a lease agreement, respectively. This collateral is decreased annually through the remaining lease term.

5. Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist primarily of cellular equipment.

6. Property and Equipment

All property and equipment are recorded at cost. Depreciation is provided using principally the straight-line method over the estimated useful lives of the related assets, ranging from three to fifteen years.

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Software Development Costs

All software development costs are charged to expense as incurred until technological feasibility has been established for the product. Software development costs incurred after technological feasibility has been established are capitalized and amortized, commencing with product release, on a straight-line basis over three years or the useful life of the product, whichever is shorter. Accumulated amortization of software development costs was $396,954 and $178,486 at December 31, 2001 and 2000, respectively. Amortization expense charged to operations was $218,468 and $178,486, for the years ended December 31, 2001 and 2000, respectively. The Company capitalized $186,880 and $18,850 of software development costs in 2001 and 2000, respectively.

8. Cost in Excess of Net Assets Acquired and Licenses and Trademarks

The excess acquisition cost over the fair value of net assets of a business acquired is amortized over 10 years on a straight-line basis. Accumulated amortization of costs in excess of net assets acquired is $430,048 and $245,775 at December 31, 2001 and 2000, respectively. Licenses and trademarks are being amortized on a straight-line basis over 15 to 20 years. Accumulated amortization on these assets is $51,915 and $40,103 at December 31, 2001 and 2000, respectively.

9. Revenue Recognition and Estimated Costs

The Company's revenue originates from customer usage of prepaid calling cards and other long distance services. Under the majority of agreements with customers, the Company sells cards at a fixed price with normal credit terms. When the cards are activated, deferred revenue is recognized. The Company recognizes revenue and reduces the deferred revenue over the period of estimated usage up to 90 days after activation of the cards. The Company also recognizes deferred revenue upon recharge of existing phone cards and recognizes revenue over the period of estimated usage up to 60 days after recharge of the cards. Revenue for any unused minutes remaining at 60 days after activation is recorded in full based on past experience. Revenues for long distance services are recognized as time is used by the customer.

10. Advertising Expense

All advertising costs are expensed in the period incurred. Advertising expense for the years ended December 31, 2001 and 2000, was approximately $1,243,000 and $695,000, respectively.

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Income Taxes

The Company has filed a subchapter S election to be effective January 1, 2002. Accordingly, in 2001, the Company eliminated its net deferred tax liability as this will never be incurred at the corporate level.

The Company accounted for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities were recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities were measured using enacted tax rates applied to taxable income. The effect on deferred tax assets and liabilities of a change in tax rates was recognized in income in the period that includes the enactment date. A valuation allowance was provided for deferred tax assets when it was more likely than not that the asset would not be realized.

12. Major Customers and Concentration of Credit Risk

The Company's sales and accounts receivable do not represent significant concentrations of credit risk for the year ended December 31, 2001.

Sales to three customers accounted for approximately 29% of total combined sales for the year ended December 31, 2000. Additionally, approximately 18% of combined accounts receivable at December 31, 2000 were from three customers. The Company has long-term contracts with these customers.

13. Fair Value of Financial Instruments

The Company's financial instruments recorded on the balance sheet include cash, accounts receivable, accounts payable and debt. Because of their short maturities, the carrying amount of cash, accounts receivable and accounts payable approximates fair market value. The fair value of the Company's long-term debt approximates carrying value based on the current rates offered to the Company for debt of similar terms.

NOTE B – BUSINESS ACQUISITIONS

On June 30, 2000, the Company acquired certain assets of Cable & Wireless Global Card Services, Inc. and Cable & Wireless Global Business Services, Inc. for cash consideration of $2,500,000 and related direct expenses of $170,726.

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

NOTE B – BUSINESS ACQUISITIONS – CONTINUED

Effective July 1, 2000, the Company acquired certain assets of Comdata Network Inc. The purchase price of these assets is structured as follows: The Company is to pay a maximum of $258,000 of the purchase price during the period between October 1, 2000 and December 31, 2000 based upon one hundred percent of the net income generated by the customers acquired. For the period January 1, 2001 through December 31, 2004, the Company is to pay a maximum amount of $3,750,000 based on fifty percent of the net income generated by the customers acquired. These payments are to be made quarterly. As of December 31, 2001, $511,201 had been paid by the Company representing the earnout for the period October 1, 2000 through December 31, 2001. Goodwill has been increased by the amount of these payments. As of December 31, 2001 and 2000, the Company has accrued $16,263 and $849,392, respectively, due to the seller which represents operating expenses paid by the seller on behalf of the Company.

All acquisitions have been accounted for using the purchase method of accounting. Accordingly, the various assets acquired have been recorded at their respective estimated fair values as of the dates of acquisition. There were no liabilities assumed. The results of operations of the acquired businesses have been included in the accompanying statements of operations since the dates of acquisition.

The following summarizes the allocation of the purchase prices to the major categories of assets acquired for these acquisitions in 2000:

Accounts receivable	$	935,610
Inventory		50,000
Computers and equipment		100,000
Carrier deposits		500,000
Goodwill recorded		1,339,823
		2,925,433
Less purchase price accrued		(254,707)
Cash paid, including related expenses of $170,726	$	2,670,726

NOTE C – NOTE RECEIVABLE

During 2000, the Company converted an account receivable into a note receivable. The note is payable in monthly installments with final installment due on October 10, 2002. The note accrues interest at 10% per annum.

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

NOTE D - DUE FROM RELATED PARTY

At December 31, 2001 and 2000, the Company had a $17,505 and $9,255 loan to its sole shareholder, respectively. The interest rate on the loan is 5% with principal and interest payable on December 31, 2003

NOTE E – PROPERTY AND EQUIPMENT

Property and Equipment at December 31, 2001 and 2000 are summarized as follows:

	2001	2000
Equipment	$ 12,049,807	$ 10,271,783
Furniture and fixtures	325,221	265,342
Leasehold improvements	596,601	574,849
	12,971,629	11,111,974
Less accumulated depreciation	(6,152,544)	(4,808,950)
	$ 6,819,085	$ 6,303,024

NOTE F – LONG TERM DEBT

Long term debt consists of the following:

	2001	2000
Note Payable to a bank at an interest rate of 8%. Payable in monthly installments through October 2004 collateralized by a vehicle.	$ 19,842	$ 25,834
Note payable to a bank with no interest payable. Principal due in annual installments through 2003	20,000	40,000
Note payable at an imputed interest rate of 7.5% (Note G). Payable in monthly installments through December 2003	904,245	-
Capital lease obligations	4,453,341	2,701,023
	5,397,428	2,766,857
Less current maturities	1,248,996	484,566
	$ 4,148,432	$ 2,282,291

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

NOTE F – LONG TERM DEBT - CONTINUED

Capital Lease Obligations

The Company leases certain equipment under agreements classified as capital leases. Most equipment leases have purchase options at the end of the original lease term. The effective interest rate on these leases range from 9.5% to 11.1%. Property and equipment at December 31, 2001 and 2000 includes the following amounts for these leases:

	2001	2000
Equipment and installation	$ 6,029,920	$ 5,218,208
Accumulated depreciation	(2,532,566)	(2,143,368)
	$ 3,497,354	$ 3,074,840

Future minimum payments of capital leases as of December 31, 2001 are as follows:

Years ending	
2002	$ 1,410,323
2003	1,410,323
2004	1,410,323
2005	1,044,130
2006	243,409
Total minimum lease payments	5,518,508
Less amount representing interest	(1,065,167)
Present value of net minimum lease payments	$ 4,453,341

The capital lease agreements include certain covenants that place restrictions on the Company as to debt service coverage, minimum cash balances and restrictions on the amount of additional debt allowable, as defined in the agreement. As of December 31, 2001, the Company was in compliance with, or had obtained waivers for, all of these covenants.

Credit Agreement

The Company has a Credit Agreement with a financial institution, collateralized by all assets of the Company, that expires November 30, 2002 and provides for borrowings of up to $5,000,000. Interest on outstanding borrowings is payable monthly at the 30-day commercial paper rate plus 2.75% (4.53% at December 31, 2001). At December 31, 2001 and 2000, the outstanding balance was $993,162 and $0, respectively. The credit agreement includes certain covenants that, among other things, place restrictions on the Company as to a fixed charge coverage ratio and debt to EBITDA ratio as defined in the agreement. As of December 31, 2001, the Company was in compliance with, or had obtained waivers for, all of these covenants.

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

NOTE G – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain facilities and equipment under agreements classified as operating leases. Total rental expense under all operating lease arrangements was approximately $775,000 and $663,000 for the years ended December 31, 2001 and 2000, respectively. Following is a summary of approximate future minimum lease payments due under operating lease agreements as of December 31, 2001:

Years ending		
2002	$	793,746
2003		560,812
2004		417,854
2005		334,335
2006		216,993
Thereafter		49,926
	$	2,373,666

Claims and Litigation

In December 2001, the Company reached a settlement agreement in its lawsuit with one of its telecommunications providers. At December 31, 2000 the Company had accrued a $2.8 million liability relating to this lawsuit. Under the settlement agreement, the Company is required to pay $1.0 million to the telecommunications provider in monthly installments through December 2003 with imputed interest payable at 7.5%. The remaining $1.8 million that was previously accrued is recorded as a decrease in the cost of revenue for the year ended December 31, 2001 in the accompanying consolidated statements of earnings and changes in retained earnings.

The Company is involved in various claims and litigation, which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

NOTE H - QUALIFIED RETIREMENT PLAN

The Company has a qualified retirement plan whereby all employees meeting eligibility requirements based on number of hours worked and length of service may elect to make tax-deferred contributions under Section 401(k) of the Internal Revenue Code. The Company's contribution is determined at the discretion of the board of directors. The Company contributed $54,719 and $42,198 during the years ended December 31, 2001 and 2000, respectively.

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

NOTE I – INCOME TAXES

The income tax provision consisted of the following:

	2001	2000
Current	$ 15,462	$ 12,242
Deferred	(392,000)	392,000
	$ (376,538)	$ 404,242

The Company has filed a subchapter S election to be effective January 1, 2002. Accordingly in 2001, the Company recorded a deferred tax benefit of $392,000 as a result of the elimination of net deferred tax liabilities, which will never be incurred at the corporate level. For the years ended December 31, 2001 and 2000, the current expense amount of $15,462 and $12,242, respectively, represents alternative minimum taxes only as the Company utilized operating loss carryforwards.

NOTE J – CHANGE IN ACCOUNTING ESTIMATE

During 2001, the Company reviewed its method used for estimating deferred revenue and determined that circumstances had changed sufficiently to warrant a change in this estimate. This change in accounting estimate increased the Company's 2001 consolidated net revenues by $1,301,000.

NOTE K – RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, *Business Combinations*, and SFAS 142, *Goodwill and Intangible Assets*. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142.

U. S. South Communications, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

NOTE K – RECENT ACCOUNTING PRONOUNCEMENTS - CONTINUED

Major provisions of these Statements and their effective dates for the Company are as follows.

- all business combinations initiated after June 30, 2001, must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.
- intangible assets acquired in a business combination must be separately recorded from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability.
- goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.
- effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator.
- all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

In July 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. The provisions of the Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001.

Although it is still reviewing the provisions of these Statements, management's preliminary assessment is that these Statements will not have a material impact on the Company's financial position or results of operations.