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September 14, 2004

VIA FEDERAL EXPRESS

Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Application for Approval of Acquisition by VCOM Solutions, Inc., of Control of QuantumShift Communications, Inc., and QuantumShift Communications of Tennessee, Inc., Docket No. 04-00226

Dear Ms. Dillon:

Enclosed please find an original and 13 copies of the Application related to Docket No. 04-00226, Application for Approval of Acquisition by VCOM Solutions, Inc., of Control of QuantumShift Communications, Inc. Also enclosed is the required $25.00 filing fee.

Please return the additional "Return Copy" in the enclosed self-addressed, stamped envelope.

Best regards,

Angela E. Scott

Angela E. Scott

AES/cd
Enclosures

BEFORE THE TENNESSEE REGULATORY AUTHORITY

Joint Application of **QuantumShift Communications, Inc.** and **VCOM Solutions, Inc.** for approval of acquisition by VCOM Solutions of control over QuantumShift Communications, Inc.	Docket No.04-00226

APPLICATION FOR APPROVAL OF ACQUISITION OF CONTROL OVER PROVIDER OF TELECOMMUNICATIONS SERVICES

Patrick J. O'Connor, Esq.
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Attorney for Joint Applicants

BEFORE THE TENNESSEE REGULATORY AUTHORITY

Joint Application of **QuantumShift Communications, Inc.** and **VCOM Solutions, Inc.** for approval of acquisition by VCOM Solutions of control over QuantumShift Communications, Inc.	Docket No.

APPLICATION FOR APPROVAL OF ACQUISITION OF CONTROL OVER PROVIDER OF TELECOMMUNICATIONS SERVICES

QuantumShift Communications, Inc. ("QuantumShift"), holder of Tennessee license number 99-00677, and VCOM Solutions, Inc. ("VCOM") (collectively, "Joint Applicants") pursuant to Tennessee Code § 65-4-113 hereby request approval of VCOM's acquisition of 100% percent of the issued and outstanding shares of stock in QuantumShift <u>This transaction will result in no customer-affecting changes to QuantumShift's current operations.</u>

In support of their application, Joint Applicants provide the following information:

I. <u>Name, Address and Description of the Relevant Parties</u>

A. QuantumShift Communications, Inc.

QuantumShift Communications, Inc.
88 Rowland Way, 2nd Floor
Novato, CA 94945
Tel: 415-209-7044.

QuantumShift is a California corporation, certificated to provide resold and facilities-based service in 47 states, including Tennessee, and the District of Columbia. In Tennessee, QuantumShift holds license number 99-00677. This transaction will result in no change in QuantumShift's corporate structure, other than to establish it as a wholly-owned subsidiary of VCOM.

B. VCOM Solutions, Inc.

VCOM Solutions, Inc.
12647 Alcosta Boulevard, Suite 470
San Ramon, CA 94583
Tel: 925-415-8737
Fax: 925-415-8757

VCOM is a corporation organized under the laws of California VCOM will not engage in any intrastate business in the state, except, indirectly, through QuantumShift. **Accordingly, VCOM is not required to obtain authorization to conduct intrastate business as a foreign corporation**. VCOM is not now, nor has been a subsidiary of another company.

II. Communications Regarding Application

All correspondence and other communications regarding this application should be directed to counsel for QuantumShift and VCOM as follows:

Patrick J. O'Connor, Esq.
STEEL HECTOR & DAVIS LLP
200 South Biscayne Boulevard
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Miami, Florida 33139
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III. Description of Transaction

On May 25, 2004, VCOM and QuantumShift entered into a Stock Purchase Agreement ("Agreement") resulting in VCOM's acquisition of 100% of the issued and outstanding stock of

QuantumShift from its sole owner, QuantumShift, Inc. While the stock purchase transaction nominally closed on May 28, 2004, the Joint Applicants acknowledge that the closing and transfer of control nevertheless is subject to, and contingent upon, approval of this Joint Application by the Regulatory Authority. Diagrams demonstrating all affiliations both pre- and post-transaction are shown below:

PRE-TRANSACTION

QUANTUMSHIFT, INC

QUANTUMSHIFT COMMUNICATIONS, INC

QUANTUMSHIFT COMMUNICATIONS OF VIRGINIA,INC.

POST-TRANSACTION

VCOM SOLUTIONS, INC

QUANTUMSHIFT COMMUNICATIONS, INC

QUANTUMSHIFT COMMUNICATIONS OF VIRGINIA,INC.

This stock transaction is in furtherance of a general re-deployment of assets and holdings by QuantumShift's parent, QuantumShift, Inc., toward ventures within its core competence. The transfer enables QuantumShift's existing telecommunications services to be continued under the control and direction of VCOM

VCOM currently operates as a facilities-based and resale interexchange and competitive local exchange carrier in California pursuant to authority granted by the FCC and the California Public Utilities Commission. VCOM specializes in providing a full spectrum of voice and data telecommunications services, conferencing services, Internet hosting and access, and other services designed specifically to meet the needs of small-and medium-sized businesses.

QuantumShift's operations fit closely with those of VCOM, which will enable both QuantumShift and VCOM to enjoy enhanced financial strength, greater buying power for underlying services, and increased efficiencies stemming from their ability to combine their management, sales, administration, billing, and other operating and back-office functions under one roof. These savings will inure to the benefit of their respective customers in the form of lower rates and service innovations. As such, Joint Applicants respectfully submit that approval of this transaction is in the public interest.

IV. Support for Managerial, Technical and Financial Resources of VCOM

The operations of QuantumShift will be directed and controlled by the existing management team of VCOM Solutions, Inc., including Gary Storm, its President and Chief Financial Officer; Sameer Hilal, its Chief Operating Officer; and Joe Condy, its Vice President of Sales. Biographical information regarding Messrs. Storm, Hilal, and Condy is attached as Exhibit A hereto. Neither VCOM, nor any officer, director, affiliate, or owner of a 5% or greater interest of VCOM has been convicted of a felony, been the subject of any formal or informal allegations of slamming or other complaint alleging any violation of telecommunications law or regulation, been sanctioned by any state or federal regulatory agency for slamming or other such violations, or been found civilly or criminally liable for misrepresentations to consumers, unfair business practices, or similar violations. Nor is any such person or entity subject to any investigation concerning any such violations.

VCOM has the technical expertise to assume the obligations of QuantumShift as a certified telecommunications provider in Tennessee and throughout the United States. Since mid-2002, VCOM has successfully operated as a facilities-based and resale interexchange and competitive local exchange carrier in California. This transaction enables VCOM to expand the geographic reach of its expertise and places QuantumShift in a position whereby it can continue to provide high-quality service with no disruptions or adverse effects to its existing customers, who will continue to receive all current services at QuantumShift's existing rates and terms.

VCOM also has the financial resources to assume the obligations of QuantumShift as a licensed telecommunications provider in Tennessee and throughout the United States. Attached as Exhibit B are VCOM's profit and loss statements from 2002, 2003 and first quarter 2004, as well as balance sheets dated December 31, 2003, and June 30, 2004.

V. Request for Waiver of Requirement that Transaction Not Close Without Commission Approval

VCOM and QuantumShift signed the Agreement on May 25, 2004, and the transaction nominally closed on May 28, 2004. However, Joint Applicants acknowledge that both the closing and the transfer of control of QuantumShift's Tennessee license nevertheless is subject to, and contingent upon, approval of this Joint Application by the Regulatory Authority. To the extent that the nominal closing of May 28, 2004, offends the Authority's regulations, Joint Applicants respectfully request waiver of such requirement.

VI. Description of Notice Provided Affected Customers

Because the transaction will be transparent to customers and will neither affect the services offered by QuantumShift nor the rates and terms under which service is provided, customer notice is not required.

VII. Additional Information

Joint Applicants will furnish such other and further information in support of this Joint Application as the Authority may require.

Respectfully submitted September 14, 2004.

By: ______________________________
Patrick J. O'Connor, Esq.

STEEL HECTOR & DAVIS LLP
200 South Biscayne Boulevard
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Fax: 305 577 7001
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Attorney for Joint Applicants

EXHIBIT A

MANAGEMENT BIOGRAPHIES

The operations of QuantumShift Communications, Inc. will be conducted under the direction and control of the existing management team of VCOM Solutions, Inc., including Gary Storm, its President and Chief Financial Officer, Sameer Hilal, its Chief Operating Officer, and Joe Condy, its Vice President of Sales

Mr. Storm is a co-founder of VCOM, which initiated telecommunications operations in California in mid-2002. Prior to founding Applicant, Mr. Storm was President and CEO of Networld Communications, one of the country's leading next-generation voice and data solutions providers. Prior to helping establish Networld Communications as a successful and financially viable player in the competitive telecommunications market, Mr. Storm was employed by Nortel Networks in various sales-related positions.

Mr. Hilal also has substantial experience in the industry. Mr. Hilal was formerly Vice President of Operations for Networld Communications and, in that capacity, managed the company's Professional Services, Client Relations, and Technological teams. Mr. Hilal has successfully managed local, national, and international telecommunications and networking project rollouts for hundreds of customers ranging from 5 to 7000 users. Prior to his employment with Networld Communications, Mr. Hillal was Director of Technology for Bay Imaging Consultants, the largest private radiology group in Northern California.

Mr. Condy is responsible for overall sales and business development. Mr. Condy has been employed in the telecommunications industry for 9 years, most recently as Vice President for Sales for Networld Communications before joining VCOM

EXHIBIT B:
FINANCIAL RESOURCES OF VCOM AND QUANTUMSHIFT

KPMG

QUANTUMSHIFT, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)

KPMG

Three Embarcadero Center
San Francisco, CA 94111

Independent Auditors' Report

The Board of Directors
QuantumShift, Inc .

We have audited the accompanying consolidated balance sheets of QuantumShift, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations and other comprehensive loss, stockholders' deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of QuantumShift, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern As discussed in note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern Management's plan in regard to these matters is also described in note 2. The financial statements do not include any adjustments that might result for the outcome of this uncertainty.

KPMG LLP

June 28, 2003

QuantumShift.

QUANTUMSHIFT, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

Assets		**December 31, 2003**
Current assets		
Cash and cash equivalents	$	427,757
Accounts Receivable, net		2,477,260
Prepaid expenses and other current assets		382,329
Total current assets		3,287,346
Property and equipment, net		581,328
Restricted cash		772,438
Notes receivable		200,000
Other assets		40,720
Total assets	$	4,881,833

Liabilities and Stockholders' Equity

Accounts payable	$	1,538,773
Accrued liabilities		274,099
Current portion of notes payable		125,000
Total current liabilities		1,937,872
Deferred revenue		1,510,967
Notes payable		11,252,803
Capital lease obligations		-
Other liabilities		245,777
Total liabilities		14,947,419
Stockholders' equity		
Common stock		1,000
Additional paid-in capital		132,465,368
Unearned stock compensation		(2,000)
Accumulated retained deficit		(136,781,596)
Net Income (Loss)		(5,748,359)
Total stockholders' equity		(10,065,586)
Total liabilities and stockholders' equity	$	4,881,833

QUANTUMSHIFT, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2002 and 2001

(In thousands, except share data)

Assets		**2002**	**2001**
Current assets			
Cash and cash equivalents	$	4,664	14,341
Accounts receivable, net of allowances of $607 and $534 as of December 31, 2002 and 2001, respectively		4,404	6,191
Notes receivable (note 3)		500	150
Prepaid expenses and other current assets		421	865
Total current assets		9,989	21,547
Property and equipment, net		2,927	6,657
Restricted cash		2,473	2,594
Notes receivable (note 3)		200	2,000
Other assets		189	315
Total assets	$	15,778	33,113
Liabilities and Stockholders' Deficit			
Current liabilities			
Accounts payable	$	3,741	4,962
Accrued liabilities		1,736	3,915
Deferred revenue		2,376	3,315
Current portion of notes payable		11,064	32,678
Current portion of capital lease obligations		500	745
Total current liabilities		19,417	45,615
Deferred revenue		294	2,240
Notes payable		134	328
Capital lease obligations		227	771
Total liabilities		20,072	48,954
Commitments and contingencies (notes 1(j), 5, 6, 7 and 8)			
Stockholders' deficit			
Preferred stock, Undesignated, $0.001 par value, 20,240,000 shares authorized, 0 and 0 shares issued and outstanding as of December 31, 2002 and 2001, respectively		—	—
Preferred stock, Series A, $0.001 par value, 150,000 shares authorized, 0 and 97,419 shares issued and outstanding as of December 31, 2002 and 2001, respectively		—	—
Preferred stock, Series B, $0.001 par value, 121,021 shares authorized, 0 and 118,500 shares issued and outstanding as of December 31, 2002 and 2001, respectively		—	—
Preferred stock, Series C, $0.001 par value, 132,500 shares authorized, 0 and 119,777 shares issued and outstanding as of December 31, 2002 and 2001, respectively		—	—
Preferred stock, Series C-2, $0.001 par value, 760,000 shares authorized, 452,535 and 0 shares issued and outstanding as of December 31, 2002 and 2001, respectively (liquidation preference of $23,668 as of December 31, 2002)		1	—
Common stock, $0.001 par value, 29,000,000 shares authorized, 890,642 and 118,980 shares issued and outstanding as of December 31, 2002 and 2001, respectively		1	1
Additional paid-in capital		141,863	108,160
Deferred stock-based compensation		(2)	(516)
Notes receivable from stockholders		—	(3,332)
Accumulated other comprehensive loss		—	—
Accumulated deficit		(146,157)	(120,154)
Total stockholders' deficit		(4,294)	(15,841)
	$	15,778	33,113

See accompanying notes to consolidated financial statements

QUANTUMSHIFT, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Other Comprehensive Loss

Years ended December 31, 2002 and 2001

(In thousands)

		2002	2001
Revenues	$	29,113	24,948
Cost of revenues		21,882	13,558
Gross profit		7,231	11,390
Operating expenses:			
Research and development		5,874	10,654
Sales and marketing		12,913	23,351
General and administrative		10,365	18,280
Write down of impaired intangible assets		—	3,077
Amortization of stock-based compensation		(242)	849
Total operating expenses		28,910	56,211
Operating loss		(21,679)	(44,821)
Other expense, net		(4,324)	(6,152)
Net loss		(26,003)	(50,973)
Other comprehensive loss		—	56
Comprehensive loss	$	(26,003)	(50,917)

See accompanying notes to consolidated financial statements

QUANTUMSHIFT, INC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

(In thousands)

		2002	2001
Cash flows from operating activities			
Net loss	$	(26,003)	(50,973)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization		3,650	4,840
Write-down of impaired assets		—	3,077
Loss on disposal of property and equipment		1,038	81
Forgiveness of employee stock purchase notes receivable		2,636	—
Bad debt expense		1,271	1,035
Forgiveness of notes receivable (note 3)		1,450	(35)
Non-cash interest expense from issuance of warrants in connection with bridge financing		1,588	5,518
Gain on short-term investment		—	(37)
Repurchase of stock		(149)	—
Stock compensation amortization		(242)	849
Accrued interest converted to equity		1,174	—
Changes in bank overdraft		—	(1,111)
Changes in operating assets and liabilities, net of operating assets acquired in ICE acquisition			
Accounts receivable		516	(966)
Prepaid and other current assets		444	487
Other assets		126	(307)
Accounts payable		(1,220)	1,765
Accrued liabilities		(2,179)	(597)
Deferred revenue		(2,885)	2,901
Net cash used in operating activities		(18,785)	(33,473)
Cash flows from investing activities			
Proceeds from maturity of short-term investments		—	18,795
Proceeds from disposal of property and equipment		110	104
Purchase of property and equipment		(1,068)	(2,813)
Acquired net assets, net of cash acquired		—	1
Restricted cash		121	527
Net cash (used in) provided by investing activities		(837)	16,614
Cash flows from financing activities			
Proceeds from notes payable		37,732	33,520
Proceeds from repayment of notes from stockholders		696	28
Repayment of capital lease obligations		(789)	(1,025)
Repayment of notes payable		(27,694)	(1,304)
Repurchase of stock options		—	(19)
Net cash provided by financing activities		9,945	31,200
Net (decrease) increase in cash and cash equivalents		(9,677)	14,341
Cash and cash equivalents, beginning of period		14,341	—
Cash and cash equivalents, end of period	$	4,664	14,341
Supplemental disclosures of cash flow information			
Noncash investing and financing activities			
Cash paid – interest expense	$	643	340
Acquisition of ICE Wireless			
Fair value of assets acquired, net of cash acquired		—	4,283
Less Liabilities assumed		—	1,108
Issuance of common stock		—	3,176

See accompanying notes to consolidated financial statements

Confidential

QUANTUMSHIFT, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Year Ended December 31, 2003
(Unaudited)

	December 2003 Actual
Revenues	
Network Services	16,629,630 80
Bill Consolidation	611,975 10
Subscriptions	4,501,416 94
Professional Services	261,935 19
Total Revenues	22,004,958 03
Cost of Sales	12,254,516 36
Gross Profit	9,750,441 67
Operating Expenses	
Salaries, Benefits & Taxes	7,190,404 24
Consultants & Temps	421,362 28
Travel & Entertainment	351,044 13
Sales & Marketing	155,161 83
Rent and Leasing	1,726,109 72
Repair and Maintenance	41,258 58
Telecom	453,100 78
Data Center and Communications	909,501 61
Supplies and Subscriptions	195,980 32
Professional Services	302,569 57
Other Expense	142,952 77
Interest Expense	1,139,055 75
Bad Debt Allowance	600,000 00
Depreciation	2,084,212 40
Total Operating Expenses	15,712,713 98
Operating Loss	(5,962,272 31)
Other Expense, net	(213,913 43)
Net Loss before taxes	(5,748,358 88)
Tax expense	-
Net Loss	**$ (5,748,359)**

QUANTUMSHIFT, INC AND SUBSIDIARIES

Consolidated Statements of Stockholders' Deficit

December 31 2002 and 2001

(In thousands, except share data)

	Preferred stock shares	Amount	Common stock shares	Amount	Additional paid-in capital	Deferred stock-based compensation	Notes receivable from stockholders	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' deficit
Balance as of December 31 2000	335,696	$ —	113,970	$ 1	99,625	(1 303)	(3,600)	(56)	(69,181)	25,486
Issuance of common stock, warrants and options pursuant to acquisition of Ice Wireless	—	—	8,184	—	3,175	—	—	—	—	3,175
Issuance of common stock in connection with Ice Wireless stock option plan	—	—	18	—	8	—	—	—	—	8
Exercise of options – common stock	—	—	425	—	90	—	(53)	—	—	37
Repurchase of shares	—	—	(3 617)	—	(357)	—	293	—	—	(64)
Repayment of notes receivable	—	—	—	—	—	—	28	—	—	28
Issuance of common stock options to third-party consultants for services	—	—	—	—	39	—	—	—	—	39
Issuance of warrants in connection with bridge financing (note 8c)	—	—	—	—	5,518	—	—	—	—	5,518
Deferred stock-based compensation	—	—	—	—	62	(62)	—	—	—	—
Deferred stock-based compensation amortization	—	—	—	—	—	849	—	—	—	849
Unrealized loss on investments	—	—	—	—	—	—	—	56	—	56
Net loss	—	—	—	—	—	—	—	—	(50,973)	(50,973)
Balance as of December 31, 2001	335 696	—	118,980	1	108,160	(516)	(3,332)	—	(120,154)	(15,841)
Conversion of debt to preferred (net of issuance costs)	903 257	1	—	—	33,020	—	—	—	—	33 021
Conversion of preferred to common	(786,418)	—	786,418	—	—	—	—	—	—	—
Repurchase of shares	—	—	(14,756)	—	(149)	—	—	—	—	(149)
Issuance of warrants in connection with bridge financing (note 8c)	—	—	—	—	1,588	—	—	—	—	1,588
Repayment of notes receivable	—	—	—	—	—	—	696	—	—	696
Provision for uncollectible receivables	—	—	—	—	—	—	2,636	—	—	2,636
Deferred stock-based compensation amortization	—	—	—	—	(756)	514	—	—	—	(242)
Net loss	—	—	—	—	—	—	—	—	(26,003)	(26,003)
Balance as of December 31, 2002	452,535	$ 1	890,642	$ 1	141,863	(2)	—	—	(146,157)	(4,294)

See accompanying notes to consolidated financial statements

(1) Summary of the Company and Significant Accounting Policies

(a) Business

QuantumShift, Inc. (the Company) enables its clients to reduce communications expense and gain greater control over their communications services by combining a web-based management application for data and voice products and services, and experienced professionals into a full-service, single-source solution The Company's web-based management application helps clients manage their complex communications services in real-time, providing an enterprise-wide control panel for generating new service orders, reporting outages and receiving service updates. The Company's professional services team provides clients with analysis and management of their communications needs.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of QuantumShift, Inc and its subsidiaries All significant intercompany balances and transactions have been eliminated

(c) Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash and cash equivalents are generally invested in money market funds and commercial paper and amounted to $4,664,000 and $14,341,000 as of December 31, 2002 and 2001, respectively.

(d) Restricted Cash and Cash Equivalents

The Company has posted secured letters of credit with certain vendors and other commercial relations. The security collateral for these letters of credit is restricted and invested in short-term certificates of deposit amounting to $2,473,000 and $2,594,000 as of December 31, 2002 and 2001, respectively.

(e) Short-Term Investments

The Company's short-term investments consist primarily of corporate commercial paper All marketable securities are classified as available-for-sale and are stated at fair value, with net unrealized gains or losses reported within shareholders' deficit. There were no short-term investments at December 31, 2002 or 2001

(f) Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives, which generally range from three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the assets.

(Continued)

(g) Other Intangible Assets

Acquired Intangible Assets

Prior to adoption of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets,* in 2001 (note 1(q)), the Company amortized goodwill on a straight-line basis over two to three years, and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation. All other intangible assets were amortized on a straight-line basis over two years. The amount of goodwill and other intangible asset impairment, if any, was measured based on projected discounted future cash flows using a discount rate reflecting the Company's average cost of funds. The Company recorded amortization of goodwill and other intangible assets in the amount of $0 and $1,184,000 during the years ended December 31, 2002 and 2001, respectively (note 13)

Research and Development Costs

The Company adopted the American Institute of Certified Public Accountants' Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1), in the fiscal year ended December 31, 2001. This statement requires the capitalization of certain costs incurred in the development of internal-use software Certain costs, such as maintenance and training, are required to be expensed as incurred

Research and development expenses consist primarily of salaries and related personnel expenses, consultant fees and prototype expenses related to the design, development, testing and enhancement of our internal use software. In fiscal years 2002 and 2001, the Company had capitalized software development costs of $477,000 and $0, respectively The Company amortized $119,000 and $0 of software development costs in 2002 and 2001, respectively.

(h) Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable Certain of the Company's long-lived assets, which have been impaired, were disposed in 2001 (note 13).

(i) Revenue Recognition

Revenues are recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed and determinable, collectability is probable, and objective evidence of fair value exists for any undelivered products or services ("elements") of the arrangement

(Continued)

The Company derives its revenues from four types of services: (1) hosted software license and subscription, (2) communication service, (3) professional service, and (4) bill consolidation.

1. *Hosted software license and subscription services* – include the monthly usage fees from hosted license and subscription services, and all associated set-up services. The set-up and usage fees are currently amortized, on a straight-line basis, over the contractual lives of the related agreements, which is typically two years. The Company will continue to evaluate and adjust this amortization period as it gains more experience with customer contract renewals and contract cancellations. Based on that experience, it is possible that in the future the period over which such set-up fees are amortized will be extended. Subscription set-up and usage fees and other amounts that are billed in excess of the amounts currently recognizable, are recorded as deferred revenue.

2. *Communication services* – include a suite of local, long distance, wireless, data, calling card and conference call services to its customers. For these services, the Company is the carrier of record for its customers Amounts are billed and recognized monthly based on the actual communication usage for the month, including both monthly recurring and non-recurring charges.

3. *Professional services* – include consulting provided by the Company's professionals who review the customer's current communications configurations and recommend and implement solutions

4. *Bill consolidation services* – include consolidation services performed by the Company as an agent to consolidate and pay its clients' communication bills This fee is earned when the carrier bills are paid

Deferred Revenue – represents amounts billed to or cash received from customers under certain license and subscription fee arrangements and communication services for which the earnings process has not been completed. These amounts are recognized as revenue in future periods.

(j) Vendor Commitments and Disputes

The Company has entered into various agreements with telecommunications carriers for the resale of communications services. Certain of these agreements contain minimum commitment and usage amounts, in exchange for favorable rates. Should the Company fail to achieve such commitments, it could be subject to future penalties or minimum usage deficiency payments. The Company is currently in the process of negotiating the terms of these agreements in order to minimize any potential penalties or minimum usage deficiency payments. However, there can be no assurance that the Company will be successful in such negotiations and will be able to avoid such penalties or minimum usage deficiency payments in the future

The Company has disputed billings from certain telecommunications carriers in the amount of $1,391,000 The Company contends the invoicing of billings is not in accordance with the agreements entered into with such carriers The Company segregates these disputes and does not expense or pay for them until resolution has been reached. A provision for disallowed disputes is maintained in accounts payable to cover those disputes in the event the Company does not prevail

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately $15,000 and $1,070,000 for the years ended December 31, 2002 and 2001, respectively.

(m) Stock-Based Compensation

The Company accounts for its stock-based compensation arrangements using the intrinsic-value method pursuant to Accounting Principles Board Opinion No. 25 (APB 25) as permitted by SFAS No 123, *Accounting for Stock-Based Compensation*, and Financial Accounting Standards Board (FASB) Interpretations No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.* As such, deferred compensation expense is recorded on the date of grant when the fair value of the underlying common stock exceeds the exercise price for stock options or the purchase price for issuance or sales of common stock Pursuant to SFAS No. 123, the Company discloses the pro forma effects of using the fair value method of accounting for stock-based compensation arrangements.

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services* The Company uses the Black-Scholes option-pricing model to value options granted to non-employees. The related expense is recorded over the period in which the related services are received.

Had stock-based compensation cost been determined in accordance with SFAS No. 123 for all of the Company's stock-based compensation plans, net loss attributable to holders of common stock would have been changed to the amounts indicated below (in thousands):

		Year ended December 31,	
		2002	**2001**
Net loss:			
As reported	$	(26,003)	(50,973)
Pro forma		(26,555)	(51,862)

(n) ***Comprehensive Income***

For the year ended December 31, 2001, the Company's comprehensive loss is comprised of its net loss and unrealized losses on marketable securities.

(o) ***Concentration of Credit Risk***

Accounts receivable potentially subject the Company to concentrations of credit risk The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral for accounts receivable. When required, the Company maintains allowances for credit losses, and to date, such losses have been within management's expectations As of December 31, 2002, receivables from one customer represented 17% of total receivables As of December 31, 2001, receivables from one customer represented 29% of total receivables During the year ended December 31, 2002, revenue from one customer represented 22% of total revenue. During the year ended December 31, 2001, revenue from one customer represented 10% of total revenue

(p) ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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.

(q) ***Recent Accounting Pronouncements***

In July 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No 142, *Goodwill and Other Intangible Assets* SFAS No 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and specifies criteria for recognizing intangible assets acquired in a business combination SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually Intangible assets with definite useful lives will continue to be amortized over their respective estimated useful lives. SFAS No. 142 became effective for the Company in January 2002. Implementation of the statements did not have a material impact on the results of operations or financial position.

In August 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 143 requires that the fair value of an asset retirement obligation be recorded as a liability in the period in which a legal obligation is incurred. SFAS No 143 is effective January 1, 2003. SFAS No. 144 establishes one accounting model to be used for long-lived assets to be disposed of by sale, and broadens the presentation of discounted operations to include more disposal transactions SFAS No. 144 supersedes both SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of APB Opinion No 30, *Reporting the Results of Operations* SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Implementation of the statements did not have a material impact on the results of operations and financial position.

(Continued)

In April 2002, the FASB issued SFAS No 145, *Rescission of FASB Statements No 4, 44, and 64, Amendment of FASB Statement No 13, and Technical Corrections*. Among other provisions, SFAS No. 145 rescinds SFAS No 4, *Reporting Gains and Losses from Extinguishment of Debt.* Accordingly, gains or losses from extinguishment of debt shall not be reported as extraordinary items unless the extinguishment qualifies as an extraordinary item under the criteria of APB No 30. Gains or losses from extinguishment of debt that do not meet the criteria of APB No. 30 should be reclassified to income from continuing operations in all prior periods presented SFAS No. 145 is effective for fiscal years beginning after May 15, 2002 We will adopt SFAS No. 145 beginning in our fiscal year 2003. Adoption of SFAS No. 145 is not expected to have a material impact on the financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Previous guidance, provided under EITF No 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)*, required an exit cost be recognized at the date of an entity's commitment to an exit plan (note 10).

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment to FASB Statement No 123, Accounting for Stock-Based Compensation* SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation In addition, SFAS No. 148 amends the disclosure requirements of Statement 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The Company has adopted the disclosure provisions of SFAS No 148.

In May 2003, the FASB issued SFAS No 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. The Company does not use such instruments in our share repurchase program. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments as of September 1, 2003 Adoption of SFAS No. 150 is not expected to have a material impact on the financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45 (FIN no 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* FIN No 45 expands on the accounting guidance of Statements No. 5, 57 and 107 and incorporates without change the provisions of FASB Interpretation No 34, which is being superseded FIN No 45 will affect leasing transactions involving residential guarantees, vendor and manufacturer guarantees, and tax and environmental indemnities. All such guarantees will need to be disclosed in the notes to the financial statements starting with the period ending after December 15, 2002. For guarantees issued after December 31, 2002, the fair value of the obligation must be reported on the balance sheet. Existing guarantees will be grandfathered and will not be recognized on the balance sheet. Adoption of FIN No. 45 is not expected to have a material impact on the financial position or results of operations.

(2) Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred net losses of $26,003,000 and $50,973,000 during the years ended December 31, 2002 and 2001, respectively These losses and the Company's projected operating performance raise substantial doubt about the Company's ability to continue as a going concern. The Company's management believes that its current cash balances, combined with it's line of credit, will not be sufficient to meet its operating requirements through December 31, 2002 unless additional funding can be obtained. Management is currently seeking additional capital, however, there can be no assurances that the additional financing will be sufficient to fund operations through that date. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(Continued)

(3) Notes Receivable

Notes receivable consists of the following (in thousands):

		December 31, 2002	December 31, 2001
Full recourse promissory notes with a former officer of the Company			
(i) Due and payable either July 31, 2032 or sale of secured residence whichever is first. $500,000 is payable on June 30, 2003 in consideration of $1,000,000 of original principal Remainder of $1,000,000 loan can be retired with a $200,000 payment within two years of June 30, 2003. Interest of 5.23% is payable upon termination of the note.	$	1,500	2,000
Reserve		(800)	—
		700	2,000
(ii) Due and payable either February 22, 2003 or 90 days following termination either for cause or on a voluntary basis Interest ranges from 3.55% to 6 36%; Loan was retired in 2002.		—	150
		700	2,150
Less current portion		500	150
Long-term portion	$	200	2,000

In 2002, the Company wrotedown the principal of the above-mentioned notes by $1,450,000, which included $150,000 for the retired loan (see ii), $500,000 for forgiveness of the original $1,000,000 note in exchange for $500,000 in June 2003 (see i), and $800,000 for the reserve provision (see i), as part of the renegotiation with the former officer.

(4) Property and Equipment

A summary of property and equipment follows (in thousands)

		December 31, 2002	December 31, 2001
Furniture, fixtures and office equipment	$	1,618	2,999
Computer hardware, software and other electronic equipment		8,712	7,804
Leasehold improvements		1,039	1,672
		11,369	12,475
Less accumulated depreciation and amortization		(8,442)	(5,818)
Property and equipment, net	$	2,927	6,657

Depreciation expense totaled $3,531,000 and $3,656,000 for the years ended December 31, 2002 and 2001, respectively

Property and equipment includes approximately $3,032,000 and $3,589,000 of property and equipment under capital lease as of December 31, 2002 and 2001, respectively Accumulated depreciation includes $1,942,000 and $2,054,000 of accumulated depreciation on property and equipment under capital lease as of December 31, 2002 and 2001, respectively.

Amortization of gains on sale/leaseback transactions amounted to $34,000 and $26,000 for the years ended December 31, 2002 and 2001, respectively

(5) Notes Payable

(a) Secured Borrowings

In January 2002, the Company entered into a one-year agreement with a bank to borrow up to the lesser of $5 0 million, or 80% of eligible receivables Under the terms of the agreement, all cash collections of the Company are to be deposited into a segregated account and used to repay obligations under the loan Interest on the loan is equal to the bank's prime rate plus 1.25% per annum. The loan is collateralized by all equipment, receivables, intangibles and deposit accounts of the Company and requires the Company to maintain a minimum tangible net worth during the term of the loan. In connection with this borrowing, the Company issued warrants for the purchase of 4,780 shares of Series C-1 Preferred Stock at an initial exercise price of $52.37 and an expiration date in January 2007. The warrants were exercisable for five years from date of issuance. The Company determined the fair value of these warrants using the Black-Scholes option pricing model with the following assumptions: stock price $52 37, historical volatility 96%, risk free rate 5.0%, a dividend of 0%, and a contractual term of five years. Borrowings under this arrangement were $885,000 as of December 31, 2002 (note 14).

(b) ***Equipment Notes***

Borrowings under various term loans are secured by property and equipment and are repayable in equal monthly installments, with maturity dates ranging from July 2002 through January 2004. Interest on term notes is fixed ranging from 12 8% to 16 6% These notes are collateralized by the assets financed. These notes had an outstanding balance of $312,000 and $599,000 at December 31, 2002 and 2001, respectively.

(c) ***Convertible Notes***

In 2002, the Company entered into agreements with certain investors, the terms of which called upon the funding of specific amounts to the Company in return for unsecured six-month senior convertible notes with warrants. These notes bear interest at 10% per annum, payable in kind at conversion or in cash at maturity. These notes are mandatorily convertible notes, payable in shares of the Company upon the closing of the Company's offering of Series D Preferred Stock At December 31, 2002, these notes had an outstanding principal balance of $10 million.

In 2001, the Company entered into agreements with certain investors, the terms of which called upon the funding of specific amounts to the Company in return for unsecured six-month senior convertible notes with warrants These notes bear interest at 8% and 10% per annum, payable in kind at conversion or in cash at maturity These notes are mandatorily convertible notes, payable in shares of the Company upon the closing of the Company's offering of Series C-1 Preferred Stock. At December 31, 2001, these notes had an outstanding principal balance of $32.407 million These notes were converted to equity in fiscal year 2002

Principal and interest on the above notes convert, into that number of shares of the type of equity security issued at the next equity financing of the Company. The notes convert at a price equal to the principal and accrued interest thereon divided by the per share purchase price of the next equity security In the event of a change in control of the Company prior to the conversion or maturity of the notes, as set forth above, the principal and accrued interest will convert into that number of shares of common stock equal to the principal and accrued interest divided by a per share price equal to 80% of the per share value to be received by the holder of a share of common stock in the change of control transaction.

The scheduled maturities of notes payable as of December 31, 2002 are as follows (in thousands):

2003	$ 11,064
2004	133
	11,197
Less current portion	11,064
	$ 133

(Continued)

(6) Lease Obligations

The Company leases certain property and equipment under agreements that have been classified as capital leases The Company leases office space for its corporate headquarters and various sales offices under operating leases. Minimum lease payments under capital and operating leases for the years ending December 31 are as follows (in thousands):

		Capital leases		Operating leases
2003	$	541		1,226
2004		233		1,018
2005		—		903
Total minimum lease payments		774	$	3,147
Less amount representing interest		47		
Present value of minimum lease payments		727		
Less current portion		(500)		
Long-term portion	$	227		

Total rent expense for all operating leases was $3.2 million and $3.3 million for the year ended December 31, 2002 and 2001, respectively During the year ended December 31, 2002, the Company entered into several sublease agreements to lease excess office space through March 2004. Total sublease rents received by the Company during the year ended December 31, 2002 was $256,000. Future minimum sublease payments due to the Company are as follows $73,000 in 2003 and $18,000 in 2004.

(7) Stockholders' Equity

On January 15, 2002 and November 18, 2002, respectively, the Company's Board of Directors approved twenty-for-one and ten-for-one reverse splits, respectively, for all preferred and common shares. Par value of all split shares remained at $.001 per share. All share amounts as referenced in the consolidated financial statements have been adjusted to reflect this reverse stock split

(a) Capital Stock

The Company is authorized to issue 29,000,000 shares of common stock, and 21,000,000 shares of preferred stock. Preferred shares are automatically convertible into common shares upon a qualified initial public offering of the common stock.

(b) Preferred Stock

In January 2002, the Company issued Series A-1, B-1, and C-1 preferred stock as part of the Series C-1 financing totaling 65,842, 393,818, and 641,755 shares, respectively. Preferred A, Preferred B, and Preferred C shares were converted to A-1, B-1, or C-1, respectively, if there was participation in the financing. Shares were converted at various ratios, ranging from 1:1 to 1:4.5. Non-participating preferred shares converted to common resulting in 137,619 common shares being issued

In November 2002, the Company issued Series C-2 preferred stock as part of the Series C-2 financing in the amount of 452,535 shares. Preferred A-1, B-1, and C-1 shares were converted to C-2 if there was participation in the financing Shares were converted on a 1 to 1 basis. Non-participating preferred shares converted to common resulting in 648,799 common shares being issued

The rights, preferences, and privileges of preferred stockholders are as follows: Series C-2 stockholders are entitled to non-cumulative dividends, if declared by the Board of Directors, of $4.186 per share per annum. No such dividends have been declared. Each share of Series C-2 is convertible at any time into a share of common stock, with automatic conversion upon an initial public offering. Series C-2 stockholders have a liquidation preference of $52.30 per share

(8) Stock Option Plan

During 1998, the Company approved the 1998 Stock Option Plan (the 1998 Plan). Under the 1998 Plan, the Company could grant nonqualified and incentive stock options to employees of the Company to acquire up to 318,899 shares of the Company's common stock. Under the Plan, the exercise price must be at least 100% of the stock's fair market value on the date of the grant. The options expire 10 years from the date of grant and the vesting period is 3 years with a 6-month cliff.

During 1999, the Company approved the 1999 Incentive and Non-Statutory Stock Option Plan (the 1999 Plan) Under the 1999 Plan, the Company could grant nonqualified and incentive stock options to employees, directors and consultants of the Company to acquire up to 14,481,689 shares of the Company's common stock. Under the Plan, the exercise price for incentive stock option must be at least 100% of the stock's fair market value on the date of the grant, and 85% for nonqualified stock options for employees owning less than 10% of the voting power of all classes of stock For employees owning more than 10% of the voting power of all classes of stock, the exercise price is at least 110% of the fair market value on the date of grant with a maximum 5-year term The options expire 10 years from the date of grant and vest over 4 years with a 6-month cliff

During 2000, the Company approved the Executive Stock Option Plan (the 2000 Plan). Under the 2000 Plan, the Company could grant nonqualified and incentive stock options to employees, directors and consultants of the Company to acquire up to 17,177,699 shares of the Company's common stock Under the Plan, the exercise price for incentive stock options must be at least 100% of the stock's fair market value on the date of the grant for employees owning less than 10% of the voting power of all classes of stock. For employees owning more than 10% of the voting power of all classes of stock, the exercise price must be at least 110% of the fair market value on the date of grant with a maximum 5-year term. The Administrator shall determine the exercise price for nonqualified stock options The options expire 10 years from the date of grant and vest over 4 years with a 1-year cliff

During 2001, the Company approved the Stock Option Plan (the 2001 Plan). Under the 2001 Plan, the Company could grant nonqualified and incentive stock options to employees, directors and consultants of the Company to acquire up to 6,000,000 shares of the Company's common stock Under the Plan, the exercise price for incentive stock options must be at least 100% of the stock's fair market value on the date of the grant for employees owning less than 10% of the voting power of all classes of stock. For employees owning more than 10% of the voting power of all classes of stock, the exercise price must be at least 110% of the fair market value on the date of grant with a maximum 5-year term. The Administrator shall determine the exercise price for nonqualified stock options. The options expire 10 years from the date of grant and vest over 4 years with a 1-year cliff.

On March 13, 2002, the Company announced an offer to exchange all outstanding options granted to eligible employees with an exercise price equal to or greater than $.050 pre-split, per share for new options to be granted at least six months and one day from the date the offer expired, April 1, 2002 (the "option exchange"). The exercise price per share of the new options were equal to 100% of the fair value market value of the common stock on the date of grant, as determined by the board of directors.

In connection with the stock option program, the Company initiated a Debt Reduction Offer to the employees The offer provided a one-time opportunity to extinguish the related note and interest for those shares eligible to the percentage difference between the purchase price and the fair market value, multiplied by the amount of the note and interest. To participate in the program the employees performed the following on or before April 30, 2002; return a signed agreement and acknowledgement of the matters and repay in full the discounted amount of the note and interest to the Company (note 8(a)).

A summary of the activity within the Company's stock option plans is as follows:

	Year ended December 31, 2002		**Year ended December 31, 2001**	
	Shares	**Weighted-average exercise price**	**Shares**	**Weighted-average exercise price**
Outstanding at beginning of period	23,739	$ 279.29	39,635	$ 283.10
Granted	404,551	10 00	20,459	355.21
Exercised	—	—	(425)	277.66
Cancelled	(237,910)	34 94	(35,931)	326 74
Outstanding at end of period	190,380	12.41	23,738	279.29
Options exercisable at end of period	120,749	13.79	23,738	279.11
Weighted-average fair value of options granted at fair value during the period		10.00		355.21

The following table summarizes information about stock options outstanding as of December 31, 2002:

Options outstanding				Options exercisable	
Range of exercise prices	Shares	Weighted-average exercise price	Weighted-average remaining contractual life in years	Shares	Weighted-average exercise price
$ 10 00	188,495	$ 10 00	9 02	118,864	$ 10 00
20 00	327	20 00	6 68	327	20 00
200 00 to 250 00	458	211 75	7 33	458	211 75
280 00 to 320 00	350	307 86	7 66	350	307 86
350 00 to 360 00	750	354 07	7 89	750	354 04
	190,380	$ 12 41	9 00	120,749	$ 13 790

As of December 31, 2002, 6,176,940, 5,665,980, and 6,000,000 shares were available for grant under the 1999, 2000, and 2001 stock option plans, respectively. With the creation of the 1999 stock option plan, no further issuance of options under the 1998 stock option plan is allowed

(a) *Notes Receivable from Stockholders*

The Company holds notes receivable from employees and executive officers of the Company related to the exercise of options to purchase shares of the Company's common stock These notes bear interest at 7% per annum, with interest and principal due on the maturity date of five years from the date of issuance. The notes are collateralized by a pledge of the Company's common stock held by such individuals. The outstanding balance of these notes was $1 2 million and $3.3 million as of December 31, 2002 and 2001, respectively The Company believes that certain of these notes will be uncollectible and created a provision in 2002 to account for the uncollectible notes.

(b) *Stock-Based Compensation*

Stock-based compensation consists of amortization of unearned compensation in connection with stock option grants and sales of stock to employees at exercise or sales prices below the deemed fair market value of the Company's common stock. In connection with the grant of certain stock options to employees during the year ended June 30, 2000, the Company recorded unearned stock compensation of approximately $2.7 million, representing the difference between the deemed value of the common stock for accounting purposes and the option exercise price or stock sale price at the date of the option grant or stock sale Such amount is presented as a reduction of stockholders' equity and amortized over the vesting period of the applicable options in a manner consistent with FASB Interpretation No. 28 The reversal or amortization of stock-based compensation included in operating expense was ($242,000) and $849,000 for the years ended December 31, 2002 and 2001, respectively The Company expects amortization of approximately, $2,000 in 2003.

The fair value of each option to employees disclosed in (note 1(m)) was estimated on the date of grant using the Minimum Value Method option-pricing model with the following weighted-average assumptions

	Year ended December 31, 2002	2001
Average life	4.5 years	4.5 years
Risk-free interest rate	4.24%	4 80%
Dividends	—	—

The Company granted options to purchase 0 and 50,000 shares of common stock to non-employees for the year ended December 31, 2002 and 2001, respectively, in exchange for consulting services. Compensation cost recognized in the accompanying consolidated statements of operations related to these option grants was $0 and $39,000 for the year ended December 31, 2002 and 2001, respectively

The value of each option granted to non-employees was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions

	Year ended December 31, 2002	2001
Expected volatility	100%	155%
Average life	10 years	10 years
Risk-free interest rate	5.74%	6.69%
Dividends	—	—

The weighted-average fair value of options granted to nonemployees was $0 and $155 per share for the years ended December 31, 2002 and 2001, respectively

(c) ***Warrants***

Warrants outstanding as of December 31, 2002 are as follows:

Exercise prices	Shares
$ 0 06125	2,202,795
52.32	38,222
52.32	79,934
100 00	9,832
120.00	35,199
170 00	3,434
482 00	759

During the year ended December 31, 2001, the Company issued warrants to purchase 114,529 of its Series C-1 Preferred Stock at an exercise price of $52 32. These warrants were issued in conjunction with the issuance of unsecured six-month senior convertible notes The warrants were exercisable for five years from date of issuance. The Company determined the fair value of these warrants using the Black-Scholes option pricing model with the following assumptions· stock price $52.32, historical volatility 155%, risk free rate 5 0%, a dividend of 0%, and a contractual term of five years The Company has recorded the entire discount resulting from the allocation of the relative fair values to the note, the warrant, and the beneficial conversion feature totaling $5,518,000 in 2001 as interest expense in the consolidated statements of operations.

In connection with the Series D funding during the year ended December 31, 2002, the Company issued warrants to purchase 2,202,795 of its Series D Preferred Stock at an exercise price of $0 06125 which could be adjusted at the conclusion at the Series D funding. These warrants were issued in conjunction with the issuance of unsecured six-month senior convertible notes. The warrants were exercisable for five years from date of issuance. The Company determined the fair value of these warrants using the Black-Scholes option pricing model with the following assumptions· stock price $0 06125, historical volatility 96%, risk free rate 5 0%, a dividend of 0%, and a contractual term of five years The Company has recorded the entire discount resulting from the allocation of the relative fair values to the note, the warrant, and the beneficial conversion feature totaling $1,588,000 in 2002 as interest expense in the consolidated statements of operations.

(9) Income Taxes

The Company has not recorded provisions or benefits for federal or state income taxes for the year ended December 31, 2002 and December 31, 2001 as a result of the Company's net operating losses As of December 31, 2002, the Company has a federal net operating loss carryforward of approximately $132 million, which expires in the years 2010 through 2022.

The differences between the provision for income taxes and the amounts computed by applying the federal statutory income tax rate of 34% to pretax loss from continuing operations is due primarily to the valuation allowance on deferred tax assets. The Company's deferred tax assets primarily relate to federal net operating losses of approximately $45 million and $35 million at December 31, 2002 and 2001, respectively. Management believes that sufficient uncertainty exists regarding the future realization of deferred tax assets and, accordingly, a full valuation allowance has been provided

Federal tax laws impose substantial restrictions on the utilization of net operating loss carryforwards in the event of an "ownership change," as defined in Section 382 of the Internal Revenue Code In the event of an ownership change (as defined for income tax purposes), the net operating loss carryforwards could be subject to an annual limitation.

(10) Restructuring of Operations

During fiscal 2002, the Company completed a strategic restructuring program. As a result, the Company streamlined and downsized its operations by eliminating a portion of its workforce, renegotiating its active leases and closing some offices These costs are included in the Company's consolidated statement of operations in the amount of $1,608,000 The restructuring accrual at December 31, 2002 totaled $105,000.

(11) Employee Benefit Plans – 401(k) Plan

The Company maintains a 401(k) Plan for its employees. The 401(k) Plan allows eligible employees to defer up to 15%, but no greater than the stated limitation in any plan year, of their pretax compensation in certain investments at the discretion of the employee The Company does not currently make contributions to the Plan

(12) Related Parties

The Company has entered into agreements to provide services to certain stockholders of the Company. During the years ended December 31, 2002 and 2001, revenues from such related parties approximated $64,000 and $171,000, respectively. Outstanding receivables from such related parties were $4,000 and $8,000 as of December 31, 2002 and 2001, respectively.

(13) Impairment of Goodwill from Ice Wireless Acquisition

In February 2001, the Company acquired ICE Communications, Inc dba ICE Wireless, an e-procurement solutions provider of wireless products and services for businesses. Under the terms of the agreement, the Company acquired all of the assets and liabilities of ICE Communications, Inc. for 8,184 shares of the Company's common stock, 991 options and 200 warrants. The acquisition was recorded under the purchase method of accounting A portion of the acquisition price was allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of acquisition while the balance of $4.3 million was recorded as goodwill to be amortized over 36 months on a straight-line basis

In December 2001, the Company reviewed the recoverability of the goodwill balance associated with the Ice Wireless acquisition in accordance with Statement of Financial Accounting Standard No. 121 Factors considered in this review included, but were not limited to, the number of customers remaining, the extent that the Company had utilized the acquired technology, the remaining workforce and the remaining agreements. As a result, it was determined that the assets had been impaired and the remaining goodwill balance of $3,077,000 associated with the Ice Wireless acquisition was written off.

(14) Subsequent Events

Secured Borrowings

In February 2003, the Company renewed the agreement with its bank as described in note 5(a) to extend the term through August 2003. The agreement allowed the Company to borrow up to $2 5 million on all eligible receivables. As of June 2003, the Company failed to meet the minimum tangible net worth covenant of the borrowing agreement due to certain transactions related to the notes receivables. The bank has agreed to waive the tangible net worth covenant until September 2003.

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04/26/04

Accrual Basis

VCOM Solutions
Profit & Loss
January through December 2002

	Jan - Mar 02	Apr - Jun 02	Jul - Sep 02	Oct - Dec 02	TOTAL
Ordinary Income/Expense					
Income					
Data Services	0 00	0 00	2,085 00	2,085 00	4,170 00
Internet Services	0 00	0 00	10,862.25	24,217 28	35,079 53
Local Services	0 00	4,741 01	16,864 30	29,609 70	51,215 01
Long Distance Services	1,465 73	23,905 25	104,495 19	170,218 76	300,084 93
Misc. Income	1,720 33	7,270 15	12,032 50	7,495 98	28,518 96
Professional Services	19,337 75	0 00	500 00	0 00	19,837 75
Sales - Other	0 00	-61 00	0 00	-37 71	-98 71
vMeeting Services	0 00	0 00	593 50	2,449 21	3,042 71
vPBX Services	0 00	0 00	7,297 24	2,909 89	10,207 13
Total Income	22,523 81	35,855 41	154,729 98	238,948 11	452,057 31
Cost of Goods Sold					
Data	0 00	0 00	1,821 61	1,305 00	3,126 61
Internet	0 00	0 00	7,249 08	17,979 44	25,228 52
Local	0 00	2,968 76	12,549 69	25,704 68	41,223 13
Long Distance	553 83	10,716 17	47,641 70	78,236 20	137,147 90
vMeeting	0 00	0 00	308 75	1,212 70	1,521 45
vPBX	0 00	1,191 17	4,015 12	2,201 34	7,407 63
Total COGS	553 83	14,876 10	73,585 95	126,639 36	215,655 24
Gross Profit	21,969 98	20,979 31	81,144 03	112,308 75	236,402 07
Expense					
Amortization Expense	0 00	0 00	0 00	229 00	229 00
Automobile Expense	10,791 48	13,834 56	14,698 12	14,327 87	53,652 03
Bank Service Charges	118 79	224 50	336 85	344 40	1,024 54
Billing Expenses	314 19	2,154 24	11,180 29	18,154 55	31,803 27
Communications	2,757 12	3,709 79	7,560 29	5,568 55	19,595 75
Depreciation Expense	0 00	0 00	0 00	9,062 00	9,062 00
Drinking Water	95 25	223 08	188 28	150 18	656 79
Dues and Subscriptions	489 00	108 00	276 51	653 00	1,526 51
Education & Training	77 88	0 00	0 00	205 68	283 56
Insurance	2,138 16	1,522 27	1,270 93	1,184 97	6,116 33
Interest Expense	2,010 63	4,885 53	5,302 36	6,373 11	18,571 63
Lease Payments	1,192 41	1,192 41	2,138 13	2,187 47	6,710 42
Licenses and Permits	0 00	0 00	210 00	0 00	210 00
Marketing	6,304 02	934 62	3,336 68	4,726 33	15,301 65
Medical Benefits	0 00	2,711 76	3,168 31	4,315 75	10,195 82
Office Supplies	4,216 31	4,132 68	2,469 96	-2,252 15	8,566 80
Payroll Expenses	100,618 42	129,321 31	137,353 71	128,341 66	495,635 10
Postage and Delivery	106 42	464 47	472 83	375 68	1,419 40
Printing and Reproduction	2,562 23	1,221 40	406 18	565 11	4,754 92
Professional Fees	4,756 79	1,143 20	6,106 85	3,513 50	15,520 34
Referral Commissions	0 00	721 74	6,052 06	7,685 61	14,459 41
Rent	9,569 01	9,569 01	9,569 01	9,569 01	38,276 04
Taxes	800 00	26 22	0 00	123 30	949 52
Travel & Ent	8,088 63	5,489 21	9,916 68	10,442 68	33,937 20
Total Expense	157,006 74	183,590 00	222,014 03	225,847 26	788,458 03
Net Ordinary Income	-135,036 76	-162,610 69	-140,870 00	-113,538 51	-552,055 96
Net Income	**-135,036.76**	**-162,610.69**	**-140,870.00**	**-113,538.51**	**-552,055.96**

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Accrual Basis

VCOM Solutions
Profit & Loss
January through December 2003

	Jan - Mar 03	Apr - Jun 03	Jul - Sep 03	Oct - Dec 03	TOTAL
Ordinary Income/Expense					
Income					
Data Services	7,034 40	11,199 00	9,816 00	31,219 18	59,268 58
Internet Services	33,101 16	42,290 11	57,161 28	68,107 42	200,659 97
Local Services	40,835 85	62,820 86	88,935 36	115,207 66	307,799 73
Long Distance Services	213,734 77	257,431 07	289,183 01	324,405 38	1,084,754 23
Misc. Income	17,874 36	10,758 90	28,157 84	12,793 41	69,584 51
vManager	0 00	1,200 00	1,800 00	17,025 00	20,025 00
vMeeting Services	6,861 26	9,292 96	14,813 15	28,082 28	59,049 65
vPBX Services	2,910 58	3,006 38	7,837 24	7,402 12	21,156 32
Total Income	322,352 38	397,999 28	497,703 88	604,242 45	1,822,297 99
Cost of Goods Sold					
Data	1,305 00	10,459 77	7,165 87	21,459 26	40,389 90
Internet	29,484 77	30,530 77	41,253 73	49,642 66	150,911 93
Local	24,051 07	31,036 59	55,268 41	78,241 57	188,597 64
Long Distance	101,803 36	119,359 74	128,991 19	143,372 06	493,526 35
vManager - Software License Fee	0 00	0 00	679 84	2,025 00	2,704 84
vMeeting	3,551 08	4,955 80	7,728 51	13,215 71	29,451 10
vPBX	2,208 00	2,260 36	5,438 26	3,762 64	13,669 26
Total COGS	162,403 28	198,603 03	246,525 81	311,718 90	919,251 02
Gross Profit	159,949 10	199,396 25	251,178 07	292,523 55	903,046 97
Expense					
Amortization Expense	0 00	0 00	0 00	229 00	229 00
Automobile Expense	16,222 14	15,989 02	19,234 29	16,980 57	68,426 02
Bank Service Charges	724 86	216 20	493 95	737 22	2,172 23
Billing Expenses	22,525 19	26,223 36	33,984 08	31,064 85	113,797 48
Communications	5,843 56	5,789 00	6,174 84	7,093 15	24,900 55
Contributions	386 34	425 00	1,150 00	325 00	2,286 34
Depreciation Expense	0 00	0 00	4,500 00	15,599 00	20,099 00
Drinking Water	161 06	144 75	170 85	196 95	673 61
Dues and Subscriptions	190 00	0 00	323 37	148 19	661 56
Education & Training	163 24	182 03	349 69	61 89	756 85
Insurance	2,315 00	3,601 44	860 00	2,703 44	9,479 88
Interest Expense	8,371 68	9,598 74	10,210 57	10,504 25	38,685 24
Lease Payments	2,162 79	2,336 32	3,911 60	4,807 26	13,217 97
Licenses and Permits	0 00	75 00	275 00	0 00	350 00
Marketing	833 63	3,521 43	516 10	1,881 48	6,752 64
Medical Benefits	4,098 20	9,282 50	9,708 75	9,708 75	32,798 20
Office Supplies	1,276 56	2,779 26	3,997 55	5,005 67	13,059 04
Payroll Expenses	146,352 06	133,828 42	176,440 95	193,527 37	650,148 80
Postage and Delivery	582 45	618 41	319 41	812 47	2,332 74
Printing and Reproduction	990 47	857 95	1,372 42	419 31	3,640 15
Professional Fees	5,205 00	4,040 87	12,767 65	8,320 13	30,333 65
Recruiting	305 00	75 00	150 00	625 00	1,155 00
Referral Commissions	12,147 34	13,862 47	15,990 83	20,470 60	62,471 24
Rent	11,890 77	9,859 23	12,521 56	17,556 00	51,827 56
Taxes	800 00	0 00	0 00	1,249 62	2,049 62
Travel & Ent	10,824 70	18,771 83	17,457 78	17,967 22	65,021 53
Total Expense	254,372 04	262,078 23	332,881 24	367,994 39	1,217,325 90
Net Ordinary Income	-94,422 94	-62,681 98	-81,703 17	-75,470 84	-314,278 93
Other Income/Expense					
Other Income					
Interest Income	1,311 08	0 00	0 00	0 00	1,311 08
Total Other Income	1,311 08	0 00	0 00	0 00	1,311 08
Net Other Income	1,311 08	0 00	0 00	0 00	1,311 08
Net Income	**-93,111.86**	**-62,681.98**	**-81,703.17**	**-75,470.84**	**-312,967.85**

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Accrual Basis

VCOM Solutions
Profit & Loss
January through March 2004

	TOTAL
Ordinary Income/Expense	
Income	
Data Services	25,482 24
Internet Services	89,144 24
Local Services	145,344 94
Long Distance Services	374,168 81
Misc. Income	17,113 66
vManager	26,975 00
vMeeting Services	33,128 80
vPBX Services	7,469 42
Total Income	718,827 11
Cost of Goods Sold	
Data	19,763 27
Internet	65,758 75
Local	96,325 24
Long Distance	166,280 75
vManager - Software License Fee	2,025 00
vMeeting	16,910 31
vPBX	3,897 58
Total COGS	370,960 90
Gross Profit	347,866 21
Expense	
Automobile Expense	14,738 08
Bank Service Charges	600 23
Billing Expenses	31,827 50
Communications	7,110 82
Conference Fees	368 00
Contributions	356 65
Depreciation Expense	3,000 00
Drinking Water	238 00
Dues and Subscriptions	557 20
Education & Training	23 60
Insurance	6,102 63
Interest Expense	10,454 92
Lease Payments	4,134 85
Marketing	7,318 36
Medical Benefits	11,196 73
Office Supplies	3,536 10
Payroll Expenses	223,432 39
Postage and Delivery	911 47
Printing and Reproduction	2,428 84
Professional Fees	6,162 22
Recruiting	335 00
Referral Commissions	25,933 42
Rent	17,556 00
Taxes	800 00
Travel & Ent	22,488 61
Total Expense	401,611 62
Net Ordinary Income	-53,745 41
Net Income	**-53,745.41**

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06/16/04

Accrual Basis

VCOM Solutions
Balance Sheet
As of December 31, 2003

	Dec 31, 03
ASSETS	
Current Assets	
Checking/Savings	
Wells Fargo Checking	92,056 36
Total Checking/Savings	92,056 36
Accounts Receivable	
VCOM A/R	228,804 06
Total Accounts Receivable	228,804 06
Other Current Assets	
Petty Cash	53 49
Undeposited Funds	20,754 06
Total Other Current Assets	20,807 55
Total Current Assets	341,667 97
Fixed Assets	
Accumulated Depreciation	
Accum. Depr. - Computers	-18,278 00
Accum Depr. - Equipment	-5,082 00
Accum. Depr. - Furn & Fixt	-2,870 00
Accum. Depr. - L/H Imps.	-2,121 00
Accum. Depr. - Software	-1,476 00
Total Accumulated Depreciation	-29,827 00
Property & Equipment	
Computer Equipment	29,532 80
Equipment	8,833 79
Furniture & Fixtures	5,320 64
Leasehold Improvments	8,278 98
Software	5,580 20
Total Property & Equipment	57,546 41
Total Fixed Assets	27,719 41
Other Assets	
Org. Costs	
Accum. Amort. - Org. Costs	-553 00
Organization Costs	1,145 00
Total Org. Costs	592 00
Security Deposit	31,727 14
Total Other Assets	32,319 14
TOTAL ASSETS	**401,706.52**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	59,973 05
Total Accounts Payable	59,973 05
Credit Cards	
Bank One	
Bank One (Charlene)	109 03
Bank One (Gary)	30 00
Bank One (Joe)	1,274 49
Bank One - Other	58 56
Total Bank One	1,472 08

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Accrual Basis

VCOM Solutions
Balance Sheet
As of December 31, 2003

	Dec 31, 03
Mileage Plus Visa Account	
Mileage Plus Visa - Gary	3,262 38
Mileage Plus Visa - Isabel	265 29
Mileage Plus Visa - Michelle	150 38
Total Mileage Plus Visa Account	3,678 05
Wells Fargo	
Wells Fargo 3 (Sameer)	3,461 22
Wells Fargo 4 (Melissa)	112 32
Total Wells Fargo	3,573 54
Total Credit Cards	8,723 67
Other Current Liabilities	
All Employee Expenses	
Gary Storm Expenses	-177 95
Isabel Fergadiotis Expenses	39 95
Jenifer Frey Expenses	49 19
Joe Condy Expenses	174 95
Sameer Hilal Expenses	1,051 85
Total All Employee Expenses	1,137 99
Sales Tax Payable	1,065 21
Telecom Tax Payable	94,951 52
Total Other Current Liabilities	97,154 72
Total Current Liabilities	165,851 44
Long Term Liabilities	
Bank of Walnut Creek	14,305 10
Condy Loans	150,000 00
Engs Leasing Term Loan	89,295 63
Hilal Loans	45,000 00
Storm Loans	250,000 00
Wells Fargo Term Loan	43,965 71
Total Long Term Liabilities	592,566 44
Total Liabilities	758,417 88
Equity	
Capital Stock	560,000 00
Retained Earnings	-603,743 51
Net Income	-312,967 85
Total Equity	-356,711 36
TOTAL LIABILITIES & EQUITY	401,706.52

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06/16/04

Accrual Basis

VCOM Solutions
Balance Sheet
As of March 31, 2004

	Mar 31, 04
ASSETS	
Current Assets	
Checking/Savings	
Wells Fargo Checking	85,403 19
Total Checking/Savings	85,403 19
Accounts Receivable	
VCOM A/R	211,076 56
Total Accounts Receivable	211,076 56
Other Current Assets	
Petty Cash	894 70
Undeposited Funds	86,719 36
Total Other Current Assets	87,614 06
Total Current Assets	384,093 81
Fixed Assets	
Accumulated Depreciation	
Accum. Depr. - Computers	-21,278 00
Accum. Depr. - Equipment	-5,082 00
Accum. Depr. - Furn & Fixt	-2,870 00
Accum. Depr. - L/H Imps.	-2,121 00
Accum. Depr. - Software	-1,476 00
Total Accumulated Depreciation	-32,827 00
Property & Equipment	
Computer Equipment	34,393 47
Equipment	8,433 79
Furniture & Fixtures	9,116 61
Leasehold Improvments	9,778 98
Software	5,580 20
Total Property & Equipment	67,303 05
Total Fixed Assets	34,476 05
Other Assets	
Org. Costs	
Accum. Amort. - Org. Costs	-553 00
Organization Costs	1,145 00
Total Org. Costs	592 00
QuantumShift Investment	9,500 00
Security Deposit	29,227 14
Total Other Assets	39,319 14
TOTAL ASSETS	**457,889.00**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	176,803 13
Total Accounts Payable	176,803 13
Credit Cards	
Bank One	
Bank One (Charlene)	-344 53
Bank One (Gary)	30 00
Bank One (Joe)	1,849 30
Bank One - Other	6 42
Total Bank One	1,541 19

VCOM Solutions
Balance Sheet
As of March 31, 2004

	Mar 31, 04
Mileage Plus Visa Account	
Mileage Plus Visa - Gary	3,315 23
Mileage Plus Visa - Isabel	1,208 70
Mileage Plus Visa - Michelle	333 96
Total Mileage Plus Visa Account	4,857 89
Wells Fargo	
Wells Fargo 3 (Sameer)	4,222 49
Wells Fargo 4 (Melissa)	183 24
Total Wells Fargo	4,405 73
Total Credit Cards	10,804 81
Other Current Liabilities	
All Employee Expenses	
Christine Putman Expenses	7 30
Gary Storm Expenses	-1,039 29
Heather Faison Expenses	159 90
Isabel Fergadiotis Expenses	49 95
Jenifer Frey Expenses	19 95
Sameer Hilal Expenses	362 99
Total All Employee Expenses	-439 20
Aqua Tab	313 58
Sales Tax Payable	-30 26
Telecom Tax Payable	97,098 87
Total Other Current Liabilities	96,942 99
Total Current Liabilities	284,550 93
Long Term Liabilities	
Bank of Walnut Creek	13,432 17
Condy Loans	150,000 00
Engs Leasing Term Loan	85,086 21
Hilal Loans	45,000 00
Storm Loans	250,000 00
Wells Fargo Term Loan	41,841 29
Total Long Term Liabilities	585,359 67
Total Liabilities	869,910 60
Equity	
Capital Stock	560,000 00
Retained Earnings	-916,711 36
Net Income	-55,310 24
Total Equity	-412,021 60
TOTAL LIABILITIES & EQUITY	457,889.00

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08/24/04

Accrual Basis

VCOM Solutions
Balance Sheet
As of June 30, 2004

		Jun 30, 04
ASSETS		
Current Assets		
Checking/Savings		
1100 Wells Fargo Savings		500 07
1110 Wells Fargo Checking		522,284 29
Total Checking/Savings		522,784 36
Accounts Receivable		
1200 · VCOM A/R		426,468 01
1210 QuantumShift A/R		736,758 99
Total Accounts Receivable		1,163,227 00
Other Current Assets		
1300 A/R Deposits		7,000 00
1310 Petty Cash		570 35
1340 Undeposited Funds		-12,566 40
Total Other Current Assets		-4,996 05
Total Current Assets		1,681,015 31
Fixed Assets		
1500 Accumulated Depreciation		
1500 01 Accum Depr - Computers	-24,278 00	
1500 02 Accum Depr - Equipment	-5,082 00	
1500.03 Accum Depr - Furn & Fixt	-2,870 00	
1500 04 Accum Depr - L/H Imps.	-2,121 00	
1500 05 Accum Depr - Software	-1,476 00	
Total 1500 Accumulated Depreciation		-35,827 00
1600 Property & Equipment		
1600 01 Computer Equipment	38,874 69	
1600 02 · Equipment	8,433 79	
1600 03 · Furniture & Fixtures	25,822 01	
1600 04 Leasehold Improvments	12,497 58	
1600 05 Software	5,868 20	
Total 1600 Property & Equipment		91,496 27
Total Fixed Assets		55,669 27
Other Assets		
1800 Org Costs		
1800 01 Accum Amort - Org Costs	-553 00	
1800.02 Organization Costs	1,145 00	
Total 1800 · Org Costs		592 00
1830 QS Investment		200,000 00
1850 QuantumShift Deposits & CD's		
1850 01 · AT&T Deposit	70,000 00	
1850 03 · Bell South - Chicago Deposit	1,878 00	
1850.04 BellSouth Deposits	42,000 00	
1850.05 Board of Equalization Deposit	5,625 00	
1850 06 MCI Deposit	500,000 00	
1850 07 · SVB Deposits	20,000 00	
1850.08 US West Deposit	3,100 00	
Total 1850 QuantumShift Deposits & CD's		642,603 00
1860 · VCOM Security Deposits		32,779 14
Total Other Assets		875,974 14
TOTAL ASSETS		**2,612,658.72**

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08/24/04

Accrual Basis

VCOM Solutions

Profit & Loss

June 2003 through July 2004

	Jun 03	Jul 03	Aug 03	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04	May 04	Jun 04	Jul 04	TOTAL
Ordinary Income/Expense															
Income															
4010 Local Services	24 099 04	27 231 77	25 611 58	36 092 01	38 485 99	37 076 92	39 644 75	44 286 69	44 717 93	56 340 32	66 393 41	74 265 83	488 920 80	487 408 73	1 490 575 77
4020 Long Distance Services	88 683 71	96 759 10	87 140 36	105 283 55	100 946 77	104 256 38	119 202 23	110 565 18	119 641 86	143 390 92	147 442 73	161 777 32	424 298 41	440 080 29	2 249 468 81
4030 Data Services	3 733 00	3 038 00	3 038 00	3 740 00	15 077 02	8 071 08	8 071 08	8 071 08	8 071 08	9 340 08	10 510 41	9 472 08	111 240 23	112 987 00	314 460 14
4040 Internet Services	16 206 12	15 808 32	18 501 85	22 851 11	20 260 22	21 760 48	26 086 72	31 361 91	27 622 46	30 159 87	31 751 41	32 148 22	68 387 56	68 258 13	431 164 38
4050 vMeeting Services	3 560 60	3 322 29	4 056 15	7 434 71	7 572 91	10 609 82	9 899 55	9 975 99	8 746 68	14 406 13	24 549 10	19 753 63	111,569 49	101 614 31	337 071 36
4060 vManager	600 00	600 00	1 300 00	100 00	1 425 00	7 675 00	7 925 00	8 425 00	9 275 00	9 275 00	9 275 00	9 150 00	41 589 48	42 204 47	148,618 95
4080 vPBX Services	1 030 91	3 160 66	2 280 15	2 396 43	2 375 04	2 442 82	2 584 26	2 350 56	2 458 07	2 660 79	4 404 83	3 502 00	3 847 87	3 810 16	39 304 55
4090 Wireless Services	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	2 408 15	1 962 15	4 370 30
4100 Bill Consolidation	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	38 868 64	41 714 98	80 583 62
4400 Fees	523 66	1 381 05	1 101 20	988 08	960 15	469 07	629 64	488 41	646 49	830 31	741 37	1 370 51	2 804 89	2 879 81	15 814 64
4500 Misc. Income	3 648 93	5 450 48	14 084 70	5 152 33	6,500 80	3 562 83	670 92	6 858 82	7 097 49	1 192 14	5 380 86	15 549 33	5,539 07	5 080 10	85 768 80
Total Income	142 085 97	156 751 67	157 113 99	183 838 22	193 603 90	195 924 40	214 714 15	222 383 64	228 277 06	267 595 56	300 449 12	326 988 92	1 299 474 59	1 308 000 13	5 197 201 32
Cost of Goods Sold															
5010 Local	11 887 97	16 918 74	17 002 81	21 346 86	24 873 70	23 651 48	29 716 39	30 214 03	27 729 98	38 381 23	44 938 17	45 376 84	44 854 50	55 124 35	432 017 05
5020 Long Distance	43 881 68	40 265 45	39 764 73	48 961 01	46 109 26	48 286.78	48 976 02	48 821 02	52 752 85	64 706 88	69 647 47	81 359 09	79 258 88	74 240 23	787 031 35
5030 Data	2 551 00	2 203 00	2 116 00	2 846 87	8 504 14	6 923 52	6 031 60	6 031 60	6 031 60	7 700 07	6 772 72	6 772 72	8 323 79	13 361 87	86 170 50
5040 Internet	11 661 47	13 120 71	13 077 73	15 065 29	14 826 23	15 855 16	18 961 27	21 087 56	20 681 96	23 989 24	23 898 25	24 769 23	26 452 44	28 923 51	272 360 04
5050 vMeeting	1 735 24	1 730 88	2 267 52	3 730 11	3 856 80	5 903 92	3 454 99	4 422 30	4 614 50	7 873 51	10 627 66	10 259 95	8 738 36	10 513 07	79 728 81
5060 vManager (MSS Pass-through)	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	32 589 48	29 204 47	61 793 95
5070 vManager Software License Fee	0 00	75 00	304 84	300 00	300 00	1 050 00	675 00	675 00	675 00	675 00	675 00	675 00	665 32	675 00	7 420 16
5080 vPBX	756 98	1 037 66	2 881 64	1 518 96	1 192 73	1 289 43	1 280 48	1 258 95	1 309 75	1 328 88	1 633 98	1 579 19	,1 740 67	1 384 61	20 193 91
5100 Bill Consolidation Costs	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	42 321 79	41 442 57	83 764 36
5200 QS Carrier Costs	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	748 336 44	745 090 57	1 493 427 01
Total COGS	72 474 34	75 351 44	77 415 27	93 759 10	99 662 86	102 960 29	109 095 75	112 510 45	113 795 64	144 654 81	158 193 25	170 792 02	993 281 67	999 960 25	3 323 907 14
Gross Profit	69 611 63	81 400 23	79 698 72	90 079 12	93 941 04	92 964 11	105 618 40	109 873 19	114 481 42	122 940 75	142 255 87	156 196 90	306 192 92	308 039 88	1 873 294 18
Expense															
6010 Payroll Expenses	47 325 09	55 680 46	60 900 76	59 859 73	65 477 03	64 069 12	63 981 22	69 200 85	74 716 00	79 515 54	88 429 17	102 961 80	161 858 80	161 148 71	1 155 124 28
6020 Medical Benefits	4 854 00	3 236 25	3 236 25	3 236 25	3 236 25	3 236 25	3 236 25	3 636 25	3 974 24	3 586 24	3 929 25	3 946 50	11 186 38	9 294 20	63 824 56
6030 Insurance	740 01	288 00	288 00	284 00	745 97	288.00	1 669 47	2 906 00	2 579 31	617 32	500 70	304 00	304 00	654 00	11 167 38
6040 Professional Development	63.79	143 21	92 20	114 28	21 29	40 60	0 00	23 60	0 00	0 00	0 00	21 59	0 00	212 32	732 88
6100 Rent	3 334 78	3,334 78	3 334 78	5 852 00	5 852 00	5 852 00	5 852 00	5 852 00	5 852 00	5 852 00	5 852 00	5 852 00	10 852 00	10 852 00	84 376 34
6120 Depreciation Expense	0 00	1 500 00	1 500 00	1 500 00	1 500 00	1 500 00	12 599 00	1 000 00	1 000 00	1 000 00	1 000 00	1 000 00	1 000 00	1 000 00	27 099 00
6130 Amortization Expense	0 00	0 00	0 00	0 00	0 00	0 00	229 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	229 00
6140 Lease Payments	808 50	753 99	1 009 28	2 148 33	1 163 18	1 591 25	2 052 83	1 085 05	1 077 47	1 972 33	1 077 47	1 077 47	2 047 78	1 077 47	18 942 40
6150 Repairs & Maintenance	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	40 00	115 00	205 00	200 00	560 00
6170 Communications	2 009 71	2 018 39	1 891 41	2 265 04	2 189 85	2 378 47	2 524 83	2 436 58	2 449 40	2 366 83	3 111 88	2 589 97	3 831 81	3 732 64	35 796 81
6200 Marketing	0 00	0 00	0 00	516 10	1 301 09	340 39	240 00	5 386 67	2 570 89	857 00	1 000 28	2 352 04	2 994 22	2 300 00	19 858 68
6210 Automobile Expense	4 968 56	6 566 74	6 408 73	6 258 82	5 913 28	4 985 91	6 081 38	5 098 83	5 089 39	5 657 28	5 483 88	6 760 68	8 216 34	6 271 22	83 761 04
6220 Travel & Ent	7 848 43	6 861 99	5 426 80	5 168 99	4 165 34	5 834 48	7 967 40	6 989 97	8 182 10	6 430 12	11 544 41	9 614 26	7 404 02	3 480 36	96 918 67
6230 Contributions	0 00	150 00	0 00	1 000 00	100 00	225 00	0 00	0 00	0 00	356 65	250 00	664 00	0 00	100 00	2 845 65
6240 Conference Fees	0 00	0 00	0 00	0 00	0 00	0 00	0 00	318 00	50 00	0 00	0 00	0 00	0 00	0 00	368 00
6300 Professional Fees	1 011 00	1 452 00	7 745 70	3 719 95	3 173 00	2 760 63	3 011 50	1 011.50	3 688 22	1 797 50	1 281 50	11 434 81	15 311 81	26 370 40	83 769 52
6310 Billing Expenses	8 902 23	10 638 61	10 904 66	12 442 81	10 966 35	9 695 53	10 402 97	9 421 01	10 338 06	12 068 43	12 179 57	12 304 01	15 683 78	18 770 20	164 716 22
6400 Office Supplies	1 693 13	418 02	734 90	3 015 48	3 550 90	593 04	1 058 68	800 46	1 427 95	1 545 69	3 035 24	2 272 42	2 073 30	1 894 83	24 114 04
6410 Printing and Reproduction	0 00	522 48	843 88	6 06	18 94	358 31	42 06	0 00	77 67	854 97	504 79	17 05	0 00	699 88	3 946 09
6420 Postage and Delivery	183 06	-4 84	253 97	70 28	418 78	306 52	87 17	276 55	292 67	342 25	318 10	487 87	437 38	551 94	4 021 70
6500 Dues and Subscriptions	0 00	68 19	221 98	33 20	0 00	148 19	0 00	342 45	179 95	34 80	124 75	0 00	0 00	1 965 20	3 118 71
6510 Interest Expense	3 436 94	3 373 05	3 398 13	3 439 39	3 567 13	3 408 29	3 530 83	3 532 54	3 446 40	3 475 98	4 967 37	9 561 57	13 109 30	12 714 23	74 959 15
6520 Taxes	0 00	0 00	0 00	0 00	236 68	0 00	1 012 94	0 00	0 00	800 00	0 00	0 00	0 00	0 00	2 049 62
6530 Sales Commissions	4 661 61	5 461 90	4 632 99	5 895 94	5 649 34	6 936 04	7 885 22	7 419 11	8 141 51	10 281 95	11 279 59	10 934 82	10 980 32	12 254 36	112 414 70
6540 Regulatory expenses	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 702 87	1 702 87
6560 Bank Service Charges	77 90	463 30	-97 50	128 15	470 41	75 40	191 41	266 78	213 40	120 05	1 025 49	249 26	305 65	228 95	3 718 65
6580 Business Licenses and Permits	0 00	250 00	25 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 250 00	2,250 00	3 775 00
6600 Bad Debt	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	1 000 00	1 000 00	1 000 00	3 000 00
Total Expense	91 918 74	103 174 52	112 751 92	116 954 80	119 716 81	114 621 42	133 656 16	127 004 20	135 346 63	139 532 93	155 934 04	185 521 12	270 051 89	277 320 04	2 083 505 22
Net Ordinary Income	22,307 11	21 774 29	33 053 20	26 875 68	25 775 77	21 657 31	28 037 76	17 131 01	20 865 21	16 592 18	13 678 17	29 324 22	36 141 03	30 719 84	210 211 04
Other Income/Expense															
Other Income															
7010 Interest Income	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 07	13 49	0 00	13 56
Total Other Income	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 07	13 49	0 00	13 56
Net Other Income	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 07	13 49	0 00	13 56
Net Income	22 307 11	21 774 29	-33 053 20	-26,875.68	-25 775 77	-21 657 31	-28 037 76	17 131 01	-20 865.21	-16 592 18	13 678 17	-29 324 15	36 154.52	30 719 84	210 197 48

VERIFICATION

STATE OF CALIFORNIA)
) SS
COUNTY OF SANTA CLARA)

Richard I. Kadet states: that he is an officer of QuantumShift Communications, Inc.; that, in such capacity, he is qualified and authorized to file and verify the foregoing application on its behalf; that he has carefully examined all the statements and matters contained in the application; and that all such statements made and matters set forth therein are true and correct to the best of his knowledge, information and belief. Affiant further states that the application is made in good faith, with the intention of presenting evidence in support thereof in every particular.

Richard I. Kadet

Subscribed and sworn to before me, a Notary Public in and for the State and County above named, this 29 day of July 2004.

Debra J Fox

DEBRA J FOX
COMM #1357619
NOTARY PUBLIC-CALIFORNIA
MARIN COUNTY
My Comm Expires MAY 21 2006

MIA2001 299642v1

VERIFICATION

STATE OF CALIFORNIA)
) SS
COUNTY OF CONTRA COSTA)

Gary Storm, being duly sworn, states: that he is an Officer of VCOM Solutions, Inc , is qualified and authorized to sign and verify the foregoing application on its behalf, and has carefully examined all the statements and matters contained in the application, that all such statements made and matters set forth therein are true and correct to the best of his knowledge, information, and belief, and that the application is made in good faith, with the intention of presenting evidence in support thereof in every particular.

Gary Storm

Subscribed and sworn to before me, a Notary Public in and for the State and County above named, this 3 day of ~~July~~ August 2004

CHRIS LOACH
Commission # 1421012
Notary Public - California
Contra Costa County
My Comm. Expires May 30, 2007