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REPORTING AND

April 13, 2001

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Re: Notice of Potential Claims Against Officers and Directors of Pacific Gateway Exchange, Inc.

Dear Potential Claimant:

As you may know, we are counsel for the Official Committee of Unsecured Creditors ("Creditors' Committee") in the Pacific Gateway Exchange Inc. ("Pacific Gateway" or "the Company") bankruptcy proceeding. I am writing to inform you of potential claims you may have against one or more of the officers or directors of Pacific Gateway. Claims against officers and directors may be covered under directors and officers liability insurance issued to Pacific Gateway, thus providing a potential source of recovery for your losses other than through, or in addition to, the bankruptcy estate. If you have received this letter in error, please disregard with our apologies.

It is very important that you analyze your potential claims against the officers and directors and decide whether to pursue them immediately. Otherwise, as explained below, they may become time barred, or the available insurance may become exhausted through payments related to already pending, earlier-filed claims.

For example, litigation on behalf of shareholders of Pacific Gateway has been proceeding forward for many months. Pacific Gateway is accused in a securities class action of misleading investors about its financial strength and business prospects. The case is pending in the United States District Court for the Northern District of California on behalf of all purchasers of common stock of the Company between May 14, 1999 and March 31, 2000 (the "Class Period"). Certain related cases were consolidated on June 26, 2000. On November 17, 2000, lead plaintiffs were appointed and the firm of Berman, DeValerio, Pease, & Tabacco was appointed as Lead Counsel. The Consolidated Amended Complaint was filed within the last several weeks.

The shareholder class action alleges that certain officers of Pacific Gateway violated the federal securities laws by issuing false and misleading Form 10-Q's for 1999. Specifically, the plaintiffs in that action allege that the Form 10-Q's for the first three quarters of 1999 "were false and misleading regarding the way the Company recognized revenue derived from the sale or swap of bandwidth rights to the Company's fiber optics network." (Consol.Amnd.Class Action Complaint ¶ 8(a).)

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The shareholder class action also alleges that “the financial results for each quarter of 1999 were false and misleading because they overstated the Company’s fixed assets while simultaneously understating the expenses associated with these fixed assets.” (Ibid. ¶ 8(b).) Thus, Pacific Gateway’s quarterly financial statements and reported year-end results for 1999 were “false and misleading because they did not comply with the Generally Accepted Accounting Principles (“GAAP”) or the rules promulgated by the Securities and Exchange Commission.” (Ibid. ¶ 9.)

Pacific Gateway’s financial misstatements began to come to light after the market closed on March 31, 2000, when the Company issued a press release admitting that its 1999 Form 10-Q’s would need to be restated and advising that the Company had defaulted on its \$100,000 million credit facility from Deutsche Bank Securities Inc. and Banc of America Securities LLC. (Ibid. ¶ 11.)

According to the class action plaintiffs, on May 4, 2000, Pacific Gateway filed amended 10-Q’s for each quarter of 1999, restating the financial statements for each period, admitting the restatements were due to “incorrect capitalization of expenses and other adjustments.” (Ibid. ¶ 13.)

The shareholder class plaintiffs further allege that the “full extent of the improper capitalization came to light on December 6, 2000, when Pacific Gateway filed its Form 10-Q for the period ended September 30, 2000.” In this report, the Company disclosed adjustments including (1) a restatement of its fixed assets to reflect an impairment loss of \$45.2 million for the three months ending September 30, 2000 and \$78 million for the nine months ending on the same date, (2) a write down of the carrying value of its assets by \$21.1 million, reflected in the income statement as an operating loss, and (3) a reduction in receivables by \$5.7 million, which was related to the Company’s purchase of certain retail businesses.

In the shareholder class action, the plaintiffs allege that Pacific Gateway’s false and misleading statement during the class period resulted in the Company’s stock trading at artificially inflated prices. A copy of the 71-page shareholder’s current class action complaint can be downloaded from the following URL: <http://www.bermanesq.com/pdf/PacGatewayAmdCplt.pdf>.

Under similar legal theories as those being advanced in the consolidated shareholder class action, many of the creditors of Pacific Gateway might be in a position to pursue claims alleging that they were also damaged, not by purchasing inflated stock, but by extending loans, providing

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services on account, or otherwise allowing Pacific Gateway to become indebted to them, on the basis of financial information that was false and misleading.

Our legal research leads us to conclude that the Creditors' Committee would not have standing to assert damage claims against the officers of Pacific Gateway on behalf of individual creditors. Such claims would be deemed "personal" to each creditor and would need to be pursued, if at all, by each creditor. For the reasons explained below, **time is of the essence.**

This law firm has obtained copies of insurance papers that seem to indicate that the Company secured directors and officers liability insurance in amounts of \$10 million of primary and \$10 million of excess insurance, for a total of \$20 million in potential coverage. It is unknown to what extent either policy has already been partially or completely exhausted through payment of previous or pending claims.

Because the Creditors' Committee lacks standing to pursue individual creditor's claims against the officers and directors, each creditor should decide now whether it wishes to pursue a potential claim in order to invoke potential coverage under the available D & O insurance policies. **Immediate action is required.** The insurance documents we have reviewed indicate that the initial policy period ran from May 1, 1998 to May 1, 2000 but appears to have been extended by another policy period of May 1, 2000 to May 1, 2001.

My partner Mark Hansen, who has expertise in directors and officers liability and insurance issues, has advised me that the policies are of the "claims made and reported" variety, which means that coverage depends upon a claim being made **and reported** within the policy period, in accordance with the policy provisions. In other words, **claims that are not made and reported until sometime after April 30, 2001, may not invoke full coverage under the potentially available D & O insurance.** (Mark has also advised me of a potential trap for the unwary: because the policy period is written to expire as of **12:01 a.m.** on May 1, the true "practical" deadline for making and reporting claims is actually the day before, or April 30.)

Mark has further advised me that there are certain circumstances in which claims made and reported after April 30, 2001 may potentially still invoke coverage. For example, under the D & O policy's definition for "Interrelated Wrongful Acts," a later claim can sometimes be considered to be so related to an earlier reported claim that it will be deemed to have been made and reported as of the date of the earlier claim. Is it not clear, however, whether a claim by

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“defrauded creditors” would be considered sufficiently related to a previous claim by “defrauded shareholders” so as to invoke the “Interrelated Wrongful Acts” provisions of the policy.

In addition, it appears from the insurance documents provided to us that the Company may have paid an additional premium to secure an “Optional Extension Period” allowing claims to be made and reported for one additional year, through May 1, 2002. Although the binder for the \$10 million excess policy indicates that this policy is also subject to being extended, we have not seen any documents indicating whether the Company has in fact done that with respect to the excess policy. Moreover, it is possible that the bankruptcy filing may have triggered a deadline for the payment of additional premiums which, if not timely met, may preclude the purchase of an extension period for the excess policy.

Despite the potential for making and reporting claims after April 30, 2001, the much more prudent course would be to make and report one’s claim before that date. **The bottom line is that any creditor wishing to pursue a claim against the officers of Pacific Gateway should do so, if at all possible, without delay and then take steps to ensure it is properly reported to the D & O carrier by no later than April 30, 2001.**

Because of our role as counsel for the Creditor’s Committee, this law firm will not be in a position to represent any individual creditors in pursuing claims against the officers of Pacific Gateway. Thus, any creditor or group of creditors who wish to evaluate or to pursue their potential claims against the officers of Pacific Gateway will need to retain counsel for that purpose. Because such claims would be personal to each creditor, any fees and costs related to such claims will need to be borne by each creditor.

The initial steps in evaluating an individual creditor’s claim would include an immediate “due diligence” investigation of issues such as the amount of its potential damages and whether it can satisfy the legal burden of showing that it relied upon false or misleading information from Pacific Gateway in extending credit or otherwise allowing the Company to become indebted to it. Without credible evidence of actual reliance, an individual creditor’s claim against the officers and directors would be subject to being disposed of unfavorably early in litigation.

In addition, with the assistance of counsel, individual creditors will need to analyze the interrelationships between the consolidated shareholder actions that are already pending and likely scenarios as to how the up to \$20 million in D & O insurance would potentially be

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“divided up” among competing claimants, including any individual creditors who elect to pursue their own claims.

Any creditor who wishes to evaluate or pursue its potential claims against the officers and directors of Pacific Gateway should retain counsel immediately and advise them of the April 30, 2001 potential deadline for perfecting rights under the two layers of directors and officers liability insurance. Normally we would not refer you to any specific attorney for this purpose, but due to the tight time deadlines that may apply, we will provide two names of attorneys that we understand to have expertise and experience in this type of litigation as well as some basic background information about the pending shareholder litigation against Pacific Gateway. Those attorneys are:

Robert Scott Dreher, Esq.
Jeffrey & Dreher LLP
225 Broadway, 19th Floor
San Diego, CA 92101
619-230-8828 (phone)
619-687-0136 (facsimile)

Marie S. Weiner, Esq.
Cotchett, Pitre & Simon
840 Malcolm Road, Suite 200
Burlingame, CA 94101
650-697-6000 (phone)
650-697-0577 (facsimile)

Each of the above attorneys has consented to the listing of their names in this letter with the understanding that each will endeavor to discuss with any interested creditor its potential claims and terms of possible legal representation. We endorse neither attorney over the other and recognize that there are many other attorneys besides these two that have experience and expertise in this type of litigation. The above names are provided merely as a courtesy to potential claimants.

I repeat that **time is of the essence**. I strongly recommend that any creditor wishing to pursue or at least evaluate its potential individual claims against the officers and directors speak right away with one of the above attorneys or with another experienced attorney of their choice.

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Should you have any questions or comments about the bankruptcy related aspects of this case, please do not hesitate to call me. However, I will not be in a position to advise you further about your potential rights against the officers and directors of Pacific Gateway.

Very truly yours,



Christopher Celentino

of

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