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February 2, 2000

**VIA OVERNIGHT DELIVERY**

Blanca S. Bayo  
Director, Division of Records & Reporting  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

RECEIVED  
FLORIDA PUBLIC  
SERVICE COMMISSION  
FEB - 3 AM 10:00  
MAIL ROOM

000133-TI

Re: Notification of Reincorporation of US WATS, Inc.

Dear Ms. Bayo:

On behalf of US WATS, Inc. d/b/a US WATS Enterprises, Inc. ("US WATS") and Capsule Communications, Inc. ("Capsule"), this letter is to notify the Commission of a transaction whereby US WATS will change its state of incorporation from New York to Delaware. US WATS is a nondominant carrier authorized to provide resold intrastate interexchange services in the State of Florida. As described more fully below, the reincorporation will be accomplished by merging US WATS into its wholly owned subsidiary Capsule, a newly-incorporated Delaware corporation. Following the transaction, the ownership and management of US WATS will not change and the only differences will be a change in corporate name and state of incorporation. As such, this transaction is purely *pro forma* in nature.

It is the understanding of US WATS and Capsule that prior Commission approval is not required for the proposed transaction. Accordingly, US WATS and Capsule will proceed on the understanding that no approval or other formal action with respect to the proposed transaction is required by the Commission.

An original and six (6) copies of this letter are enclosed. Please date-stamp and return the enclosed extra copy of this filing in the self-addressed stamped envelope provided.

**THE TRANSACTION**

US WATS is a publicly traded New York corporation with its principal offices located at 2 Greenwood Square, Suite 275, 3331 Street Road, Bensalem, Pennsylvania 19020. US WATS provides resold intrastate interexchange services pursuant to authorization granted in Docket No. 92-0122-TI on August 13, 1992. Capsule is a wholly-owned subsidiary of US WATS and

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is incorporated under the laws of the State of Delaware. Capsule does not presently provide telecommunications services and does not hold any regulatory licenses from this or any other regulatory commission.

Prompted by important business and financial considerations, US WATS plans to change its state of incorporation from New York to Delaware. In order to accomplish this reincorporation, US WATS proposes to merge with and into its wholly owned subsidiary Capsule. Capsule, which is incorporated in the State of Delaware, will be the surviving entity in this merger. The proposed *pro forma* reincorporation will not result in any changes to the physical location, business, or management of the certificated entity. As a result of the proposed *pro forma* reincorporation, Capsule will assume the certificates and operations of US WATS within the State of Florida.

Although the *pro forma* reincorporation will result in the provision of services by Capsule, rather than US WATS, as a practical matter, the change in corporate name will be the only perceptible change to US WATS' customers. Capsule will continue to be led by the same management team that leads US WATS today and, immediately following the proposed *pro forma* reincorporation, Capsule will provide the services presently offered by US WATS without any change in the rates, terms, or conditions of service. All of US WATS' customers will continue to be served by the same team of qualified consumer representatives and will be provided service pursuant to contracts and tariffs that offer all of the services currently offered by US WATS. Accordingly, apart from the name change, the proposed *pro forma* reincorporation will be completely transparent to Florida customers in terms of the services they receive.

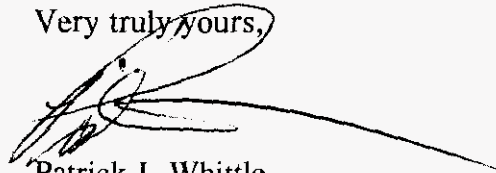
To effect the proposed *pro forma* reincorporation, Capsule will issue one (1) share of common stock for each outstanding share of US WATS' common stock. Specifically, each stock certificate representing issued and outstanding shares of US WATS' common stock will continue to represent the same number of shares of Capsule's common stock. Options and warrants to purchase shares of US WATS' common stock automatically will be converted into options and warrants to acquire an equal number of shares of Capsule's common stock. Upon consummation of the proposed transaction, US WATS' shareholders will automatically become shareholders of Capsule upon the effective time of the reorganization and will hold an ownership interest in Capsule identical to that which they previously held in US WATS.

Consummation of the proposed transaction will serve the public interest in promoting competition among providers of intrastate interexchange and local exchange telecommunications services. The *pro forma* reincorporation and associated stock issuance will result in a company better equipped to accelerate its growth as a competitive telecommunications service provider because of the comprehensive and flexible body of corporate laws which will govern the new entity. The resulting name change to Capsule Communications, Inc. is expected to strengthen the Company's identity in the telecommunications marketplace. These enhancements will inure directly to the benefit of Florida customers. The transactions proposed herein will be made in a

seamless fashion that will not adversely affect the provision of telecommunications services in Florida, but will, in fact, increase the financial strength of the entity providing telecommunications service in Florida. The proposed transactions will, therefore, promote the provision of innovative, high quality telecommunications services to the public and should enhance competition in the Florida telecommunications market

Please do not hesitate to contact the undersigned with any questions or comments regarding this transaction.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Patrick J. Whittle', with a long horizontal flourish extending to the right.

Patrick J. Whittle  
Jeanne W. Stockman

Counsel for US WATS, Inc. and  
Capsule Communications, Inc.

cc: Michael McNulty (US WATS)  
Alexander M. Stokas