

ORIGINAL

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March 9, 2000

VIA OVERNIGHT DELIVERY

Florida Public Service Commission  
Division of Administration  
2540 Shumard Oak Blvd.  
Gunter Bldg.  
Tallahassee, Florida 32399-0850

**This claim of confidentiality was filed by or on behalf of a telecommunications company for Confidential Document No. 03151-00. The document has been placed in locked storage pending staff advice on handling. Your name must be on the CASR to access the material. If it is undocketed, your division director must obtain written permission from the EXD/Tech before you can access it.**

Re: Advanced TelCom Group, Inc.  
**CONFIDENTIAL TREATMENT REQUESTED**

Dear Sir/Madam:

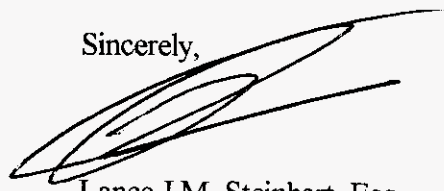
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Enclosed please find three (3) copies of Advanced TelCom Group, Inc.'s audited financial statements for the seven months ended December 31, 1998 and unaudited financial statements for the period ended November 30, 1999, which is being filed in conjunction with Advanced TelCom Group, Inc.'s Application for Authority to Provide Alternate Local Exchange Telecommunications Service Within the State of Florida. The Applicant hereby requests confidential treatment for its financial information.

I have enclosed one original copy and two edited copies in which the information claimed as confidential is blacked out.

Please return a stamped copy of the extra copy of this letter in the enclosed preaddressed prepaid envelope. If you have any questions, please do not hesitate to call me. Thank you for your attention to this matter.

Sincerely,



Lance J.M. Steinhart, Esq.  
Attorney for Advanced TelCom Group, Inc.

Enclosures  
cc: Richard Levin, Esq.

FINANCIAL  
CONFIDENTIAL  
DOCUMENT NUMBER-DATE  
03151 MAR 10 8  
FPSC-RECORDS/REPORTING

REDACTED  
DOCUMENT NUMBER-DATE  
03152 MAR 10 8  
FPSC-RECORDS/REPORTING





**CONFIDENTIAL**

**ADVANCED TELCOM GROUP, INC.**  
**(A Development Stage Enterprise)**

**Financial Statements**

**December 31, 1998**

**(With Independent Auditors' Report Thereon)**

**CONFIDENTIAL**

**ADVANCED TELCOM GROUP, INC.**  
**(A Development Stage Enterprise)**

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500 E. Middlefield Road  
Mountain View, CA 94043

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### Independent Auditors' Report

The Board of Directors  
Advanced TelCom Group, Inc.:

We have audited the accompanying balance sheet of Advanced TelCom Group, Inc. (the Company), a development stage enterprise, as of December 31, 1998, and the related statements of operations, stockholders' equity, and cash flows for the period from July 22, 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 financial statements referred to above present fairly, in all material respects, the financial position of Advanced TelCom Group, Inc., a development stage enterprise, as of December 31, 1998, and the results of its operations and its cash flows for the period from July 22, 1998 (inception) to December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

February 11, 1999

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ADVANCED TELCOM GROUP, INC.  
(A Development Stage Enterprise)

Balance Sheet

December 31, 1998

Assets

Current assets:

Cash and cash equivalents  
Prepaid expenses and other assets

\$ [REDACTED]  
[REDACTED]

Total current assets

[REDACTED]

Networks and equipment, net

[REDACTED]

\$ [REDACTED]

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable  
Accrued expenses

\$ [REDACTED]  
[REDACTED]

Total liabilities

[REDACTED]

Commitments

Stockholders' equity:

Redeemable convertible preferred stock:

Series A, \$0.0001 par value; 27,000 shares authorized, issued, and outstanding;  
liquidation preference of \$2,000,000

[REDACTED]

Series B, \$0.0001 par value; 1,350,000 shares authorized;

336,775 shares issued and outstanding; liquidation preference of \$24,946,305

[REDACTED]

Redeemable preferred stock, no par value; 27,000 shares authorized and unissued

Common stock, \$0.0001 par value; 2,346,000 shares authorized; 73,000  
shares issued and outstanding

[REDACTED]

Additional paid-in capital (par value in excess of contribution)

Deficit accumulated during the development stage

[REDACTED]

[REDACTED]

Total stockholders' equity

[REDACTED]

Total liabilities and stockholders' equity

\$ [REDACTED]

See accompanying notes to financial statements.

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**ADVANCED TELCOM GROUP, INC.**  
**(A Development Stage Enterprise)**

**Statement of Operations**

**Period from July 22, 1998 (inception) to December 31, 1998**

Costs and expenses:	
Technical expenses	\$ [REDACTED]
Sales and marketing	[REDACTED]
General and administrative	[REDACTED]
Loss from operations	[REDACTED]
Interest income	[REDACTED]
Net loss	\$ [REDACTED]

See accompanying notes to financial statements.

**ADVANCED TELCOM GROUP, INC.**  
 (A Development Stage Enterprise)  
 Statement of Stockholders' Equity  
 Period from July 22, 1998 (inception) to December 31, 1998

	Redeemable convertible preferred stock				Redeemable preferred stock		Common stock		Additional paid-in capital	Deficit accumulated during the development stage	Total stockholders' equity
	Series A		Series B		Shares	Amount	Shares	Amount			
	Shares	Amount	Shares	Amount							
Balance of common stock to founders	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	-	-
Balance of Series A redeemable convertible preferred stock	-	-	-	-	-	-	-	-	-	-	-
Balance of Series B redeemable convertible preferred stock, net of issuance costs of \$164,288	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-
Balance as of December 31, 1998	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	-	-

See accompanying notes to financial statements.

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ADVANCED TELCOM GROUP, INC.  
(A Development Stage Enterprise)

Statement of Cash Flows

Period from July 22, 1998 (inception) to December 31, 1998

Cash flows from operating activities:

Net loss

\$ [REDACTED]

Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation

[REDACTED]

Changes in operating assets and liabilities:

Prepaid expenses and other assets

[REDACTED]

Accounts payable and other current liabilities

[REDACTED]

Net cash used in operating activities

[REDACTED]

Cash flows used in investing activities -- acquisitions of networks and equipment

[REDACTED]

Cash flow from financing activities:

Proceeds from sale of preferred stock, net

[REDACTED]

Proceeds from sale of common stock, net

[REDACTED]

Net cash provided by financing activities

[REDACTED]

Net increase in cash and cash equivalents

[REDACTED]

Cash and cash equivalents, beginning of period

[REDACTED]

Cash and cash equivalents, end of period

\$ [REDACTED]

See accompanying notes to financial statements.

**CONFIDENTIAL**

**ADVANCED TELCOM GROUP, INC.**  
(A Development Stage Enterprise)

Notes to Financial Statements

December 31, 1998

(1) **Description of Business and Summary of Significant Accounting Policies**

(a) *Description of Business*

Advanced TelCom Group, Inc. (the Company) was incorporated in the state of Delaware on July 22, 1998, and raised initial equity funding of [REDACTED] from founders and other investors. In addition, the Company secured subscriptions to Series B redeemable convertible preferred stock in the amount of [REDACTED] (see Note 3). The Company is a facilities-based competitive local exchange carrier that focuses on the under served markets in mid-sized cities across the United States. The Company is in the development and pre-revenue phase of its existence. Primary activities to date have included identifying markets, raising capital, developing strategic alliances, and designing an operating support system.

(b) *Use of estimates*

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 reported results of operations during the reporting period. Actual results could differ from those estimates.

(c) *Cash and Cash Equivalents*

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

(d) *Networks and Equipment*

Networks and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Telecommunication networks  
Electronics and related equipment  
Furniture and office equipment

Years

[REDACTED]  
[REDACTED]  
[REDACTED]

**CONFIDENTIAL**

**ADVANCED TELCOM GROUP, INC.**  
(A Development Stage Enterprise)

Notes to Financial Statements

December 31, 1998

(e) *Income Taxes*

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce deferred tax assets to an amount whose realization is more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment.

(f) *Accounting for Impairment of Long-Lived Assets*

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value less cost to sell.

(g) *Comprehensive Loss*

The Company has no significant components of other comprehensive loss and, accordingly, the comprehensive loss is the same as net loss for the period presented.

(h) *Internal Use Software*

The Company accounts for the costs of internal use software pursuant to the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. In accordance with SOP 98-1, the Company has expensed the costs incurred during the year related to the evaluation of its financial and operating support system requirements.

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ADVANCED TELCOM GROUP, INC.  
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Notes to Financial Statements

December 31, 1998

(2) Networks and Equipment

Networks and equipment as of December 31, 1998, consisted of the following:

Telecommunications networks	\$	██████████
Electronics and related equipment		██████████
Furniture and office equipment		██████████
		-----
		██████████
		██████████
		-----
Less accumulated depreciation		██████████
		-----
	\$	██████████
		-----

As of December 31, 1998, networks and equipment represent networks in progress that are not in service and, accordingly, have not been depreciated.

Included in fixed assets are payments for an Indefeasible Right of Use (IRU) of optical fibers in the ██████████. The total commitment related to this IRU is ██████████ of which ██████████ was paid in December 1998, upon execution of the agreement, and ██████████ is payable in installments upon commencement, completion, and acceptance of the system.

(3) Stockholders' Equity

(a) Series A Redeemable Convertible Preferred Stock

The Company has ██████████ authorized and issued shares of Series A redeemable convertible preferred stock (Series A preferred stock) as of December 31, 1998. The Series A preferred stock is convertible, at the option of the holder, into fully paid and nonassessable shares of common stock and redeemable preferred stock. The conversion rate is one share of common stock and one share of redeemable preferred stock for each share of Series A preferred stock, subject to adjustments for stock dividends, stock splits, and capital reorganizations and dilution. The Series A preferred stock automatically converts upon the closing of an underwritten public offering of shares of the Company's common stock prior to November 30, 2003, resulting in total proceeds of at least ██████████ and with a minimum share price of at least ██████████. The holders of the Series A preferred stock are entitled to vote on an "as if converted" basis.

The Series A preferred stock accumulates dividends at a rate of 15% per annum compounded annually. In the event of a liquidation, dissolution, or winding up of the Company, the holders of Series A preferred stock will be paid an amount equal to the original purchase price plus accumulated but unpaid dividends. In the event that the Company is prohibited under applicable law from redeeming the shares of Series A preferred stock at the liquidation date, then beginning 30 days after such date, interest will accrue on the outstanding redemption amount at a rate of 15% per annum compounded annually, increasing to a maximum of 20% per annum compounded annually until such time of redemption.

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ADVANCED TELCOM GROUP, INC.  
(A Development Stage Enterprise)

Notes to Financial Statements

December 31, 1998

Shares of Series A preferred stock are redeemable after November 30, 2005, upon written request of the holder of such shares. The redemption price is equal to the amount determined pursuant to a liquidation as described above.

During 1998, the Company issued [REDACTED] shares of Series A preferred stock for cash of [REDACTED]

(b) *Series B Redeemable Convertible Preferred Stock*

The Company has [REDACTED] authorized shares of Series B redeemable convertible preferred stock (Series B preferred stock), [REDACTED] of which were issued and outstanding as of December 31, 1998. The Series B preferred stock is convertible, at the option of the holder, into fully paid and nonassessable shares of common stock. The conversion rate is one-for-one, subject to adjustments for stock dividends, stock splits, and capital reorganizations and dilution. The Series B preferred stock automatically converts upon the closing of an underwritten public offering of shares of the Company's common stock prior to November 30, 2003, resulting in total proceeds of at least [REDACTED] and with a minimum share price of at least [REDACTED]. The holders of the preferred stock are entitled to vote on an "as if converted" basis.

The Series B preferred stock accumulates dividends at a rate of 10% per annum compounded annually. In the event of a liquidation, dissolution, or winding up of the Company, the holders of Series B preferred stock will be paid an amount equal to the original purchase price plus accumulated but unpaid dividends. In the event that the Company is prohibited under applicable law from redeeming the shares of Series B preferred stock at the liquidation date, then beginning 30 days after such date, interest will accrue on the outstanding redemption amount at a rate of 15% per annum compounded annually, increasing to a maximum of 20% per annum compounded annually until such time of redemption.

Shares of Series B preferred stock are redeemable after November 30, 2005, upon written request of the holders of such shares. The redemption price is equal to the amount determined pursuant to a liquidation as described above.

During 1998, [REDACTED] shares of Series B preferred stock were subscribed for at an aggregate committed purchase price of [REDACTED]. The Company issued [REDACTED] shares for cash of [REDACTED] net of issuance costs of [REDACTED]. The [REDACTED] unissued shares of Series B redeemable convertible preferred stock represent subscriptions receivable of [REDACTED] which will be funded at such time and in such amounts as determined by a majority of the Board of Directors and not less than 75% of the Board of Director members representing the holders of Series A and B redeemable convertible preferred stock. Additionally each investor may fund at any time the remaining portion of their investment amount.

ADVANCED TELCOM GROUP, INC.  
(A Development Stage Enterprise)

CONFIDENTIAL

Notes to Financial Statements

December 31, 1998

(c) *Redeemable Preferred Stock*

The Company has [REDACTED] authorized redeemable preferred stock, none of which have been issued as of December 31, 1998. The redeemable preferred stock are nonvoting and only issuable upon conversion of shares of Series A preferred stock. The redeemable preferred stock accumulate dividends at an annual rate of 15% compounded annually.

In the event of a liquidation, dissolution, or winding up of the Company, the holders of redeemable preferred stock will be paid an amount equal to the original purchase price that was paid for the Series A redeemable convertible preferred stock converted into redeemable preferred stock plus accumulated but unpaid dividends, including accumulated and unpaid dividends on the Series A preferred stock converted into redeemable preferred stock. In the event that the Company is prohibited under applicable law from redeeming the shares of redeemable preferred stock at the liquidation date, then beginning 30 days after such date, interest will accrue on the outstanding redemption amount at a rate of 15% per annum compounded annually, increasing to a maximum of 20% per annum compounded annually until such time of redemption.

The redeemable preferred stock are redeemable (1) at the option of the Company, at any time, (2) upon written notice to the holders of the redeemable preferred stock, and (3) at the option of the holders upon the earlier of the closing of an underwritten public offering or upon written request of the majority of the holders of such shares subsequent to November 30, 2003. The redemption price is equal to the amount determined pursuant to a liquidation as described above.

(d) *Common Stock*

There are [REDACTED] authorized shares of common stock with a par value of [REDACTED]. Common stock may receive dividends upon declaration of the Board of Directors only after the satisfaction of any preferential dividend rights of the outstanding preferred stock.

During 1998, the Company issued [REDACTED] shares of common stock for cash of [REDACTED].

(e) *Stock Option Plan*

During 1998, the Company adopted its 1998 Stock Option Plan (the Plan) under which the Board of Directors may issue either nonqualified or incentive stock options to employees, officers, directors, advisers or contractors of the Company. The Company reserved [REDACTED] shares of common stock for issuance under the Plan. The Plan expires 10 years from the date of adoption. Options are granted at fair market value at date of grant for incentive stock options or no less than 85% of fair market value for nonqualified options. Options will vest under the terms of the option agreements. There were no options issued as of December 31, 1998.

ADVANCED TELCOM GROUP, INC.  
(A Development Stage Enterprise)

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Notes to Financial Statements

December 31, 1998

(4) **Income Taxes**

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109. No provision for income taxes was recorded for 1998. As of December 31 1998, the deferred income tax asset totaled [REDACTED] comprised primarily of deferred start-up and organizational costs. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company has established a valuation allowance for the entire portion of the net deferred income tax asset.

(5) **Commitments**

The Company leases office space at various locations under noncancelable operating leases, which expire at various dates through 2003. Future minimum lease payments as of December 31, 1998, are as follows:

<u>Year ending</u> <u>December 31,</u>	
1999	\$ [REDACTED]
2000	[REDACTED]
2001	[REDACTED]
2002	[REDACTED]
2003	[REDACTED]
Thereafter	[REDACTED]
Total minimum lease payments	\$ [REDACTED]

Rent expense for the period from July 22, 1998 (inception) to December 31, 1998, was [REDACTED]

In relation to an IRU, the Company has a purchase commitment of [REDACTED] which is expected to be paid in fiscal 1999 (see Note 2).

(6) **Subsequent Event**

Effective February 11, 1999, the Company amended its Certificate of Incorporation, whereby each outstanding share of common stock was split and converted into 10 shares of common stock. The stock split results in [REDACTED] authorized shares of common stock with a par value of [REDACTED]. The qualifying minimum share price of the Company's common stock has been adjusted to a minimum share price of at least [REDACTED] and the conversion price of the Series A and B redeemable convertible preferred stock have been adjusted to [REDACTED] to reflect this split (see Note 3).

**ATG GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED TRENDED STATEMENT OF OPERATIONS**  
**For the Eleven Months Ended November 30, 1999**  
**(Unaudited and Confidential)**

	Year to Date	November	October	Quarterly Trended Results		
	Eleven Months Ended November 30, 1999	One Month Ended November 30, 1999	One Month Ended October 31, 1999	Three Months Ended September 30, 1999	Three Months Ended June 30, 1999	Three Months Ended March 31, 1999
Revenue						
Cost of sales						
Gross margin						
Costs and expenses						
Selling, general and administrative expenses						
Depreciation and amortization						
Total costs and expenses						
Loss from operations						
Interest expense						
Interest and other income						
Net loss						
EBITDA						



**ATG GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the Eleven Months Ended November 30, 1999  
(Unaudited and Confidential)

	YTD	Nov	Oct	Quarterly Trended Results		
	Eleven Months Ended November 30, 1999	One Month Ended November 30, 1999	One Month Ended October 31, 1999	Three Month Ended September 30, 1999	Three Months Ended June 30, 1999	Three Months Ended March 31, 1999
flows from operating activities:						
Net Loss						
Adjustments to reconcile net loss to net cash used in operating activities:						
Depreciation and amortization						
Changes in operating assets and liabilities:						
Accounts receivable						
Unbilled revenue						
Prepaid expenses and other assets						
Accounts payable and other current liabilities related to operating activities						
Net cash used for operating activities						
flows used in investing activities						
Purchase of property, plant and equipment						
Change in accounts payable and other current liabilities related to purchases of property, plant and equipment						
Acquisition and related costs of Shared Communications Services, Inc.						
Acquisition and related costs of NewComm Net, Inc.						
Net cash used by investing activities						
flows from financing activities:						
Proceeds from sale of preferred stock						
Increase in long term payable for non-compete contract						
Payments for loan origination costs						
Proceeds from long term debt						
Principal payments for Capital Leases						
Net cash provided by financing activities						
Net increase (decrease) in cash and cash equivalents						
Cash and cash equivalents, beginning of period						
Cash and cash equivalents, end of period						
sh investing activities						
Common Stock Issued for Purchase of NewComm Net, Inc.						
sh financing activities						
Preferred stock dividends accrued						

**ATG GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**For the Eleven Months Ended November 30, 1999**  
**(Unaudited and Confidential)**

	<u>Common Stock</u>		<u>Additional</u>	<u>Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>paid-in capital</u>	<u>accumulated</u>	<u>stockholders'</u>
				<u>during the</u>	<u>deficit</u>
				<u>development</u>	
				<u>stage</u>	
Balances at December 31, 1998					
Shares Issued for Acquisition of Newcomm Net, Inc.					
Dividends on preferred stock					
Net loss					
Balances as of October 31, 1999					

**ATG GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the Eleven Months Ended November 30, 1999**  
**(Unaudited and Confidential)**

	Year to Date Results		Month of November Results		
	YTD Actual	YTD Budget	Actual Results for Month Ended November 30, 1999	Budget for Month Ended November 30, 1999	Variance: Favorable / (Unfavorable)
Revenue					
Cost of services					
Gross margin					
Costs and expenses					
Selling, general and administrative expenses					
Depreciation and amortization					
Total costs and expenses					
Loss from operations					
Interest expense					
Interest and other income					
Net loss					
Dividends on preferred stock					
Net loss attributable to common shareholders					
EBITDA					

ATG GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET

November 30, 1999

(Unaudited and Confidential)

Quarterly Traded Balance Sheets

Current assets:

Cash and cash equivalents  
Accounts receivable  
Unbilled revenue  
Income taxes receivable  
Prepaid expenses and other

Total current assets

Property, plant and equipment, net  
Loan origination costs, net  
Intangible assets  
Other assets

Total assets

Current liabilities:

Accounts payable  
Accrued liabilities and other  
Current portion of capital leases

Total current liabilities

Long term debt

Capital leases

Other long term liabilities

Redeemable convertible preferred stock:

Series A, \$0.0001 par value; 1,350,000 shares authorized, issued and outstanding;  
stated at liquidation preference

Series B, \$0.0001 par value; 40,500,042 shares issued and outstanding; stated  
at liquidation preference

Series C, \$0.0001 par value; 751,940 shares issued and outstanding; stated  
at liquidation preference

Series B; 26,999,958 shares subscribed but unissued

Series B; subscription receivable

Redeemable preferred stock, \$0.0001 par value; 1,350,000 shares authorized and unissued

Stockholders' deficit:

Common stock, \$0.001 par value; 4,900,458 shares issued and outstanding

Additional paid-in capital

Deficit accumulated during the development stage

Total stockholders' deficit

Total liabilities and stockholders' deficit