ORIGINAL

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

WASHINGTON OFFICE
3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
TELEPHONE (202) 424-7500
FACSIMILE (202) 424-7647

NEW YORK OFFICE
919 THIRD AVENUE
NEW YORK, NY 10022-9998
TELEPHONE (212) 758-9500
FACSIMILE (212) 758-9526

May 28, 1999

VIA OVERNIGHT DELIVERY

Blanca S. Bayó
Director, Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0870

990705-TP

Re: Application for Approval of Proposed Transfer of Control of East Florida Communications, Inc.

Dear Ms. Bayó:

Enclosed for filing on behalf of PaeTec Communications, Inc. ("PaeTec") and East Florida Communications, Inc. ("EFC") (collectively "the Parties") are an original and twelve (12) copies of a letter applying for approval of the proposed transfer of control of EFC to PaeTec. The Parties respectfully request expedited treatment of this application in order to permit them to consummate the proposed transaction no later than July 31, 1999.

Please date-stamp the enclosed extra copy of this filing and return it in the attached self-addressed, stamped envelope. Please contact us if there are any questions concerning this transaction.

Respectfully submitted,

Dana Frix
Grace R. Chiu

Counsel for PaeTec Communications, Inc.

Enclosure

cc: Tom Williams (FL PSC)
Daniel J. Venuti, Esq. (PaeTec)
Gordon Whitley (EFC)
Brett P. Ferenchak, Esq.

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Re: Application for Approval of Proposed Transfer of Control of East Florida Communications, Inc.

Dear Ms. Bayó:

On behalf of PaeTec Communications, Inc. ("PaeTec") and East Florida Communications, Inc. ("EFC") (collectively "the Parties"), this letter is to request Commission approval of a transaction whereby PaeTec will acquire control of EFC. EFC and PaeTec are nondominant carriers separately authorized by the Commission to provide resold intrastate interexchange and alternative local exchange telecommunications services within the State of Florida. Neither PaeTec nor any of its affiliates are currently affiliated with EFC. Attached hereto as Exhibit A is a chart that illustrates the corporate structure of the parties prior to and immediately following consummation of the proposed transfer of control.

The Parties respectfully request expedited treatment of this request in order to permit them to consummate the proposed transaction no later than July 31, 1999. An original and twelve (12) copies of this letter are enclosed. Please date-stamp the enclosed extra copy of this filing and return it in the attached self-addressed, stamped envelope.

A. The Parties

PaeTec Communications, Inc.

PaeTec is a privately held Delaware corporation with principal offices located at 290 Woodcliff Drive, Fairport, New York 14450. PaeTec is a wholly owned subsidiary of PaeTec

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Corp., a privately held Delaware holding company, whose principal business is telecommunications. PaeTec is authorized to provide alternative local exchange and intrastate interexchange telecommunications services within the State of Florida pursuant to Certificate Nos. 5756 and 5757, respectively, granted by this Commission.[1/]

PaeTec's management team has extensive experience in the provision of telecommunications services and is well qualified to acquire control of EFC. Specifically, PaeTec is authorized to provide interexchange and other competitive telecommunications services in numerous other states and is also authorized to provide domestic interstate and international telecommunications services in all 50 states and the District of Columbia. PaeTec is also financially qualified to acquire control of EFC. Attached hereto as Exhibit B are the audited financial statements of PaeTec's parent, PaeTec Corp. (and its subsidiaries), for the period May 19, 1998 (inception) to December 31, 1998. Further information concerning PaeTec was filed with PaeTec's applications for certification, filed in Docket Nos. 980916-TI and 980919-TX. That information is, therefore, already a matter of public record at the Commission, and the Parties respectfully request that it be incorporated by reference herein. With its financial resources, and by virtue of its extensive experience in the provision of telecommunications services, PaeTec is well qualified to acquire control of EFC.

East Florida Communications, Inc.

EFC is a closely held Florida corporation with principal offices located at 221 South Ridgewood Avenue, Dayton Beach, Florida 32114. EFC provides intrastate interexchange and alternative local exchange telecommunications services in Florida pursuant to Certificate Nos. 51 and 4796, respectively.[2/] Further information concerning EFC was filed with its application for certification, filed in Docket No. 961351-TX. That information is, therefore, already a matter

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[1/] *See Application of PaeTec Communications, Inc. for certificate to provide alternative local exchange telecommunications service*, Docket No. 980919-TX, Order No. PSC-98-1498-FOF-TX (effective Dec. 5, 1998); *Application of PaeTec Communications, Inc. for certificate to provide interexchange telecommunications service*, Docket No. 980916-TI, Order No. PSC-98-1507-FOF-TI (effective Dec. 5, 1998).

[2/] *See Request for acknowledgment of name change on Interexchange Telecommunications Certificate No. 51*, Docket No. 900866-TI, Order No. 24183 (issued Mar. 1, 1991) (approving transfer of control of Certificate No. 51 granted to PSA, Inc. to EFC); *Application for certificate to provide alternative local exchange telecommunications service*, Docket No. 961351-TX, Order No. PSC-97-0079-FOF-TX (effective Feb. 18, 1997).

of public record at the Commission, and the Parties respectfully request that it be incorporated by reference herein.

B. Description of the Transaction

PaeTec proposes to acquire 100% of the capital stock of EFC pursuant to the Parties' letter of intent, dated May 14, 1999. At the time of closing, shareholders of EFC will receive, in exchange for 100% of the issued and outstanding shares of EFC, a combination of cash and capital stock of PaeTec's parent company, PaeTec Corp. Following consummation of the transaction, EFC will be a wholly owned subsidiary of PaeTec.

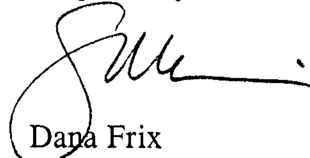
Although the proposed transaction will transfer control of EFC to PaeTec, it will not involve a change in the manner in which EFC provides service to Florida customers. Immediately following the transaction, EFC will continue to provide competitive, high quality telecommunications services to existing Florida customers pursuant to its certification granted by the Commission, with no change in its name or the rates, terms or conditions of service.[3/] The proposed transaction will therefore be virtually transparent to Florida customers of EFC in terms of the services that they receive.

Consummation of the proposed transaction will serve the public interest in promoting competition among providers of telecommunications services by combining the financial resources and telecommunications experience of PaeTec and EFC in providing telecommunications services to the public. The proposed transaction will therefore ensure the continued provision of high quality and innovative telecommunications services to existing EFC customers and should promote competition in the Florida telecommunications marketplace.

[3/] Similarly, PaeTec will continue to provide competitive, high quality telecommunications services to its existing Florida customers pursuant to its own grant of certification from the Commission.

As stated above, the Parties respectfully request expedited treatment of this request in order to permit them to consummate the proposed transaction no later than July 31, 1999. Please contact us if there any questions concerning this transaction.

Respectfully submitted,



Dana Frix
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Counsel for PaeTec Communications, Inc.

cc: Tom Williams (FL PSC)
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Gordon Whitley (EFC)
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EXHIBITS

Illustrative Chart of Transaction . . . . A

PaeTec Corp. Financial Statements . . . . B

EXHIBIT A

Illustrative Chart of Proposed Transfer of Control

Proposed Transfer of Control of
East Florida Communications, Inc. to PaeTec Communications, Inc.

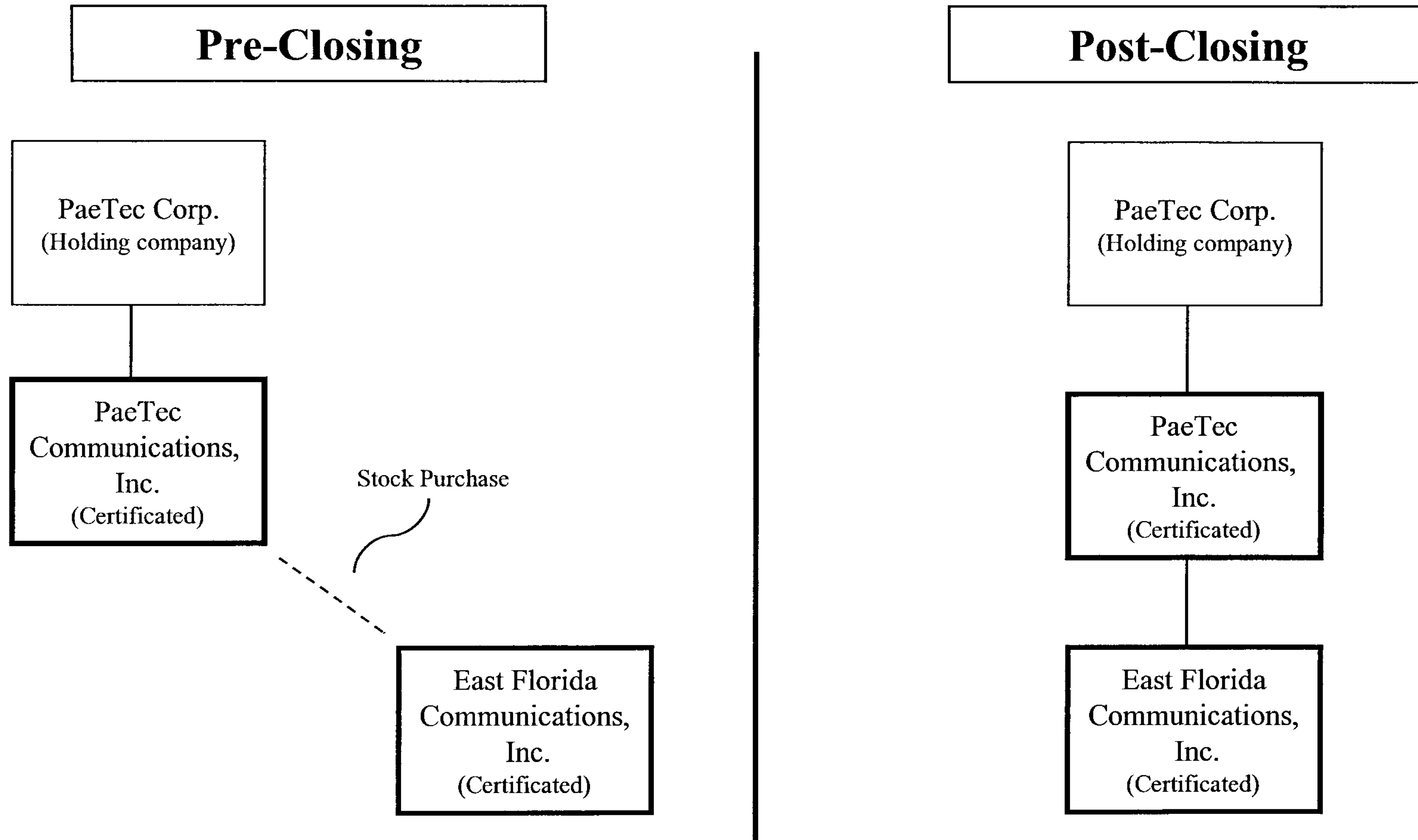

EXHIBIT B

PaeTec Corp. Financial Statements

Deloitte &
Touche

PAETEC CORP. AND SUBSIDIARIES

Consolidated Financial Statements as of December 31, 1998 and for the Period May 19, 1998 (Inception) to December 31, 1998 and Independent Auditors' Report

Deloitte Touche
Tohmatsu

PAETEC CORP. AND SUBSIDIARIES

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Deloitte & Touche

Deloitte & Touche LLP
2200 Chase Square
Rochester, New York 14604-1998

Telephone: (716) 238-3300
Facsimile: (716) 232-2890

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of PaeTec Corp.

We have audited the accompanying consolidated balance sheet of PaeTec Corp. and subsidiaries (the Company) as of December 31, 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for the period from May 19, 1998 (inception) to December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PaeTec Corp. and subsidiaries as of December 31, 1998, and the results of their operations and their cash flows for the period from May 19, 1998 (inception) to December 31, 1998 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

March 11, 1999

PAETEC CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1998

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 2,018,513
Short term investments	415,365
Accounts receivable, net	158,602
Prepaid expenses and other current assets	192,900
Total current assets	2,785,380
PROPERTY AND EQUIPMENT, NET	11,783,893
OTHER ASSETS:	
Debt issuance costs	797,427
Other assets	349,063
Total other assets	1,146,490
TOTAL ASSETS	$15,715,763

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	$ 2,117,955
Accrued expenses	962,784
Total current liabilities	3,080,739
COMMITMENTS (Note 7)	
STOCKHOLDERS' EQUITY:	
Class A common stock	90,000
Class B common stock	62,850
Additional paid-in capital	18,334,037
Accumulated deficit	(5,851,863)
Total stockholders' equity	12,635,024
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$15,715,763

See notes to consolidated financial statements.

PAETEC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
PERIOD FROM MAY 19, 1998 (INCEPTION) TO DECEMBER 31, 1998

REVENUE	$ 150,067
COST OF SERVICES	96,064
GROSS MARGIN	54,003
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,770,476
DEPRECIATION AND AMORTIZATION	242,915
LOSS FROM OPERATIONS	(5,959,388)
INTEREST INCOME	107,525
NET LOSS	$ (5,851,863)

See notes to consolidated financial statements.

PAETEC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
PERIOD FROM MAY 19, 1998 (INCEPTION) TO DECEMBER 31, 1998

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Class A	Class B			
BALANCE, May 19, 1998	$ -	$ -	$ -	$ -	$ -
Issuance of 8,999,952 shares of Class A common stock	90,000	-	14,042,720	-	14,132,720
Issuance of 6,285,048 shares of Class B common stock	-	62,850	4,291,317	-	4,354,167
Net loss	-	-	-	(5,851,863)	(5,851,863)
BALANCE, December 31, 1998	$ 90,000	$ 62,850	$ 18,334,037	$ (5,851,863)	$ 12,635,024

See notes to consolidated financial statements.

PAETEC CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
PERIOD FROM MAY 19, 1998 (INCEPTION) TO DECEMBER 31, 1998

OPERATING ACTIVITIES:	
Net loss	$ (5,851,863)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	242,915
Changes in assets and liabilities:	
Accounts receivable	(158,602)
Prepaid expenses and other current assets	(192,900)
Other assets	(349,063)
Accounts payable	2,117,955
Accrued expenses	962,784
Net cash used by operating activities	(3,228,774)
INVESTING ACTIVITIES:	
Purchase of property and equipment	(12,026,808)
Net increase in short term investments	(415,365)
Net cash used by investing activities	(12,442,173)
FINANCING ACTIVITIES:	
Proceeds from issuance of common stock	18,486,887
Payment for debt issuance costs	(797,427)
Net cash provided by financing activities	17,689,460
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,018,513
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,018,513

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

PaeTec Corp. and its wholly-owned subsidiaries, PaeTec Communications, Inc., and PaeTec International, Inc., ("PaeTec" or the "Company"), is a nationwide integrated communications provider ("ICP") offering switched local, long distance, and enhanced telecommunications services primarily to business and institutional customers.

Since its inception on May 19, 1998, the Company's principal activities have included developing its business plans, procuring governmental authorizations, raising capital, hiring management and other key personnel, working on the design and development of its local exchange telephone networks and operations support systems ("OSS"), acquiring equipment and facilities, and negotiating interconnection agreements. Accordingly, the Company has incurred operating losses and an operating cash flow deficit.

The Company began generating revenue in the fourth quarter of 1998 and expects to generate significant revenue in 1999, as compared to 1998, based on certain agreements currently in place, as well as the Company's plan to place in service a significant portion of property and equipment in 1999.

The Company's success will be affected by the problems, expenses, and delays encountered in connection with the formation of any new business, and the competitive environment in which the Company intends to operate. The Company's performance will further be affected by its ability to assess potential markets, secure additional financing or raise additional capital, implement interconnection and colocation with incumbent local exchange carrier ("ILEC") facilities, lease adequate trunking capacity from ILECs or competitive local exchange carriers ("CLECs"), purchase and install switches in its target markets, implement efficient OSS and other back office systems, develop a sufficient customer base, and attract, retain, and motivate qualified personnel. The Company's networks and the provisions of telecommunications services are subject to significant regulation at the federal, state, and local levels. Delays in receiving required regulatory approvals or the enactment of new adverse regulation or regulatory requirements may have a material adverse effect upon the Company. Although management believes that the Company will be able to successfully mitigate these risks, there is no assurance that the Company will be able to do so or that the Company will ever operate profitably.

Expenses are expected to exceed revenues in each location in which the Company offers service until a sufficient customer base is established. It is anticipated that obtaining a sufficient customer base will take a number of years, and positive cash flows from operations are not expected in the near future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The accompanying financial statements include the accounts of PaeTec Corp. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Cash and Equivalents - For purposes of reporting cash flows, the Company includes as cash and cash equivalents, cash, marketable securities and commercial paper with original maturities of three months or less.

Short-Term Investments - Short-term investments consist of certificates of deposit and are carried at fair market value.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Major renewals and betterments are capitalized, and ordinary repairs and maintenance are charged against operations in the period in which the costs are incurred.

Depreciation is computed using the straight-line method over estimated useful lives from the date placed in service as follows:

Computer hardware	3 years
Computer software	5 - 10 years
Leasehold improvements	15 years
Furniture and fixtures	3 – 7 years

Revenue Recognition - Revenue is recognized in the month in which the service is provided. All expenses related to services provided are recognized as incurred.

Long-Lived Assets - The Company reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life of the assets with their net carrying value. An impairment loss would be recognized as the amount by which the carrying value of the assets exceeds their fair value.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to credit risk consist of cash, cash equivalents, short term investments and accounts receivable. The Company places its cash, cash equivalents and short term investments with high quality financial institutions. Cash, cash equivalents and short term investments in certain accounts as of December 31, 1998 exceeded the federal insured limit by $2.2 million, however, the Company has not experienced any losses in such accounts. The Company grants credit to the majority of its customers based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on accounts receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses.

Use of Estimates in Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Income - The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 130, *Reporting Comprehensive Income*. SFAS No. 130 requires all items recognized as components of comprehensive income, such as foreign currency translation or unrealized holding gains and losses on available-for-sale securities to be reported in a financial statement equal to that of other financial statements. For the period from May 19, 1998 (inception) to December 31, 1998, there were no items of comprehensive income to be reported other than the net loss, nor has the adoption of SFAS No. 130 had an effect on the financial condition, results of operations or cash flows of the Company.

3. PROPERTY AND EQUIPMENT, NET

The components of property and equipment at December 31, 1998 are as follows:

Computer hardware	$ 1,985,124
Computer software	449,847
Leasehold improvements	25,961
Furniture and fixtures	17,789
Construction-in-progress	9,548,087
	12,026,808
Accumulated depreciation	(242,915)
Property and equipment, net	$11,783,893

Construction-in-progress consists primarily of costs associated with the build-out of the Company's network switch sites, as well as development of the Company's back office systems.

4. STOCKHOLDERS' EQUITY

The authorized capital stock of the Company consists of: (1) 35,000,000 shares of common stock, $.01 par value per share which is divided into two classes consisting of 27,500,000 shares of Class A common stock (8,999,952 shares of which were outstanding as of December 31, 1998) and 7,500,000 shares of Class B Common Stock (6,285,048 shares of which were outstanding as of December 31, 1998). In addition, 4,300,000 shares of Class A common stock are reserved for issuance under a stock option plan.

The shares of Class A common stock and Class B common stock are identical in all respects, except for voting rights and certain conversion rights with respect to the shares of Class B common stock. Shares of Class B common stock may be owned only by the holders of Class B common stock and their permitted transferees (as defined in the Company's Certificate of Incorporation). Any shares of Class B common stock transferred to any person automatically convert, at any time at the option of the holder thereof, into one share of Class A common stock. The Class A common stock has no conversion rights. The Class A common stock and the Class B common stock are entitled to vote on all matters which come before the stockholders, voting together as a single class on all matters, except as described below and as otherwise required by law. Each share of Class A common stock has one vote and each share of Class B common stock has 20 votes on all matters on which holders of common stock are entitled to vote. Holders of Class B common stock are entitled to elect three members of the Board of Directors and to vote with the holders of Class A common stock to elect any additional directors.

Holders of common stock are entitled to share ratably in dividends when and as declared by the Company's board of directors out of funds legally available. As of December 31, 1998, the Company had not declared or paid any dividends, and currently has no plans to declare or pay dividends in the future. Upon liquidation and dissolution of the Company, each holder of common stock is entitled to share ratably in all assets remaining after payment of all liabilities.

Stock Option Plan - The Company's 1998 Incentive Compensation Plan (the Option Plan) provides for the issuance of up to an aggregate 4,300,000 shares of the Company's Class A common stock. The Option Plan is designed to create an incentive for employees of the Company and is administered by a committee of the Board of Directors.

Employees of the Company are eligible to participate in the Option Plan. Annual grants vest over a four year term. Options granted upon hire vest over a four year term for sixty percent of the options granted, while the remaining forty percent vest over a four year term, commencing once the Company has achieved certain revenue targets. Options granted are not exercisable after the expiration of ten years from the date of grant of those options.

The Company adopted the disclosures-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation* (SFAS No. 123). No compensation cost has been recognized for the Option Plan as it relates to employees since the exercise price of the options on the date of grant approximated fair market value. Had compensation cost for the Company's Option Plan been recorded based on the fair value at the date of grant for awards consistent with the provisions of SFAS No. 123, the Company's 1998 net loss would have been increased to the pro forma amount indicated below:

Net loss - as reported	$(5,851,863)
Net loss - proforma	$(5,905,306)

The fair value of each option grant was calculated/estimated on the date of grant using the Black-Scholes option-pricing model and using assumed risk-free interest rates ranging from 4.60% to 5.40% and expected lives ranging from five to seven years. Since the Company is not publicly traded, a volatility factor assumption was not used in its fair value model. In calculating the fair value of the stock options described above via the Black-Scholes option-pricing model, the following per share fair market values of the Company's common stock were used:

May 1998-August 17, 1998	$ .40
August 18, 1998-September 14, 1998	$ .69
September 15, 1998-December 31, 1998	$ 2.50

A summary of activity under the Option Plan for 1998 follows:

	Outstanding Options	Weighted-Average Exercise Price
Outstanding shares under option, May 19, 1998	-	$ -
Options granted during 1998	1,506,875	.77
Outstanding shares under option, December 31, 1998	1,506,875	$ .77
Options exercisable at December 31, 1998	-	$ -

The following table summarizes information concerning outstanding and exercisable options at December 31, 1998:

Range of Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life-Years	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$.40-$2.50	1,506,875	9.5	.77	-	-

5. INCOME TAXES

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"). SFAS 109 requires an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events which have been recognized in the Company's consolidated financial statements. The Company had approximately $5.9 million of net operating loss carryforwards for federal income tax purposes at December 31, 1998. The net operating loss carryforwards will expire in the year 2014 if not previously utilized. The Company has recorded a valuation allowance equal to the net deferred tax assets at December 31, 1998, due to the uncertainty of future operating results. The valuation allowance will be reduced at such time as management believes it is more likely than not that the net deferred tax assets will be realized. Any reductions in the valuation allowance will reduce future provisions for income tax expense.

6. EMPLOYEE BENEFIT PLAN

The Company has a 401 (k) retirement savings plan under which employees can contribute up to 15% of their annual salary. Employees are eligible for participation upon employment. The Company may make a discretionary contribution, however, no such contribution was made for the period May 19, 1998 (inception) to December 31, 1998.

7. COMMITMENTS

Senior Debt - Effective November 16, 1998, the Company entered into a loan and security agreement (the "Senior Debt Agreement") with AT&T Commercial Finance Corporation. The Senior Debt Agreement provides for $ 49 million in borrowing capacity for the Company to be used for capital purchases and other operating funding requirements. Initial borrowings under the Senior Debt Agreement are based on the London Interbank Offered Rate (LIBOR) plus an applicable margin. The applicable margin reduces based on certain performance measures. Borrowings are permitted for the first two years (the "Borrowing Period"). After the Borrowing Period, the Company has a six-year term for the repayment of such borrowings. As of December 31, 1998, there was no borrowing outstanding under the Senior Debt Agreement. The Senior Debt Agreement is subject to a .50% per annum unused commitment fee, payable quarterly beginning March 31, 1999. The Senior Debt Agreement includes a number of covenants, which require the maintenance of certain financial ratios and restrict the Company's ability to pay dividends and to incur additional indebtedness. Borrowings under the Senior Debt Agreement are secured by substantially all of the Company's assets.

Operating Leases - The Company has entered into various operating lease agreements, with expirations through 2007, for office space and equipment. Future minimum lease obligations related to the Company's operating leases as of December 31, 1998 are as follows:

1999	$ 1,328,000
2000	973,000
2001	954,000
2002	862,000
2003	829,000
Thereafter	1,690,000
	$ 6,636,000

Total rent expense for the period from May 19, 1998 (inception) to December 31, 1998 was $ 223,310.