



May 20, 1999
Overnight

210 N. Park Ave.
Winter Park, FL
32789

P.O. Drawer 200
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2450 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

990661-TX

RE: Application of **Essex Communications, Inc.** for Authority to Provide
Alternative Local Exchange Service

Dear Ms. Bayo:

Enclosed is the original and six (6) copies of the application of Essex Communications, Inc. for authority to provide alternative local exchange service. Also enclosed is a check for the application fee of \$250.

Please return a date stamped the copy of this cover letter in the self-addressed stamped envelope which has been provided for this purpose.

Any questions pertaining to this filing may be addressed to me at (407) 740-8575.

Sincerely,

Thomas M. Forte
Consultant to
Essex Communications, Inc.

TF/ks

cc: T. Scalice - Essex
file: Essex - FL Local
tms: FL19800

MAIL ROOM
MAY 21 11:10 AM '99

RECEIVED
PUBLIC SERVICE COMMISSION
MAY 21 1999

Check received with filing and
forwarded to Fiscal for deposit.
Filing Agent to send a copy of check
to Fiscal for proof of deposit.

Initials of person who forwarded check:

99

DOCUMENT NUMBER-DATE

06476 MAY 21 99

FPSC-RECORDS/REPORTING



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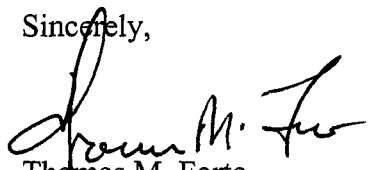
Dear Ms. Bayo:

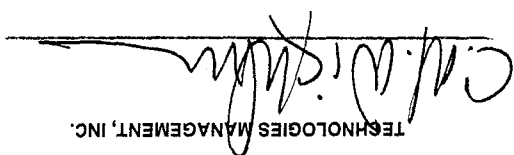
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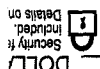
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Sincerely,


Thomas M. Forte
Consultant to
Essex Communications, Inc.


TECHNOLOGIES MANAGEMENT, INC.



DOLL

\$ **250.00

4/16/1999

NATIONSBANK
WINTER PARK, FL 32789
63-27/631

2282

TECHNOLOGIES MANAGEMENT, INC.

P.O. BOX 200
210 N. PARK AVE.
WINTER PARK, FL 32789-0200
(407) 740-8575

PAY TO THE ORDER OF Florida Public Service Commission

Florida Public Service Commission

Records & Reporting
2540 Shumard Oaks Blvd.
Tallahassee, FL 32302-1500

Florida Public Service Commission

MEMO

© 1994-1997 INTRUST INC. # R22-1-000-475-2010

**APPLICATION FORM FOR AUTHORITY TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA**

990661-TX

1. This is an application for (check one):

☒ (X) Original authority (new company)

☐ () Approval of transfer (to another certificated company)

Example: a certificated company purchases an existing company and desires to retain the original certificate authority.

☐ () Approval of assignment of existing certificate (to a noncertificated company)

Example: a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

☐ () Approval for transfer of control (to another certificated company)

Example: a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:

Essex Communications, Inc.

3. A. National Mailing Address including street name, number, post office box, city, state, zip code and phone number.

Street: 48 South Service Road, 3rd Floor

PO Box

City: Melville

State: New York

Zip 11747

Telephone: (516) 293-2700

Facsimile: (516) 777-7679

B. Florida Mailing Address including street name, number, post office box, city, state, zip code and phone number.

Not Applicable

C. Physical Address of alternative local exchange service in Florida including street name, number, post office box, city, state, zip code and phone number.

Street: 48 South Service Road, 3rd Floor
PO Box
City: Melville
State: New York
Zip: 11747
Telephone: (516) 293-2700
Facsimile: (516) 777-7679

4. Structure of organization:

- | | |
|---|--|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Corporation |
| <input checked="" type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Joint Venture | <input type="checkbox"/> Other, Please explain |

5. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: F99000002471

See Exhibit III

6. Name under which the applicant will do business (d/b/a):

Not Applicable

7. If applicable, please provide proof of fictitious name: (d/b/a) registration.

Fictitious name registration number: Not applicable

8. If applicant is an individual, partnership, or joint venture, please give name and address of each legal entity.

Not applicable

9. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

None.

10. **Please provide the title, address, telephone number, internet address and facsimile number of the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application:**

Application contact:

Name: Thomas M. Forte
 Title: Consultant to Essex Communications, Inc.
 P.O. Box: P.O. Drawer 200
 City: Winter Park
 State: Florida
 Zip: 32790-0200
 Telephone: (407) 740-8575
 Facsimile: (407) 740-0613
 Internet Address: tforte@tminc.com

Ongoing Liaison:

Name: Anthony Scalice
 Title: President
 Street: 48 South Service Road, 3rd Floor
 PO Box
 City: Melville
 State: New York
 Zip: 11747
 Telephone: (516) 293-2700
 Facsimile: (516) 777-7679
 Internet Address: _____

11. **Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.**

Essex has applied for or is certificated to provide provide local exchange service in Connecticut, Kentucky, Massachusetts, New Jersey, New York and Virginia. The Company is in the process of creating applications to provide local exchange service throughout the Bell Atlantic and BellSouth operating areas.

12. **Has the applicant been denied certification in any other state? Yes() No(X)**
If so, please list the state and reason for denial.

13. **Have penalties been imposed against the applicant in any other state: Yes() No(X)**
If so, please list the state and reason for penalty.

14. Please indicate how a customer can file a service complaint with your company.

Customers may reach the company at the toll-free customer service number, (888) 389-1400, which will be provided on each invoice for service. In addition, customers may contact the company in writing at 48 South Service Road, 3rd Floor, Melville, New York 11747.

15. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements, including:

1. the balance sheet
2. income statement
3. statement of retained earnings for the most recent 3 years

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statement should then be signed by the applicant's chief executive officer and chief financial officer. The signature should affirm that the financial statements are true and correct.

See Exhibit I.

B. Managerial capability

See Exhibit II.

C. Technical capability

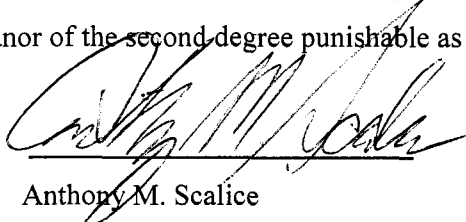
See Exhibit II.

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 and s. 775.083.

Official:



Anthony M. Scalice

Date: 3-3-99

Title:

President

Telephone: (516) 293-2700

Address:

48 South Service Road

3rd Floor

Melville, New York 11747

ESSEX COMMUNICATIONS, INC.

EXHIBIT I

FINANCIAL CAPABILITY

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended November 30, 1998

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

For the transition period from _____ to _____.

Commission File No. 0-4465
SIRCO INTERNATIONAL CORP.

(Exact name of Registrant as specified in its charter)

New York

13-2511270

(State or other jurisdiction of incorporation or organization) (IRS employer identification no.)

24 Richmond Hill Avenue, Stamford, Connecticut

06901

(Address of principal executive offices)

(zip code)

Registrant's telephone number, including area code: (203) 359-4100.

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 \$.10 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. ☐

As of February 24, 1999, the aggregate market value of the voting stock held by non-affiliates of the Registrant was \$11,811,835.

As of February 24, 1999, there were 6,617,526 shares outstanding of the Registrant's Common Stock.

Item 1. - Business

Sirco International Corp. (the "Company") is a diversified entity with operations organized into three industry segments. The Company's telecommunications division focuses on developing integrated telephone service in the emerging competitive local exchange carrier industry and offers a bundled package of telecommunications products, including local and long distance telephony, voice mail, paging, Internet access, dedicated access, Web site design, Web site hosting, and other enhanced and value-added telecommunications services tailored to meet the needs of its customers. The Company's retail division sells travel products, uniforms and study guides via retail stores, E-commerce sites and a Web site primarily to professional airline crew members. The luggage division designs, manufactures and markets on a wholesale basis a broad line of soft luggage, sports bags, backpacks, children's bags, tote bags and related products.

Development of Business

The Company was incorporated in the state of New York in 1964 and developed a line of high quality handbags, totes, luggage and sport bags to be sold at competitive prices. In 1995, the Company divested its handbag operations, which had experienced several years of operating losses. Although the Company was profitable in fiscal 1996, the loss in fiscal 1996 of two licensed trade names, "FILA" and "Atlantic," under which the Company sold a significant portion of its luggage and sport bag products, had a material adverse impact on the Company's net sales during all subsequent periods, which resulted in operating losses and a downsizing of the luggage operations. In August 1997, to help bolster luggage division sales and to provide a channel of distribution to a mobile customer base that would be a potential target for online Internet sales, the Company acquired a retail operation, Airline Ventures, Inc. ("AVI"), which sells travel and aviation related products to professional airline crew members.

During the later part of fiscal 1997, the Company's Board of Directors began to review proposals for increasing the value of the Company's Common Stock and thereby increasing shareholder value by considering alternative business opportunities, including several outside of the luggage industry. Based in part on the significant growth opportunities in the telecommunications industry and the relatively high valuations that had been placed on competitive local exchange carriers ("CLECs") by the U.S. capital markets, in the fourth quarter of fiscal 1997, the Board determined to diversify into two business segments, one focusing on the travel business, and the other focusing on the telecommunications industry, including primarily CLECs.

In furtherance of its diversification strategy, in October 1997, the Company made an investment in Access One Communications, Inc. ("Access One"), a CLEC operating in Florida that owns 95% of the capital stock of The Other Phone Company, Inc. ("OPC"), an integrated telecommunications provider based in Florida. The Company has recorded its investment as an asset on its balance sheet using the equity method of accounting. At February 24, 1999, the Company was the largest shareholder of Access One, owning approximately 31% of Access One's capital stock. Access One has advised the Company that, at February 24, 1999, OPC had approximately 18,000 local access lines.

The Company commenced operations in the telecommunications industry in fiscal 1998 by acquiring on February 27, 1998, Essex Communications, Inc. ("Essex"), a newly-formed CLEC. Essex was formed to attract and retain a geographically concentrated customer base in the metropolitan New York region, primarily through the resale of products and services of incumbent and alternative facilities-based local providers. Essex provisioned its first line in May 1998 and has grown to over 2,000 lines as of February 24, 1999. Essex has customers in New York and New Jersey, and has recently obtained permission to operate in Massachusetts, Connecticut and Virginia. Essex intends to focus its marketing efforts primarily on small and medium-sized businesses with telecommunications usage of less than \$2,000 per month. Its customer service strategy is to be more responsive and innovative in satisfying

customers' needs, while providing a product that is less expensive than telephone service provided by the Regional Bell Operating Companies ("RBOCs"). In addition to local telephone line usage, Essex sells other enhanced and value-added telecommunication services, such as voice mail, paging, long-distance, teleconferencing and Internet services.

In furtherance of the Company's telecommunications strategy, the Company acquired on August 14, 1998, WebQuill Internet Services, LLC ("WebQuill"), an Internet service provider ("ISP") based in Connecticut. WebQuill is a full-service, value-added ISP providing national dial-up access, dedicated access, Web site design, Web site hosting and E-commerce sites.

Due to the increased focus by the Company on E-commerce sites, Internet access and telecommunications services, and the significant decrease in luggage division sales in recent fiscal years, the Board of Directors decided in February 1999 to divest the Company's luggage division. Since such time, the Company has been in discussions with several prospective purchasers of the division's assets, including certain members of the Company's management. However, there can be no assurance that the Company will successfully reach an agreement with any prospective purchaser or that the terms of any such sale will be favorable to the Company. The Company's luggage division accounted for net sales of approximately \$15,553,000, \$15,732,000 and \$27,746,000 for fiscal 1998, 1997 and 1996, respectively, which accounted for approximately 91.3%, 98.3% and 100%, respectively, of the Company's net sales for such periods. The luggage division reported significant net operating losses for each of the last two fiscal years. See Note 9 of the Notes to Consolidated Financial Statements.

Information concerning sales, business segment operations and identifiable assets attributable to each of the Company's reportable industry segments can be found in Note 9 of the Notes to Consolidated Financial Statements and is incorporated herein by reference.

Business Strategy

Telecommunications Division. The Company is focusing its telecommunications marketing efforts on small and medium-sized businesses with telecommunications usage of less than \$2,000 per month. The Company's telecommunications strategy is to continue to increase its customer base by being more flexible, responsive and innovative to the needs of its target customers than the RBOCs, which have historically concentrated their sales and marketing efforts on residential and large business customers. The Company intends to expand its telecommunications customer base without any significant capital expenditures on telecommunications facilities, as the Company believes it is more cost efficient to quickly grow its telecommunications entity with a "leased facilities" or "virtual facilities" strategy in which the necessary telecommunications facilities are leased from an RBOC. Since its inception, Essex, like virtually all other non-facilities based CLECs, was primarily a reseller of local telephone service from an RBOC. Following a recent Supreme Court ruling which upheld the Federal Communications Commission ("FCC") requirements to open local phone service to competition, the Company was able to refocus its sales strategy by commencing to sell direct local access and related products and services as a facilities-based carrier through facilities leased from Bell Atlantic Corporation ("Bell Atlantic"). As a result, the Company is in the process of converting its resold customer base to leased facilities with Bell Atlantic in the state of New York. The Company's affiliate in Florida, Access One, has secured a leased facilities agreement with respect to all nine states covered by BellSouth Corporation ("BellSouth").

The Company believes its "leased facilities" strategy will afford it more flexibility to take advantage of regulatory and industry dynamics than its facilities-based competitors that are building their own facilities. For example, the FCC's position on unbundled network elements has evolved to the point where competitors are now able to purchase on an economic basis unbundled network elements from the RBOCs and bundle them into alternative local service options. The Company expects to exploit this opportunity by recombining network elements to expand its product offerings and improve its strategic

position. In addition, the Company believes the increased construction by facilities-based CLECs will ultimately benefit the Company by creating alternative wholesale partners other than RBOCs.

The Company has been certified by the applicable state Public Service Commission and currently operates as a CLEC in New York and New Jersey. In addition, the Company has been certified to operate as a CLEC in Connecticut, Massachusetts and Virginia, and may also consider the acquisition of other CLECs to increase the number of states within which it can operate. The Company has determined that multi-site customer organizations greatly desire consolidated billing for all their locations. Currently, none of the RBOCs and only a limited number of CLECs provide multi-site organizations with the option to consolidate their invoices into one consolidated bill. The Company currently offers customers the ability to receive one invoice for all their locations in a format conducive to internal accounting systems requirements and on a medium of their choice.

In furtherance of its bundling strategy, in August 1998, the Company acquired WebQuill to provide Internet access, Web design, E-commerce design and Web hosting for the customers of Essex and Access One. During 1998, WebQuill entered into a frame relay cloud agreement with Southern New England Telephone ("SNET") that allows WebQuill to provide local dial-up access, dedicated 56K frame relay access and dedicated T-1 access to customers located throughout the state of Connecticut via a single point of presence ("POP") located in Norwalk, Connecticut. In order to expand the geographic coverage of its Internet access services, in December 1998, WebQuill entered into a nationwide dial-up access agreement with an Internet access provider that provides WebQuill with access to over 450 additional POPs throughout the United States. The Company intends to enter into additional regional Internet access arrangements and deploy one or more additional Company-owned POPs during 1999, in order to increase the density of its Internet access coverage.

In order to provide an additional service to its small business customers, the Company initiated development of a virtual mall marketing and Web-hosting program for the Internet. In January 1999, the Company registered 48 Internet site names incorporating the same state postal abbreviation formats (e.g., "www.nj-search.com"). The Company plans to market sites on these virtual malls to medium and small businesses seeking a lower cost option for selling their products and services on the Internet. The Company intends to market these sites directly to existing Access One and Essex customers and primarily through third-party telemarketers to new customers.

WebQuill also designs and hosts more complex and expensive Web sites for both larger businesses and those smaller businesses intending to concentrate more of their resources on the development of Internet customer bases. These sites, commonly referred to as E-commerce sites, facilitate the purchase of goods and services with minimal need for human intervention. E-commerce sites can feature products and services databases, online database search capabilities, real time inventory availability and real time credit card processing. In addition, the Company has recently introduced an E-commerce fulfillment service, which it calls E-Complete, that provides warehousing and shipping services to its E-commerce hosting customers.

Retail Division. The objective of the Company's retail division is to be a leading supplier of travel-related and telecommunications products to pilots and flight attendants. The Company leases space from American Airlines for two retail stores that sell travel-related products to American Airline employees, including the official pilot uniform and study guides for pilots. The stores also sell identification cards, uniform supplies and travel needs to flight attendants. In addition, the stores rent pagers to flight attendants who are on reserve duty and offer Internet access services and local and long distance telephone services. The Company plans to use the knowledge and experience gained with American Airlines to provide similar products and services to employees of other airlines. Small programs have been started with Delta Airlines and Southwest Airlines to sell products in employee lounges.

The Company believes professional airline crew members are excellent targets for online retail purchases, as they are constantly mobile and frequently stay in touch with family and job-related duties via the Internet. The Company has developed and will continue to develop E-commerce sites to augment its in-store sales with sales to these and other online purchasers. The Company currently markets its travel related products through the E-commerce sites, www.avishop.com and www.800bags.com, and its Web site, www.tagintl.com.

Products and Services

The Company's telecommunications division offers a broad range of voice, data and Internet services and has integrated these services into a bundled package to offer a single source solution to meet its customers' needs. The Company believes that its ability to offer one-stop integrated communications services will enable it to capture a larger portion of its customers' total expenditures on communication services and will reduce customer turnover. The bundled package of telecommunications products includes local and long distance telephony, voicemail, paging, Internet access, dedicated access, Web site design, Web site hosting, E-commerce sites, and E-Complete, a product which provides warehousing, picking, packing and shipping in addition to E-commerce.

The retail division sells name brand luggage, apparel and other travel related accessories, as well as job related necessities, such as air maps, study guides and flight kits, to professional airline crew members. It also offers local and long distance telephony, calling cards, pagers and Internet access. These products and services are sold through three retail stores, two E-commerce sites and a Web site.

The Company's luggage division sells a wide variety of luggage, sport bags, backpacks and duffels under many trade names, including "Cross Trainer," "JT Madison," "Mondo," and "Sirco Kids," all of which are registered. In addition, the luggage division sells its products under certain trademarked names licensed from others, including "Dunlop," "Generra," "Gold's Gym," "Hedgren," "Koosh," "Maui and Sons," "Perry Ellis" and "S>>M" by MTV. See "License Agreements."

Markets and Customers

The Company focuses its telecommunications sales efforts for local and long distance services on small and medium-sized businesses having fewer than 30 business lines in any one location. The Company believes that these customers prefer a single source for all their telecommunications services. The Company has chosen to focus on this segment based on its expectations that higher gross margins will generally be available on services provided to these customers as compared to larger businesses, and that RBOCs and facilities-based CLECs may be less likely to apply significant resources to obtaining or retaining these customers. The Company expects to attract and retain these customers through a direct sales and telemarketing effort, by offering bundled local and long distance services, as well as enhanced telecommunication services, at competitive long distance rates and by responsive customer service and support.

The Company sells primarily through telemarketing agencies that are paid only if the Company is successful in provisioning the prospect into a customer. The Company does not intend to employ a significant direct sales staff, as the per line cost of acquiring new accounts is currently substantially lower using third-party telemarketers than it would be by direct marketing with Company employees. To ensure customer satisfaction, the Company emphasizes personalized care, with each customer having a single point of contact who is responsible for solving problems and responding to customer inquiries.

The Company anticipates that the development of its CLEC business will eventually impact the Company's overall seasonality trends by making quarterly revenues less divergent. However, during the growth phase of its CLEC business, the Company anticipates that it will not experience any normal seasonal trends in its telecommunications division.

The target market for the retail division is professional airline crew members. Currently, the Company sells to pilots and flight attendants from American, Delta and Southwest Airlines. The business with American Airlines is the largest, as it includes selling the American Airlines pilot uniform and various approved apparel for both pilots and flight attendants. Two of the three retail locations utilized by the Company are leased from American Airlines. Retail sales employees service walk-in customers and phone orders, and warehouse personnel process Internet orders.

The sale of product to crew members has not demonstrated any seasonality, as the customers are using the products on a daily basis as part of their normal work routine.

The luggage division sells sport bag, backpack and related products primarily to large national retail chain stores, including Target, Sears and Kmart, and to regional discount store chains, such as ShopKo and Bradlees. The Company also sells to department stores and other specialty stores, including Federated Stores (Filene's and Stern's), Innovation Luggage and Bentley's Luggage, to apparel chain stores, such as The Marmaxx Group and Ross Stores, and to fitness related stores, such as Gold's Gyms. The loss by the Company of several of these customers would have an adverse effect on the Company's operations. However, the Company believes that these customers, if lost, could be partially, if not completely, replaced by others.

During the fiscal years ended November 30, 1998, 1997 and 1996, sales to Target represented approximately 23%, 27% and 19%, respectively, of net sales; sales to Kmart represented approximately 23%, 17% and 11% of net sales in fiscal 1998, 1997 and 1996, respectively; and sales to The Marmaxx Group represented approximately 14% of net sales in fiscal 1997. No other customer accounted for more than 10% of net sales in any of such fiscal years.

The Company currently maintains luggage division showrooms in New York City and Ontario, Canada. The Company solicits business directly from its customers, using the services of both full-time sales persons and independent sales representatives. The independent sales representatives represent a number of manufacturers or wholesalers other than the Company, and are compensated on a commission basis, typically pursuant to the terms of a non-exclusive sales representative contract. The Company fills orders on the terms and conditions of standard purchase orders it receives from customers.

The Company's percentage of luggage sales by fiscal quarter for the fiscal years ended November 30, 1998, 1997 and 1996 are as follows:

	Fiscal <u>1998</u>	Fiscal <u>1997</u>	Fiscal <u>1996</u>
First Quarter	22.5%	19.2%	23.7%
Second Quarter	30.5	19.4	27.5
Third Quarter	25.7	37.1	27.7
Fourth Quarter	<u>21.3</u>	<u>24.3</u>	<u>21.1</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The Company's luggage division typically experiences seasonality that yields stronger operating results in the third and fourth quarters, and weaker operating results in the first quarter. Operating results in the Company's second fiscal quarter can be positively impacted by the strength of the Company's "back to school" business.

License Agreements

The Company's luggage division has licensing agreements which allow it to produce and sell luggage, sport bags and related travel accessories bearing the trade names of "Dunlop," "Generra," "Gold's Gym," "Hedgren," "Koosh," "Maui and Sons," "Perry Ellis" and "S>>M" by MTV. Sales by the Company under trademarked names licensed from others accounted for approximately 61%, 66% and

83% of the Company's net sales during the fiscal years ended November 30, 1998, 1997 and 1996, respectively.

The licenses generally entitle the Company to use the names, symbols and logos of the licensors on an exclusive basis in the manufacture and sale of the Company's products within a defined territory. All of the Company's licenses call for a royalty to be paid to the licensor based on a percentage of net sales, except for the license for Hedgren products, which is based on a percentage of net purchases. Royalties vary by product and licensor and generally range from 5.0% to 7.0% of net sales. Minimum payments are applied against royalty fees either over the term of the contract or annually, depending on the contract. In addition, the licenses generally require payments by the Company to certain promotional programs sponsored by the licensor.

During fiscal 1996, the Company received notification from Airway Industries Inc. ("Airway") that Airway would not renew its license agreement with the Company pursuant to which Sirco International (Canada) Limited, the Company's Canadian subsidiary ("Sirco Canada"), was granted an exclusive license to sell in Canada, luggage and luggage-related products under the trade names "Atlantic" and "Oleg Cassini" through December 31, 1996. During the fiscal years ended November 30, 1997 and 1996, sales of Atlantic product approximated \$472,000, and \$5,782,000, respectively, which represented approximately 2.9% and 20.8%, respectively, of the Company's total net sales for those periods, and approximately 63.8% and 95.4%, respectively, of the total net sales of Sirco Canada for those periods. Sirco Canada lost approximately \$167,000 in the fiscal year ended November 30, 1997 and earned approximately \$434,000 in the fiscal year ended November 30, 1996. In addition, following receipt of notification from Airway and Douglas Turner, then the President of Sirco Canada and a Director of the Company, that Airway and Mr. Turner had mutually agreed to Airway's future employment of Mr. Turner in its efforts to distribute directly its products in Canada, the Company terminated its employment of Mr. Turner in September 1996. The loss of the Airway license had an adverse effect on the Company's results of operations for the fiscal years ending November 30, 1998 and 1997.

After extensive negotiations with FILA Sport S.p.A. ("FILA"), in February 1996, the Company and FILA entered into an agreement pursuant to which the Company ceased shipping FILA product under a non-exclusive license with FILA during fiscal 1996. Net sales of the FILA product for the fiscal year ended November 30, 1996 were approximately \$8,584,000 (including approximately \$482,000 sold to FILA), or 30.9% of the Company's total net sales. The loss of the ability to sell product bearing the FILA trademark had an adverse effect on the Company's results of operations through the fiscal year ending November 30, 1998.

Trademarks

The Company's luggage division sells products under proprietary trade names and logos, including "Cross Trainer," "JT Madison," "Mondo," and "Sirco Kids," all of which are registered in the United States. The Company considers its trademarks to be of considerable value to its luggage division business and intends to protect them to the fullest extent practicable. The Company takes all reasonable measures to assure that any product bearing a Company-owned trademark or logo reflects the consistency and quality associated with its products bearing licensed trademarks or logos.

Backlog

The Company's telecommunications division bills features and services in advance and usage in arrears. Due to the nature of the Company's agreements with Bell Atlantic, there is no backlog of unprovisioned customers at any given time, as a customer can be switched to the Company system in one day. The Company's retail division operates without a backlog, as Internet orders and catalog orders are typically shipped within one day of receipt. A substantial portion of the net sales of the Company's

luggage division is based on orders for immediate delivery and therefore, backlog is not necessarily indicative of future net sales for this division.

Vendors

The telecommunications division does not own any part of a local exchange network or a long distance network and is completely reliant on third party vendors for the services it provides to its customers, except for the Internet services provided by its subsidiary, WebQuill. As a result, the Company depends entirely on facility-based carriers for the transmission of customer phone calls. For each local exchange market in which the Company operates, there currently is a single provider from whom the Company can purchase local exchange service on a ubiquitous basis. Under the Telecommunications Act of 1996, the Company is entitled to access to such local exchange service. Although the Company believes that its relations with its underlying carriers are good, and it believes that its carriers want to cooperate with the development of the Company's business, the termination of any of the Company's contracts with its carriers or a reduction in the quality or increase in the cost of such carriers' services could have a material adverse effect on the Company's financial condition and results of operations.

The Company also relies on the carriers for timely and accurate call detail records so that the Company can invoice its customers. Furthermore, it relies on a third party to read the usage tapes provided by the carrier and generate an invoice to send to the Company's customers.

The Company purchases products for its retail division from various domestic suppliers who have license agreements to sell product displaying the American Airlines, Inc. logo or trade name. The Company also buys non-logo product from a variety of domestic sources.

The Company's luggage, sport bag, backpack and related products are primarily produced by various manufacturers in the People's Republic of China, the Philippines, Taiwan and Thailand. Although the simultaneous loss of several of these manufacturers would temporarily adversely affect the Company's business, the Company is of the opinion that generally these manufacturers could be replaced by others. The Company's business could also be adversely affected by a disadvantageous change in the exchange rate of the dollar with certain foreign currencies, by changes in tariffs or import restrictions, as well as political and economic conditions in the countries from which it imports.

The following table sets forth by percentage of purchases for the fiscal years ended November 30, 1998, 1997 and 1996, countries in which the luggage division's products were manufactured:

	Fiscal <u>1998</u>	Fiscal <u>1997</u>	Fiscal <u>1996</u>
China	73.3%	67.8%	63.9%
Philippines	17.7	6.3	7.3
Taiwan	6.4	14.5	17.5
Thailand	2.6	6.6	3.3
Indonesia	0.0	4.6	0.0
Korea	0.0	0.2	2.9
Other	<u>0.0</u>	<u>0.0</u>	<u>5.1</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Competition

The Company's telecommunications division operates in a highly competitive environment and has no significant share in any market in which it operates. Most of its actual and potential customers have substantially greater financial, technical, marketing and other resources (including brand name

recognition) than the Company. For example, AT&T Corp., MCI Communications and Sprint Corporation, among other carriers, have each begun to offer local telecommunications services in major U.S. markets using their own facilities or by reselling the Incumbent Local Exchange Carrier's ("ILECs") services. Furthermore, the continuing trend toward business alliances in the telecommunications industry and the lack of substantial barriers to entry in the data and Internet services markets could help to generate substantial new competition. In each of the states in which the Company is licensed, the primary competitor is the ILEC serving that geographic area. ILECs are established providers of dedicated and local telephone services to all or virtually all telephone subscribers within their respective service areas. ILECs also have established relationships and know-how with regard to interacting with regulatory authorities at the federal and state levels. While recent FCC administrative decisions and initiatives provided increased business opportunities to voice, data and Internet-service providers such as the Company, the decisions also provide the ILECs with increased pricing flexibility.

In addition to competition from long distance service providers and ILECs, several other entities currently offer or are capable of offering local service, such as cable television companies, electric utilities, microwave carriers and wireless telephone system operators. These entities, upon entering into appropriate interconnection agreements or resale agreements with ILECs, can offer single source local and long distance services like those offered by the Company.

The competition for retail sales to professional airline crew members is highly fragmented and has few barriers to entry. The Company's ability to compete effectively is directly related to the level of cooperation and publicity that airlines generate for the retail outlets run by the Company. Currently the Company enjoys an advantage with American Airlines because it is allowed to sell certain products to American Airlines' employees on a payroll deduct program and it is allowed to sell pilot uniforms. These agreements, in addition to two leases from American Airlines for retail sites in Dallas, Texas, help to limit the extent of competition in the Dallas area. However, the Company competes nationwide against several online retailers and against retail stores in various cities that are important airline hubs.

The Company experiences substantial competition in most of its luggage, sport bag, backpack and related product categories from a number of well established domestic and foreign distributors, some of which have greater financial resources than the Company. The Company believes the principal competitive factors affecting its business are styling, pricing and distribution. Increased competition by existing and future competitors could result in reductions in sales or prices of the Company's products that could materially impair the Company's profitability. In addition, a substantial portion of the Company's products are sold under non-exclusive licensing agreements. Although the Company has been successful in obtaining and renewing such licenses, there can be no assurance that existing competitors will not obtain competing licenses in the future or that additional large, well-financed companies will not enter the licensed luggage, sport bag or backpack business. Because the Company imports its manufactured goods from overseas suppliers, delivery to its customers is dependent upon the timing of overseas manufacturing and shipping schedules, which may put the Company at a competitive disadvantage to domestic manufacturers.

Government Regulation

Local and long distance telecommunications services are subject to regulation by the FCC and by state regulatory authorities. Among other things, these regulatory authorities impose regulations governing the rates, terms and conditions for interstate and intrastate telecommunications services and require the Company to file tariffs for interstate and international service with the FCC and obtain approval for intrastate service provided in the states in which it currently markets its services. The Company must obtain and maintain certificates of public convenience and necessity from regulatory authorities in the states in which it operates. The Company is also required to file and obtain prior regulatory approval for tariffs and intrastate services. In addition, the Company must update or amend the tariffs and, in some cases, the certificates of public convenience and necessity, when rates are adjusted or new products are added to the local and long distance services offered by the Company.

Changes in existing laws and regulations, particularly regulations resulting in increased price competition, may have a significant impact on the Company's business activities and on the Company's future operating results. The Company is also subject to Federal Trade Commission regulation and other federal and state laws relating to the promotion, advertising and direct marketing of its products and services. Certain marketing practices, including the means to convert a customer's long distance telephone service from one carrier to another, have recently been subject to increased regulatory review of both federal and state authorities. Even though the Company has implemented procedures to comply with applicable regulations, increased regulatory scrutiny could adversely affect the transitioning of customers and the acquisition of new customer bases. Amendments to existing statutes and regulations, adoption of new statutes and regulations and expansion of the Company's operations into new geographic areas and new services could require the Company to alter methods of operation or obtain additional approvals, at costs which could be substantial. There can be no assurance that the Company will be able to comply with applicable laws, regulations and licensing requirements. Failure to comply with applicable laws, regulations and licensing requirements could result in civil penalties, including substantial fines, as well as possible criminal sanctions.

Employees

At February 24, 1999, the Company employed 88 employees, of which 77 were employed on a full-time basis and 11 were employed on a part-time basis, and had approximately 15 independent sales representatives. At such date, 11 of the Company's employees were employed in the Company's executive offices in Stamford, Connecticut; 42 were employed in the Company's warehouse in La Mirada, California; 12 were employed in the Company's retail division stores in Dallas, Texas; 19 were employed in the Company's telecommunications subsidiaries; and 4 were employed in the Company's Canadian showroom and warehouse facilities in Ontario, Canada. The Company is not subject to any collective bargaining agreement and believes that its relationship with its employees is good.

Forward Looking Statements

The statements contained in this Report that are not historical facts are "forward-looking statements" which can be identified by the use of forward-looking terminology, such as "estimates," "projects," "plans," "believes," "expects," "anticipates," "intends," or the negative thereof or other variations thereon, or by discussions of strategy that involve risks and uncertainties. Management wishes to caution the reader of the forward-looking statements, such as the Company's plans to expand the number of states in which its telecommunications division operates, to divest its luggage operations, to take advantage of the market opportunity presented by the Company's target markets and to further develop the Company's telecommunications, Internet and retail airline businesses, in addition to other statements contained in this Report regarding matters that are not historical facts, that these statements are only estimates or predictions. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of risks facing the Company, and actual events may differ from the assumptions underlying statements which have been made regarding anticipated events. Such risks and assumptions include, but are not limited to the Company's ability to successfully market its services to current and new customers, generate customer demand for its product and services in the geographical areas in which the Company can operate, access new markets, negotiate and maintain suitable reseller and interconnection agreements with the ILECs, and negotiate and maintain suitable vendor relationships, all in a timely manner, at reasonable cost and on satisfactory terms and conditions, as well as regulatory, legislative and judicial developments that could cause actual results to vary in such forward looking statements. All written and oral forward looking statements made in connection with this Report that are attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Item 2. - Properties

The following table sets forth pertinent facts concerning the Company's material properties at February 24, 1999, all of which are owned or leased by either the Company or one of its subsidiaries:

Property Owned:

Location	Use	Approximate Square Feet
1321 Blundell Road Mississauga Ontario, Canada L4Y 1M6	Showroom, Offices	35,000 (leases out 28,800 SF)

Properties Leased:

Location	Use	Approximate Square Feet	Lease Expires	Annual Rent(1)
366 Fifth Avenue New York, NY 10001	Showroom (2)	3,340	10/18/06	\$ 96,000
48 South Service Road Melville, NY, 11747	Office	5,486	4/30/03	\$ 93,000
24 Richmond Hill Avenue Stamford, CT. 06901	Executive Offices (2)	7,800	6/30/01	\$112,000
16000 Heron Avenue La Mirada, CA. 90638	Warehouse (2)	116,000(3)	3/31/00	\$456,000
1930 W. Airfield Drive DFW Airport, TX 75261	Warehouse	2,000	7/31/00	\$ 13,000
Terminal 3E DFW Airport, Texas 75261	Retail	1,700	8/24/00	\$ 55,000
8412 Sterling Suite B Irving, Texas, 75063	Warehouse	2,470	9/30/00	\$ 15,000

- (1) The Company is required to pay its proportionate share of any increase during the term of the lease in real estate taxes and expenses of maintaining the premises computed on the basis of the percentage of the total square footage of the premises occupied by the Company.
- (2) These leased facilities, in addition to the owned property in Mississauga, Canada, are part of the luggage operations that the Company has offered for sale.
- (3) Approximately 38,000 square feet of warehouse and office space has been subleased to Bueno of California, Inc., the purchaser of the Company's former handbag division, through the end of the lease term at a rental rate of \$10,000 per month, increasing to \$17,000 per month in the last year of the lease term.

The Company's owned and leased space is fully utilized for the purposes set forth in the table above under the caption "Use," except those spaces marked as belonging to the luggage division. The Company believes that the remaining properties are suitable and adequate for the business of the Company.

Item 3. - Legal Proceedings

The Company is not involved in any pending legal proceeding other than non-material ordinary routine litigation incidental to its business.

Item 4 - Submission of Matters To a Vote of Security Holders

None.

Part II

Item 5. - Market for the Company's Common Equity and Related Stockholder Matters

The Common Stock, \$.10 par value (the "Common Stock"), of the Company is traded in the over-the-counter market and is quoted on the NASDAQ SmallCap Market. The high and low bid quotations for each quarterly period of the Company's last two fiscal years are listed below:

	<u>High</u>	<u>Low</u>
<u>Fiscal 1997</u>		
1 st Quarter	\$3.500	\$1.750
2 nd Quarter	7.375	3.500
3 rd Quarter	7.750	5.875
4 th Quarter	7.250	3.250
 <u>Fiscal 1998</u>		
1 st Quarter	\$4.375	\$1.625
2 nd Quarter	7.000	3.375
3 rd Quarter	6.563	1.000
4 th Quarter	1.719	0.625

The quotations set forth in the table above reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions. In addition, where applicable, such quotations have been adjusted to give effect to the two-for-one stock split effected in May 1997.

As of February 24, 1999, there were 313 holders of record of the Common Stock and approximately 1,300 beneficial holders.

The Company has not declared any cash dividends during the past fiscal year with respect to the Common Stock. The declaration by the Company of any cash dividends in the future will depend upon the determination of the Company's Board of Directors as to whether, in light of the Company's earnings, financial position, cash requirements and other relevant factors existing at the time, it appears advisable to do so. The Company's current financing arrangements contain certain restrictions regarding the payment of dividends.

On September 4, 1998, the Company acquired from Access One 400,000 shares of Common Stock, par value \$.001 per share, of Access One in consideration of the issuance by the Company of 400,000 shares of Common Stock of the Company. In September 1998, the Company also issued 50,000 shares of Common Stock to the former shareholders of Essex in conjunction with the attainment of certain performance objectives agreed to in connection with the acquisition of Essex, and 30,916 shares of Common Stock to Geils & Co., in conjunction with fees earned for acquisition and financing services. Such transactions were effected pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 6. - Selected Financial Data

The following selected financial information has been taken from the consolidated financial statements of the Company. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this report.

	Fiscal Years Ended November 30,				
	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(In thousands, except per share amounts)				
Earnings Statement:					
Net Sales	\$ 17,037	\$ 16,008	\$ 27,746	\$ 24,812	\$ 27,600
Gross Profit	3,066	2,205	7,088	6,130	6,067
Income (Loss) Before Provision for Income Taxes and Extraordinary Items	(5,135)	(2,994)	925	(996)	(2,435)
Net Income (Loss)	(4,977)	(2,868)	622	(996)	(2,435)
Net Income (Loss) per Common Share:					
Basic	(0.96)	(0.88)	0.24	(0.41)	(1.01)
Diluted	(0.96)	(0.88)	0.23	(0.41)	(1.01)
Cash Dividends	-	-	-	-	-
Balance Sheet:					
Working Capital	\$ 334	\$ 5,107	\$ 1,553	\$ 1,142	\$ 1,362
Property, Plant, Equipment	835	827	888	650	773
Total Assets	11,029	14,042	9,577	10,003	10,252
Long-Term Debt (Less Current Maturities)	291	4,522	348	590	50
Stockholders' Equity	3,754	3,216	2,780	1,897	2,898

Item 7. - Management's Discussions and Analysis of Financial Condition and Results of Operations

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, among others, general economic and business conditions; industry trends; the loss of major customers; dependence on foreign sources of supply; the loss of licenses; availability of management; availability, terms and deployment of capital; the seasonal nature of the Company's business; and changes in state and federal regulations of the telecommunications industry.

Fiscal Year 1998 Compared to Fiscal Year 1997

Net sales for fiscal 1998 increased by approximately \$1,029,000 to approximately \$17,037,000 as compared to approximately \$16,008,000 reported in fiscal 1997. The following table presents the Company's net sales by industry segment for the fiscal years ended November 30, 1998 and 1997:

<u>Industry segment</u>	<u>Fiscal 1998</u>	<u>Fiscal 1997</u>	<u>Increase (Decrease)</u>
Wholesale luggage	\$15,553,000	\$15,732,000	(\$179,000)
Retail sales	1,111,000	276,000	835,000
Telecommunications	<u>373,000</u>	<u>-</u>	<u>373,000</u>
Total	<u>\$17,037,000</u>	<u>\$16,008,000</u>	<u>\$1,029,000</u>

Net sales for the Company's wholesale luggage division in fiscal 1998 were similar to the net sales from the prior fiscal year as the luggage division's net sales decreased approximately \$179,000, or 1%, as compared to the prior fiscal period.

Net sales of the Company's retail division, consisting of the operations of AVI, increased by approximately \$835,000 in fiscal 1998 to approximately \$1,111,000 from approximately \$276,000 in fiscal 1997 as the Company reported a full year of retail operations in fiscal 1998 as compared to only three months in fiscal 1997. AVI operates three retail stores in Texas for professional airline flight crew members and sells pilot uniforms, study guides and travel products. Its products are also sold on an E-commerce site, www.avishop.com, and on a Web site, www.tagintl.com. The Company is aggressively working to increase sales in this division and believes that the promotion of its E-commerce site for online purchases, the acquisition in January 1999 of a smaller competitor and the awarding by American Airlines of a new pilot shirt to which AVI will have exclusive selling rights should result in an increase in net sales for fiscal 1999 of at least fifty percent over the net sales in fiscal 1998.

Net sales of the Company's telecommunications division, consisting of the operations of Essex and WebQuill, amounted to approximately \$373,000 in fiscal 1998, its first year of operation. Essex is certified to resell local telephone services and value-added products in the states of Connecticut, Massachusetts, New Jersey, New York and Virginia and currently has over 2,000 installed access lines. WebQuill provides dial-up and dedicated Internet access, Web design, hosting and E-commerce development to small and medium sized businesses.

The telecommunications division is currently billing approximately \$150,000 per month to its customers, or approximately \$1,800,000 on an annualized basis. The Company believes that fiscal 1999 sales can be greater than the current annualized monthly sales figures if the Company obtains the appropriate financial resources to fund the telecommunications division's growth. The Company plans to focus a greater amount of its total corporate resources on this division once the anticipated divestiture of the luggage division occurs.

The Company's gross margin increased in fiscal 1998 by approximately \$861,000 to approximately \$3,066,000 from approximately \$2,205,000 in fiscal 1997. The Company's gross margin percentage increased to 18.0% in fiscal 1998 from 13.8% in fiscal 1997. The increase in gross margin percentage is primarily due to the favorable mix of higher margin products in the luggage division, which reported a gross margin of 17%, combined with a 44% gross margin from the retail division and a 14% gross margin from the telecommunications division. The Company anticipates that the retail division margins will not vary significantly in fiscal 1999 and that the telecommunications division margins will increase dramatically, toward a 30% level on a going-forward basis as the Company converts approximately 2,000 lines that are being resold in New York on the Bell Atlantic network to a Bell Atlantic leased network facility. The Company plans to convert such lines over the next six months.

Selling, warehouse and general and administrative expenses increased in fiscal 1998 by approximately \$1,279,000, or approximately 24.8%, to approximately \$6,446,000 from approximately \$5,167,000 reported in fiscal 1997. This increase in expenses was primarily attributable to the Company's telecommunications operations, which were not in operation in fiscal 1997, and to the Company's retail division, which was only in operation for three months in fiscal 1997.

Interest expense decreased in fiscal 1998 by approximately \$60,000, or 10.5%, to approximately \$514,000 from approximately \$574,000 reported in fiscal 1997 due to relative changes in average borrowings for the periods.

Miscellaneous income decreased in fiscal 1998 by approximately \$345,000 to approximately \$133,000 from approximately \$478,000 reported in fiscal 1997. This decrease represented a decline in the Company's commission income generated from sales arranged by the Company between overseas suppliers and certain customers that was offset in part by an increase in rental income.

The Company is currently the largest shareholder of Access One, owning approximately 31% of Access One's capital stock at February 24, 1999. As the Company's investment in Access One is accounted for under the equity method of accounting, the Company is required to include its portion of Access One's net loss in the Company's results of operations. For fiscal 1998, the Company has recorded a loss of approximately \$1,423,000 relating to its investment in Access One. The Company has been advised by Access One that Access One's losses in fiscal 1998 were primarily the result of funding aggressive customer growth and the related costs associated with hiring employees to verify and provision lines, to staff a customer service operation and to develop a management information system. In addition, in fiscal 1998, Access One purchased local telephone service from BellSouth at a wholesale discount of 16.8% and passed on almost half of its discount to its customer base. The gross profit on this business was not large enough to cover the selling, general and administrative expenses associated with operating a local phone company. However, in February 1999, Access One signed a leased

facilities agreement with BellSouth pursuant to which it can substantially increase its gross profit percentage on local service. If Access One can successfully convert its customers to this leased facilities agreement, Access One anticipates being able to reach a monthly breakeven level within the next twelve months.

Fiscal Year 1997 Compared to Fiscal Year 1996

The Company reported operations in one business segment in fiscal 1997 and 1996. Net sales for fiscal 1997 decreased by approximately \$11,738,000 to approximately \$16,008,000 as compared to approximately \$27,746,000 reported in fiscal 1996. Net sales for the Company's United States and Canadian operations decreased in fiscal 1997 by approximately \$6,450,000 and \$5,288,000, respectively, from amounts reported in the prior fiscal year. This decline in net sales was primarily attributable to three developments: the Company's loss of the license to sell FILA Sport S.p.A. ("FILA") product (see below) in the United States, effective in June 1996; the Company's loss of the license to sell product from Airway Industries, Inc. ("Airway") (see below) in Canada, effective in December 1996; and a decrease in demand in the United States for the Company's other mature brand names. This decline in net sales was partially offset by sales growth in new licenses that were signed in 1996 for the Perry Ellis and Hedgren brand names. Net sales per brand name for the two fiscal years were as follows:

	<u>Fiscal</u> <u>1997</u>	<u>Fiscal</u> <u>1996</u>	<u>Increase/</u> <u>(Decrease)</u>
Perry Ellis, Hedgren	\$3,443,000	\$ 206,000	\$ 3,237,000
FILA		8,584,000	(8,584,000)
Airway	472,000	5,782,000	(5,310,000)
Other brand names	<u>6,665,000</u>	<u>8,830,000</u>	<u>(2,165,000)</u>
Total brand names	10,580,000	23,402,000	(12,822,000)
Unlicensed product	<u>5,428,000</u>	<u>4,344,000</u>	<u>1,084,000</u>
Total net sales	\$16,008,000	\$27,746,000	\$(11,738,000)

The Company's gross profit for fiscal 1997 decreased by approximately \$4,883,000 to approximately \$2,205,000 from approximately \$7,088,000 in fiscal 1996, and the gross profit percentage in fiscal 1997 decreased to 13.8% from 25.5% in fiscal 1996. The decrease in gross profit percentage was primarily attributable to the lack of a sufficiently large revenue base over which to spread fixed costs and to a change in product mix. The change in product mix had two components. First, fiscal 1997 net sales contained a higher percentage of unlicensed products, which traditionally have a lower gross profit margin, and second, fiscal 1997 net sales included net sales relating to the new brand names of Perry Ellis and Hedgren, as compared to the more established brand names of FILA and Atlantic in fiscal 1996. Established brand name products generally are able to demand a higher gross margin than less established brand name products, which are vying for shelf space with other new products from competitors.

After extensive negotiations in February 1996, the Company and FILA entered into an agreement pursuant to which the Company ceased shipping products under the FILA license on June 30, 1996. The Company sold approximately \$8,584,000 of FILA product in fiscal 1996 compared to no sales of FILA product in fiscal 1997. The loss of the FILA trademark had an

adverse impact on the Company's results of operations in the fiscal year ended November 30, 1997.

During fiscal 1996, Airway notified the Company that it would not renew its license agreement with the Company, pursuant to which Sirco Canada was granted an exclusive license to sell in Canada luggage and luggage related products under the trade names "Atlantic" and "Oleg Cassini" through December 31, 1996. In November 1996, the Company entered into an agreement with Airway, whereby Airway agreed, among other things, to purchase any remaining Atlantic inventory owned by Sirco Canada on December 31, 1996, to purchase certain fixed assets and to enter into a two-year lease for a substantial portion of the premises owned by Sirco Canada at fair market value. In November 1996, the Company restructured Sirco Canada, hired a new president to run the operation and started to market the Company's other licensed products in Canada. Sirco Canada sold approximately \$472,000 of Airway product in the first quarter of fiscal 1997 prior to the December 31, 1996 termination date. Sirco Canada sold approximately \$5,782,000 of Airway product in fiscal year 1996. The loss of the Airway license had an adverse impact on the Company's results of operations for fiscal 1997.

During fiscal 1997, the Company terminated its license for products bearing the "Skechers" trade name or logo, which products had not generated the sales volume that was anticipated. On December 31, 1997, the Company's license for Cherokee products expired and was not renewed.

Selling, warehouse and general and administrative expenses decreased by approximately \$739,000 to approximately \$5,166,000 from approximately \$5,905,000 in fiscal 1996. The reduction in expenses was attributable to lower selling expenses as a result of the reduction in net sales, and lower warehousing and general and administrative expenses as a result of the restructuring of the Company's Canadian operation. Included in the selling, warehouse and general and administrative expenses reported in fiscal 1996 was a one-time write-off of restrictive covenants, with a book value of approximately \$152,000, which resulted from the prepayment in fiscal 1996 of the Company's obligations to the Company's former parent, Yashiro Company, Inc. ("Yashiro"), and the release of any covenants not to compete between the Company and Yashiro, as provided for under non-competition agreements entered into between the Company and Yashiro in March 1995 in connection with the sale by the Company of its former handbag division.

Interest expense decreased in fiscal 1997 by approximately \$200,000 to approximately \$573,000 from approximately \$773,000 reported in fiscal 1996 due to lower average borrowings and a new working capital lender in fiscal 1997 for which the Company was able to pay down working capital loan advances with cash collections in a more expedient manner than was possible under the working capital facility employed in fiscal 1996.

Miscellaneous income increased in fiscal 1997 by approximately \$21,000 to approximately \$478,000 from approximately \$457,000 reported in fiscal 1996. The decline of approximately \$29,000 in the Company's commission income generated from sales arranged by the Company between overseas suppliers and certain domestic customers was offset by an increase of approximately \$50,000 in rental income reported by the Company's Canadian subsidiary as a result of a restructuring of the Company's Canadian operations.

The income tax benefit in fiscal 1997 of approximately \$126,000 is for the recovery of Canadian income taxes paid in prior years. The provision for income taxes in fiscal 1996 of approximately \$303,000 primarily consisted of Canadian corporate income taxes.

Liquidity and Capital Resources

At November 30, 1998, the Company had cash and cash equivalents of approximately \$352,000 and working capital of approximately \$334,000, an increase of approximately \$238,000 and a decrease of approximately \$4,774,000, respectively, over amounts reported at November 30, 1997. The decrease in working capital results primarily from a reclassification of the Company's working capital loan on the balance sheet. As discussed below, the full amount of borrowings from the Company's working capital lender is classified as a current liability at November 30, 1998, whereas a substantial portion, or approximately \$4,199,000, was classified as long-term debt at November 30, 1997.

Net cash provided by (used in) operating activities aggregated approximately \$1,783,000, (\$6,627,000) and \$2,044,000 in fiscal 1998, 1997 and 1996, respectively. The increase in net cash provided by operating activities in fiscal 1998 as compared to fiscal 1997, primarily reflects a decrease in inventory and accounts receivable offset by the increase in the Company's net loss from operations. The reduction in inventory levels is primarily due to the Company's ability to better manage purchases relative to sales forecasts and the lack of import quota purchase constraints in fiscal 1998 that existed in fiscal 1997. The reduction in accounts receivable primarily reflects tighter credit and collection policies. The increase of approximately \$8,671,000 in net cash used in operating activities in fiscal 1997, as compared to fiscal 1996, primarily reflects the poor operating results for fiscal 1997 as compared to fiscal 1996 and the need to maintain higher inventory levels than normal to generate sales.

Net cash used in investing activities aggregated approximately \$298,000, \$58,000 and \$158,000 in fiscal 1998, 1997 and 1996, respectively. The principal uses of cash from investing activities in fiscal 1998, 1997 and 1996 was for the purchase of fixed assets, which included renovation of the Company's New York City showroom in fiscal 1996. In fiscal 1998 and 1997, the principal sources of net cash provided by investing activities was proceeds from the sale of a subsidiary.

Net cash (used in) provided by financing activities aggregated approximately (\$1,399,000), \$6,391,000 and (\$1,503,000) in fiscal 1998, 1997 and 1996, respectively. In fiscal 1998, net cash used in financing activities resulted from a decrease in long-term debt of approximately \$4,231,000 which was partially offset by an increase in short-term debt of approximately \$1,671,000; proceeds of approximately \$18,000 from the exercise of stock options; proceeds of approximately \$651,000 from a private equity placement; and proceeds of approximately \$468,000 from the exercise of stock warrants. In fiscal 1997, repayments of short-term debt of approximately \$1,601,000 were offset by an increase of approximately \$5,714,000 in net cash provided by a revolving credit facility. This increase was the result of a working capital agreement (see below) under which the Company may borrow up to 80% of the dollar amount of its eligible accounts receivable and 50% of its eligible inventory. During fiscal 1997, the Company also received approximately \$166,000 in proceeds from the exercise of stock options; approximately \$609,000 in proceeds from a private equity placement; and approximately \$1,509,000 in proceeds from the exercise of stock warrants.

On December 17, 1996, the Company entered into a financing agreement with Coast Business Credit ("Coast"), a division of Southern Pacific Thrift and Loan Association, pursuant to which Coast makes available to the Company a line of credit of \$7,000,000 with advances based on 80% of the Company's eligible accounts receivable and 50% of the Company's eligible inventory. Under the terms of the agreement, inventory financing is not to exceed \$3,000,000, including letters of credit. Interest on the loan is 2% per annum above the prime rate. As of November 30, 1998, the Company was indebted to Coast in the principal amount of approximately \$3,186,000 and had no outstanding letters of credit. At November 30, 1998, the prime rate was 7.75%. Although this loan matures on December 31, 1999, the entire loan was reclassified as a current liability at November 30, 1998 because the Company was in violation of two loan covenants at such date, one of which has since been cured. Although Coast offered to provide a written waiver of such violations, the Company declined to accept such waiver as it deemed the conditions of the waiver to be unreasonably expensive. The reclassification of debt from long-term to current had a significant impact on the Company's working capital position at November 30, 1998. The Company expects that all amounts due to Coast will be repaid in full in connection with the disposition of the Company's luggage division.

Sirco Canada has a mortgage on its real property in the amount of \$298,000. The mortgage is payable in monthly installments of approximately \$3,138, which includes interest at the rate of 10.25% per annum, with a balloon payment of approximately \$291,000 in the year 2000. As of November 30, 1998, Sirco Canada was in violation of a loan covenant, which violation was permanently waived by the bank. Sirco Canada does not have a working capital lender or letter of credit facility. The Company uses the letter of credit facility from its financing agreement with Coast to open letters of credit for purchases made directly by Sirco Canada. Sirco Canada reimburses the Company for all appropriate expenditures made on behalf of Sirco Canada. Sirco Canada is part of the wholesale luggage division which the Company plans to divest.

In fiscal 1998, the Company had approximately \$198,000 in capital expenditures. The Company expects to make additional capital expenditures for equipment for its telecommunications division over the next twelve months, but does not expect them to be significant.

At November 30, 1998, the Company owned approximately 31% of Access One, a Florida-based competitive local exchange carrier that had at February 24, 1999, approximately 18,000 installed access lines and revenues of approximately \$900,000 per month. Although Access One has approximately 750 shareholders, it is not publicly traded, there is no readily ascertainable market for its stock, and the shares held by the Company bear a restrictive legend stating that the shares have not been registered under the Securities Act of 1933. The Company has been furnished by Access One a written valuation of Access One's access lines, which notes that current market values of the access lines of publicly held CLECs are in the range of \$400 to \$550 per installed access line. Although Access One has experienced operating losses, and requires additional funding to execute its business plan, and the report of the independent auditors of Access One for its year ended October 31, 1998 indicates that there is substantial doubt about Access One's ability to continue as a going concern, the Company has determined, based upon such valuation, that there is not a permanent impairment of value with regard to the investment of approximately \$1,515,000 in Access One that is recorded on the Company's books. The investment in Access One is recorded on the Company's books by the equity method of accounting.

Management believes that the retail division's working capital and cash flow from operations will be sufficient to meet the cash and capital requirements for the Company's retail division for the next twelve months. However, if the Company is unable to successfully divest its luggage division, and the depressed levels of sales of the luggage division continue to generate operating losses and require operating cash, the Company may experience temporary cash shortages, which could have an adverse effect on the financial condition or results of operations of both the retail division and the telecommunications division.

The report of the independent auditors on the Company's 1998 financial statements indicates there is substantial doubt about the Company's ability to continue as a going concern. Management anticipates that it will need to raise up to \$2 million to meet the cash requirements for its telecommunications division contemplated by the fiscal 1999 business plan for that division. There can be no assurances that the Company will be able to obtain such funding when needed, or that such funding, if available, will be obtainable on terms acceptable to the Company. The failure by the Company to raise the necessary funds to finance its telecommunications operations will have an adverse effect on the ability of the Company to carry out its business plan for its telecommunications division. The inability to carry out this plan may result in the continuance of unprofitable operations, which would adversely affect the financial condition and results of operations of the Company.

Impact of Year 2000

The Year 2000 issue is the result of computer-controlled systems using two digits rather than four to define the applicable year. For example, computer programs that have time sensitive software may recognize a date using "00" as the year 1900 instead of the year 2000. This reading could result in a system failure or miscalculations and cause a disruption in operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activity.

Based on a recent assessment, the Company determined that it will be required to modify or replace portions of its software and hardware so that its systems will function properly with respect to the dates in the year 2000 and thereafter. The Company presently believes that with modifications to existing software and hardware, the Year 2000 issue will not pose significant operational problems for its systems. The modifications required primarily affect the information systems utilized by the luggage division, which the Company plans to divest. The Company believes its retail division's computer-controlled system is compliant, and the telecommunication's computer-controlled system is in the process of transferring to computer programs which are compliant.

The Company is in the process of contacting all of its significant suppliers and large customers to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. The Company's total Year 2000 project cost and estimates to complete include the estimated costs and time associated with the impact of third party Year 2000 issues based on presently available information. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be timely converted and would not have a material adverse effect in the Company's systems. The telecommunications division has identified that the third party which processes Essex's customer invoices is not compliant with the Year 2000 issues. The Company has identified another third party which is compliant, and if needed, the Company will utilize the new third party source for

customer invoicing by June 1999 should its current billing provider fail to convert its systems six months before the year 2000.

The Company will utilize both internal and external resources to reprogram, or replace, and test the software and hardware for Year 2000 compliance. The Company's objective is to complete the Year 2000 project not later than June 30, 1999, which is prior to any anticipated impact on its operating systems. The total cost of the Year 2000 project for the Company is estimated to be less than \$100,000. Through year-end 1998, the Company has incurred approximately \$40,000 in expenses related to the assessment of, and preliminary efforts on, its Year 2000 project and the development and implementation of various plans for systems modifications and testing.

All costs associated with the Year 2000 project are being funded through operating cash flow. Costs and timetables for Year 2000 projects associated with corporate mergers and acquisitions are not included in the above estimates, and will be funded on a case-by-case basis as they occur.

The costs of the project and the date which the Company has established to complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans, and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, unanticipated mergers and acquisitions, and similar uncertainties.

Income Taxes

The Company has recorded no current United States income tax expense in fiscal 1998 and has recorded a Canadian income tax benefit of approximately \$158,000. At November 30, 1998, a full valuation allowance was provided on net deferred tax assets of \$3,800,000 based upon the Company's recent history of losses and the uncertainty surrounding the Company's ability to recognize such assets. Should the Company be successful in divesting its luggage division, the net operating loss carryforward available to the Company relating to losses of the luggage division, or approximately \$8,400,000, may no longer be available to the Company to reduce future taxable income.

New Accounting Standards

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 128, "Earnings per Share" ("Statement 128"). Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. The Company adopted the provisions of Statement 128 effective November 30, 1998. All earnings per share amounts for all periods presented have been restated to conform to the Statement 128 requirements.

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 130, "Reporting Comprehensive Income" ("Statement 130"). Statement 130 establishes standards for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income, as defined, is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The provisions of Statement 130 are effective for periods beginning after December 15, 1997. Accordingly, the Company will adopt this standard for its fiscal year ending November 30, 1999.

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 131, "Disclosures about Segments of an Enterprise and Related Information" ("Statement 131"), which establishes standards for segment reporting and disclosure of additional information on products and services, geographic areas and major customers. The provisions of Statement 131 are effective for periods beginning after December 15, 1997. Accordingly, the Company will adopt this standard for its fiscal year ending November 30, 1999. The application of Statement 131 may require additional business segment disclosure than what the Company currently provides in its financial statements.

Item 8. - Financial Statements and Supplementary Data

The financial statements and supplementary data to be provided pursuant to this Item 8 are included under Item 14 of this Report.

Item 9. - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Part III

Item 10. - Directors and Executive Officers of the Company

The following table contains certain information regarding directors and executive officers of the Company as of February 24, 1999:

<u>Name and Position With the Company</u>	<u>Age</u>	<u>Principal Occupation for Past 5 Years and Current Public Directorships or Trusteeships</u>
Joel Dupré	45	Director since 1990; Chairman of the Board and Chief Executive Officer of the Company since March 1995; Executive Vice President from November 1992 to March 1995 and a Vice President from 1989 to 1992.
Eric M. Hellige	44	Director since 1995 and Secretary of the Company; Partner for more than five years of Pryor Cashman Sherman & Flynn LLP, counsel to the Company.
Richard Pyles	42	Senior Vice President of the Company since November 1996; Vice President of Marketing and Sales from September 1992 to November 1996.
Paul H. Riss	43	Director since 1995, and Chief Financial Officer and Treasurer of the Company since November 1996; Chief Financial Officer of Sequins International Inc., a manufacturer of sequined fabrics and trimmings from June 1992 to November 1996.
Anthony Scalice	62	Director since May 1998, and President and Chief Executive Officer of Essex Communications, Inc., a wholly-owned subsidiary of the Company, since February 1998; President of Pinnacle Telephone Consultants, Inc., a telecommunications firm specializing in the private payphone industry, from June 1997 to February 1998; President of Crescent Public Communications, Inc., a private sales and servicing company, from May 1995 to May 1997; President of Pinnacle Telecommunications Consultants, Inc., from July 1991 to May 1995.
Barrie Sommerfield	69	Director since April 1997; Chairman or Vice Chairman of Gore, Sommerfield, Ditnes International, Inc., a consultant for trademark licenses, for more than five years.
Eric Smith	54	Director since 1988; Vice President-General Manager of West Coast Distribution Center since 1983.

The term of office of the directors is one year, expiring on the date of the next annual meeting and thereafter until their respective successors shall have been elected and shall qualify, or until their death, resignation or removal. Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than ten percent (10%) of a registered class of the Company's equity securities ("10% Stockholders"), to file with the Securities and Exchange Commission (the "Commission") initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and 10% Stockholders are required by Commission regulation to furnish the Company with copies of all Section 16(a) forms they file. For the year ended November 30, 1998, Anthony Scalice, a director of the Company, failed to file in a timely manner a Statement of Initial Beneficial Ownership on Form 3.

Item 11. - Executive compensation

Summary of Cash and Certain Other Compensation

The following table sets forth, for the last three fiscal years, all compensation awarded to, earned by or paid to the chief executive officer ("CEO") of the Company and all other executive officers of the Company who received more than \$100,000 in compensation during fiscal 1998 (collectively referred to as the "Named Executives"):

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards	
		Salary(s)	Bonus(s)	Other Annual Compensation (\$)	Options(3) (#)	All Other Compensation
Joel Dupre	1998	\$223,333	None	None	125,000	None
Chairman of the Board	1997	240,000	None	None	80,000	None
& Chief Exec. Officer	1996	216,667	None	None	80,000	None
Richard Pyles (1)	1998	95,833	None	None	20,000	None
Senior Vice President	1997	100,000	\$6,000	None	5,000	None
	1996	98,341	None	None	135,000	None
Paul H. Riss (2)	1998	120,833	None	None	50,000	None
Chief Financial Officer	1997	125,000	None	None	40,000	None
	1996	12,354	None	None	70,000	None

(1) Mr. Pyles was elected Senior Vice President in November 1996. At all other times, Mr. Pyles served as Vice President-Marketing and Sales of the Company.

(2) Mr. Riss has been Chief Financial Officer of the Company since November 1996.

(3) Options have been adjusted to reflect a two-for-one stock split in May 1997.

Board of Directors Compensation

The Company does not currently compensate directors for service on the Board of Directors.

Option Grant Table

The following table sets forth information as to the options granted to the Named Executives and all other employees during the fiscal year ended November 30, 1998.

Individual Grants						
Name	Number of Securities Underlying Options/ SARs Granted(1)	Percent of Total Options/ SARs Granted to Employees in Fiscal Year(2)	Exercise or Base Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual rates of Stock Price Appreciation for Option Term(3)	
					5% (\$)	10% (\$)
Joel Dupré	125,000(4)	41.7%	\$2.13	01/29/03	\$73,600	\$162,500
Richard Pyles	20,000(4)	6.7	1.94	01/29/03	10,700	23,700
Paul H. Riss	50,000(4)	16.7	1.94	01/29/03	26,800	59,200
All Other Employees	68,500(4)	22.9	1.94	01/29/03	36,700	76,600
	36,000(5)	12.0	2.88	08/14/03	28,600	63,300

(1) No SAR's were granted by the Company in fiscal 1998.

(2) In fiscal 1998, the Company granted options on 140,000 shares, as adjusted for a two-for-one stock split in May 1997, of the Common Stock to six employees.

(3) The amounts shown in these two columns represent the potential realizable values using the options granted and the exercise price. The assumed rates of stock price appreciation are set by the Commission's executive compensation disclosure rules and are not intended to forecast the future appreciation of the Common Stock.

(4) Options become exercisable on the first anniversary date of the option grant date of January 29, 1998.

(5) Options become exercisable on the first anniversary date of the option grant date of August 14, 1998.

Stock Option Exercises

The following table contains information relating to the exercise of the Company's stock options by the Named Executives in fiscal 1998, as well as the number and value of their unexercised options as of November 30, 1998.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise(#)	Value Realized(\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End(#)(1)		Value of Unexercised In-the-Money Options at Fiscal Year End\$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Joel Dupré	--	--	125,000	165,000	--	--
Richard Pyles	--	--	20,000	10,000	--	--
Paul H. Riss	500	3,000	97,000	57,500	--	--

- (1) The sum of the numbers under the Exercisable and Unexercisable column of this heading represents each Named Executives total outstanding options to purchase Common Stock.
- (2) The dollar amounts shown under the Exercisable and Unexercisable columns of the heading represent the number of exercisable and unexercisable Company options, respectively, which were "In-the-Money" on November 30, 1998, multiplied by the difference between the closing price of the Common Stock on November 30, 1998, which was \$0.97 per share, and the exercise price of the Company options. For purposes of these calculations, In-the-Money options are those with an exercise price below \$0.97 per share.

Employee Retirement Plan

In June 1995, the Board of Directors of the Company determined to discontinue benefit accruals under the Company's tax qualified Employee Retirement Plan (the "Retirement Plan"). Pursuant to action taken by the Board of Directors at such time, benefits ceased to accrue for all active participants under the Retirement Plan on June 30, 1995. The Retirement Plan is administered by the Board of Directors.

Each of the Company's United States-based employees was eligible to participate in the Retirement Plan. However, effective as of July 1, 1995 and in connection with the Board's action, the Retirement Plan was amended to provide that no additional eligible employees may participate in the Retirement Plan and accrue benefits thereunder. The following table discloses estimated annual benefits payable upon retirement in specified compensation and years of service classification.

	Projected Benefits at Retirement				
	Years of Service				
Salary(1)	15	20	25	30	35
\$20,000	\$ 3,750	\$ 5,000	\$ 6,250	\$ 7,500	\$ 8,750
25,000	4,625	6,250	7,313	9,375	10,938
30,000	5,625	7,500	9,375	11,250	13,125
35,000	6,563	8,750	10,938	13,125	15,313
40,000	7,500	10,000	12,500	15,000	17,500
50,000	9,980	12,604	15,625	18,750	21,875
75,000	17,105	22,104	26,948	31,986	37,249
100,000	24,730	31,604	38,873	46,236	53,874
125,000	31,355	41,104	50,698	60,406	70,499
150,000(2)	38,480	50,004	62,573	74,736	87,124
175,000	45,605	60,104	74,448	88,986	103,749
200,000	52,730	69,604	86,323	103,236	120,374(3)

- (1) The annual benefits shown in the Table are integrated with Social Security and there are no other offsets to benefits.
- (2) In general, section 401(a)(17) of the Internal Revenue Code provides that for 1994, compensation used for computing benefits under a tax-qualified employee pension plan cannot exceed \$150,000 (as adjusted).
- (3) Under current law, the maximum annual benefit payable under the Retirement Plan cannot exceed \$120,000 (as adjusted).

The Retirement Plan is funded by the Company on an actuarial basis, and the Company contributes annually the minimum amount required to cover the normal cost for current service and to fund supplemental costs, if any, from the date each supplemental cost was incurred. Contributions were intended to provide for benefits attributed to service to date, and also for those expected to vest in the future. Based on the assumption used in the actuarial valuation, the Retirement Plan is fully funded.

The estimated credited years of service for each of the executive officers named in the Summary Compensation Table is as follows: Joel Dupré (12 years), Richard Pyles (3 years) and Paul H. Riss (none). The frozen accrued monthly benefit for Mr. Dupré and Mr. Pyles is \$1,678 and \$239, respectively. \$150,000 of Mr. Dupré's compensation shown in the Summary Compensation Table was used to compute his projected benefit under the Retirement Plan.

Benefits are computed on the basis of a straight-life annuity. Benefits under the Retirement Plan are integrated with Social Security benefits.

The Retirement Plan will continue to comply with the applicable sections of the Internal Revenue Code, the Employee Retirement Income Security Act, and applicable Internal Revenue Services rules and regulations. In accordance with the terms of the Retirement Plan, distributions will continue to be made to retired and terminated employees who are participants in the Retirement Plan.

Board of Directors Interlocks and Insider Participation in Compensation Decisions

The following members of the Board of Directors were officers of the Company or a subsidiary of the Company during the fiscal year ended November 30, 1998: Joel Dupré, Eric Smith, Paul H. Riss and Anthony Scalice. Such members participated in deliberations of the Company's Board of Directors concerning executive officer compensation during the fiscal year ended November 30, 1998.

Item 12. - Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of February 26, 1999, the names, addresses and number of shares of Common Stock beneficially owned by all persons known to the management of the Company to be beneficial owners of more than 5% of the outstanding shares of Common Stock, and the names and number of shares beneficially owned by all directors of the Company and all executive officers and directors of the Company as a group (except as indicated, each beneficial owner listed exercises sole voting power and sole dispositive power over the shares beneficially owned):

<u>Name and Address</u>	<u>Shares Beneficially Owned</u>	<u>Percent of of Outstanding Common Stock</u>
Joel Dupré(1) c/o Sirco International Corp. 24 Richmond Hill Avenue Stamford, Connecticut 06901	787,668	11.4%
Paul H. Riss(2)	142,000	2.1%
Anthony Scalice(3)	97,500	1.5%
Eric M. Hellige(4)	44,760	less than 1%
Richard Pyles (5)	30,000	less than 1%
Eric Smith(5)	30,000	less than 1%
Barrie Sommerfield(6)	20,200	less than 1%
All directors and executive officers of the Company as a group (seven individuals)	1,127,128	15.7%

- (1) Includes 265,000 shares of Common Stock subject to options which are presently exercisable, and includes 25,000 shares for which Mr. Dupré has granted to Mr. Hellige stock purchase options.
- (2) Includes 137,000 shares of Common Stock subject to options which are presently exercisable.
- (3) Includes 50,000 shares of Common Stock subject to warrants which are presently exercisable.
- (4) Includes 25,000 shares of Common Stock subject to options granted by Mr. Dupré which are presently exercisable and 19,760 shares issuable upon the conversion of 33 shares of Series A Convertible Preferred Stock owned by Mr. Hellige.
- (5) Consists of 30,000 shares of Common Stock subject to options which are presently exercisable.
- (6) Includes 20,000 shares of Common Stock subject to options which are presently exercisable.

Item 13. - Certain Relationships and Related Transactions

Mr. Joseph Takada, the beneficial owner of approximately 4.9% of the outstanding shares of Common Stock, is the Managing Director of Ideal Pacific Ltd, ("Ideal"), the Company's manufacturing agent in Hong Kong. During the fiscal year ended November 30, 1998, the Company paid aggregate commissions of approximately \$18,000 to Ideal. Mr. Cheng-Sen Wang, the beneficial owner of approximately 2.7% of the outstanding shares of Common Stock, is the Managing Director of Kao-Lien International Co., Ltd. ("Kao-Lien"), the Company's manufacturing agent in Taiwan. During the fiscal year ended November 30, 1998, the Company paid aggregate commissions of approximately \$295,000 to Kao-Lien. Mr. Albert Cheng, the beneficial owner of 2.7% of the outstanding shares of Common Stock, is the President of Constellation Enterprise Co., Ltd. ("Constellation"). During the fiscal year ended November 30, 1998, the Company purchased approximately \$548,000 of luggage and backpack products from Constellation.

During the fiscal year ended November 30, 1998, the Company purchased approximately \$783,000 in luggage products from Everal Industries Limited, a beneficial owner of 0.7% of the outstanding shares of Common Stock; \$896,000 in luggage products from Hing Wah Leather Products Mfy. Ltd., a beneficial owner of 0.5% of the outstanding shares of Common Stock; and \$61,000 in luggage products from Koon Hing Plastic Factory, a beneficial owner of 0.5% of the outstanding shares of Common Stock.

In May 1998, Ideal accepted 66,667 shares of Common Stock and Constellation accepted 88,889 shares of Common Stock in settlement of unpaid debts from the Company amounting to \$300,000 and \$400,000, respectively. The Company is obligated to issue additional shares of Common Stock to Ideal and Constellation, of up to 66,667 shares and 88,889 shares, respectively, should the sale of the shares issued in May 1998 obtain a selling price of less than \$4.50 per share.

At November 30, 1998, the Company owed Ideal, Kao-Lien and Constellation approximately \$69,000, \$107,000 and \$253,000, respectively.

In December 1998 and February 1999, Mr. Dupré lent the Company \$110,000 and \$225,000, respectively. Such loans are for a term of two years and bear interest at the rate of 8% per annum.

Paul H. Riss, a director and the Chief Financial Officer of the Company, is a member of the Board of Directors of Access One, an affiliate of the Company. Mr. Riss owns options to purchase 100,000 shares of common stock of Access One. The Company's Chairman and Chief Executive Officer, Joel Dupré, owns 306,000 shares of common stock of Access One, or approximately 2.4% of the outstanding shares, and owns options to purchase an additional 150,000 shares.

Eric M. Hellige, a director of the Company, is a member of Pryor Cashman Sherman & Flynn LLP, counsel to the Company ("Pryor, Cashman"). Fees paid by the Company to Pryor, Cashman for legal services rendered during the fiscal year ended November 30, 1998 did not exceed 5% of such firm's or the Company's revenues. Mr. Hellige owns 25,000 shares of common stock of Access One, an affiliate of the Company.

Barrie Sommerfield, a director of the Company, is the Chairman of Gore, Sommerfield, Dittes International, Inc. ("Gore Sommerfield"), a firm which provides consulting services to the Company with regard to the licensing of trademarked names. The Company paid fees to Gore Sommerfield in fiscal 1998 of approximately \$17,000.

The Company believes that all purchases from or transactions with affiliated parties were on terms and at prices substantially similar to those available from unaffiliated third parties.

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PART IV

Item 14. - Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a) 1. Financial Statements.
- 2. Financial Statement schedules
- 3. Exhibits
- (3) Articles of Incorporation and By-laws
 - (a) Certificate of Incorporation, as amended, incorporated by reference to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 27, 1969 under Registration Number 2-34436.
 - (b) Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to the Company's definitive proxy statement filed with the Securities and Exchange Commission in connection with the Company's Annual Meeting of Shareholders held in May, 1984.
 - (c) Certificate of Amendment to the Certificate of Incorporation, incorporated by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended November 30, 1988.
 - (d) Certificate of Amendment to the Certificate of Incorporation, incorporated by reference to Exhibit 3(e) to the Company's Annual Report on Form 10-K for the year ended November 30, 1994, as amended.
 - (e) Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the Quarter ended August 30, 1995.
 - (f) Certificate of Amendment of Certificate of Incorporation filed February 17, 1999.
 - (g) By-laws, amended and restated as of December, 1996, incorporated by reference to Exhibit 3(e) to the Company's Annual Report on Form 10-K for the year ended November 30, 1996.
- (10) Material Contracts
 - (a) Stock Purchase Agreement dated February 27, 1998 between the Company and the shareholders of Essex Communications, Inc., incorporated by reference to Exhibit 10(a) to the Company's Annual Report on Form 10-K dated November 30, 1997.
 - (b) Lease Agreement dated February 14, 1990 between Oro-May-Broward Investment Company and the Company for property located in La Mirada, California, incorporated by reference to Exhibit 10(j) to the Company's Annual Report on Form 10-K for the year ended November 30, 1989, as amended.
 - (c) Sirco International Corp. 1995 Stock Option Plan, incorporated by reference to Exhibit 10(I) to the Company's Annual Report on Form 10-K for the year ended November 30, 1995, as amended.
 - (d) Sirco International Corp. 1996 Restricted Stock Award Plan, incorporated by reference to Exhibit A to the Company's Proxy Statement dated October 24, 1996.
 - (e) Employment Agreement, dated November 5, 1996 between the Company and Paul Riss, incorporated by reference to Exhibit 10(f) to the Company's Annual Report on Form 10-K for the year ended November 30, 1996.
 - (f) Loan and Security Agreement, dated December 16, 1996, between the Company and Coast Business Credit, a division of Southern Pacific Thrift & Loan Association, incorporated by reference to Exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended November 30, 1996.
 - (g) Promissory Note, dated December 17, 1998, between the Company and Joel Dupré, Chairman and Chief Executive Officer.

(h) Promissory Note, dated January 29, 1999, between the Company and Joel Dupré, Chairman and Chief Executive Officer.

- (22) Subsidiaries of Company - The significant subsidiaries of Company, all of which are wholly-owned by Company and included in its consolidated financial statements, are as follows:

<u>Name</u>	<u>Jurisdiction of Organization</u>
Airline Ventures, Inc.	Texas
Essex Communications, Inc.	New York
Sirco Industries, Limited	Hong Kong
Sirco International (Canada) Limited	Canada
WebQuill Internet Services LLC.	Connecticut
American Telecom LLC	Connecticut

- (23) Consent of Nussbaum Yates & Wolpow, P.C.
(27) Financial Data Schedule

- (b) Reports on Form 8-K.

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on the 26th day of February, 1999.

SIRCO INTERNATIONAL CORP.
(Company)

By: /s/ Joel Dupré

Joel Dupré, Chairman of the Board and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Joel Dupré</u> Joel Dupré	Chairman and Chief Executive Officer (Principal Executive Officer)	February 26, 1999
<u>/s/ Paul H. Riss</u> Paul H. Riss	Chief Financial Officer and Director (Principal Financial and Accounting Officer)	February 26, 1999
<u>/s/ Eric M. Hellige</u> Eric M. Hellige	Director	February 26, 1999
<u>/s/ Anthony Scalice</u> Anthony Scalice	Director	February 26, 1999
<u>/s/ Barrie Sommerfield</u> Barrie Sommerfield	Director	February 26, 1999
<u>/s/ Eric Smith</u> Eric Smith	Director	February 26, 1999



SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

	<u>Page</u>
Report of Independent Auditors	F-2 - F-3
Consolidated balance sheets - November 30, 1998 and 1997	F-4 - F-5
Consolidated statements of operations - Years ended November 30, 1998, 1997 and 1996	F-6
Consolidated statements of stockholders' equity - Years ended November 30, 1998, 1997 and 1996	F-7 - F-8
Consolidated statements of cash flows - Years ended November 30, 1998, 1997 and 1996	F-9 - F-10
Notes to consolidated financial statements - Years ended November 30, 1998, 1997 and 1996	F-11 - F-40



NUSSBAUM YATES & WOLPOW, P.C.

Certified Public Accountants

445 BROAD HOLLOW ROAD, MELVILLE, NY 11747
(516) 845-5252 FAX (516) 845-5279

Report of Independent Auditors

The Board of Directors and Shareholders
Sirco International Corp.
Stamford, Connecticut

We have audited the accompanying consolidated balance sheets of Sirco International Corp. and subsidiaries as of November 30, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended November 30, 1998, 1997 and 1996. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sirco International Corp. and its subsidiaries as of November 30, 1998 and 1997, and the consolidated results of their operations and their consolidated cash flows for the years ended November 30, 1998, 1997 and 1996, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations and has incurred significant losses from its operations. Further, as of November 30, 1998, the Company was in default of certain debt covenants contained in its financing agreement which could result in termination of the agreement and the debt becoming due and payable immediately. These factors, among others, raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We had previously issued our report on the consolidated financial statements referred to above for the year ended November 30, 1997. That report indicated that the 1997 consolidated financial statements of Access One Communications Corp., an entity in which the Company had an investment accounted for under the equity method, were audited by other auditors and that our report was based, in part, upon the report of the other auditors. Our report herein differs from the previously issued report in that, based upon additional procedures performed with respect to Access One Communications Corp., our report is based on our audit.

Nussbaum Yates & Wolpow
NUSSBAUM YATES & WOLPOW, P.C.

Melville, New York
February 12, 1999
February 25, 1999 as to the last paragraph of Note 2

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

NOVEMBER 30, 1998 AND 1997

ASSETS

	<u>1998</u>	<u>1997</u>
Current assets:		
Cash and cash equivalents	\$ 352,489	\$ 114,190
Accounts receivable, principally trade – net of allowance of \$337,000 and \$200,000 in 1998 and 1997	1,565,727	3,166,804
Inventories	4,397,635	7,707,631
Prepaid expenses	199,805	253,225
Other current assets	36,791	44,231
Recoverable income taxes	<u>149,902</u>	<u>125,517</u>
Total current assets	<u>6,702,349</u>	<u>11,411,598</u>
Property, plant and equipment – at cost:		
Land	185,279	199,425
Building	459,788	494,891
Machinery and equipment	941,127	748,085
Leasehold improvements	<u>320,132</u>	<u>320,132</u>
	1,906,326	1,762,533
Less accumulated depreciation and amortization	<u>1,070,852</u>	<u>935,220</u>
	<u>835,474</u>	<u>827,313</u>
Other assets:		
Investment in and advances to subsidiary	464,573	514,797
Goodwill, net of accumulated amortization of \$110,302 in 1998	1,377,958	-
Investment in affiliate, net of accumulated amortization of \$375,000 in 1998	1,476,434	1,080,000
Other	<u>172,254</u>	<u>207,940</u>
	<u>3,491,219</u>	<u>1,802,737</u>
Total assets	<u>\$11,029,042</u>	<u>\$14,041,648</u>

(Continued)

See accompanying notes to consolidated financial statements.

SIRC INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

NOVEMBER 30, 1998 AND 1997

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1998</u>	<u>1997</u>
Current liabilities:		
Current maturities of long-term debt	\$ 3,193,344	\$ 1,522,060
Due to related parties	519,596	974,046
Accounts payable	993,779	2,489,259
Accrued expenses and taxes	<u>1,661,420</u>	<u>1,318,863</u>
Total current liabilities	<u>6,368,139</u>	<u>6,304,228</u>
Long-term debt, less current maturities	<u>290,994</u>	<u>4,521,795</u>
Due to related parties and accounts payable refinanced	<u>615,829</u>	<u>-</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.10 par value; 1,000,000 shares authorized, 700 shares issued in 1998, liquidation preference \$1,000 per share	70	-
Common stock, \$.10 par value; 20,000,000 shares authorized in 1998 and 10,000,000 shares authorized in 1997, 6,343,316 and 4,300,400 shares issued in 1998 and 1997	634,331	430,040
Capital in excess of par value	12,851,015	7,753,368
Deficit	(8,864,535)	(3,887,532)
Treasury stock at cost, 11,000 shares	(27,500)	(27,500)
Treasury stock held by equity investee	(159,396)	(420,000)
Accumulated foreign currency translation adjustment	<u>(679,905)</u>	<u>(632,751)</u>
Total stockholders' equity	<u>3,754,080</u>	<u>3,215,625</u>
Total liabilities and stockholders' equity	<u>\$11,029,042</u>	<u>\$14,041,648</u>

See accompanying notes to consolidated financial statements.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Net sales	\$17,037,186	\$16,007,983	\$27,745,955
Cost of goods sold	<u>13,971,644</u>	<u>13,802,712</u>	<u>20,657,633</u>
Gross profit	3,065,542	2,205,271	7,088,322
Selling, warehouse, general and administrative expenses	<u>6,445,648</u>	<u>5,166,849</u>	<u>5,905,152</u>
Income (loss) from operations	(<u>3,380,106</u>)	(<u>2,961,578</u>)	<u>1,183,170</u>
Other (income) expense:			
Interest expense	514,033	573,544	772,812
Interest income	(49,843)	(63,506)	(58,214)
Loss on equity investment	1,423,300	-	-
Commission and other income, net	(<u>132,618</u>)	(<u>477,934</u>)	(<u>456,873</u>)
	<u>1,754,872</u>	<u>32,104</u>	<u>257,725</u>
Income (loss) before provision for income taxes	(5,134,978)	(2,993,682)	925,445
Provision for (recovery of) income taxes	(<u>157,975</u>)	(<u>125,517</u>)	<u>303,209</u>
Net earnings (loss)	(<u>\$ 4,977,003</u>)	(<u>\$ 2,868,165</u>)	<u>\$ 622,236</u>
Net earnings (loss) per common share - basic	(<u>\$.96</u>)	(<u>\$.88</u>)	<u>\$.24</u>
Net earnings (loss) per common share - diluted	(<u>\$.96</u>)	(<u>\$.88</u>)	<u>\$.23</u>
Number of common shares used in basic earnings (loss) per share	5,184,748	3,243,392	2,582,688
Incremental shares from assumed conversions of options and warrants	<u>-</u>	<u>-</u>	<u>88,384</u>
Number of common shares used in diluted earnings (loss) per share	<u>5,184,748</u>	<u>3,243,392</u>	<u>2,671,072</u>

See accompanying notes to consolidated financial statements.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Capital In Excess of Par Value</u>	<u>Deficit</u>	<u>Treasury Stock</u>	<u>Treasury Stock Held by Equity Investee</u>	<u>Accumulated Foreign Currency Translation Adjustment</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balance, November 30, 1995	-	\$ -	2,430,400	\$243,040	\$3,906,014	(\$ 1,641,603)	(\$27,500)	\$ -	(\$ 565,023)
Net income	-	-	-	-	-	622,236	-	-	-
Exercise of stock options	-	-	200,000	20,000	230,000	-	-	-	-
Currency translation adjustment	-	-	-	-	-	-	-	-	11,332
Balance, November 30, 1996	-	-	2,630,400	263,040	4,136,014	(1,019,367)	(27,500)	-	(571,691)
Net loss	-	-	-	-	-	(2,868,165)	-	-	-
Exercise of stock options	-	-	145,000	14,500	151,750	-	-	-	-
Issuance of common stock in private placement	-	-	400,000	40,000	569,000	-	-	-	-
Exercise of warrants	-	-	700,000	70,000	1,439,104	-	-	-	-
Stock issued for equity investment in Access One Communications Corp.	-	-	425,000	42,500	1,457,500	-	-	-	-
Treasury stock acquired by equity investee	-	-	-	-	-	-	-	(420,000)	-
Currency translation adjustment	-	-	-	-	-	-	-	-	(61,060)
Balance, November 30, 1997	-	-	4,300,400	430,040	7,753,368	(3,887,532)	(27,500)	(420,000)	(632,751)

(Continued)

See accompanying notes to consolidated financial statements.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)
YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Capital In Excess of Par Value</u>	<u>Deficit</u>	<u>Treasury Stock</u>	<u>Treasury Stock Held by Equity Investee</u>	<u>Accumulated Foreign Currency Translation Adjustment</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balance, November 30, 1997	-	-	4,300,400	430,040	7,753,368	(3,887,532)	(27,500)	(420,000)	(63 51)
Net loss	-	-	-	-	-	(4,977,003)	-	-	-
Exercise of stock options	-	-	15,000	1,500	16,688	-	-	-	-
Stock issued for debt retire- ment	-	-	260,000	26,000	1,144,000	-	-	-	-
Exercise of warrants	-	-	212,000	21,200	446,704	-	-	-	-
Stock issued for acquisition of Essex Communications, Inc.	-	-	350,000	35,000	702,820	-	-	-	-
Stock issued for acquisition of Webquill Internet Services, LLC	-	-	375,000	37,500	637,500	-	-	-	-
Issuance of preferred stock	700	70	-	-	651,315	-	-	-	-
Stock issued for services	-	-	30,916	3,091	19,520	-	-	-	-
Stock issued for equity investment in Access One Communications	-	-	800,000	80,000	1,479,100	-	-	-	-
Reduction in treasury stock held by equity investee	-	-	-	-	-	-	-	260,604	-
Currency translation adjustment	-	-	-	-	-	-	-	-	(47,154)
Balance, November 30, 1998	<u>700</u>	<u>\$70</u>	<u>6,343,316</u>	<u>\$634,331</u>	<u>\$12,851,015</u>	<u>(\$8,864,535)</u>	<u>(\$27,500)</u>	<u>(\$159,396)</u>	<u>(\$679,905)</u>

See accompanying notes to consolidated financial statements.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Operating activities:			
Net income (loss)	(\$4,977,003)	(\$2,868,165)	\$ 622,236
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	227,005	110,168	254,321
Loss on equity investment including goodwill amortization of \$375,000	1,423,300	-	-
Stock issued for services	22,611	-	-
Provision for losses on accounts receivable and other assets	299,000	278,000	32,000
(Gain) loss on sale of property, plant and equipment	-	7,012	(1,601)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	1,289,333	(594,077)	(663,322)
Inventories	3,275,479	(3,325,876)	1,354,698
Prepaid expenses	42,988	12,926	1,643
Other current assets	6,595	79,014	1,134
Other assets	41,839	(60,538)	6,967
Due to related parties	652,159	713,858	(56,722)
Accounts payable and accrued expenses	(495,661)	(531,320)	178,393
Income taxes	(24,930)	(448,240)	314,425
Net cash provided by (used in) operating activities	<u>1,782,715</u>	<u>(6,627,238)</u>	<u>2,044,172</u>
Investing activities, net of effects of acquisitions:			
Purchases of property, plant and equipment	(57,765)	(87,045)	(339,179)
Proceeds from sale of property, plant and equipment	-	3,607	7,038
Cash inflow from agreement to sell subsidiary	50,224	25,700	-
Payment of certain obligations of WebQuill Internet Services, LLC	(150,000)	-	-
Net cash used in investing activities	<u>(157,541)</u>	<u>(57,738)</u>	<u>(332,141)</u>

(Continued)

See accompanying notes to consolidated financial statements.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Financing activities:			
Repayment of loans payable to financial institutions and short-term loans payable to related parties, net	\$ -	(\$1,600,821)	(\$1,258,197)
Proceeds from (repayment of) revolving credit line, net	(2,527,977)	5,714,056	-
Repayment of long-term debt	(8,470)	(6,550)	(460,301)
Repayment of officer loan	-	-	(35,000)
Proceeds from exercise of stock options	18,188	166,250	250,000
Proceeds from private placement of common stock	-	609,000	-
Proceeds from exercise of warrants	467,904	1,509,104	-
Proceeds from issuance of preferred stock	<u>651,385</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	(1,398,970)	<u>6,391,039</u>	(1,503,498)
Effect of exchange rate changes on cash	<u>12,095</u>	<u>18,084</u>	<u>5,269</u>
Increase (decrease) in cash and cash equivalents	238,299	(275,853)	213,802
Cash and cash equivalents at beginning of year	<u>114,190</u>	<u>390,043</u>	<u>176,241</u>
Cash and cash equivalents at end of year	<u>\$ 352,489</u>	<u>\$ 114,190</u>	<u>\$ 390,043</u>
Cash paid during the year for:			
Interest	<u>\$ 502,005</u>	<u>\$ 510,869</u>	<u>\$ 675,006</u>
Income taxes	<u>\$ -</u>	<u>\$ 300,015</u>	<u>\$ -</u>

Supplemental disclosure of non-cash investing and financing activities:

See Notes 2, 3, 8 and 16.

See accompanying notes to consolidated financial statements.

SIRC INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

1. Description of Business and Summary of Accounting Principles

Description of Business and Concentration of Credit Risk

Prior to the fiscal year ended November 30, 1998, substantially all of the Company's operations were as a wholesaler of children's bags, tote bags, sport bags, backpacks, soft luggage and related products generally under trademarked names and licensed from others principally in the United States and Canada. The principal markets for the Company's products are the large national retail chain stores, department stores, specialty stores and sporting goods retailers. Trade receivables potentially subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral.

In fiscal 1997, the Company commenced operations, through its wholly owned subsidiary, Airline Ventures, Inc. ("AVI"), as a retailer that sells travel products, uniforms and study guides via retail stores, e-commerce sites and a website primarily to airline crew members.

In fiscal 1998, the Company commenced operations, through the acquisition of a newly formed competitive local exchange carrier, Essex Communications, Inc. ("Essex") as a reseller of Bell Atlantic local and long-distance telecommunications services to local and long-distance customers in New York and New Jersey. In addition, in 1998, the Company acquired WebQuill Internet Services, LLC ("WebQuill"), an internet service provider ("ISP") based in Connecticut. WebQuill is a full service, value added ISP providing national dial-up access, dedicated access, website design, website hosting and e-commerce sites.

On October 2, 1997, the Company acquired 28% of Access One Communications, Inc. ("Access"), formerly known as CLEC Holding Corp, a competitive local exchange carrier and a reseller of BellSouth local and long-distance telecommunications services to business and residential customers in the southeastern United States, principally Florida. During 1998, the Company acquired additional shares of Access (see Note 16).

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

1. Description of Business and Summary of Accounting Principles (Continued)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of significant intercompany balances and transactions. Investments in a 31% owned affiliate are accounted for on the equity method.

Inventories

Inventories, consisting primarily of finished goods purchased for resale, are stated at the lower of cost (first-in, first-out and average) or market.

Property, Plant and Equipment and Depreciation

Depreciation is computed primarily by use of accelerated methods over the estimated useful lives of the assets. The estimated useful lives are 20 years for building, 5 to 10 years for machinery and equipment and the life of lease for leasehold improvements.

Foreign Currency Translation

Assets and liabilities of the Company's foreign subsidiaries are translated at year-end exchange rates, and income and expenses are translated at average exchange rates prevailing during the year with the resulting adjustments accumulated in stockholders' equity.

Income Taxes

The Company accounts for income taxes according to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Under the liability method specified by SFAS 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse and the effect of net operating loss carryforwards. Deferred tax expense is the result of changes in deferred tax assets and liabilities. A valuation allowance has been established to reduce the deferred tax assets as it is more likely than not that such portion of the deferred tax assets will not be realized.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

1. Description of Business and Summary of Accounting Principles (Continued)

Income Taxes (Continued)

Income taxes have not been provided on undistributed earnings of foreign subsidiaries, which amounted to approximately \$2,900,000 as of November 30, 1998 because the Company expects to reinvest these earnings in the businesses of the subsidiaries.

Revenue Recognition

The luggage and retail segments recognize revenue upon the shipment or delivery of merchandise. The telecommunications segment recognizes revenue as services are provided to customers.

Earnings (Loss) Per Share

For the year ended November 30, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," which replaces the presentation of primary earnings per share ("EPS") and fully diluted EPS with a presentation of basic EPS and diluted EPS for all periods presented. Basic EPS excludes common stock equivalents and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if common stock equivalents such as stock options and warrants were exercised. The effect of stock options and warrants on the calculation of earnings per common share was anti-dilutive in 1998 and 1997.

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

1. Description of Business and Summary of Accounting Principles (Continued)

Goodwill

The excess cost over net assets acquired (goodwill) is being amortized on a straight-line basis over 7 years.

Impairment of Long-Lived Assets

The Company reviews its intangible assets and other long-lived assets for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of an asset should be assessed. Management evaluates the intangible assets related to each acquisition individually to determine whether an impairment has occurred. An impairment is recognized when the discounted future cash flows estimated to be generated by the acquired business is insufficient to recover the current unamortized balance of the intangible asset, with the amount of any such deficiency charged to income in the current year. Estimates of future cash flows are based on many factors, including (i) current operating results of the applicable business, (ii) projected future operating results of the applicable business, (iii) the occurrence of any significant regulatory changes which may have an impact on the continuity of the business, and (iv) any other material factors that affect the continuity of the applicable business. Management believes that no material impairment in the carrying value of long-lived assets existed at November 30, 1998 or 1997.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Significant estimates are used in accounting for accounts receivable allowances, inventory valuations, income taxes, investments in and advances to its subsidiary, excess of costs over net assets of businesses acquired, and investment in affiliate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

1. Description of Business and Summary of Accounting Principles (Continued)**Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of significant financial instruments:

- **Cash and Cash Equivalents**

The carrying amount approximates fair value because of the short maturity of those instruments.

- **Investments in and Advances to Subsidiary**

The fair value of investments in and advances to subsidiary is estimated based on discounted cash flow analyses using estimated interest rates and an appropriate allowance for uncollectibility. The carrying amount approximates its fair value.

- **Long-Term Debt**

The fair value of the Company's long-term debt is estimated based on current rates offered to the Company for debt of the same remaining maturities and approximates the carrying amount.

The Company has no instruments with significant off-balance-sheet risk.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires disclosure of all components of comprehensive income on an annual and interim basis. Comprehensive income is defined as the change in the equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. Accordingly, the Company will adopt this standard for its fiscal year ending November 30, 1999.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

1. Description of Business and Summary of Accounting Principles (Continued)

New Accounting Standards (Continued)

In July 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires certain financial and supplementary information to be disclosed on an annual and interim basis for each reportable segment of an enterprise. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. Accordingly, the Company will adopt this standard for its fiscal year ending November 30, 1999.

2. Going Concern Matters and Realization of Assets

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. However, the Company has sustained substantial losses from operations in its two most recent fiscal years. In addition, the Company is experiencing difficulty in generating sufficient cash flow to meet and sustain its obligations. Further, as of November 30, 1998, the Company was in default of certain debt covenants contained in its financing agreement which could result in termination of the agreement and the debt becoming due and payable immediately.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

2. Going Concern Matters and Realization of Assets (Continued)

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Management has taken the steps described in the next two paragraphs to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue in existence; however, there can be no assurance that management's plans can be accomplished.

In January 1999, the Board of Directors of the Company decided to dispose of substantially all of the assets and liabilities of the Company's major business segment, its luggage business, and to focus all of its available resources on the remaining two business segments of the Company. While a formal plan of disposal has not yet been approved, management of the Company has entered into discussions with representatives of several potential buyers and believes that it will be able to successfully dispose of this segment's assets and liabilities, which will include the repayment of the Company's existing indebtedness to Coast Business Credit, a division of Southern Pacific Thrift and Loan Association ("Coast"). Disposal by sale or spin-off is under consideration and estimated gain or loss on disposal could vary materially depending on the particular plan selected. No provision has been made in the accompanying financial statements to account for this disposal. See Note 9 for additional financial information regarding this segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

2. Going Concern Matters and Realization of Assets (Continued)

In February 1999, the Company entered into various agreements to convert approximately \$616,000 of trade accounts payable (as of November 30, 1998) with foreign suppliers (substantially all of whom are related parties), into common stock and, accordingly, such amount has been excluded from current liabilities as of November 30, 1998. Essex expects to increase its margins as they convert their lines to a Bell Atlantic leased network facility.

3. Acquisitions

On February 27, 1998, the Company acquired all of the outstanding shares of common stock of Essex in exchange for 250,000 shares of the Company's common stock and warrants to purchase up to 225,000 shares of the Company's common stock at \$2.75 per share. The warrants vest at the rate of 75,000 immediately; if certain performance conditions are met, the remaining warrants vest. In addition, if certain performance conditions are met, up to 625,000 additional shares of common stock may be issued. As of November 30, 1998, 100,000 additional shares were issued to the former shareholders of Essex as certain performance conditions were met. The transaction was accounted for as a purchase. The purchase price exceeded the fair value of net assets acquired by approximately \$737,000, which is being amortized on a straight-line basis over 7 years. The results of operations of Essex are included in the accompanying financial statements from the date of acquisition.

On August 14, 1998, the Company acquired all of the membership interests of WebQuill in exchange for 525,000 shares of the Company's common stock (of which 375,000 shares were delivered to the sellers and 150,000 shares were deposited in an escrow account and will be delivered upon attainment of certain performance conditions) and the payment of \$150,000 of Webquill's obligations. The transaction was accounted for as a purchase. The purchase price exceeded the fair value of net assets acquired by approximately \$750,000, which is being amortized on a straight-line basis over 7 years. The results of operations of WebQuill are included in the accompanying financial statements from the date of acquisition.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

3. Acquisitions (Continued)

Pro forma financial statements of the above acquisitions as if they occurred as of December 1, 1996 have not been presented since the results were not material. The above companies did not conduct significant operations prior to the acquisition date.

4. Loans Payable to Financial Institutions and Long-Term Debt

On December 17, 1996, the Company entered into a financing agreement with Coast that provides for revolving loans and letter of credit financing in the amount of the lesser of \$7,000,000 or the sum of (a) 80% of eligible accounts receivable (as defined) and (b) 50% of eligible inventory (as defined) up to a maximum inventory loan of \$3,000,000 less 50% of letter of credit financing outstanding. The amount of the facility available for letter of credit financing is limited to \$2,500,000. The loan bears interest at 2% above the prime rate (10% at November 30, 1998), matures on December 31, 1999, and is guaranteed by the Company's Chairman and Chief Executive Officer. The Company has granted Coast a security interest in substantially all of the Company's assets. The agreement with Coast contains various restrictive covenants, including among others, a restriction on the payment or declaration of any cash dividends, a restriction on the acquisition of any assets other than in the ordinary course of business in excess of \$100,000, restrictions related to mergers, borrowing and debt guarantees and a \$100,000 annual limitation (as defined) on the acquisition or retirement of the Company's common and preferred stock. The agreement also requires the Company to maintain a minimum tangible net worth of \$1,400,000. The Company had outstanding loans of \$3,186,079 and \$5,714,056 at November 30, 1998 and 1997 under this agreement. As of November 30, 1998, the Company was in default of certain debt covenants contained in its financing agreement which could result in termination of the agreement and the debt becoming due and payable immediately. Since the loan is callable by Coast, the entire amount outstanding to Coast has been classified as a current liability at November 30, 1998. The Company classified approximately \$1,515,000 of the loan as a current liability at November 30, 1997, the amount scheduled for repayment during fiscal 1998.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

4. Loans Payable to Financial Institutions and Long-Term Debt (Continued)

In August 1995, the Company's Canadian subsidiary refinanced a real property mortgage of approximately \$368,000. The mortgage is payable in monthly installments of approximately \$3,138 including interest at 10.25% with a balloon payment of approximately \$291,000 in the year 2000. Substantially all of the assets of the Canadian subsidiary have been pledged as collateral for the above loans. The Canadian subsidiary has agreed to certain financial covenants (current ratio, debt-to-equity ratio, debt service coverage) and may not pay dividends to the parent.

Long-term debt consists of the following:

	<u>1998</u>	<u>1997</u>
Loan payable to Coast	\$3,186,079	\$5,714,056
Subsidiary mortgage payable	<u>298,259</u>	<u>329,799</u>
	3,484,338	6,043,855
Less current maturities	<u>3,193,344</u>	<u>1,522,060</u>
	<u>\$ 290,994</u>	<u>\$4,521,795</u>

Principal payments are due as follows:

Year ended November 30,

1999	\$3,193,344
2000	<u>290,994</u>
	<u>\$3,484,338</u>

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

5. Income Taxes

At November 30, 1998, the Company had net operating loss carryforwards for Federal income tax purposes of approximately \$9,250,000 expiring in the years 2001 through 2013. There is an annual limitation of approximately \$187,000 on the utilization of approximately \$2,300,000 of such net operating loss carryforwards under the provisions of Internal Revenue Code Section 382.

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 and liabilities as of November 30, 1998 and 1997 are as follows:

	<u>1998</u>	<u>1997</u>
Deferred tax assets:		
Net operating loss carryforwards	\$3,250,000	\$2,440,000
Allowance for doubtful accounts and accruals	270,000	210,000
Inventory	230,000	330,000
Depreciation	<u>100,000</u>	<u>110,000</u>
	3,850,000	3,090,000
Deferred tax liabilities:		
Installment sale of investment	(<u>50,000</u>)	(<u>50,000</u>)
	3,800,000	3,040,000
Valuation allowance	(<u>3,800,000</u>)	(<u>3,040,000</u>)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance at November 30, 1996 was \$1,970,000.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

5. Income Taxes (Continued)

The following is a reconciliation of the tax provisions for the three years ended November 30, 1998 with the statutory Federal income tax rates:

	Percentage of Pre-Tax Income		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
Statutory Federal income tax rate	(34.0%)	(34.0%)	34.0%
State and local income taxes, net of Federal income tax benefit	-	.1	.2
Differences in foreign and U.S. tax rates	-	-	11.6
Utilization of United States net operating loss carryforwards	-	-	(7.1)
Utilization of foreign tax loss carryforwards/carryback	(3.2)	(4.3)	(6.8)
Operating losses generating no current tax benefit, United States	34.0	34.0	-
Other items, net	<u>-</u>	<u>.1</u>	<u>.9</u>
	<u>(3.2%)</u>	<u>(4.1%)</u>	<u>32.8%</u>

6. Pension Plans

The Company has a defined benefit plan covering substantially all of its domestic employees. The benefits provided are primarily based upon years of service and compensation, as defined. The Company's funding policy is to contribute annually the minimum amount required to cover the normal cost and to fund supplemental costs, if any, from the date each supplemental cost was incurred. Contributions were intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Plan assets consist primarily of investments in money market funds.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

6. Pension Plans (Continued)

Effective June 30, 1995, the plan was frozen, ceasing all benefit accruals and resulting in a plan curtailment.

Net periodic pension cost (gain) included the following components:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Interest cost on projected benefit obligation	\$56,393	\$57,257	\$53,707
Return on assets	(63,704)	(66,110)	(69,235)
Net amortization and deferral	(<u>4,112</u>)	(<u>4,112</u>)	(<u>6,199</u>)
	<u>(\$11,423)</u>	<u>(\$12,965)</u>	<u>(\$21,727)</u>

Following is a summary of significant actuarial assumptions used:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Weighted average discount rates	7.0%	7.5%	7.5%
Rates of increase in compensation levels	5.0%	5.0%	5.0%
Expected long-term rate of return on assets	8.0%	8.0%	8.0%

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

6. Pension Plans (Continued)

The following table sets forth the Plan's funded status and amounts recognized in the Company's statement of financial position at:

	November 30, 1998	1997
Accumulated benefit obligation, including vested benefits of \$820,734 and \$813,095 at November 30, 1998 and 1997, respectively	(<u>\$823,568</u>)	(<u>\$816,427</u>)
Projected benefit obligation for service rendered to date	(\$823,568)	(\$816,427)
Plan assets at fair value, primarily money market funds	<u>786,343</u>	<u>834,747</u>
Plan assets in excess of (deficiency in) unfunded projected benefit obligation	(37,225)	18,320
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	-	45,599
Unrecognized net asset being amortized over 13 years from December 1, 1987	<u>-</u>	(<u>12,215</u>)
(Accrued) prepaid pension cost	(<u>\$ 37,225</u>)	<u>\$ 51,704</u>

7. Commitments

The Company conducts a substantial portion of its operations utilizing leased facilities. Rent expense, charged to operations, was \$825,000, \$704,000 and \$659,000 in 1998, 1997 and 1996, respectively. In addition to the annual rent, the Company pays real estate taxes, insurance and other occupancy costs on its leased facilities. A portion of one warehouse facility is subleased to a subsidiary of Yashiro (see Note 8) under a sublease which expires in May, 2000. Total minimum sublease rentals to be received in the future amounted to approximately \$487,000 at November 30, 1998.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

7. Commitments (Continued)

The minimum annual rental commitments exclusive of sublease rentals under all operating leases that have remaining non-cancelable terms in excess of one year are approximately as follows:

<u>Year ended November 30,</u>	
1999	\$ 870,000
2000	594,000
2001	256,000
2002	196,000
2003	144,000
Thereafter	<u>237,000</u>
	<u>\$2,297,000</u>

The Company has entered into various licensing agreements under which it has obtained the right to market children's bags, tote bags and related products with trade names. The terms of such agreements vary through 2001. The agreements provide for royalties based upon net sales with certain stated minimum annual amounts. The amount of future minimum royalties aggregates approximately \$650,000 at November 30, 1998. Royalty expense amounted to \$545,000, \$660,000 and \$1,160,000 in fiscal 1998, 1997 and 1996, respectively. As of November 30, 1998 and 1997, approximately \$560,000 and \$506,000, respectively, had been accrued for unpaid royalties.

During fiscal 1996, the Company modified its agreement with a licensor whereby the Company ceased to ship its product under this license after June 30, 1996. Sales of this licensed product amounted to approximately 29% of the Company's net sales in fiscal 1996.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

8. Related Party Transactions

On March 20, 1995, the Company entered into a Letter of Credit Agreement with Yashiro Co. Inc. (together with its affiliates, "Yashiro"), which prior to March 20, 1995, owned approximately 56% of the Company, to provide for short-term financing for import purchases. Pursuant to this agreement, Yashiro had agreed to issue, until March 20, 1997, unsecured trade letters of credit in an aggregate amount of up to the lesser of \$1,200,000, or 35% of the Company's inventory. Amounts borrowed under this agreement were repayable 100 days after delivery of the goods. On August 28, 1996, the agreement was amended to, among other things, reduce the aggregate amount of letters of credit to be issued to the lesser of \$1,000,000 or 35% of the Company's inventory. In addition to interest, which was payable monthly at 2% above the prime rate, Yashiro was paid a handling fee of 3% of the cost of the goods. In fiscal 1996, interest and handling and other fees paid to Yashiro amounted to approximately \$105,000.

In May 1998, the Company issued 260,000 shares to foreign vendors valued at \$1,170,000 or \$4.50 per share in satisfaction of existing trade accounts payable. Included in this amount were 155,556 shares issued to companies controlled by existing shareholders. The agreements with the vendors provided that if the vendor were to sell such shares within one year at a price below \$4.50 per share (subject to a \$2.25 floor), up to an additional 260,000 shares would be issued to the vendors. Subsequent to November 30, 1998, a substantial portion of these shares became issuable.

During the years ended November 30, 1998, 1997 and 1996, the Company purchased approximately \$2,287,000, \$891,000 and \$355,000, respectively, of luggage and backpack products from companies controlled by stockholders. During the years ended November 30, 1998, 1997 and 1996, the Company paid approximately \$312,000, \$208,000 and \$786,000, respectively, as buying commissions to companies controlled by other stockholders. As of November 30, 1998 and 1997, there was outstanding \$926,205 and \$974,046 to such related parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

9. Segment Reporting

Prior to the fiscal year ended November 30, 1998, substantially all of the Company's operations were in one segment, the luggage segment, with a minor amount of operations through its AVI subsidiary in the retail travel products segment, which principally sells uniforms and other travel related products to professional flight crew members. During the fiscal year ended November 30, 1998, the Company commenced operations in a new segment, telecommunications, through its Webquill and Essex Communications subsidiaries. The Company's consolidated operations outside the United States, which are exclusively in the luggage business, are organized into geographic regions by segment. Intersegment transactions are not reported separately since they are not material.

For purpose of segment reporting, the Company allocates general corporate expenses to each segment on the basis of the segment's revenues. Substantially all goodwill amortization is attributable to the telecommunications segment and to the Company's equity investment in Access One Communications Corp. Identifiable assets are those assets applicable to the respective industry segments.

	Data by Segment for the Years ended November 30,		
	1998	1997	1996
Operating revenues:			
Luggage	\$15,552,245	\$15,732,112	\$27,745,955
Telecommunications	373,885	-	-
Retail-related travel products	<u>1,111,056</u>	<u>275,871</u>	<u>-</u>
Total operating revenues	<u>\$17,037,186</u>	<u>\$16,007,983</u>	<u>\$27,745,955</u>
Net earnings (loss):			
Luggage	(\$2,662,653)	(\$2,762,993)	\$ 622,236
Telecommunications	(720,807)	-	-
Retail-related travel products	(170,243)	(105,172)	-
Loss on equity investment	<u>(1,423,300)</u>	<u>-</u>	<u>-</u>
Net earnings (loss)	<u>(\$4,977,003)</u>	<u>(\$2,868,165)</u>	<u>\$ 622,236</u>

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

9. Segment Reporting (Continued)

	Data by Segment for the Years ended November 30,		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
Identifiable assets:			
Luggage	\$ 8,284,553	\$12,961,648	\$9,576,861
Telecommunications	878,421	-	-
Retail-related travel products	<u>389,634</u>	<u>-</u>	<u>-</u>
	9,552,608	12,961,648	9,576,861
Investment in Access One Communications Corp.	<u>1,476,434</u>	<u>1,080,000</u>	<u>-</u>
Total assets	<u>\$11,029,042</u>	<u>\$14,041,648</u>	<u>\$9,576,861</u>
Depreciation expense:			
Luggage	\$ 85,845	\$ 105,023	\$ 254,321
Telecommunications	19,068	-	-
Retail-related travel products	<u>11,790</u>	<u>5,145</u>	<u>-</u>
Total depreciation expense	<u>\$ 116,703</u>	<u>\$ 110,168</u>	<u>\$ 254,321</u>
Capital expenditures:			
Luggage	\$ 18,052	\$ 41,918	\$ 339,179
Telecommunications	39,713	-	-
Retail-related travel products	<u>-</u>	<u>45,127</u>	<u>-</u>
Total capital expenditures	<u>\$ 57,765</u>	<u>\$ 87,045</u>	<u>\$ 339,179</u>

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

9. Segment Reporting (Continued)

Geographic Segments:

	<u>Consolidated</u>	<u>United States</u>	<u>Canada</u> (See Note 14)	<u>Hong Kong</u>
Year ended November 30, 1998:				
Net sales	<u>\$17,037,186</u>	<u>\$14,432,937</u>	<u>\$ 753,926</u>	<u>\$1,850,323</u>
Net loss and loss before provision for (recovery of) income taxes	<u>(\$ 5,134,978)</u>	<u>(\$ 4,752,294)</u>	<u>(\$ 382,349)</u>	<u>(\$ 335)</u>
Identifiable assets	<u>\$11,029,042</u>	<u>\$ 9,688,710</u>	<u>\$ 1,338,222</u>	<u>\$ 2,110</u>
Year ended November 30, 1997:				
Net sales	<u>\$16,007,983</u>	<u>\$15,233,619</u>	<u>\$ 774,364</u>	<u>\$ -</u>
Net loss and loss before provision for (recovery of) income taxes	<u>(\$ 2,993,682)</u>	<u>(\$ 2,696,043)</u>	<u>(\$ 294,953)</u>	<u>(\$ 2,686)</u>
Identifiable assets	<u>\$14,041,648</u>	<u>\$12,671,236</u>	<u>\$1,369,967</u>	<u>\$ 445</u>
Year ended November 30, 1996:				
Net sales	<u>\$27,745,955</u>	<u>\$21,683,680</u>	<u>\$6,062,275</u>	<u>\$ -</u>
Net income (loss) and income (loss) before provision for income taxes	<u>\$ 925,445</u>	<u>\$ 193,752</u>	<u>\$ 735,747</u>	<u>(\$ 4,054)</u>
Identifiable assets	<u>\$ 9,576,861</u>	<u>\$ 6,724,377</u>	<u>\$2,850,942</u>	<u>\$ 1,542</u>

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

10. Major Customers

Sales to one customer amounted to 23%, 27%, and 19% of net sales in fiscal 1998, 1997 and 1996, respectively. Sales to another customer amounted to 23%, 17% and 11% of net sales in fiscal 1998, 1997 and 1996, respectively. Sales to another customer amounted to 14% of net sales in fiscal 1997.

11. Investment In and Advances to Subsidiary

Effective July 15, 1992, the Company entered into an agreement to sell all of the stock of its then wholly-owned subsidiary, Sirco Leatherwares Limited (the "Subsidiary"). In exchange for the stock, the Company received a non-interest bearing \$650,000 note. The note is guaranteed by an officer of the Subsidiary who is also an officer of the buyer and, until December 1996, served on the Board of Directors of the Company. The agreement also requires the Company to forgive a portion of the amounts due to it from the Subsidiary. The Company's ability to collect the note receivable and the balance of the receivable from the Subsidiary is dependent upon cash flows from the Subsidiary's operations and/or the buyer's ability to refinance the obligations. As the risks and other incidents of ownership have not transferred to the buyer with sufficient certainty, this transaction has not been accounted for as a sale for accounting purposes.

The Company recorded a loss on this transaction in fiscal 1992, as the present value of the amounts to be received under the note and the revised accounts receivable were less than (i) the carrying value of the Company's investment in the Subsidiary plus (ii) the amounts receivable from the Subsidiary.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

11. Investment In and Advances to Subsidiary (Continued)

The non-interest bearing \$650,000 note received in exchange for stock in the Subsidiary ("the Stock Note") was due in thirty-two equal quarterly installments of \$20,213 beginning in August 1992. During fiscal 1996, the parties agreed to a one year payment moratorium as to the Stock Note. On February 6, 1997, the parties agreed to modify the remaining repayment terms and to resume payments. The note, as modified, is to be repaid as follows: \$10,156 on February 7, 1997, \$10,156 on March 10, 1997, four quarterly payments of \$10,156 commencing on May 1, 1997 and ending on February 1, 1998, five quarterly payments of \$20,313 commencing on May 1, 1998 and ending on May 1, 1999, and four quarterly payments of \$50,781 commencing on August 1, 1999 and ending on May 1, 2000. Payments are being received on a current basis.

Also, pursuant to the agreement to sell the Company's investment in the Subsidiary, the Subsidiary agreed to pay interest quarterly at 8.5% per annum on a receivable of approximately \$720,000. If the Subsidiary is not in default on the payment of interest, the Company will forgive a portion of the receivable, in amounts as defined, through May 1, 2000. An amount of \$60,000 was forgiven in 1998 and \$50,000 in each of 1997 and 1996. The total amount forgiven will be \$420,000. The remaining receivable of approximately \$300,000 is payable in ten equal quarterly installments commencing in August 2000. Amounts outstanding after May 1, 2000 will bear interest at the prime rate. Payments are being received on a current basis.

At November 30, 1998, the aggregate principal balance of \$665,000 due on the above notes has been reduced for imputed interest of approximately \$40,000 and an allowance of approximately \$160,000 for uncollectibility.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

12. Sale of Handbag Division

On March 20, 1995, the Company sold its handbag division to Bueno of California, Inc. ("Bueno"), a subsidiary of Yashiro. The Company and Bueno entered into an Asset Purchase Agreement pursuant to which the Company sold to Bueno all of the inventory relating to the Company's handbag division, and certain equipment relating to the Company's handbag division.

In connection therewith, the Company had entered into six year non-competition agreements covering North America with Yashiro, another affiliate of Yashiro, Mr. Yutaka Yamaguchi and Mr. Takeshi Yamaguchi, former stockholders and/or officers of the Company. Aggregate consideration to these parties was \$240,000 payable in three annual installments of \$80,000 including interest at 10% which commenced March 31, 1996. The present value of the restrictive covenant (\$198,350) was being amortized over the life of the agreement. During 1996, the Company paid its non-competition agreement liability in full, the non-competition agreement was terminated, and the Company wrote off the remaining balance of the restrictive covenant asset.

In addition, the Company had agreed to pay severance pay to Mr. Takeshi Yamaguchi in the amount of \$200,000, payable in two annual installments of \$100,000 plus interest at 10% per annum which commenced March 31, 1996. This amount had been charged to operations in 1995. During 1996, the Company paid its severance agreement liability in full.

13. Stockholders' Equity

On May 5, 1997, a two-for-one stock split of the Company's common stock was effected in the form of a 100 percent stock dividend. All references to number of shares, except shares authorized, and to per share information in the consolidated financial statements have been adjusted to reflect the stock split on a retroactive basis.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

13. Stockholders' Equity (Continued)

The Company accounts for its stock option plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation expense is recognized. In fiscal 1997, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation," (SFAS No. 123) for disclosure purposes; accordingly, no compensation expense has been recognized in the results of operations for its stock option plans as required by APB Opinion No. 25.

On August 17, 1995, the stockholders of the Company (i) approved an increase in the number of authorized shares of common stock from 3,000,000 shares to 10,000,000 shares; (ii) authorized the Company to issue 1,000,000 shares of preferred stock, par value \$.10 per share, with rights and privileges to be determined by the board of directors; and (iii) approved the 1995 Stock Option Plan of the Company (the "Plan"). The Plan provides for the grant of incentive stock options, non-qualified stock options, tandem stock appreciation rights, and stock appreciation rights exercisable in conjunction with stock options to purchase a specified number of shares of common stock. During fiscal 1997, the stockholders of the Company approved an amendment to the Plan to increase the number of shares of common stock that may be issued to 1,200,000 shares.

In June 1998, the Company issued 700 shares of Series A preferred stock ("preferred stock") having a par value of \$.10 per share. Each preferred share is convertible at the option of the holder into common shares at a conversion rate of 300 shares of common stock through May 31, 1999; after May 31, 1999, \$1,000 divided by the lesser of \$3.33 or the market price of the Company's common stock subject to a floor of \$1.67. The Company may cause the conversion of the preferred stock at any time after May 31, 1999 based upon the above conversion formula. The preferred shares have the same voting and dividend rights as common shares based upon the number of shares of common stock into which the preferred stock is convertible to. The preferred shares have a liquidation preference of \$1,000 per share.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

13. Stockholders' Equity (Continued)

The following is a summary of outstanding options:

	<u>Number of Shares</u>	<u>Exercise Price Per Share</u>	<u>Weighted- Average Exercise Price</u>
Outstanding, December 1, 1995	146,000	\$1.00	\$1.00
Granted during year ended November 30, 1996	437,000	\$1.25 - \$1.6875	\$1.34
Exercised during year ended November 30, 1996	(200,000)	\$1.25	\$1.25
Outstanding November 30, 1996	383,000	\$1.00 - \$1.6875	\$1.26
Granted during year ended November 30, 1997	160,000	\$1.94 - \$2.13	\$2.03
Exercised/canceled during year ended November 30, 1997	(148,000)	\$1.00 - \$1.6875	\$1.12
Outstanding November 30, 1997	395,000	\$1.00 - \$2.13	\$1.63
Granted during year ended November 30, 1998	299,500	\$2.79 - \$3.13	\$2.96
Exercised/canceled during year ended November 30, 1998	(38,000)	\$1.00 - \$2.84	\$2.20
Outstanding November 30, 1998	<u>656,500</u>	\$1.00 - \$3.13	\$2.20
Options exercisable, November 30, 1996	<u>183,500</u>	\$1.00 - \$1.6875	\$1.12
Options exercisable, November 30, 1997	<u>140,000</u>	\$1.00 - \$1.44	\$1.33
Options exercisable, November 30, 1998	<u>322,500</u>	\$1.00 - \$2.13	\$1.70

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

13. Stockholders' Equity (Continued)

The following table summarizes information about the options outstanding at November 30, 1998:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number	Weighted- Average Exercise Price
Outstanding	Outstanding			Outstanding	
\$1.00 - \$1.44	220,000	2.59	\$1.37	162,500	\$1.36
\$1.94 - \$2.13	160,000	3.24	\$2.03	160,000	\$2.03
\$2.79 - \$3.13	276,500	4.23	\$2.96	-	-

For disclosure purposes, the fair value of each stock option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for stock options granted: annual dividends of \$0.00 for all years, expected volatility of 93% for 1996, 88% for 1997, and 117% for 1998, risk-free interest rate of 6.54% for 1996, 6.03% for 1997, and 5.66% for 1998, and expected life of five years for all grants. The weighted-average fair value of stock options granted in 1998, 1997 and 1996 was \$2.36, \$.91 and \$.66, respectively.

Under the above model, the total value of stock options granted in 1998, 1997 and 1996 was \$652,976, \$146,041 and \$101,740, respectively, which would be amortized ratably on a pro forma basis over the related vesting periods, which range from five to ten years. Had the Company determined compensation cost for these plans in accordance with SFAS No. 123, the Company's pro forma net income (loss) would have been (\$5,131,886) in 1998, (\$2,906,052) in 1997, and \$620,904 in 1996, the Company's pro forma loss per share would be (\$.99) for 1998, (\$.90) for 1997, and would not change for 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

13. Stockholders' Equity (Continued)

In April, 1997, the Company raised \$609,000, net of placement agent fees, through the private placement issuance of 400,000 units at \$1.75 per unit, each unit consisting of one share of common stock, one common stock Class A warrant exercisable at \$2.06 per share for one year, and one common stock Class B warrant exercisable at \$2.56 per share for one year. Additionally, 120,000 Class A warrants were granted to the placement agent and a consulting firm in connection with the transaction. As of November 30, 1998, substantially all the warrants had been exercised and the remaining warrants expired.

On October 24, 1996, the shareholders of the Company adopted the Sirco International Corp. 1996 Restricted Stock Award Plan (the "Restricted Stock Award Plan"). An aggregate of 400,000 shares of common stock of the Company has been reserved for issuance in connection with awards granted under the Restricted Stock Award Plan. Such shares may be awarded from either authorized and unissued shares or treasury shares. The maximum number of shares that may be awarded under the Restricted Stock Award Plan to any individual officer or key employee is 100,000. Approximately five employees of the Company and its subsidiaries are currently eligible to participate in the Restricted Stock Award Plan. No shares were awarded during 1998 and 1997.

14. Canadian Operations

During fiscal 1996, the Company received notification from Airway Industries Inc. ("Airway") that the licensing agreement with the Company's Canadian subsidiary, Sirco International (Canada) Limited ("Sirco Canada"), would cease on December 31, 1996. On November 22, 1996, Sirco Canada leased substantially all of its facility to Airway for a two-year period commencing on January 1, 1997 for a rental of \$65,000 per annum. The lease was renewed for an additional two-year period commencing January 1, 1999 for approximately \$100,000 per annum. On December 31, 1996, Sirco Canada sold its then remaining inventory, supplies, furniture and fixtures to Airway, and substantially all of Sirco Canada's employees terminated their employment with Sirco Canada and were then hired by Airway. Sirco Canada did not incur any significant gain or loss on the sale of such assets to Airway.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

14. Canadian Operations (Continued)

As the sales from the licensed products accounted for substantially all of Sirco Canada's sales, its future viability will depend on its ability to successfully introduce new products into the Canadian marketplace. Management believes that the Canadian operations will continue to be adversely affected through the next fiscal year.

See Note 9 for information with respect to Sirco Canada's operations.

15. Fourth Quarter Adjustment

During the fourth quarter of the year ended November 30, 1997, the Company recorded an adjustment of approximately \$615,000 to write down certain inventory.

16. Investment in and Transactions with Affiliate

On October 22, 1997, the Company acquired 3,000,000 common shares of Access One Communications Corp. and Subsidiaries ("Access"), formerly known as CLEC Holding Corp., in exchange for 375,000 shares of the Company's common stock, subject to certain price protection adjustments which required the Company to issue an additional 50,000 shares of common stock.

In addition, during fiscal 1998, there were two additional exchanges of shares with Access. The first exchange occurred on April 23, 1998 when the Company exchanged 350,000 shares of its common stock for 300,000 shares of Access common stock. This exchange was valued at \$1,233,750. Additionally, Access agreed to reimburse Sirco \$150,000 for expenses, of which \$75,000 was paid by Access. In addition, Access owed the Company an additional \$90,000. The aggregate of \$165,000 is included in accounts receivable. The second exchange occurred on September 10, 1998 when the Company exchanged 400,000 shares of its common stock for 400,000 shares of Access common stock. This exchange was valued at \$221,280. In February, 1998, the Company exchanged 50,000 shares of its common stock for 200,000 shares of Access common stock during 1998 with a private investor. This exchange was valued at \$104,070.

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

16. Investment in and Transactions with Affiliate (Continued)

The Company's investment in Access is carried on the equity method of accounting. At November 30, 1998 and 1997, the cost of the investment in Access had been reduced by \$159,396 and \$420,000, attributable to the Company's portion (at cost) of the Company's common stock held by Access, with a corresponding charge to treasury stock. As of November 30, 1998, the Company owned approximately 31% of Access. The Company, for its fiscal year ended November 30, 1998, included its share of Access' operations based on Access' year end of October 31, 1998. All of the Company's investment at November 30, 1998 and 1997 represents goodwill, which is being amortized over seven years, based on original cost. The Company recorded a loss of \$1,423,000 (including goodwill amortization of \$375,000) on its equity in the operations of Access for the year ended November 30, 1998 (none for the year ended November 30, 1997).

Access was formed in 1991 and was inactive until September 1997, when Access acquired 95% of the capital stock of The Other Phone Company, Inc. ("OPC"), an integrated telecommunications provider based in Florida. Substantially all of Access' revenues represent the resale of telephone services pursuant to a resale agreement with one supplier, BellSouth Corporation.

The results of operations for the year ended October 31, 1998 and for the period September 9, 1997 through October 31, 1997 and financial position of Access as of October 31, 1998 and 1997 are summarized below:

Condensed Income Statement Information

	<u>1998</u>	<u>1997</u> (1)
Revenue	\$5,811,038	\$479,516
Cost of service	5,045,514	366,243
Gross profit	765,524	113,273
Net loss	(4,761,333)	(158,098)

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

16. Investment in and Transactions with Affiliate (Continued)

Condensed Balance Sheet Information

	<u>1998</u>	<u>1997</u> (1)
Current assets, including investment in Sirco International Corp. common shares carried at \$396,175 and \$1,500,000 at October 31, 1998 and 1997*	\$1,621,223	\$2,082,905
Non-current assets	630,394	117,884
Goodwill	1,633,732	1,909,043
Current liabilities	4,200,705	1,603,050
Non-current liabilities	181,124	410,229
Stockholders' equity (deficiency)	(496,480)	2,096,553

* The 1997 shares were sold in January and February 1998 for \$687,500.

(1) The amounts for 1997 differ from those previously reported. The effects to the Company of such changes are not material.

In September, 1997, the Company's Chief Executive Officer loaned Access \$150,000. On November 10, 1997, the loan, plus accrued interest of \$3,000, was converted into 306,000 shares of Access common stock (approximately 3% of Access' outstanding shares).

SIRCO INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996

16. Investment in Affiliate (Continued)

In addition, Access granted options to purchase common shares of Access to the Chief Executive Officer of the Company (150,000 shares at \$1.20 per share) and to another officer of the Company who serves on the Board of Directors of Access (100,000 shares at \$1.00 per share).

Although Access has approximately 750 shareholders, it is not publicly traded, there is no readily ascertainable market for its stock, and the shares of Access held by the Company have not been registered under the Securities Act of 1933. Among other matters, Access has experienced significant operating losses, has violated covenants contained in its financing agreement, is having difficulty meeting its obligations as they become due, is in dispute with its principal supplier, and requires substantial amounts of additional funding to execute its business plan. In addition, the report of the independent auditors of Access indicates there is substantial doubt about Access' ability to continue as a going concern. The Company has been furnished by Access with a written valuation which states that the estimated current aggregate market value of the access lines controlled by Access range between \$7,200,000 and \$9,900,000. The Company has determined that there is not an impairment of value with respect to its investment in Access as of November 30, 1998 and 1997.

17. Subsequent Events

In January 1999, the Company acquired all of the outstanding shares of Tag Air, Inc. ("Tag Air") in exchange for 148,000 shares of the Company's common stock valued at \$190,000 in a transaction to be accounted for as a purchase. Tag Air is a retailer that sells name brand luggage, apparel and travel-related accessories to airline pilots and flight crews.

EXHIBIT I - A
ESSEX COMMUNICATIONS, INC.
Financial Resources Statement

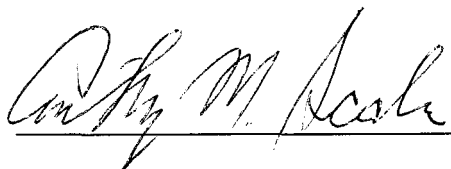
Essex Communications, Inc. ("Essex") is providing the Fiscal Year End November 1998 10-K of its parent company, Sirco International Corp. as proof of its ability to provide competitive local exchange service within Florida. The parent company has ample financial resources to support Exxes during it initial startup in Florida. Sirco has \$352, 489 in cash and a current ratio of 1.05 to 1. (Current assets of \$6,702,349 and current liabilities of \$6,368,139)

Essex proposes to operate as a local service reseller in the state. There are minimal capital requirements or expenses that the company will experience when starting operations in Florida. All transmission will be provided by the underlying carrier. The company has structured its retail pricing so that its per minute rate covers its per minute cost, thus assuring an almost instantaneous positive cash flow.

STATE OF NEW YORK)
)
COUNTY OF NASSAU)

VERIFICATION OF FINANCIAL INFORMATION

The undersigned officer attests to the accuracy of the foregoing financial statements. The information contained therein is accurate to best of his knowledge and belief:

 Date: 3-3-99
Anthony M. Scalice, President

Sworn before me this 3rd day of March, 1999



Notary Public

MICHAEL C. SCHMIDT
Notary Public, State of New York
No. 02-SC5048598
Qualified in Nassau County
Commission Expires 6/28/99

ESSEX COMMUNICATIONS, INC.

EXHIBIT II

MANAGERIAL CAPABILITY

Essex Communications, Inc.
Managerial Profiles

Anthony M. Scalice, President/CEO

Mr. Scalice began his career in telecommunications with NYNEX where he supervised the internal safeguarding of payphones. He moved to the area Operations Manager at NYNEX before joining US Communications of Westchester as Sr. Vice President of Operations in 1990. Mr. Scalice was the President of Pinnacle Telecommunications Consultants, Inc. from 1991 to 1995, and again during 1997. He became the President of Essex Communications in December of 1998, where he is directly responsible for the day-to-day operation for verifications, provisioning, repairs, collections, analysis and payment of bills, sales, marketing and operation budget of telephone accounts., He is also Vice President for Telecommunications, and a member of the Board of Directors of Sirco International Corporation.

Paul H. Riss, Chief Financial Officer

Mr. Riss began his career at Ernst & Young as Senior Audit Manager in 1979. In 1987 he became the Chief Financial Officer and Treasurer of Peter's Bag Corporation in New York. Mr. Riss held the positions of Chief Financial Officer at ComponentGuard, Inc. and Sequins International, Inc. before joining Sirco International Corp. in that position in 1996. In this position he manages internal and external reporting and provides financial analysis for acquisition of internet service provider and Bell Atlantic CLEC.

ESSEX COMMUNICATIONS, INC.

EXHIBIT III

ARTICLES OF INCORPORATION

State of Florida



Department of State

I certify the attached is a true and correct copy of the application by ESSEX COMMUNICATIONS, INC., a New York corporation, authorized to transact business within the State of Florida on May 13, 1999 as shown by the records of this office.

The document number of this corporation is F99000002471.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Thirteenth day of May, 1999



CR2EO22 (1-99)

Katherine Harris

Katherine Harris
Secretary of State

APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS
SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE
STATE OF FLORIDA:

1. Essex Communications, Inc.

(Name of corporation: must include the word "INCORPORATED", "COMPANY", "CORPORATION" or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.)

2. New York

(State or country under the law of which it is incorporated)

3. 06-1500995

(FEI number, if applicable)

4. December 8, 1997

(Date of Incorporation)

5. perpetual

(Duration: Year corp. will cease to exist or "perpetual")

6. upon qualification

(Date first transacted business in Florida. (SEE SECTIONS 607.1501, 607.1502, AND 817.155, F.S.))

7. 48 SOUTH SERVICE ROAD

MELVILLE, N.Y. 11747

(Current mailing address)

8. to engage in any act or activity for which corporations may be organized.

(Purpose(s) of corporation authorized in home state or country to be carried out in the state of Florida)

9. **Name and street address of Florida registered agent: (P.O. Box or Mail Drop Box NOT acceptable)**

Name: NRAI Services, Inc.

Office Address: 526 E. Park Avenue

Tallahassee

, Florida, 32301

10. **Registered agent's acceptance:**

Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

Pegria Clarkin, Assistant Secretary
(Registered agent's signature)

11. Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated.

FILED
99 MAY 13 PM 2:57
TALLAHASSEE, FLORIDA
SECRETARY OF STATE
(Zip Code)

CERTIFICATE OF INCORPORATION
OF
ESSEX COMMUNICATIONS, INC.

Filed by:

Alexander Minella, P.C.
2815 Middletown Road
Bronx, New York 10461

-
CERTIFICATE OF INCORPORATION

ESSEX COMMUNICATIONS, INC.

Under Section 402 of the Business Corporation Law.

The undersigned, for the purpose of forming a corporation pursuant to Section 402 of the Business Corporation Law of the State of New York, does hereby certify and set forth:

FIRST: The name of the corporation is ESSEX COMMUNICATIONS, INC.

SECOND: The purposes for which the corporation is formed are:

To engage in any lawful act or activity for which corporations may be organized under the business corporation law, provided that the corporation is not formed to engage in any act or activity which requires the act or approval of any state official, department, board, agency or other body without such approval or consent first being obtained.

To develop, experiment with, conduct research on, manufacture, produce, assemble, buy, rent or otherwise acquire, hold, own, use, operate, install, equip, replace, maintain, service, process, reprocess, repair, remodel, recondition, import, export, sell, lease, market, distribute, transport or otherwise dispose of and generally to deal in and with, as contractor, subcontractor, principal, agent, commission merchant, broker, factor or any combination of the foregoing and at wholesale or retail or both, any and all kinds of communications, communications equipment, supplies and accessories and all allied apparatus, systems, parts, supplies, tools, implements, raw materials, natural products, manufactured articles and products, and goods, wares, merchandise and tangible property of every kind, used or capable of being used for any purpose whatever.

To establish, maintain and conduct a general service organization, to make and conduct investigations and render reports of such investigations relating to the communications industry, perform supervisory, inspection and testing services and any and all other activities relating to the analysis of communications equipment and systems. To act as a consultant to individuals, corporations,

associations, partnerships and others and to obtain services in their behalf for the supervision and testing of communications equipment and systems.

To maintain executive and operating personnel for the purpose of advising and assisting others in all matters relating to communications network management; to furnish programs, systems, formulate policies and generally to advise and assist others, under contract or otherwise, with relation to any aspect of communications systems. Generally to establish and operate a communications system in all its branches and departments.

To carry on a general mercantile, industrial, investing and trading business in all its branches; to devise, invent, manufacture, fabricate, assemble, install, service, maintain, alter, buy, sell, import, export, license as licensor or licensee, lease as lessor or lessee, distribute, job, enter into, negotiate, execute, acquire, and assign contracts in respect of, acquire, receive, grant, and assign licensing arrangements, options, franchises, and other rights in respect of, and generally deal in and with, at wholesale and retail, as principal, and as sales, business, special, or general agent, representative, broker, factor, merchant, distributor, jobber, advisor, or in any other lawful capacity, goods, wares, merchandise, commodities, and unimproved, improved, finished, processed and other real, personal and mixed property of any and all kinds, together with the components, resultants, and by-products thereof.

To acquire by purchase, subscription, underwriting or otherwise, and to own, hold for investment, or otherwise, and to use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property of every sort and description and wheresoever situated, including shares of stock, bonds, debentures, notes, scrip, securities, evidences of indebtedness, contracts or obligations of any corporation or association, whether domestic or foreign, or of any firm or individual or of the United States or any state, territory or dependency of the United States or any foreign country, or any municipality or local authority within or without the United States, and also to issue in exchange therefor, stocks, bonds or other securities or evidences of indebtedness of this corporation and, while the owner or holder of any such property, to receive, collect and dispose of the interest, dividends and income on or from such property and to possess and exercise in respect thereto all of the rights, powers and privileges of ownership, including all voting powers thereon.

To construct, build, purchase, lease or otherwise acquire, equip, hold, own, improve, develop, manage, maintain, control, operate, lease, mortgage, create liens upon, sell, convey or otherwise dispose of and turn to account, any and all plants, machinery, works, implements and things or property, real and personal, of every kind and description, incidental to, connected with, or suitable, necessary or convenient for

any of the purposes enumerated herein, including all or any part or parts of the properties, assets, business and goodwill of any persons, firms, associations or corporations.

The powers, rights and privileges provided in this certificate are not to be deemed to be in limitation of similar, other or additional powers, rights and privileges granted or permitted to a corporation by the Business Corporation Law, it being intended that this corporation shall have all rights, powers and privileges granted or permitted to a corporation by such statute.

THIRD: The office of the corporation is to be located in the County of Bronx, State of New York.

FOURTH: The aggregate number of shares which the corporation shall have the authority to issue is Two Hundred (200), all of which shall be without par value.

FIFTH: The Secretary of State is designated as the agent of the corporation upon whom process against it may be served. The post office address to which the Secretary of State shall mail a copy of any process against the corporation served on him is:

2815 Middletown Road
Bronx, New York 10461

SIXTH: The personal liability of directors to the corporation or its shareholders for damages for any breach of duty in such capacity is hereby eliminated except that such personal liability shall not be eliminated if a judgment or other final adjudication adverse to such director establishes that his acts or omissions were in bad faith or involved intentional misconduct or a knowing violation of law or that he personally gained in fact a financial profit or other advantage to which he was not legally entitled or that his acts violated Section 719 of the Business Corporation Law.

IN WITNESS WHEREOF, this certificate has been subscribed to this 5th day of December, 1997 by the undersigned who affirms that the statements made herein are true under the penalties of perjury.

A handwritten signature in cursive script, appearing to read "Gerald Weinberg".

GERALD WEINBERG
90 State Street
Albany, New York

STATEMENT OF INCORPORATOR IN LIEU OF ORGANIZATIONAL MEETING

The undersigned, being the sole incorporator of ESSEX COMMUNICATIONS, INC. does hereby certify as follows:

1. The certificate of incorporation of this corporation was duly filed in the Office of the Department of State of the State of New York on the 8th day of December 1997. A copy of the certificate of Incorporation and the filing notice received from the Department of State is annexed hereto and is to be inserted in the minutes.

2. The undersigned, as sole incorporator, has adopted the annexed by-laws as the by-laws of this corporation and directed that they be inserted in the minutes.

3. The following were duly elected as the directors of the corporation, to hold office until the first annual meeting of the shareholders of this corporation:

ANTHONY SCALICE - President
Robin L. Marshlow Vice-President
Wesly Minella Secretary-Treasurer

The directors assumed their office.

DATED: December 8, 1997



INCORPORATOR

BY-LAWS

ARTICLE I

The Corporation

Section 1. Name. The legal name of this corporation (hereinafter called the "Corporation") is

ESSEX COMMUNICATIONS, INC.

Section 2. Offices. The Corporation shall have its principal office in the State of New York. The Corporation may also have offices at such other places within and without the United States as the Board of Directors may from time to time appoint or the business of the Corporation may require.

Section 3. Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, New York." One or more duplicate dies for impressing such seal may be kept and used.

ARTICLE II

Meetings of Shareholders

Section 1. Place of Meetings. All meetings of the shareholders shall be held at the principal office of the Corporation in the State of New York or at such other place, within or without the State of New York, as is fixed in the notice of the meeting.

Section 2. Annual Meeting. An annual meeting of the shareholders of the Corporation for the election of directors and the transaction of such other business as may properly come before the meeting shall be held on the first Monday of ~~JANUARY~~ in each year if not a legal holiday, and if a legal holiday, then on the next secular day following, at ten o'clock A.M., Eastern Standard Time, or at such other time as is fixed in the notice of the meeting. If for any reason any annual meeting shall not be held at the time herein specified, the same may be held at any time

thereafter upon notice, as herein provided, or the business thereof may be transacted at any special meeting called for the purpose.

Section 3. Special Meetings. Special meetings of shareholders may be called by the President whenever he deems it necessary or advisable. A special meeting of the shareholders shall be called by the President whenever so directed in writing by a majority of the entire Board of Directors or whenever the holders of one-third (1/3) of the number of shares of the capital stock of the Corporation entitled to vote at such meeting shall, in writing, request the same.

Section 4. Notice of Meetings. Notice of the time and place of the annual and of each special meeting of the shareholders shall be given to each of the shareholders entitled to vote at such meeting by mailing the same in a postage prepaid wrapper addressed to each such shareholder at his address as it appears on the books of the Corporation, or by delivering the same personally to any such shareholder in lieu of such mailing, at least ten (10) and not more than fifty (50) days prior to each meeting. Meetings may be held without notice if all of the shareholders entitled to vote thereat are present in person or by proxy, or if notice thereof is waived by all such shareholders not present in person or by proxy, before or after the meeting. Notice by mail shall be deemed to be given when deposited, with postage thereon prepaid, in the United States mail. If a meeting is adjourned to another time, not more than thirty (30) days hence, or to another place, and if an announcement of the adjourned time or place is made at the meeting, it shall not be necessary to give notice of the adjourned meeting unless the Board of Directors, after adjournment fix a new record date for the adjourned meeting. Notice of the annual and each special meeting of the shareholders shall indicate that it is being issued by or at the direction of the person or persons calling the meeting, and shall state the name and capacity of each such person. Notice of each special meeting shall also state the purpose or purposes for which it has been called. Neither the business to be transacted at nor the purpose of the annual or any special meeting of the shareholders need be specified in any written waiver of notice.

Section 5. Record Date for Shareholders. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock or for the

purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than fifty(5) days nor less than ten (10) days before the date of such meeting, nor more than fifty (50) days prior to any other action. If no record date is fixed, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if no notice is given, the day on which the meeting is held; the record date for determining shareholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of shareholders of record entitled to notice of or to vote at any meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6. Proxy Representation. Every shareholder may authorize another person or persons to act for him by proxy in all matters in which a shareholder is entitled to participate, whether by waiving notice of any meeting, voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be signed by the shareholder or by his attorney-in-fact. No proxy shall be voted or acted upon after eleven months from its date unless such proxy provides for a longer period. Every proxy shall be revocable at the pleasure of the shareholder executing it, except as otherwise provided in Section 608 of the New York Business Corporation Law.

Section 7. Voting at Shareholders' Meetings. Each share of stock shall entitle the holder thereof to one vote. In the election of directors, a plurality of the votes cast shall elect. Any other action shall be authorized by a majority of the votes cast except where the New York Business Corporation Law prescribes a different percentage of votes or a different exercise of voting power. In the election of directors, and for any other action, voting need not be by ballot.

Section 8. Quorum and Adjournment. Except for a special election of directors pursuant to Section 603 of the New York Business Corporation Law, the presence, in person or by proxy, of the holders of a majority of the shares of the stock of the Corporation outstanding and entitled to vote thereat shall be requisite and shall constitute a quorum at any meeting of the shareholders. When a quorum is once

present to organize a meeting, it shall not be broken by the subsequent withdrawal of any shareholders. If at any meeting of shareholders there shall be less than a quorum so present, the shareholders present in person or by proxy and entitled to vote thereat, may adjourn the meeting from time to time until a quorum shall be present, but no business shall be transacted at any such adjourned meeting except such as might have been lawfully transacted had the meeting not adjourned.

Section 9. List of Shareholders. The officer who has charge of the stock ledger of the Corporation shall prepare, make and certify, at least ten (1) days before every meeting of shareholders, a complete list of the shareholders, as of the record date fixed for such meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city or other municipality or community where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present. If the right to vote at any meeting is challenged, the inspectors of election, if any, or the person presiding thereat, shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

Section 10. Inspectors of Election. The Board of Directors, in advance of any meeting, may, but need not, appoint one or more inspectors of election to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the person presiding at the meeting may, and at the request of any shareholder entitled to vote thereat shall, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, if any, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive

votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder entitled to vote thereat, the inspector or inspectors, if any, shall make a report in writing of any challenge, question or matter determined by him or them and execute a certificate of any fact found by him or them. Any report or certificate made by the inspector or inspectors shall be prima facie evidence of the facts stated and of the vote as certified by them.

Section 11. Action of the Shareholders Without Meetings. Any action which may be taken at any annual or special meeting of the shareholders may be taken without a meeting on written consent, setting forth the action so taken, signed by the holders of all outstanding shares entitled to vote thereon. Written consent thus given by the holders of all outstanding shares entitled to vote shall have the same effect as a unanimous vote of the shareholders.

ARTICLE III

Directors

Section 1. Number of Directors. The number of directors which shall constitute the entire Board of Directors shall be at least three, except that where all outstanding shares of the stock of the Corporation are owned beneficially and of record by less than three shareholders, the number of directors may be less than three but not less than the number of shareholders. Subject to the foregoing limitation, such number may be fixed from time to time by action of a majority of the entire Board of Directors or of the shareholders at an annual or special meeting, or, if the number of directors is not so fixed, the number shall be three or shall be equal to the number of shareholders (determined as aforesaid), whichever is less. Until such time as the corporation shall issue shares of its stock, the Board of Directors shall consist of two persons. No decrease in the number of directors shall shorten the term of any incumbent director.

Section 2. Election and Term. The initial Board of Directors shall be elected by the incorporator and each initial director so elected shall hold office until the first annual meeting of shareholders and until his successor has been elected and qualified. Thereafter, each director who is elected at an annual meeting of shareholders, and

each director who is elected in the interim to fill a vacancy or a newly created directorship, shall hold office until the next annual meeting of shareholders and until his successor has been elected and qualified.

Section 3. Filling Vacancies, Resignation and Removal. Any director may tender his resignation at any time. Any director or the entire Board of Directors may be removed, with or without cause, by vote of the shareholders. In the interim between annual meetings of shareholders or special meetings of shareholders called for the election of directors or for the removal of one or more directors and for the filling of any vacancy in that connection, newly created directorships and any vacancies in the Board of Directors, including unfilled vacancies resulting from the resignation or removal of directors for cause or without cause, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum or by the sole remaining director.

Section 4. Qualifications and Powers. Each director shall be at least eighteen years of age. A director need not be a shareholder, a citizen of the United States or a resident of the State of New York. The business of the Corporation shall be managed by the Board of Directors, subject to the provisions of the Certificate of Incorporation. In addition to the powers and authorities by these By-Laws expressly conferred upon it, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done exclusively by the shareholders.

Section 5. Regular and Special Meetings of the Board. The Board of Directors may hold its meetings, whether regular or special, either within or without the State of New York. The newly elected Board may meet at such place and time as shall be fixed by the vote of the shareholders at the annual meeting, for the purpose of organization or otherwise, and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a majority of the entire Board shall be present; or they may meet at such place and time as shall be fixed by the consent in writing of all directors. Regular meetings of the Board may be held with or without notice at such time and place as shall from time to time be determined by resolution of the Board. Whenever the time or place of regular meetings of the Board shall have been determined by resolution of the Board, no regular

meetings shall be held pursuant to any resolution of the Board altering or modifying its previous resolution relating to the time or place of the holding of regular meetings, without first giving at least three days written notice to each director, either personally or by telegram, or at least five days written notice to each director by mail, of the substance and effect of such new resolution relating to the time and place at which regular meetings of the board may thereafter be held without notice. Special meetings of the Board shall be held whenever called by the President, Vice-President, the Secretary or any director in writing. Notice of each special meeting of the Board shall be delivered personally to each director or sent by telegram to his residence or usual place of business at least three days before the meeting, or mailed to him to his residence or usual place of business at least five days before the meeting. Meetings of the Board, whether regular or special, may be held at any time and place, and for any purpose, without notice, when all the directors are present or when all directors not present shall, in writing, waive notice of and consent to the holding of such meeting. All or any of the directors may waive notice of any meeting and the presence of the director at any meeting of the Board shall be deemed a waiver of notice thereof by him. A notice, or waiver of notice, need not specify the purpose or purposes of any regular or special meeting of the Board.

Section 6. Quorum and Action. A majority of the entire Board of Directors shall constitute a quorum except that when the entire Board consists of one director, then one director shall constitute a quorum, and except that when a vacancy or vacancies prevents such majority, a majority of the directors in office shall constitute a quorum, provided that such majority shall constitute at least one-third of the entire Board. A majority of the directors present, whether or not they constitute a quorum, may adjourn a meeting to another time and place. Except as herein otherwise provided, and except as otherwise provided by the New York Business Corporation Law, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board.

Section 7. Telephonic Meetings. Any member or members of the Board of Directors, or of any committee designated by the Board, may participate in a meeting of the Board, or any such committee, as the case may be, by means of conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, and participation in a meeting by such means shall constitute presence in person at such meeting.

Section 8. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 9. Compensation of Directors. By resolution of the Board of Directors, the directors may be paid their expenses, if any, for attendance at each regular or special meeting of the Board or of any committee designated by the Board and may be paid a fixed sum for attendance at such meeting, or a stated salary as director, or both. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor; provided however that directors who are also salaried officers shall not receive fees or salaries as directors.

ARTICLE IV

Committees

Section 1. In General. The Board of Directors may, by resolution or resolutions passed by the affirmative vote therefore of a majority of the entire Board, designate an Executive Committee and such other committees as the Board may from time to time determine, each to consist of three or more directors, and each of which, to the extent provided in the resolution or in the certificate of incorporation or in the By-Laws, shall have all the powers of the Board, except that no such Committee shall have power to fill vacancies in the Board, or to change the membership of or to fill vacancies in any Committee, or to make, amend, repeal or adopt By-Laws of the Corporation, or to submit to the shareholders any action that needs shareholder approval under these By-Laws or the New York Business Corporation Law, or to fix the compensation of the directors for serving on the Board or any committee thereof, or to amend or repeal any resolution of the Board which by its terms shall not be so amendable or repealable. Each committee shall serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence of disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Section 2. Executive Committee. Except as otherwise limited by the Board of Directors or by these By-Laws, the Executive Committee, if so designated by the Board of Directors, shall have and may exercise, when the Board is not in session, all the powers of the Board of Directors in the management of the business and affairs of the Corporation, and shall have power to authorize the seal of the Corporation to be affixed to all papers which may require it. The Board shall have the power at any time to change the membership of the Executive Committee, to fill vacancies in it, or to dissolve it. The Executive Committee may make rules for the conduct of its business and may appoint such assistance as it shall from time to time deem necessary. A majority of the members of the Executive Committee, if more than a single member, shall constitute a quorum.

ARTICLE V

Officers

Section 1. Designation, Term and Vacancies. The officers of the Corporation shall be a President, one or more Vice-Presidents, a Secretary, a Treasurer, and such other officers as the Board of Directors may from time to time deem necessary. Such officers may have and perform the powers and duties usually pertaining to their respective offices, the powers and duties respectively prescribed by law and by these By-Laws, and such additional powers and duties as may from time to time be prescribed by the Board. The same person may hold any two or more offices, except that the offices of President and Secretary may not be held by the same person unless all the issued and outstanding stock of the Corporation is owned by one person, in which instance such person may hold all or any combination of offices.

The initial officers of the Corporation shall be appointed by the initial Board of Directors, each to hold office until the meeting of the Board of Directors following the first annual meeting of shareholders and until his successor has been appointed and qualified. Thereafter, the officers of the Corporation shall be appointed by the Board as soon as practicable after the election of the Board at the annual meeting of shareholders, and each officer so appointed shall hold office until the first meeting of the Board of Directors following the next annual meeting of shareholders and until his successor has been appointed and qualified. Any officer may be removed at any time, with or without cause, by the affirmative vote therefor of a majority of the entire Board of Directors. All other agents and employees of the Corporation shall hold office during

the pleasure of the Board of Directors. Vacancies occurring among the officers of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 2. President. The President shall preside at all meetings of the shareholders and at all meetings of the Board of Directors at which he may be present. Subject to the direction of the Board of Directors, he shall be the chief executive officer of the Corporation, and shall have general charge of the entire business of the Corporation. He may sign certificates of stock and sign and seal bonds, debentures, contracts or other obligations authorized by the Board, and may, without previous authority of the Board, make such contracts as the ordinary conduct of the Corporation's business requires. He shall have the usual powers and duties vested in the President of a corporation. He shall have power to select and appoint all necessary officers and employees of the Corporation, except those selected by the Board of Directors, and to remove all such officers and employees except those selected by the Board of Directors, and make new appointments to fill vacancies. He may delegate any of his powers to a Vice-President of the Corporation.

Section 3. Vice-President. A Vice-President shall have such of the President's powers and duties as the President may from time to time delegate to him, and shall have such other powers and perform such other duties as may be assigned to him by the Board of Directors. During the absence or incapacity of the President, the Vice-President, or, if there be more than one, the Vice-President having the greatest seniority in office, shall perform the duties of the President, and when so acting shall have all the powers and be subject to all the responsibilities of the office of President.

Section 4. Treasurer. The Treasurer shall have custody of such funds and securities of the Corporation as may come to his hands or be committed to his care by the Board of Directors. Whenever necessary or proper, he shall endorse on behalf of the Corporation, for collection, checks, notes, or other obligations, and shall deposit the same to the credit of the Corporation in such bank or banks or depositories, approved by the Board of Directors as the Board of Directors or President may designate. He may sign receipts or vouchers for payments made to the Corporation, and the Board of Directors may require that such receipts or vouchers shall also be signed by some other officer to be designated by them. Whenever required by the Board of Directors, he shall render a statement of his cash accounts and such other

statements respecting the affairs of the Corporation as may be required. He shall keep proper and accurate books of account. He shall perform all acts incident to the office of Treasurer, subject to the control of the Board.

Section 5. Secretary. The Secretary shall have custody of the seal of the Corporation and when required by the Board of Directors, or when any instrument shall have been signed by the President duly authorized to sign the same, or when necessary to attest any proceedings of the shareholders or directors, shall affix it to any instrument requiring the same and shall attest the same with his signature, provided that the seal may be affixed by the President or Vice-President or other officer of the Corporation to any document executed by either of them respectively on behalf of the Corporation which does not require the attestation of the Secretary. He shall attend to the giving and serving of notices of meetings. He shall have charge of such books and papers as properly belong to his office or as may be committed to his care by the Board of Directors. He shall perform such other duties as appertain to his office or as may be required by the Board of Directors.

Section 6. Delegation. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board may temporarily delegate the powers or duties, or any of them, of such officer to any other officer or to any director.

ARTICLE VI

Stock

Section 1. Certificates Representing Shares. All certificates representing shares of the capital stock of the Corporation shall be in such form not inconsistent with the Certificate of Incorporation, these By-Laws or the laws of the State of New York and shall set forth thereon the statements prescribed by Section 508, and where applicable, by Sections 505, 616, 620, 709 and 1002 of the Business Corporation Law. Such shares shall be approved by the Board of Directors, and shall be signed by the President or a Vice-President and by the Secretary or the Treasurer and shall bear the seal of the Corporation and shall not be valid unless so signed and sealed. Certificates countersigned by a duly appointed transfer agent and/or registered by a duly appointed registrar shall be deemed to be so signed and sealed whether the signatures be manual or facsimile signatures and whether the seal be a facsimile seal or any other

form of seal. All certificates shall be consecutively numbered and the name of the person owning the shares represented thereby, his residence, with the number of such shares and the date of issue, shall be entered on the Corporation's books. All certificates surrendered shall be canceled and no new certificates issued until the former certificates for the same number of shares shall have been surrendered and canceled, except as provided for herein.

In case any officer or officers who shall have signed or whose facsimile signature or signatures shall have been affixed to any such certificate or certificates, shall cease to be such officer or officers of the Corporation before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation, and may be issued and delivered as though the person or persons who signed such certificates, or whose facsimile signature or signatures shall have been affixed thereto, had not ceased to be such officer or officers of the Corporation.

Any restriction on the transfer or registration of transfer of any shares of stock of any class or series shall be noted conspicuously on the certificate representing such shares.

Section 2. Fractional Share Interests. The Corporation, may, but shall not be required to, issue certificates for fractions of a share. If the Corporation does not issue fractions of a share, it shall (1) arrange for the disposition of fractional interests by those entitled thereto, (2) pay in cash the fair value of fractions of a share as of the time when those entitled to receive such fractions are determined, or (3) issue scrip or warrants in registered or bearer form which shall entitle the holder to receive a certificate for a full share upon the surrender of such scrip or warrants aggregating a full share. A certificate for a fractional share shall, but scrip or warrants shall not unless otherwise provided therein, entitle the holder to exercise voting rights, to receive dividends thereon, and to participate in any distribution of the assets of the Corporation in the event of liquidation. The Board of Directors may cause scrip or warrants to be issued subject to the conditions that they shall become void if not exchanged for certificates representing full shares before a specified date, or subject to the condition that the shares for which scrip or warrants are exchangeable may be sold by the Corporation and the proceeds thereof distributed to the holders of scrip or warrants, or subject to any other conditions which the Board of Directors may impose.

Section 3. Addresses of Shareholders. Every shareholder shall furnish the Corporation with an address to which notices of meetings and all other notices may be

served upon or mailed to him, and in default thereof notices may be addressed to him at his last known post office address.

Section 4. Stolen, Lost or Destroyed Certificates. The Board of Directors may in its sole discretion direct that a new certificate or certificates of stock be issued in place of any certificate or certificates of stock theretofore issued by the Corporation, alleged to have been stolen, lost or destroyed, and the Board of Directors when authorizing the issuance of such new certificate or certificates, may, in its discretion, and as a condition precedent thereto, require the owner of such stolen, lost or destroyed certificate or certificates, or his legal representatives to give to the Corporation and to such registrar or registrars and/or transfer agent or transfer agents as may be authorized or required to countersign such new certificate or certificates, a bond in such sum as the Corporation may direct not exceeding double the value of the stock represented by the certificate alleged to have been stolen, lost or destroyed, as indemnity against any claim that may be made against them or any of them for or in respect of the shares of stock represented by the certificate alleged to have been stolen, lost or destroyed.

Section 5. Transfers of Shares. Upon compliance with all provisions restricting the transferability of shares, if any, transfers of stock shall be made only upon the books of the Corporation by the holder in person or by his attorney thereunto authorized by power of attorney duly filed with the Secretary of the Corporation or with a transfer agent or registrar, if any, upon the surrender and cancellation of the certificate or certificates for such shares properly endorsed and the payment of all taxes due thereon. The Board of Directors may appoint one or more suitable banks and/or trust companies as transfer agents and/or registrars of transfers, for facilitating transfers of any class or series of stock of the Corporation by the holders thereof under such regulations as the Board of Directors may from time to time prescribe. Upon such appointment being made all certificates of stock of such class or series thereafter issued shall be countersigned by one of such transfer agents and/or one of such registrars of transfers, and shall not be valid unless so countersigned.

ARTICLE VII

Dividends and Finance

Section 1. Dividends. The Board of Directors shall have power to fix and determine and to vary, from time to time, the amount of the working capital of the Corporation before declaring any dividends among its shareholders, and to direct and

determine the use and disposition of any net profits or surplus, and to determine the date or dates for the declaration and payment of dividends and to determine the amount of any dividend, and the amount of any reserves necessary in their judgment before declaring any dividends among its shareholder, and to determine the amount of the net profits of the Corporation from time to time available for dividends.

Section 2. Fiscal Year. The fiscal year of the Corporation shall end on the last day of December in each year and shall begin on the next succeeding day, or shall be for such other period as the Board of Directors may from time to time designate with the consent of the Department of Taxation and Finance, where applicable.

ARTICLE VIII

Miscellaneous Provisions.

Section 1. Stock of Other Corporations. The Board of Directors shall have the right to authorize any director, officer or other person on behalf of the Corporation to attend, act and vote at meetings of the Shareholders of any corporation in which the Corporation shall hold stock, and to exercise thereat any and all rights and powers incident to the ownership of such stock, and to execute waivers of notice of such meetings and calls therefor; and authority may be given to exercise the same either on one or more designated occasions, or generally on all occasions until revoked by the Board. In the event that the Board shall fail to give such authority, such authority may be exercised by the President in person or by proxy appointed by him on behalf of the Corporation.

Any stocks or securities owned by this Corporation may, if so determined by the Board of Directors, be registered either in the name of this Corporation or in the name of any nominee or nominees appointed for that purpose by the Board of Directors.

Section 2. Books and Records. Subject to the New York Business Corporation Law, the Corporation may keep its books and accounts outside the State of New York.

Section 3. Notices. Whenever any notice is required by these By-Laws to be given, personal notice is not meant unless expressly so stated, and any notice so required shall be deemed to be sufficient if given by depositing the same in a post

office box in a sealed postpaid wrapper, addressed to the person entitled thereto at his last known post office address, and such notice shall be deemed to have been given on the day of such mailing.

Whenever any notice whatsoever is required to be given under the provisions of any law, or under the provisions of the Certificate of Incorporation or these By-Laws a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Section 4. Amendments. Except as otherwise provided herein, these By-Laws may be altered, amended or repealed and By-Laws may be made at any annual meeting of the shareholders or at any special meeting thereof if notice of the proposed alteration, amendment or repeal or By-Law or By-Laws to be made be contained in the notice of such special meeting, by the holders of a majority of the shares of stock of the Corporation outstanding and entitled to vote thereat; or by a majority of the Board of Directors at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors, if notice of the proposed alteration, amendment or repeal, or By-Law or By-Laws to be made, be contained in the Notice of such Special Meeting.

MINUTES OF FIRST MEETING
OF THE BOARD OF DIRECTORS
OF
ESSEX COMMUNICATIONS, INC.

Held: December 8 1997

The first meeting of the Board of Directors of the corporation was held on the above date at 3 o'clock P.M., at 826 James St, Pelham NY at the call of a majority of the Board.

The following Directors constituting a quorum, were present:

Anthony Scalice - Chairman and President

Robin L. Marshlow - Vice President

Wesly Minella - Secretary and Treasurer

The meeting was called to order and was designated to act as chairman and as secretary of the meeting.

The chairman stated that the purpose of the meeting was to take all steps necessary to complete the organization of the corporation and to enable it to commence business.

The first order of business was the election or designation of officers at this corporation. There being no contest, the following were elected by proclamation to serve as officers until the next annual meeting of the Board or until their successors are elected and qualified:

<u>Office</u>	<u>Name</u>
President	ANTHONY SCALICE
Vice President	ROBIN L. MARSHLOW
Secretary	WESLY MINELLA
Treasurer	WESLY MINELLA

The president and secretary assumed their respective offices, in the places of those who temporarily acted as such for this meeting.

The minutes of the organizational meeting of the incorporator (s) held on December 8 1997, were read and it was thereupon unanimously

RESOLVED, that the actions and business transacted by the incorporator (s) at the organizational meeting held on December 8 1997, and entered on the minutes of that meeting, be and they are hereby ratified and adopted by this Board.

The annexed resolutions, deemed necessary to complete the organizational procedures, were introduced, discussed and adopted.

**ORGANIZATIONAL RESOLUTIONS
ADOPTED BY THE BOARD OF DIRECTORS
OF**

1. The seal, an impression of which is affixed to the left hereof, is adopted as the seal of the corporation.
2. The form of stock certificate annexed hereto is adopted as the form of stock certificate for the corporation.

3. (a) The corporation accepts the offer of the following persons to purchase the number of shares of stock of the corporation shown in exchange for the consideration set opposite their names:

Name of Subscriber	Number and Classes of Shares	Consideration Per Share	Aggregate Consideration
ANTHONY SCALICE	10 \ Common	\$ 10.00	100 ^x / ₁₀₀
LYNN MINELLA	45 \ Common	\$ 10.00	450 ^x / ₁₀₀
TN CAPITAL GROUP INC.	45 \ Common	\$ 10.00	450 ^x / ₁₀₀

(b) The president, and secretary or treasurer of the corporation are hereby authorized and empowered to issue to the foregoing named persons certificates evidencing the number of shares of the stock of the corporation set opposite each name upon receipt by the corporation of the aggregate consideration specified.

4. The corporation shall open a banking account or accounts
with *FIRST UNION TRUST*

and execute the annexed banking resolution for that purpose.

5. (a) The president and treasurer of the corporation are authorized and empowered to pay all expenses incurred in connection with the organization of the corporation, including filing, license, attorneys' and accountants' fees.

(b) The corporation elects to deduct on its first federal income tax return the foregoing expenses ratably over a sixty month period, starting with the month in which the corporation begins business, pursuant to Section 248 of the Internal Revenue Code of 1954.

6. The president and all other officers of the corporation are authorized and directed to take all steps necessary to cause the corporation to engage in the business of *Local and Long Distance Telephone Services and Resellers*

7. (a) The president is authorized on behalf of the corporation to negotiate for and to *Lease* in the name of the corporation the premises commonly described as *Med FRA lease*

upon the terms and conditions specified in Schedule annexed hereto, and upon such further terms and conditions as the president shall deem necessary, proper and in the best interests of the corporation.

(b) The president and secretary, or an assistant secretary, are authorized to execute in the name of the corporation all documents necessary in the judgment of the president to effectuate this resolution.

8. The following plan is adopted in order to issue stock pursuant to Section 1244 of the Internal Revenue Code of 1954:

WHEREAS, the corporation wants to attract investment in the corporation. And Compliance with Section 1244 of the Internal Revenue Code will enable shareholders who suffer a loss on the sale or exchange of their shares to treat that loss as an "ordinary loss" on their personal income tax returns:

NOW THEREFORE, BE IT RESOLVED, that the proper officers of the corporation are hereby authorized to sell and issue common shares provided that the aggregate amount of money and other property received by the corporation for stock, as a contribution to capital, and as paid-in surplus, does not exceed \$1,000,000.00; and

RESOLVED, that the sale and issuance of such shares be conducted in accordance with IRC Sec. 1244; and

RESOLVED, that the corporation keep proper accounting records so that any shareholder who experiences a loss on the transfer of common shares may properly determine if they qualify for "ordinary loss" treatment on their personal income tax returns.

9. (a) The corporation elects to be ~~taxed~~ ^{omit} for federal income tax purposes in accordance with the provisions of Subchapter S of the Internal Revenue Code of 1954.

(b) The officers of the corporation shall take all actions necessary and proper to effectuate the foregoing resolution, including obtaining the requisite consents from shareholders and executing and filing appropriate forms on behalf of the corporation within the time limits specified by law.



DEPOSIT
D139

DATE
MAY 24 1999

May 20, 1999
Overnight

210 N. Park Ave.
Winter Park, FL
32789

P.O. Drawer 200
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2450 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

990661-TX

RE: Application of **Essex Communications, Inc.** for Authority to Provide
Alternative Local Exchange Service

Dear Ms. Bayo:

Enclosed is the original and six (6) copies of the application of Essex Communications, Inc. for authority to provide alternative local exchange service. Also enclosed is a check for the application fee of \$250.

Please return a date stamped the copy of this cover letter in the self-addressed stamped envelope which has been provided for this purpose.

Any questions pertaining to this filing may be addressed to me at (407) 740-8575.

Sincerely,

Thomas M. Forte
Consultant to
Essex Communications, Inc.

TECHNOLOGIES MANAGEMENT, INC.

P.O. BOX 200
210 N. PARK AVE.
WINTER PARK, FL 32789-0200
(407) 740-8575

NATIONSBANK
WINTER PARK, FL 32789
63-27/631

22829

4/16/1999

PAY TO THE ORDER OF Florida Public Service Commission

\$ **250.00

Two Hundred Fifty and 00/100*****

Florida Public Service Commission
Records & Reporting
2540 Shumard Oaks Blvd.
Tallahassee, FL 32302-1500

DOLLARS
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included.
Details on back.

DOCUMENT NUMBER-DATE

06476 MAY 21 99

TECHNOLOGIES MANAGEMENT, INC.

MEMO

Florida Public Service Commission

MP