Trinsic, Inc.
Form PRE 14C
December 22, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14C
(Rule 14c-101)
INFORMATION REQUIRED IN INFORMATION STATEMENT
SCHEDULE 14C INFORMATION
Information Statement Pursuant to Section 14(c)
of the Securities Exchange Act of 1934 (Amendment No.)

Check the appropriate box:

xPreliminary Information Statement
oDefinitive Information Statement

o Confidential, for use of the Commission only (as permitted by Rule 14c-5(d)(2))

TRINSIC, INC.
(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box)

x No fee required.

o Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

TRINSIC, INC.
601 SOUTH HARBOUR ISLAND BOULEVARD, SUITE 220
TAMPA, FLORIDA 33602
(813) 273-6261

NOTICE OF A SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD , 2007
Atmore, Alabama
, 2007

The Special Meeting of Stockholders (the "Special Meeting") of Trinsic, Inc., a Delaware corporation ("Trinsic" or the "Company"), will be held at the Company's Atmore, Alabama facility, 100 Brookwood Road, Atmore, Alabama 36502, on , 2007, at 10:00 A.M. (local time) for the following purposes:

1. To approve an amendment to our Certificate of Incorporation to effect a 1-for-50 reverse stock split of our Common Stock, with holders of less than 50 shares being entitled to receive cash in lieu of any fractional shares;

2. To approve an amendment to the Company's Certificate of Incorporation to effect a 50-for-1 forward stock split of the Company's outstanding Common Stock after giving effect to the reverse stock split (together with the reverse stock split, the "Reverse/Forward Stock Split"). If the amendment to the Company's Certificate of Incorporation to effect the reverse stock split is not approved by our stockholders, the proposal to amend the Company's Certificate of Incorporation to effect the forward stock split will be withdrawn; and

3. To transact such other business as may properly come before the Special Meeting.

All of the above matters are more fully discussed in the accompanying information statement. Management is not aware of other matters that will come before the meeting.

The Board of Directors has fixed the close of business on , 2007 (the "Record Date") as the record date for determining the stockholders entitled to notice of and to vote at the Special Meeting and any adjournment or postponement thereof.

Shares of Common Stock can be voted at the meeting only if the holder is present at the meeting in person or by a valid proxy. **WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

THE BOARD OF DIRECTORS RESERVES THE RIGHT TO ABANDON THE REVERSE/FORWARD STOCK SPLIT PROPOSAL AND THE RELATED AMENDMENTS AT ANY TIME PRIOR TO THEIR EFFECTIVENESS NOTWITHSTANDING AUTHORIZATION THEREOF BY TRINSIC'S STOCKHOLDERS.

All stockholders are cordially invited to attend the meeting.

By Order of the Board of Directors,

Horace J. Davis III
Chief Executive Officer

TRINSIC, INC.
601 SOUTH HARBOUR ISLAND BOULEVARD, SUITE 220
TAMPA, FLORIDA 33602
(813) 273-6261

Information Statement to Stockholders

This Information Statement is being furnished to you, as a holder of Common Stock, par value $.01 per share ("Common Stock"), of Trinsic, Inc., a Delaware corporation ("Trinsic" or the "Company"), in connection with the special meeting (the "Special Meeting") that will be held at the Company's Atmore, Alabama facility, 100 Brookwood Road, Atmore, Alabama 36502, on , 2007, at 10:00 A.M. (local time). References to "we," "us," "our" or similar words refer to Trinsic, Inc. and its subsidiaries. The Board of Directors has fixed the close of business on , 2007 (the "Record Date") as the record date for determining the stockholders entitled to notice of and to vote at the Special Meeting and any adjournment or postponement thereof.

At the Special Meeting, the Company's stockholders will be asked to consider proposals to amend the Company's Certificate of Incorporation to effect a 1-for-50 reverse stock split of the Company's Common Stock followed by a forward stock split of our Common Stock on a 50-for-1 basis (the "Reverse/Forward Stock Split"), the forms of which are attached hereto as Annex A-1 and Annex A-2 (the "Amendments"). If approved, holders of less than 50 shares of Common Stock will be cashed out as a result of the Reverse/Forward Stock Split at a price of $0.35 per share, and holders of 50 or more shares of Common Stock will continue to own the same number of shares after the Reverse/Forward Stock Split as before the Reverse/Forward Stock Split.

Each share of Common Stock is entitled to one vote per share. We had, as of the Record Date, shares of Common Stock outstanding, meaning that there will be votes eligible to be cast at the Special Meeting. The proposals regarding the Reverse/Forward Stock Split involve amendments to our Certificate of Incorporation, meaning that they require the affirmative vote of at least a majority of the shares of outstanding stock entitled to vote thereon, or at least affirmative votes, to be adopted.

The 1818 Fund III, L.P. ("The 1818 Fund"), which holds approximately 14.6 million shares of Common Stock, or approximately 79% of the outstanding stock entitled to vote at the Special Meeting, has advised us that it presently intends to vote in favor of the proposal to approve the Amendments. It is anticipated, therefore, that the proposals regarding the Reverse/Forward Stock Split will be approved, although The 1818 Fund may determine at the meeting that it will not vote in favor of such proposals. An abstention or "no" vote by The 1818 Fund at the Special Meeting would mean that such proposals would be defeated. Neither The 1818 Fund nor any of its affiliated entities have provided any financial advice to the Company with respect to such proposal.

You are entitled to vote at the Special Meeting if you owned shares of Common Stock as of the close of business on the Record Date. As noted, you will be entitled to cast one vote for each share of Common Stock that you owned as of that time.

Shares of Common Stock can be voted at the meeting only if the holder is present at the meeting in person or is represented by a valid proxy given to another person. **WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

This Information Statement is dated , 2007 and is first being mailed to our stockholders on or about , 2007.

THE REVERSE/FORWARD STOCK SPLIT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, AND NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS PASSED UPON THE FAIRNESS OR MERITS OF THE REVERSE/FORWARD STOCK SPLIT OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS INFORMATION STATEMENT OR RELATED SCHEDULE 13E-3. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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SUMMARY OF TERMS

The following is a summary of the material terms of the proposed transactions as described in this Information Statement.

This Information Statement contains a more detailed description of the terms of the proposed Reverse/Forward Stock Split. We encourage you to read carefully the entire Information Statement and each of the documents that we have attached as an annex.

THE REVERSE/FORWARD STOCK SPLIT AND PROPOSED AMENDMENTS

- The Board has authorized a 1-for-50 reverse stock split of our Common Stock followed by a forward stock split of our Common Stock on a 50-for-1 basis (the "Reverse/Forward Stock Split").

- The Reverse/Forward Stock Split will take effect on the date we file Certificates of Amendment to our Certificate of Incorporation (one Certificate effecting a reverse stock split, the other effecting a forward stock split) with the Secretary of State of the State of Delaware, or on any later date that we may specify in such Certificates of Amendment (the "Effective Date").

- On the Effective Date, we will effect a 1-for-50 reverse stock split of our Common Stock, pursuant to which a holder of 50 or more shares of Common Stock immediately before the reverse stock split will, immediately after the reverse stock split, hold one share of Common Stock for each 50 shares held prior to the reverse stock split, and a fractional share representing former shares in excess of the nearest lower multiple of 50 former shares (a "Continuing Stockholder"). The forward stock split that will immediately follow the reverse stock split will reconvert their whole shares and fractional share interests back into the same number of shares of Common Stock they held immediately before the effective time of the transaction. As a result, the total number of shares held by such a stockholder will not change after completion of the transaction.

- Any stockholder owning fewer than 50 shares of our Common Stock immediately before the reverse stock split will receive the right to be paid cash in exchange for the resulting fractional share of Common Stock and will no longer be a stockholder of the Company (the "Cashed Out Stockholders"). We will pay the Cashed Out Stockholders an amount in cash equal to $0.35 per share of Common Stock held by them immediately before the reverse stock split. Any stockholder owning 50 or more shares of our Common Stock immediately before the reverse stock split will not be entitled to receive any cash for their fractional share interests resulting from the reverse stock split.

- On the Effective Date (and after completion of the reverse stock split), we will effect a 50-for-1 forward stock split of our Common Stock, pursuant to which a holder of one or more shares of Common Stock immediately after the reverse stock split and immediately before the forward stock split will, immediately after the forward stock split, hold 50 shares of Common Stock for each share held prior to the forward stock split. A stockholder holding 50 or more shares of Common Stock immediately before the Reverse/Forward Stock Split will continue to hold the same number of shares after the completion of the Reverse/Forward Stock Split and will not receive any cash payment.

· A special committee of independent directors of the Company's Board of Directors (the "Special Committee") reviewed and recommended to our Board of Directors, and our Board of Directors has authorized, amendments to our Certificate of Incorporation, the forms of which are attached hereto as Annex A-1 and Annex A-2, that would effect a 1-for-50 reverse stock split of our Common Stock, followed by a forward stock split of our Common Stock on a 50-for-1 basis.

REASONS FOR THE REVERSE/FORWARD STOCK SPLIT

· The principal purpose of the Reverse/Forward Stock Split is to make the Company a private company. In light of our current size, opportunities and resources, the Board does not believe that the costs of remaining a public company are justified. Due to the limited liquidity and low market price of our Common Stock, we do not realize many of the benefits normally presumed to result from being a public company such as enhanced stockholder value, enhanced corporate image, access to capital markets, the ability to use stock to attract, retain and incentivize employees, and the ability to use stock as currency for acquisitions. The Board believes that it is in our best interest and the best interest of our stockholders to eliminate the administrative, financial and additional accounting burdens associated with being a public company by engaging in the Reverse/Forward Stock Split and taking the Company private. See also the information under the captions "Special Factors—Reasons for the Reverse/Forward Stock Split" in this Information Statement.

· When the Reverse/Forward Stock Split becomes effective, it is expected that the number of record holders of our Common Stock will be reduced below 300. Accordingly, we will be eligible to cease filing periodic and special reports under the Securities Exchange Act of 1934 (the "Exchange Act"), and we intend to cease public registration of our Common Stock. We project annual savings from deregistration of our Common Stock to be approximately $700,000, plus a one-time savings of approximately $300,000 by not having to comply with the internal control over financial reporting requirements for public companies. See also the information under the captions "Special Factors—Reasons for the Reverse/Forward Stock Split" in this Information Statement.

· Our Common Stock's limited public float and thin trading volume prevent minority stockholders from having any meaningful liquidity. As of December 20, 2006, including shares of Common Stock owned by The 1818 Fund, our directors and executive officers beneficially owned 15,219,628 shares of Common Stock, or 82% of the outstanding shares. The Board believes that it is unlikely that our market capitalization and trading liquidity would increase significantly in the near future.

· The Board determined that the Reverse/Forward Stock Split is fair to and in the best interest of all of our stockholders, including both our unaffiliated and affiliated stockholders and including those stockholders who will no longer have an ownership interest in the Company after the Reverse/Forward Stock Split. The Board concluded it would be fair to Cashed Out Stockholders to pay a price per share of $0.35, which represents a 30% premium to the 90-day average closing price ending on the day prior to public announcement of the anticipated Reverse/Forward Stock Split. The Board further concluded that the advantages of the Reverse/Forward Stock Split to the stockholders outweighed the disadvantages and that it was substantively and procedurally fair to them, and, therefore, that the transaction was in all of our stockholders' best interest. See also the information under the captions "Special Factors—Fairness of the Reverse/Forward Stock Split to Stockholders" in this Information Statement.

VOTE REQUIRED

· The 1818 Fund, the members of the Board and our executive officers intend to vote all shares that they directly or indirectly control in favor of the Amendments. We had approximately 385 stockholders of record holding an aggregate of 18,453,983 shares of Common Stock outstanding as of December 20, 2006. Of those shares, approximately 79%, or 14,592,428 shares, were controlled by The 1818 Fund. Each holder of Common Stock is entitled to one vote per share. Each proposed action to implement the Amendments requires the affirmative vote of a majority of the outstanding stock entitled to vote thereon, or at least 9,232,171 votes. The 1818 Fund, which holds 14,592,428 shares of our Common Stock, representing approximately 79% of the eligible votes to be cast, has informed us that it presently intends to vote to approve the Amendments at the Special Meeting. Consequently, approval of the Amendments by a majority of the outstanding stock entitled to vote appears to be assured. See also the information under the caption "Description of the Reverse/Forward Stock Split—Vote Required" in this Information Statement.

FAIRNESS OF THE REVERSE/FORWARD STOCK SPLIT FROM A FINANCIAL POINT OF VIEW

· The Board formed a special committee to assist the Board in its evaluation of the Reverse/Forward Stock Split (the "Special Committee"). The Special Committee is composed of 4 independent directors who are not officers or employees of the Company and are not affiliated with The 1818 Fund. See the information under the caption "Special Factors—Fairness of the Reverse/Forward Stock Split to Stockholders—Substantive Fairness" in this Information Statement.

· In determining that the Reverse/Forward Stock Split was fair to both our unaffiliated and affiliated stockholders, the Board considered a variety of factors including recommendations of the Special Committee, the limited liquidity available to the holders of our Common Stock, the historic trading price of our Common Stock and the cost savings described above. See the information under the caption "Special Factors—Fairness of the Reverse/Forward Stock Split" in this Information Statement.

MATERIAL U.S. FEDERAL TAX CONSEQUENCES OF THE REVERSE/FORWARD STOCK SPLIT

· The Company's stockholders receiving cash as a result of the Reverse/Forward Stock Split will be subject to U.S. federal income taxes. As a result, all stockholders may be required to pay taxes on their respective shares of Common Stock that are converted into the right to receive cash from the Company. See also the information under the caption "Summary of Terms—Material Federal Income Tax Consequences of the Reverse/Forward Stock Split" in this Information Statement. You are urged to consult with your own tax advisor regarding the tax consequences of the Reverse/Forward Stock Split in light of your own particular circumstances.

APPRAISAL RIGHTS OF DISSENTING STOCKHOLDERS

· You are not entitled to appraisal rights under our Certificate of Incorporation or the General Corporation Law of the State of Delaware. See also the information under the caption "Description of the Reverse/Forward Stock Split—Appraisal Rights" in this Information Statement.

COMPLETION OF THE REVERSE/FORWARD STOCK SPLIT

- To complete the Reverse/Forward Stock Split, we intend to use available cash on hand and cash generated from our operations to pay these costs. See also the information under the caption "Financing of the Reverse/Forward Stock Split" in this Information Statement.

- Upon consummation of the Reverse/Forward Stock Split, each registered stockholder on the effective date of the Reverse/Forward Stock Split will receive one share of Common Stock for every 50 shares of Common Stock held in his or her account immediately prior to the effective time of the Reverse/Forward Stock Split. Any stockholder owning fewer than 50 shares of our Common Stock immediately before the reverse stock split will receive the right to be paid cash $0.35 in exchange for the resulting fractional share of Common Stock and will no longer be a stockholder of the Company. Any holder of 50 or more shares of Common Stock immediately before the reverse stock split will, immediately after the reverse stock split, hold one share of Common Stock for each 50 shares held prior to the reverse stock split, and a fractional share representing former shares in excess of the nearest lower multiple of 50 former shares. The forward stock split that will immediately follow the reverse stock split will reconvert their whole shares and fractional share interests back into the same number of shares of Common Stock they held immediately before the effective time of the transaction.

- The Reverse/Forward Stock Split will also apply to stockholders holding Common Stock in street name through a nominee (such as a bank or broker). Consequently, each beneficial holder of Common Stock on the effective date of the Reverse/Forward Stock Split also will receive one share of Common Stock for every 50 shares of Common Stock held through a nominee for his or her benefit immediately prior to the effective time of the Reverse/ Forward Stock Split. Any beneficial owner owning fewer than 50 shares of our Common Stock immediately before the reverse stock split will receive the right to be paid cash in exchange for the resulting fractional share of Common Stock and will no longer be a beneficial owner of the Company. Any beneficial owner of 50 or more shares of Common Stock immediately before the reverse stock split will, immediately after the reverse stock split, hold one share of Common Stock for each 50 shares held prior to the reverse stock split, and a fractional share representing former shares in excess of the nearest lower multiple of 50 former shares. The forward stock split that will immediately follow the reverse stock split will reconvert their whole shares and fractional share interests back into the same number of shares of Common Stock they held immediately before the effective time of the transaction. Nominees will be instructed to effect the Reverse/Forward Stock Split for their beneficial holders. However, nominees may have different procedures, and stockholders holding shares in street name should contact their nominees to determine what procedures will be used.

- As soon as practicable after the effective date of the Reverse/Forward Stock Split, we will send all stockholders a letter of transmittal to be used to transmit Common Stock certificates to American Stock Transfer & Trust Company, the transfer agent ("Transfer Agent"). Upon proper completion and execution of the letter of transmittal, and the return of the letter of transmittal and accompanying stock certificate(s) to the Transfer Agent, each stockholder entitled to receive payment will receive a check for such stockholder's stock. In the event we are unable to locate certain stockholders or if a stockholder fails to properly complete, execute and return the letter of transmittal and accompanying stock certificate to the Transfer Agent, any funds payable to such holders pursuant to the Reverse/Forward Stock Split will be held until a proper claim is made, subject to applicable abandoned property laws.

SPECIAL FACTORS

PURPOSE OF AND REASONS FOR THE REVERSE/FORWARD STOCK SPLIT

Purpose of the Reverse/Forward Stock Split

The purpose of the Reverse/Forward Stock Split is to enable the Company to deregister and terminate its obligations to file special and periodic reports and make other filings with the Securities and Exchange Commission (the "SEC"). The benefits of deregistering the Common Stock include eliminating the costs associated with filing documents under the Securities Exchange Act of 1934 (the "Exchange Act") with the SEC, eliminating the costs of compliance with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and related regulations, reducing the direct and indirect costs of administering stockholder accounts and responding to stockholder requests, and affording stockholders holding fewer than 50 shares immediately before the transaction the opportunity to receive cash for their shares without having to pay brokerage commissions and other transaction costs.

By converting the shares of the holders of fewer than 50 shares into the right to receive cash, we will:

- Reduce the number of the Company's stockholders of record to fewer than 300 persons, which will allow us to terminate the registration of the Common Stock under Section 12(g) of the Exchange Act and suspend the Company's duty to file periodic reports with the SEC;
- Eliminate the administrative burden and expense of maintaining small stockholder accounts;
- Permit these small stockholders to liquidate their shares of Common Stock at a fair price, without having to pay brokerage commissions, as we will pay all transaction costs in connection with the Reverse/Forward Stock Split; and
- Cause minimal disruption to stockholders owning 50 or more shares of Common Stock.

Reasons for the Reverse Stock Split

We incur direct and indirect costs associated with compliance with the Exchange Act's filing and reporting requirements imposed on public companies. The cost of compliance has increased significantly with the implementation of the provisions of Sarbanes-Oxley Section 404. We also incur substantial indirect costs as a result of, among other things, the executive time expended to prepare and review our public filings. As we have relatively few executive personnel, these indirect costs can be substantial.

We incur direct and indirect costs associated with the filing and reporting requirements imposed on SEC reporting companies. As an SEC reporting company, we are required to prepare and file with the SEC, among other items, the following:

- Annual Reports on Form 10-K;
- Quarterly Reports on Form 10-Q;
- Proxy statements and annual reports required by Regulation 14A under the Exchange Act; and
- Current Reports on Form 8-K.

In addition, we pay for the costs of preparing our directors' and officers' Section 16(a) reports (Forms 3, 4 and 5) and Section 13(d) reports (Schedule 13D or Schedule 13G) (for directors or officers that are 5% stockholders). The costs associated with these reports and other filing obligations are a significant overhead expense, including professional fees for our auditors and legal counsel, printing and mailing costs, internal compliance costs, and transfer agent costs. These related costs have been increasing over recent years, and we believe that they will continue to increase, particularly as a result of the additional reporting and disclosure obligations imposed on SEC reporting companies by the recently enacted Sarbanes-Oxley.

The executive officers and directors of the Company believe that by deregistering the Common Stock and suspending the Company's periodic reporting obligations, the Company will experience an initial special annual cost savings/cost avoidance of approximately $1,000,000, consisting of (i) $700,000 in annual costs historically incurred and (ii) a one-time savings of approximately $300,000 by not having to comply with the internal control over financial reporting requirements for public companies. Such estimated annual costs are further described in greater detail below:

Historical Fees:		
Legal fees	$	100,000
Printing, mailing, and filing costs		100,000
Audit and quarterly review fees		100,000
Other fees		200,000
Total	$	500,000
Sarbanes-Oxley Compliance Fees:		
Legal fees	$	50,000
Audit fees		25,000
Other fees		125,000
Total	$	200,000
Total	**$**	**700,000**

Such estimated cost savings/cost avoidance reflect, among other things: (i) a reduction in audit and related fees, (ii) a reduction in legal fees related to securities law compliance, (iii) the elimination of costs associated with filing periodic reports with the SEC, (iv) the reduction in management time spent on compliance and disclosure matters attributable to our Exchange Act filings, (v) the lower risk of liability that is associated with non-reporting (as distinguished from public reporting) company status, (vi) the cost savings of approximately $150,000 per annum of not having to comply with the new internal control audit requirements imposed by Section 404 of Sarbanes-Oxley, and (vii) the reduction in direct miscellaneous clerical and other expenses.

The cost savings/cost avoidance figures set forth above are only estimates. The actual cost savings/cost avoidance we realize from no longer being a public reporting company may be higher or lower than such estimates. Estimates of the special cost savings/cost avoidance to be realized if the Reverse/Forward Stock Split is consummated are based upon (i) the actual costs to us of the services and disbursements in each of the categories listed above that were reflected in our recent financial statements and (ii) the allocation to each category of management's estimates of the portion of the expenses and disbursements in such category believed to be solely or primarily attributable to our public reporting company status.

It is important to note that in addition to the above-referenced special estimated annual cost savings/cost avoidance, the consummation of the Reverse/Forward Stock Split and subsequent deregistration of the Common Stock would result in a significant one-time cost savings/cost avoidance due to the Company's not being subject to the new internal control audit requirements imposed by Section 404 of Sarbanes-Oxley. Preparing the Company to comply with Section 404 of Sarbanes-Oxley would require significant expenditures prior to that date, including costs related to computer software and hardware, fees to third parties for compliance planning, assessment, documentation and testing, and costs related to internal personnel. These costs are estimated to exceed $300,000, and are comprised of expenditures relating to the following: (i) the preparation for Section 404 implementation, including the development, testing, and documentation of Company policy and internal controls for the Company and each of its subsidiaries, (ii) the Company's Audit Committee's extensive review and oversight of the Section 404 implementation process, (iii) the purchase of new computer software and hardware to more effectively monitor and document internal controls, (iv) the training of internal personnel and management, (v) the hiring of additional internal personnel for areas which require additional controls, (vi) the hiring of third-parties to provide consulting and to conduct compliance planning, assessment, documentation, and testing, and (vii) the initial review, audit, and attestation of the Company's external auditors. The majority of these expenses will be non-recurring. However, on an ongoing basis, the Company will need to comply with the requirements of Section 404 of Sarbanes-Oxley, and review and update these processes and resources. The cost of annual compliance in fiscal year 2007 and each year thereafter is estimated at $150,000 per year.

We expect the actual cost savings/cost avoidance of being a non-reporting company to be much greater than simply eliminating the estimated historical out-of-pocket costs. As a result of recent corporate governance scandals, the legislative and litigation environment resulting from those scandals, the costs of being a public reporting company in general, and the costs of our remaining a public reporting company in particular, are expected to continue to increase in the near future. Moreover, new legislation, such as Sarbanes-Oxley, will likely continue to have the effect of increasing the compliance burdens and potential liabilities of being a public reporting company. This and other proposed legislation will likely continue to increase audit fees and other costs of compliance such as securities counsel fees, increase outside director fees and increase potential liability faced by our officers and directors.

In some instances, management's cost saving/cost avoidance expectations were based on information provided by third parties or upon verifiable assumptions. For example, our auditors have informed us, informally, that there will be a reduction in auditing fees if we no longer continue as a public reporting company. In addition, the costs associated with retaining legal counsel to assist with complying with the Exchange Act reporting requirements will be eliminated if we no longer file reports with the SEC and are otherwise not required to comply with the disclosure requirements that apply to public reporting companies.

Inability to Realize Benefits Normally Associated with Public Reporting Company Status

An additional reason for the Reverse/Forward Stock Split relates to the inability of the Company to realize many of the benefits normally presumed to result from being a public reporting company, such as the following:

- A typical advantage from being a public reporting company comes from the ability to use company stock, as opposed to cash or other consideration, to effect acquisitions. The Company is not aware of, and does not expect to identify, an acquisition opportunity that would likely employ the Common Stock as acquisition consideration, or require access to public equity markets to raise additional capital.

- Public companies can also obtain financing by issuing securities in a public offering. The Company believes that a general lack of public investor interest in non-facilities based telecommunications companies and the Company's financial condition have severely limited its access to the public capital markets in recent years and the Company does not presently intend to do so.

- Public companies often endeavor to use company stock to attract, retain and motivate employees. In recent years, due to the declining market price of the Common Stock, the Common Stock has not provided a meaningful incentive to its employees.

- An enhanced company image often accompanies public reporting company status. The Company has determined that due to its size and other factors, the Company has not enjoyed an appreciable enhancement in company image as a result of its public reporting company status.

In light of the foregoing, the Board of Directors and the Special Committee believe the benefits associated with maintaining our status as a public reporting company and maintaining our small stockholder accounts are substantially outweighed by the costs, both financial and operational, associated therewith. The Board of Directors and the Special Committee believe that it is in the best interests of the Company to eliminate the administrative burden and costs associated with maintaining its status as a public reporting company and its small stockholder accounts. The Board of Directors and the Special Committee have determined that the Reverse/Forward Stock Split is the most expeditious and economical way of liquidating the holdings of small stockholders and changing our status from that of a public reporting company to that of a more closely-held, non-reporting company. The Board of Directors, upon the recommendation and approval of the Special Committee, has determined that the reverse stock split ratio should be 1-for-50 and that the forward stock split ratio should be 50-for-1. Numerous factors were considered in reaching its determination. For a more detailed discussion, please see "Fairness of the Reverse/Forward Stock Split" in this proxy statement.

Reasons for the Forward Stock Split

Effecting the forward stock split immediately after the reverse stock split benefits the Company by (i) preventing the Common Stock from having an unusually high value per share, which tends to decrease the liquidity of shares, (ii) eliminating the need for the Company to cash out fractional shares of Continuing Stockholders and (iii) avoiding the need to adjust the exercise price of any awards previously granted under the Company's 2004 Stock Incentive Plan, 2000 Stock Incentive Plan and 1998 Equity Participation Plan (the "Stock Incentive Plans").

Potential Disadvantages of the Reverse/Forward Stock Split

While we believe that the Reverse/Forward Stock Split will result in the benefits described, several disadvantages should also be noted. Our working capital and assets will be decreased to fund the purchase of fractional shares and the costs of the Reverse/Forward Stock Split. **The ownership interest of stockholders holding less than 50 shares will be terminated, and such stockholders will be unable to participate in any increased value of shares that may be achieved.** Additionally, some stockholders will be forced to relinquish their shares in the Company upon the effective date of the Reverse/Forward Stock Split, rather than choosing on their own the time and price for disposing of their holdings of Common Stock in the Company. In addition, we will become a private company, and Continuing Stockholders will not have the opportunity for a public market for our securities unless the Company re-registers under the Exchange Act in the future, which is not currently anticipated. After the Reverse/Forward Stock Split, we will terminate the registration of our Common Stock under the Exchange Act and we will no longer be subject to the reporting requirements under the Exchange Act. As a result of the termination of the Company's reporting obligations under the Exchange Act:

· we will not have the ability to raise capital in the public securities markets;

· we will be less likely to use shares of our Common Stock to acquire other companies;

· we may have less flexibility in attracting and retaining executives and employees since equity-based incentives (such as stock options) tend not to be as attractive in a privately-held company;

· less information will be required to be furnished to remaining stockholders or to be made publicly available by the Company;

· Continuing Stockholders will experience reduced liquidity for their shares of Common Stock;

· various provisions of the Exchange Act, such as periodic operating statements and proxy or information statement disclosure in connection with stockholder meetings, will no longer apply to the Company; and

· the reporting requirements and restrictions of the Exchange Act, including without limitation the reporting and short-swing profit provisions of Section 16, will no longer apply to our executive officers, directors and 10% stockholders of the Company.

We would no longer be subject to the provisions of the Sarbanes-Oxley Act or the liability provisions of the Exchange Act. Therefore, our Chief Executive Officer and Chief Financial Officer would no longer be required to certify as to the accuracy of our financial statements, we would no longer be required to have an audit committee and have a majority of the members of our Board of Directors be independent. Furthermore, stockholders of the Company receiving cash as a result of the Reverse/Forward Stock Split will be subject to federal income taxes as if they had sold their shares. As a result, stockholders may be required to pay taxes on their respective shares of Common Stock that are converted into the right to receive cash from the Company. See the information under the caption “Special Factors—Effects of the Reverse/Forward Stock Split — Material Federal Income Tax Consequences of the Reverse/Forward Stock Split” in this Information Statement.

The Board believed that the benefits of the Reverse/Forward Stock Split outweighed the disadvantages.

Failure to Effect Reverse/Forward Stock Split

Although the Board of Directors believes that the Reverse/Forward Stock Split will be consummated and that the Company will deregister, we cannot guarantee that the Reverse/Forward Stock Split will result in the Company deregistering the Common Stock. Even if stockholder approval of the Reverse/Forward Stock Split is obtained, the Board of Directors will not implement the Reverse/Forward Stock Split if it determines that the Reverse/Forward Stock Split (i) would result in the number of stockholders of record remaining to be 300 or more or (ii) would not be in the Company’s best interest. As a result, the Company would continue to be a public reporting company and would continue to file annual and quarterly reports on Form 10-K and Form 10-Q. The Board of Directors considered the possibility that the Reverse/Forward Stock Split may not be implemented.

Alternatives to the Reverse/Forward Stock Split

In making the determination to proceed with the Reverse/Forward Stock Split, the Board of Directors and the Special Committee considered the feasibility of certain other alternative transactions, as described below:

- **Issuer Tender Offer**. The Board of Directors and the Special Committee also considered the feasibility of an issuer tender offer to repurchase the shares of Common Stock held by stockholders of the Company other than The 1818 Fund. A principal disadvantage of this type of transaction is due to the voluntary nature of such a transaction since the Company would have no assurance that the transaction would result in a sufficient number of shares being tendered. Moreover, the tender offer rules regarding the treatment of stockholders, including pro-rata acceptance of offers from stockholders, make it difficult to ensure that the Company would be able to significantly reduce the number of record stockholders. As a result of these disadvantages, the Board of Directors and the Special Committee determined not to pursue this alternative.

- **Partial Cash-Out Merger**. The Board of Directors and the Special Committee also considered the feasibility of a transaction in which the Company would cash out stockholders owning less than a specified number of shares by merging a newly-formed subsidiary of the Company with and into the Company. While the effect of this transaction would be similar to that of a reverse stock split, the Board and Directors and the Special Committee rejected this alternative because of the greater complexity of this type of transaction, including but not limited to the formation of a new entity and the possible need to assign or amend material contracts of the Company, which would likely result in significant costs.

- **Traditional Stock Repurchase Program**. The Board of Directors and the Special Committee also considered a plan whereby the Company would periodically repurchase shares of the Common Stock on the open market at then current market price. The Company rejected such an approach. Repurchasing enough shares in this manner to enable the Company to deregister under the Exchange Act would likely take an extended period of time, have no assurance of success and be of undeterminable cost.

- **Odd-Lot Repurchase Program**. The Board of Directors and the Special Committee also considered the feasibility of a transaction in which the Company would announce to its stockholders that it would repurchase, at a designated price per share, the shares of common stock held by any stockholder who holds less than a specified number of shares (e.g., fewer than 100 shares) and who offers such shares for sale pursuant to the terms of the program. A principal disadvantage of such an approach, however, results from the voluntary nature of the program. Because stockholders would not be required to participate in the program, the Company could not be certain at the outset whether a sufficient number of odd-lot stockholders would participate and thereby result in the number of stockholders being reduced to below 300. In terms of timing, such a program, especially after giving effect to any extensions of deadlines for tendering into the program, would likely necessitate a longer time frame than that of a reverse stock split. As a result of these disadvantages, the Board of Directors and the Special Committee rejected this alternative.

- **Reverse Stock Split Without a Forward Stock Split**. The Board of Directors and the Special Committee also considered this alternative, which would accomplish the objective of reducing the number of stockholders of the Company below the 300 threshold. In a reverse stock split without a subsequent forward stock split, we would acquire not only the interests of the cashed out stockholders, but also the fractional share interests of those stockholders who are not cashed out (as compared to the proposed transaction in which only those stockholders whose shares are converted to fewer than one whole share after the reverse stock split would have their fractional interests cashed out; and all fractional interests held by stockholders holding more than one whole share after the reverse stock split would be reconverted to whole shares in the forward stock split). The Board of Directors and the Special Committee rejected this alternative due to the higher cost involved with conducting a reverse stock split without a forward stock split. In addition, effecting the forward stock split immediately after the reverse stock split

benefits the Company by avoiding the need to adjust the exercise price of any awards previously granted under the Company's Stock Incentive Plans.

- **Maintaining the Status Quo**. The Board of Directors and the Special Committee also considered maintaining the status quo. In that case, the Company would continue to incur the expenses of being a public reporting company without enjoying the benefits traditionally associated with having public reporting company status. The Board of Directors and the Special Committee believe that maintaining the status quo is not in the best interests of the Company and rejected this alternative.

Conditions to the Completion of the Reverse/Forward Stock Split

The Reverse/Forward Stock Split will not be effected unless and until our stockholders approve the Reverse/Forward Stock Split and the Board of Directors determines that:

- we have available funds necessary to pay for the fractional shares resulting from the Reverse/Forward Stock Split; and

- the transaction will substantially reduce the number of stockholders below 300.

In addition, the Board may decide to abandon the Reverse/Forward Stock Split (even after stockholder approval) at any time prior to its consummation if the Board believes that such action would be in our best interest and the best interest of our stockholders. Among the circumstances that might cause the Board to abandon the Reverse/Forward Stock Split are the development of a significant risk of the Reverse/Forward Stock Split failing to achieve the overall goal of reducing the number of record holders to fewer than 300 or where the expense of cashing out the stockholders with fewer than 50 shares becomes so high that the transaction becomes financially prohibitive. Additionally, such circumstances could include a superior offer to our stockholders, a material change in our business or litigation affecting our ability to proceed with the Reverse/Forward Stock Split.

Assuming that the above-described conditions are satisfied, the Company, as promptly as reasonably practicable, will file the Certificates of Amendment of Certificate of Incorporation with the Secretary of State of the State of Delaware and thereby effect the Reverse/Forward Stock Split. In that case, the approximate date for effectuating the transaction will be , 2007. If we do not effect the Reverse/Forward Stock Split, we will continue as a publicly-traded company with our Common Stock registered under the Exchange Act, and our Common Stock will likely continue to be traded on the OTC Bulletin Board.

BACKGROUND OF THE REVERSE/FORWARD STOCK SPLIT

At several regular meetings of the Board of Directors held during 2006, the Board discussed generally the benefits and costs associated with the Company's status as a publicly-traded company. The Board developed an interest in a going-private transaction as the result of continuing discussions at Board meetings regarding the high costs of maintaining the Company as a publicly-traded company and the limited benefits the Company received from being public, especially in light of the substantial new internal and external accounting requirements and procedures imposed by the Sarbanes-Oxley Act.

Since the proposal of the Sarbanes-Oxley, our Board of Directors and executive officers have had numerous discussions with our auditors and legal counsel to follow the progression of Sarbanes-Oxley requirements applicable to the Company. In this process, they have noted the costs and time commitments required to comply with increasing levels of associated regulation. Over this period of time, our directors and executive officers had informal discussions about the historical and prospective time commitments and costs associated with Sarbanes-Oxley compliance.

At a meeting of the Board of Directors held on July 18, 2006 the Board discussed the possibility of initiating a going-private transaction with the goal of suspending the Company's obligations as a publicly-traded company. Legal counsel Cahill Gordon & Reindel llp ("Cahill Gordon") was also present at such meeting. Given that the Board of Directors includes individuals that are either affiliated or have relationships with the Company's majority stockholder, The 1818 Fund, Cahill Gordon recommended that the Board form a committee comprised solely of independent members to consider the fairness and advisability of the proposed Reverse/Forward Stock Split to Cashed Out Stockholders and to Continuing Stockholders. Additionally, Cahill Gordon advised the Board on procedural considerations for effecting a going private transaction generally, including the Board's fiduciary duties to all stockholders. The Board of Directors determined to form a special committee comprised of its independent Directors, Messrs. Raymond L. Golden, Andrew Krusen, Richard F. LaRoche, Jr. and Roy Neel, for the purpose of evaluating and making recommendations with respect to undertaking a going private transaction, the form of any such transaction and the fairness of any such transaction to the Company's stockholders.

At a meeting of the Special Committee held on September 19, 2006, the Special Committee considered

(1) management's presentation of our direct and indirect costs associated with compliance with the Exchange Act's filing and reporting requirements imposed on public companies and that the cost of this compliance has increased significantly with the implementation of the provisions of Sarbanes-Oxley,

(2) management's estimates of the additional costs and burdens associated with compliance with the forthcoming internal control audit requirements of Section 404 of Sarbanes-Oxley,

(3) that the Company has had a going concern qualification in each of its last two annual audits as a result of recurring losses and a net capital deficiency.

(4) that the Common Stock has attracted limited institutional investors or market research attention which could have created a more active and liquid market for the Common Stock,

(5) that the relatively low trading volume of the Common Stock and the Company's low market capitalization have reduced the liquidity benefits to the stockholders of the Company and mitigated the ability to use Common Stock as a significant part of our employee compensation and incentive strategy,

(6) that the Company has not used Common Stock as consideration, nor been active in the corporate merger and acquisition market, and therefore has not realized any benefit from the use of publicly traded stock in conjunction with acquisitions or other stock transactions,

(7) that the Company does not presently intend to raise capital through sales of securities in a public offering or to acquire other business entities using stock as consideration,

(8) the current and historical market prices for the Common Stock on the OTC Bulletin Board and the net book value of the Common Stock,

(9) the presentation of Cahill Gordon of several alternatives for accomplishing a going private transaction, including a reverse stock split (together with a follow on forward stock split), an issuer tender offer, a partial cash-out merger and a stock repurchase program (including an odd-lot repurchase program), and related considerations of fairness to stockholders, and

(10) retaining an independent financial advisor.

The Special Committee determined in light of considerations (1) through (6) above that it was in the best interest of the Company and its stockholders for the Company to cease to be a public Company. The Special Committee determined to defer making a determination with respect to the means of accomplishing a going-private transaction and the price to be paid to any stockholders eliminated by a going-private transaction until its next meeting. The Special Committee asked Messrs. Golden and LaRoche to further explore alternatives with Cahill Gordon and management and to report back to the Special Committee at its next meeting.

Following the September 19 Special Committee meeting, Messrs. Golden and LaRoche met with management and Cahill Gordon to further review the several alternatives presented by Cahill Gordon for accomplishing a going-private transaction and to discuss methodologies for establishing the price to be paid to any stockholders eliminated by a going-private transaction, including whether an independent financial advisor should be retained for such purpose.

At a Special Committee meeting held on September 21, 2006 Messrs. Golden and LaRoche reported to the Special Committee that they had reviewed the advantages and disadvantages of the several alternatives presented by Cahill Gordon for accomplishing a going-private transaction and recommended that the Special Committee adopt the Reverse/Forward Stock Split alternative. Messrs. Golden and LaRoche informed the Special Committee that they had reviewed several Reverse/Forward Stock Split ratios and observed for the Special Committee that a 25 for 1 Reverse/Forward Stock Split ratio would result in approximately 215 record holders of Common Stock, a 50 for 1 Reverse/Forward Stock Split ratio would result in approximately 185 record holders of Common Stock, a 100 for 1 Reverse/Forward Stock Split ratio would result in approximately 150 record holders of Common Stock and a 500 for 1 Reverse/-Forward Stock Split ratio would result in approximately 100 record holders of Common Stock. Messrs. Golden and LaRoche recommended that the Special Committee adopt a 50 for 1 Reverse/Forward Stock Split ratio. Messrs. Golden and LaRoche then reported to the Special Committee the estimated costs of two financial advisors contacted by Cahill Gordon on the Special Committee’s behalf, and observed that both such estimates would likely exceed the consideration actually payable to Cashed Out Stockholders and that each appeared excessive in relation to the other costs associated with the Reverse/Forward Stock Split and the Company’s overall financial condition. Messrs. Golden and LaRoche recommended that the Special Committee not retain a financial advisor in connection with the Reverse/Forward Stock Split.

Messrs. Golden and LaRoche informed the Special Committee that they had reviewed the Company's net book value and current and historical market data for the Common Stock during the 30-day and 90-day periods ending September 18, 2006. Messers. Golden and LaRoche observed that the Company's net book value was negative and therefore not meaningful. Messrs. Golden and LaRoche also observed that although the Common Stock has limited liquidity, over the 90-day period ending September 18, 2006 the approximate aggregate volume of the Common Stock traded on the OTC Bulletin Board was 350,000 shares, which represented in excess of 10% of the Common Stock held by persons other than directors, executive officers and The 1818 Fund. Messrs. Golden and LaRoche recommended that the price to be paid to any Cashed Out Stockholders be set at a 15% premium to the 90-day average closing price ending on the day prior to public announcement of the anticipated Reverse/Forward Stock Split to ensure fairness to the Cashed Out Stockholders, noting that the small aggregate cost of such a premium would be of negligible consequence to the Company and therefore fair to the Continuing Stockholders. Messrs. Golden and LaRoche finally observed that the closing price of the Common Stock on September 21, 2006 was $0.26 per share and that the 90-day average closing price of the Common Stock for the period ending on September 21, 2006 was $0.31.

Following the presentation by Messrs. Golden and LaRoche, the Special Committee further reviewed the advantages and disadvantages of the various going-private transactions presented by Cahill Gordon and determined to adopt the Reverse/Forward Stock Split. The Special Committee then considered the consequences of the several Reverse/Forward Stock Split ratios presented by Messrs. Golden and LaRoche, including (1) the number by which the record stockholders of the Company would need to be reduced to allow deregistration; (2) the number of record and beneficial stockholders holding shares within ranges of 1 share up to 500 shares; (3) the estimated number of shares that would become fractional shares, cancelled and converted into the right to receive cash; (4) the anticipated expense of implementing the Reverse/Forward Stock Split; (5) without quantification, the direct and indirect costs of communicating with, administering stockholder accounts for and responding to stockholders; (6) the ability of stockholders who would otherwise be cashed out to acquire sufficient additional Common Stock to remain Continuing Stockholders after the Reverse/Forward Stock Split; (7) that some of the Cashed Out Stockholders might appreciate the opportunity to liquidate their relatively small holdings without brokerage fees; and (8) the likelihood and burden of engaging in another stockholder reduction transaction to avoid the need to re-register under the Exchange Act at some point in the future. After considering such consequences, the Special Committee determined to adopt the 50 for 1 ratio.

The Special Committee then considered the price to be paid to any stockholders eliminated by a going-private transaction, including whether an independent financial advisor should be retained for such purpose. The Special Committee determined that (i) that the current and historical market price information and net book value information available to the Special Committee were sufficient to support a determination of fairness from a financial point of view and (ii) after receiving cost estimates from two financial advisors, the substantial costs of retaining an independent financial advisor would likely exceed the consideration actually payable to Cashed Out Stockholders, and would in any event be excessive in relation to the other costs associated with the Reverse/Forward Stock Split. In light of such determination, the Special Committee determined not to retain an independent financial advisor.

The Special Committee also considered requesting management to perform a discounted cash flow analysis of the Company for valuation purposes. In considering the need for such an analysis, the Special Committee considered (1) the inherent uncertainty associated with projected cash flows and discount rate assumptions, especially for businesses in similar financial circumstances to the Company, (2) the substantial internal Company resources that would need to be dedicated to such an analysis, (3) that any such analysis could not be deemed independent or objective having been prepared by management and (4) the small aggregate consideration likely to be paid to Cashed Out Stockholders in any event. In light of such considerations and the other objective information available to the Special Committee, the Special Committee determined not to request management perform a discounted cash flow analysis of the Company.

The Special Committee then further discussed the current and historical market price data for the Common Stock and determined the price to be paid to any stockholders eliminated by the Reverse/Forward Stock Split would be set at a 15% premium to the 90-day average closing price ending on the day prior to public announcement of the anticipated Reverse/Forward Stock Split to ensure fairness to the Cashed Out Stockholders, and that the small aggregate cost of such a premium would be of negligible consequence to the Company and therefore fair to the Continuing Stockholders.

On September 21, 2006, the Board of Directors met to discuss the conclusions reached by the Special Committee. Following this discussion, the Board of Directors unanimously determined to adopt the Reverse/Forward Stock Split as recommended by the Special Committee, and determined that the consideration per pre-split share of $0.35 was fair to both the Cashed Out Stockholders and the Continuing Stockholders.

On December 19, 2006, the Special Committee met to discuss the changes in the Company's Common Stock price and how it affected the price to be paid to Cashed Out Stockholders. The Special Committee noted that the 90-day average closing price of the Common Stock for the period ending on December 18, 2006 was $0.27. The Special Committee discussed the volatility of the price of Common Stock, including the potential impact on the price of Common Stock due to the Company's inability to timely file the Form 10-Q for the period ended September 30, 2006. It was decided that it was fair to Cashed Out Stockholders to maintain the price of $0.35 per share, which now represented a 30% premium to the 90-day average closing price of the Common Stock for the period ending prior to the announcement of the Reverse/Forward Stock Split.

In light of these considerations, the Special Committee and, upon the recommendation of the Special Committee, the Board of Directors believe that it is in the Company’s best interests to undertake the Reverse/Forward Stock Split at this time to enable us to deregister the Common Stock under the Exchange Act, which will relieve the Company of the administrative burden, cost, and competitive disadvantages associated with filing reports and otherwise complying with the requirements imposed under the Exchange Act.

No outside party prepared or presented any reports, presentations, analyses or opinions in connection with the Reverse/Forward Stock Split and no investment firm was retained by the Company.

All of the members of the Special Committee attended each meeting of the Special Committee outlined in this section and participated in each discussion regarding the proposed transaction, and each matter approved by the Special Committee was unanimously approved by the Special Committee.

All of the members of the Board of Directors attended each meeting of the Board of Directors outlined in this section and participated in each discussion regarding the proposed transaction, and each matter approved by the Board of Directors was unanimously approved by the full Board of Directors.

FAIRNESS OF THE REVERSE/FORWARD STOCK SPLIT TO STOCKHOLDERS

In order to provide a fair consideration of this transaction, the Board of Directors created the Special Committee. The Special Committee was given the authority to evaluate the appropriateness of a transaction that would permit the Company to deregister our Common Stock, as well as the desired transaction structure, terms and conditions of any such transaction.

Messrs. Golden, Krusen, LaRoche and Neel were chosen to serve on the Special Committee because they are “independent,” as such term is defined under Rule 10A-3 of the Exchange Act. None are currently employed as an officer or employee of the Company, beneficially own, directly or indirectly, more than 10% of the Common Stock, or hold any other relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The members of the Special Committee,

Messrs. Golden, Krusen, LaRoche and Neel, in addition to being independent directors of the Company, have been board members since 2005, 2003, 2002 and 2005, respectively, and are familiar with our business and prospects.

The Special Committee has reviewed and considered the terms, purpose, alternatives, and effects of the Reverse/Forward Stock Split and has determined and believes that the Reverse/Forward Stock Split are in the best interests of the Company and is substantively and procedurally fair to the Cashed Out Stockholders who will receive cash in lieu of fractional shares fewer than one whole share and the Continuing Stockholder who will remain stockholders of the Company after the Reverse/Forward Stock Split. After studying the Reverse/Forward Stock Split and their anticipated effects on our stockholders, the Special Committee unanimously approved the Reverse/Forward Stock Split.

The Board of Directors and the Special Committee believe that they have a fiduciary responsibility to all stockholders of the Company, including the Cashed Out Stockholders as well as the Continuing Stockholders. Paying excessive cash consideration to stockholders with fewer than 50 shares of Common Stock would not be fair to the Continuing Stockholders remaining after the Reverse/Forward Stock Split, while paying inadequate cash consideration would not be fair to our Cashed Out Stockholders receiving such consideration in exchange for their shares. In upholding its fiduciary responsibility to all of the stockholders of the Company, the Special Committee reviewed and considered the terms, alternatives, and effects of the Reverse/Forward Stock Split on each of the Cashed Out Stockholders, the Continuing Stockholders, and the Company.

The Special Committee has set the cash consideration to be paid to Cashed Out Stockholders at $0.35 per share, which represents a 30% premium to the average closing price for our Common Stock for the 90 trading days prior to the announcement of the Reverse/Forward Stock Split and is a 205% premium over the current market price, and the Board of Directors, upon recommendation and approval of the Special Committee, approved such determination.

Substantive Fairness

The Special Committee reasonably believes that the Reverse/Forward Stock Split is substantively fair to both the Cashed Out Stockholders and the Continuing Stockholders. The factors considered by the Special Committee in reaching its conclusion as to the substantive fairness of the Reverse/Forward Stock Split are discussed below.

Factors Considered

In addition to the procedural fairness concerns analyzed by the Special Committee (as discussed above under the section “Special Factors—Fairness of the Reverse/Forward Stock Split to Stockholders—Substantive Fairness”), the Special Committee considered the advantages of the Reverse/Forward Stock Split, as discussed below, in reaching its conclusion as to the substantive fairness of the Reverse/Forward Stock Split to our Cashed Out Stockholders and the Continuing Stockholders, as well as the factors identified in the section below entitled “Special Factors—Effects of the Reverse/Forward Stock Split—Potential Disadvantages of the Reverse/Forward Stock Split.” The Special Committee did not assign specific weight to the following factors in a formulaic fashion, but did place special emphasis on the opportunity for minority stockholders to sell their holdings at a premium without paying brokerage commissions, as well as the significant cost and time savings for the Company.

Advantages of the Reverse/Forward Stock Split:

1. Opportunity for minority stockholders holding fewer than 50 shares of Common Stock to sell holdings without brokerage fees.

(a) Historical Market Prices

In connection with the Reverse/Forward Stock Split, the Special Committee set the price to be paid to the Cashed Out Stockholders at a 30% premium to the average closing price for our Common Stock for the 90 trading days prior to the announcement of the Reverse/Forward Stock Split.

The following table summarizes certain indications of value, including the aforementioned current and historical market prices of the Common Stock, each as defined above. The Company's net book value per share is discussed in greater detail below. For further discussion regarding how the Special Committee determined the cash out consideration, please see the section above entitled "Special Factors—Background of the Reverse/Forward Stock Split."

Value	Dollar Amount
Current Market Closing Price as of December 21, 2006	$0.17
Thirty Day Average Market (Closing) Price	0.22
Ninety Day Average Market (Closing) Price	0.27
Net book value per share at September 30, 2006	(0.827)

(b) Liquidation Value

In connection with its deliberations, the Special Committee considered the Company's liquidation value. However, the Special Committee did not view the Company's liquidation value to be a meaningful measure of valuation because the Company's book value per share is negative.

2. Significant cost and time savings for the Company.

By reducing the number of stockholders of record to fewer than 50 and deregistering the Common Stock under the Exchange Act, we expect to save (i) approximately $700,000 per year in professional fees and expenses that we have historically incurred in connection with the preparation and filing of reports required by the Exchange Act, (ii) approximately $300,000 in primarily non-recurring expenses that otherwise would have been incurred in fiscal 2007 in connection with compliance with the internal control audit requirements of Section 404 of Sarbanes-Oxley and (iii) approximately $150,000 per year in expenses thereafter that would otherwise be expected to be incurred in order to comply with Section 404 of Sarbanes-Oxley. The termination of reporting obligations will also alleviate a significant amount of time and effort previously required of our executive officers to prepare and review these ongoing reports and filings. See "Special Factors—Reasons for the Forward/Forward Stock Split" for a more detailed discussion of these cost savings.

3. Ability to control decision to remain a holder of Common Stock or liquidate Common Stock.

Another factor considered by the Special Committee in determining the fairness of the transaction to minority stockholders, individually, is that current holders of fewer than 50 shares of Common Stock may elect to remain stockholders of the Company following the Reverse/Forward Stock Split by acquiring additional shares so that they own at least 50 shares of the Common Stock immediately before the Reverse/Forward Stock Split. The Special Committee believes it will not be difficult for a stockholder to purchase up to 50 shares of Common Stock prior to the Reverse/Forward Stock Split based upon historical average trading volumes of the Common Stock during the past 12

months. Conversely, stockholders who own 50 or more shares of Common Stock, who desire to liquidate their shares in connection with the Reverse/Forward Stock Split at the premium price offered may reduce their holdings to fewer than 50

shares by selling shares prior to the Reverse/Forward Stock Split. The Special Committee considers the structure of the transaction to be fair to minority stockholders, because it allows them a measure of control over the decision of whether to remain stockholders after the Reverse/Forward Stock Split or to receive the cash consideration offered in connection with the Reverse/Forward Stock Split.

4. No material change in percentage ownership of Continuing Stockholders.

Because only an estimated 75,000 out of 18,453,983 shares of the Common Stock will be eliminated as a result of the Reverse/Forward Stock Split, the percentage ownership of Continuing Stockholders will be approximately the same as it was prior to the Reverse/Forward Stock Split. Our officers and directors currently beneficially own approximately 82% of the outstanding Common Stock and will have their beneficial ownership increased by less than 1% following completion of the Reverse/Forward Stock Split. We believe that structuring the transaction in a manner that preserves the approximate percentage ownership of the Continuing Stockholders supports the fairness of the transaction to the minority stockholders.

5. Ability to control the dissemination of information to our competitors, vendors, and customers.

Upon filing the Form 15 with the SEC to deregister our Common Stock under the Exchange Act and suspend our duty to file periodic reports with the SEC, the Company will be able to control the dissemination of certain business information, which is currently disclosed in the periodic reports and, accordingly, made available to our competitors, vendors, customers, and other interested parties, potentially to our detriment.

Disadvantages of the Reverse/Forward Stock Split:

1. Substantial reduction of public sale opportunities.

Following the Reverse/Forward Stock Split and the deregistration of the Common Stock under the Exchange Act, we anticipate that the public market for shares of Common Stock will be reduced. Stockholders of the Company will continue to have the option of selling their shares of Common Stock in a public market. While shares will continue to be listed in the “pink sheets,” any current public market for the Common Shares likely will be highly illiquid after the suspension of our periodic reporting obligations. In addition, because market makers (and not the Company) quote our Common Stock in the “pink sheets,” we cannot guarantee that our Common Stock will always be available for trading in the “pink sheets.”

2. Reduction of publicly available information.

Upon terminating the registration of the Common Stock under the Exchange Act, our duty to file periodic reports with the SEC will be suspended. While the Company intends to provide to stockholders information regarding the Company’s business and results of operation after the Reverse/Forward Stock Split, we can make no assurances as to the type of information that we will provide, the form in which the information will be presented, and the frequency with which we will make such information available. As such, stockholders remaining in the Company following the Reverse/Forward Stock Split and our vendors and customers may not have available all of the information regarding the Company’s operations and results that is currently available in the Company’s filings with the SEC. As a result, it will be more difficult for our vendors and customers to determine the creditworthiness of the Company.

While the Board of Directors and the Special Committee acknowledge the circumstances in which such reduction of publicly available information may be disadvantageous to our stockholders, they believe that the overall benefits to the Company of no longer being a public reporting company substantially outweigh the disadvantages thereof, and, accordingly, the Company believes that the reduction of publicly available information does not outweigh the advantages of no longer being a public reporting company, which is in the best interests of the Company's stockholders.

3. Termination of public reporting company obligations.

Once the Common Stock of the Company ceases to be registered under the Exchange Act, the Company will no longer be subject to public reporting company obligations, such as the provisions of Sarbanes-Oxley or certain liability provisions of the Exchange Act. Therefore, our Chief Executive Officer and Chief Financial Officer would no longer be required to certify as to the accuracy of our financial statements, we would no longer be required to have an audit committee and have a majority of the members of our Board of Directors be independent. Although we will no longer be required to file financial statements with the SEC or to provide such information to stockholders, any financial statements we elect to provide will no longer be required to be certified by the officers of the Company.

4. Possible significant decline in the value of the Common Stock.

Because the limited liquidity for the shares of Common Stock (as described in paragraph (1) above), the termination of the Company's obligation to make public financial and other information expected following the deregistration of the Common Stock under the Exchange Act (as described in paragraph (2) above), and the diminished opportunity for stockholders of the Company to monitor the management of the Company due to the reduction of publicly available information, Continuing Stockholders may experience a significant decrease in the value of their shares of Common Stock.

5. Inability to participate in any future increases in value of Common Stock.

Cashed Out Stockholders will have no further financial interest in the Company with respect to their cashed out shares and thus will not have the opportunity to participate in the potential appreciation in the value of such shares. However, those minority stockholders who wish to remain stockholders after the Reverse/Forward Stock Split can do so by acquiring additional shares so that they own at least 50 shares of Common Stock immediately before the Effective Date of the Reverse/Forward Stock Split.

6. Loss of flexibility in attracting and retaining employees.

The deregistration and subsequent decreased liquidity of the Common Stock may result in the Company having less flexibility in attracting and retaining executives and other employees because equity-based incentives (such as stock options) tend not to be viewed as having the same value in a non-public reporting company.

7. Increased difficulty in raising capital.

The deregistration and subsequent decreased liquidity of the Common Stock will make it more difficult for the Company to access the public equity and public debt markets (although we have not done this in many years) and the private debt markets. In addition, the Company will be less likely to be able to use stock to acquire companies (although we have not done this in many years).

Fairness Determination of the Special Committee

The Special Committee believes that the factors mentioned above, when viewed together, support a conclusion that the Reverse/Forward Stock Split is substantively fair to both the Company's Cashed Out Stockholders and the Company's Continuing Stockholders because under the proposed Reverse/Forward Stock Split, Cashed Out Stockholders will receive an amount per share of $0.35, which represents a 30% premium to the average closing price for our Common Stock for the 90 trading days prior to the announcement of the Reverse/Forward Stock Split. In addition, the Special Committee determined that the Reverse/Forward Stock Split is substantively fair to minority stockholders, in part because it provides them an opportunity to liquidate their holdings at a fair price without brokerage commissions at a price that does not prejudice the Continuing Stockholders. It should also be noted that during the past two years there have been no firm offers (i) to merge the Company with another company, (ii) for the sale of all or substantially all of the assets of the Company, or (iii) for the purchase of the Company's Common Stock that would enable the holder to exercise control of the Company. Further, the Special Committee did not consider any firm offers (i) to merge the Company with another company, (ii) for the sale of all or substantially all of the assets of the Company, or (iii) for the purchase of the Company's Common Stock that would enable the holder to exercise control of the Company.

The Special Committee also acknowledges that the minority stockholders will have some control over whether they remain stockholders after the Reverse/Forward Stock Split by acquiring additional shares so that they own at least 50 shares of Common Stock immediately before the Reverse/Forward Stock Split. Those minority stockholders who continue as stockholders following the Reverse/Forward Stock Split will maintain approximately the same percentage ownership that they had prior to the Reverse/Forward Stock Split. The potential loss of liquidity in shares of Common Stock does not appear to be a significant loss given the relatively low trading volume of the Common Stock. Furthermore, the Special Committee believes that any disadvantages associated with the reduction in public information available regarding our operations and financial results will be offset by the savings in costs and management time expected to be realized from termination of our public reporting obligations.

We have not made any special provision in connection with the Reverse/Forward Stock Split to grant stockholders access to our corporate files or to obtain counsel or appraisal services at our expense, as the Special Committee did not consider these steps necessary to ensure the fairness of the Reverse/Forward Stock Split. The Special Committee determined that such steps would be costly and time consuming, and would not provide any meaningful additional benefits. With respect to stockholders' access to our corporate files, the Special Committee determined that this proxy statement, together with our other filings with the SEC, provide adequate information for stockholders to make an informed decision with respect to the Reverse/Forward Stock Split. In addition, Delaware law and our Certificate of Incorporation give stockholders the right to review the Company's relevant books and records of account.

The Special Committee's determination was a consensus resulting from a series of meetings held to review and deliberate over many factors, as described under "Background of the Reverse/Forward Stock Split." As previously stated, the Special Committee believes that the proposed Reverse/Forward Stock Split, including the cash-out consideration of $0.35 per share of Common Stock, are fair, both procedurally and substantively, to both the Cashed Out Stockholders and the Continuing Stockholders. In connection with the approval of the transaction, the Special Committee recommended that the Board of Directors (i) approve the Reverse/Forward Stock Split as currently proposed and (ii) adopt the recommendation of the Special Committee.

Fairness Determination of the Board of Directors

The Board of Directors relied on the procedures instituted by the Special Committee in their efforts to ensure the procedural fairness and substantive fairness of the proposed Reverse/Forward Stock Split. The Special Committee had absolute discretion in the retention of its advisors and in reviewing, evaluating, and recommending a proposal to the entire Board of Directors. The factors that the Special Committee relied on, which are discussed above, were discussed with the Board of Directors by the Special Committee and were contained in the presentations and the recommendation from the Special Committee. In addition to its review of the recommendation by the Special Committee, the Board of Directors relied on the independence and competence of the Special Committee when the Board of Directors voted unanimously to adopt the Special Committee's recommendation to reduce the number of stockholders of record below 300 in the form of the currently proposed Reverse/Forward Stock Split. Based upon (i) the recommendation of the Special Committee and an analysis of the same factors considered by the Special Committee (as outlined above), and (ii) the independence and competence of the Special Committee, the Board of Directors unanimously approved the proposed transaction and reasonably believes that it is procedurally and substantively fair to both the Cashed Out Stockholders and the Continuing Stockholders.

Procedural Fairness to All Stockholders

The Special Committee reasonably believes that the Reverse/Forward Stock Split is procedurally fair to both the Cashed Out Stockholders and the Continuing Stockholders. The factors considered by the Special Committee in reaching its conclusion as to the procedural fairness of the Reverse/Forward Stock Split are discussed below.

Factors Considered

To ensure procedural fairness, the Board of Directors established the Special Committee solely of independent directors and deferred control of evaluation and structure of the transaction to their review. The Special Committee used its best efforts to establish the terms of the transaction by fully informed itself of all aspects of the transaction through attendance at and participation in Special Committee meetings. Such procedures tend to ensure the fairness and integrity of this type of a transaction. The Special Committee did not obtain a fairness report, opinion, appraisal or other independent assessment because it concluded that the costs associated with obtaining such a report or opinion outweighed its perceived benefits. The Special Committee considered retaining an independent financial advisor. However, the Special Committee determined that (i) that the current and historical market price information and net book value information available to the Special Committee were sufficient to support a determination of fairness from a financial point of view and (ii) after receiving cost estimates from two financial advisors, the substantial costs of retaining an independent financial advisor would likely exceed the consideration actually payable to Cashed Out Stockholders, and would in any event be excessive in relation to the other costs associated with the Reverse/Forward Stock Split. In light of such determination, the Special Committee determined not to retain an independent financial advisor.

The procedure whereby the Special Committee determined whether to approve the transaction and whether the terms of the transaction were procedurally fair to the minority stockholders included the consideration by the Special Committee of the following factors, each of which, in the view of the Special Committee, supported the determination to recommend approval of the transaction: (i) current market prices of the Company's stock; (ii) historical market prices of the Company's stock; and (iii) the net book value of the Company.

The Special Committee considered separately each aforementioned factor, but did not assign specific weight to the factors in a formulaic fashion, and it did not make a determination as to why any particular specified factor, as a result of the deliberations by the Special Committee, should be assigned any weight.

The Reverse/Forward Stock Split are not structured in such a way so as to require the approval of at least a majority of the minority stockholders of the Company. In addition, an unaffiliated representative has not been retained to act solely on behalf of minority stockholders for the purposes of negotiating the terms of the Reverse/Forward Stock Split and/or preparing a report concerning the fairness of the transaction. In assessing the Reverse/Forward Stock Split, the Special Committee understood that (i) The 1818 Fund, which owns 79% of the voting power of the Common Stock outstanding and entitled to vote at the Special Meeting, has indicated that it will vote in favor of the Reverse/Forward Stock Split at the Special Meeting and (ii) no appraisal or dissenters' rights are available under Delaware law to stockholders of the Company who dissent from the Reverse/Forward Stock Split. Despite the foregoing, the Special Committee believes that the Reverse/Forward Stock Split is procedurally fair to the Cashed Out Stockholders and Continuing Stockholders of the Company.

In evaluating the procedural fairness of the Reverse/Forward Stock Split with respect to minority stockholders in particular, the Special Committee noted that the percentage ownership of Continuing Stockholders, whether affiliated or unaffiliated, will be practically unchanged from their percentage ownership prior to the Reverse/Forward Stock Split. The Cashed Out Stockholders hold less than 1% of the outstanding Common Stock. The sole determining factor in whether a stockholder will become a Cashed Out Stockholder or a Continuing Stockholder as a result of the Reverse/Forward Stock Split is the number of shares of Common Stock held by such stockholder as of the effective time of the transaction. In addition, any stockholder that would otherwise be a Cashed Out Stockholder as a result of owning fewer than 50 shares of Common Stock, but would rather continue to hold Common Stock after the Reverse/Forward Stock Split and not be cashed out, may do so by purchasing a sufficient number of additional shares on the open market such that the stockholder holds at least 50 shares of Common Stock in the stockholder's record account immediately before the Effective Date of the Reverse/Forward Stock Split. Further, because the Cashed Out Stockholders hold less than 1% of the outstanding Common Stock, it would not be in the best interests of the Company to provide them with the independent right to approve the Reverse/Forward Stock Split, and possibly prevent the holders of in excess of 99% of the Common Stock from achieving significant cost savings for the Company if the majority desires to approve the Reverse/Forward Stock Split. Therefore, the Special Committee determined not to condition the proposed Reverse/Forward Stock Split upon the independent approval of either the minority stockholders or the Cashed Out Stockholders. Moreover, the structure of a reverse/forward stock split does not lend itself to having an independent representative negotiate the terms of the proposal on behalf of the minority stockholders or the Cashed Out Stockholders. For a more detailed discussion, please see the sections entitled "Fairness of the Reverse/Forward Stock Split to Stockholders—Advantages of the Reverse/Forward Stock Split—No material change in percentage ownership of Continuing Stockholders," and "Special Factors—Effects of the Reverse/Forward Stock Split—Effects on Stockholders—Effects on Stockholders With Fewer Than 50 Shares of Common Stock" in this proxy statement.

Effects of the Reverse/Forward Stock Split

Effects of the Reverse/Forward Stock Split on Holders of Our Common Stock

The Reverse/Forward Stock Split will generally affect the Company's majority stockholder, The 1818 Fund, and minority stockholders the same. As a result, we expect that the percentage ownership of The 1818 Fund after the Reverse/Forward Stock Split would increase by less than 1% from its ownership before the Reverse/Forward Stock Split. Although there is a slight change in the percentage of Common Stock collectively beneficially owned by The 1818 Fund, it will not affect the control of the Company. For more information on our officers' and directors' security interests, please refer to the section below entitled "Security Ownership of Certain Beneficial Owners and Management."

The effects of the Reverse/Forward Stock Split would vary based on whether or not all or any portion of the stockholder's shares would be cashed out in the transaction. The determination of whether or not any particular shares of Common Stock would be cashed out in the Reverse/Forward Stock Split would be based on whether the holder of those shares holds fewer than 50 shares of Common Stock and whether such shares are held of record or in street name with a broker or other nominee. Because a stockholder may hold a portion of her shares of record and a portion of her shares in street name, a stockholder may have a portion of her shares subject to the terms of the Reverse/Forward Stock Split and a portion not subject to the Reverse/Forward Stock Split depending on the procedures and determination of her broker or other nominee.

Effects on Stockholders with Fewer Than 50 Shares of Common Stock

If the Reverse/Forward Stock Split is implemented, stockholders holding fewer than 50 shares of Common Stock immediately before the Reverse/Forward Stock Split (the "Cashed Out Stockholders"):

- will not receive a fractional share of Common Stock as a result of the Reverse/Forward Stock Split;
- will instead receive cash equal to $0.35 for each share of Common Stock held immediately before the Reverse/Forward Stock Split in accordance with the procedures described in this proxy statement;
- will have no further ownership interest in the Company with respect to cashed out shares and will no longer be entitled to vote as stockholders;
- will not be required to pay any service charges or brokerage commissions in connection with the Reverse/Forward Stock Split; and
- will not receive any interest on the cash payments made as a result of the Reverse/Forward Stock Split.

Cash payments to Cashed Out Stockholders as a result of the Reverse/Forward Stock Split will be subject to income taxation. For a discussion of the federal income tax consequences of the Reverse/ Forward Stock Split, please see "Special Factors—Effects of the Reverse/Forward Stock Split—Material Federal Income Tax Consequences" in this proxy statement.

If you would otherwise be a Cashed Out Stockholder as a result of your owning fewer than 50 shares of Common Stock, but you would rather continue to hold Common Stock after the Reverse/ Forward Stock Split and not be cashed out, you may do so by taking either of the following actions:

- Purchase a sufficient number of additional shares of Common Stock on the open market and have them registered in your name and consolidated with your current record account, if you are a record holder, or have them entered in your account with a nominee (such as your broker or bank) in which you hold your current shares so that you hold at least 50 shares of Common Stock in your record account immediately before the Effective Date (as defined below) of the Reverse/Forward Stock Split; or

- If applicable, consolidate your accounts so that together you hold at least 50 shares of Common Stock in one record account immediately before the Effective Date (as defined below) of the Reverse/Forward Stock Split.

- You will have to act far enough in advance so that the purchase of any Common Stock and/or consolidation of your accounts containing Common Stock is completed by the Effective Date of the Reverse/Forward Stock Split. The "Effective Date" is the date and time upon which the Certificates of Amendment to our Certificate of Incorporation become effective and may not be prior to the date and time of the Special Meeting.

Effects on Stockholders with 50 or More Shares of Common Stock

If the Reverse/Forward Stock Split is implemented, stockholders holding 50 or more shares of Common Stock immediately before the Reverse/Forward Stock Split (the "Continuing Stockholders"):

- will not be affected in terms of the number of shares of Common Stock held before and after the Reverse/Forward Stock Split;

- will be the only persons entitled to vote as stockholders after the consummation of the Reverse/Forward Stock Split;

- will not receive cash for any portion of their shares; and

- may experience a reduction in liquidity with respect to the Common Stock due to the expected termination of the registration of the Common Stock under the Exchange Act.

In the event that we terminate the registration of the Common Stock under the Exchange Act, we will no longer be required to file public reports of our financial condition and other aspects of our business with the SEC. While the Company intends to provide to stockholders information regarding the Company's business and results of operation after the Reverse/Forward Stock Split, we can make no assurances as to the type of information that we will provide, the form in which the information will be presented, and the frequency with which we will make such information available. As such, stockholders remaining in the Company following the Reverse/Forward Stock Split may not have available all of the information regarding the Company's operations and results that is currently available in the Company's filings with the SEC. We may also decide to provide certain financial and other information on our web site at some time in the future.

Further, in the event that we terminate the registration of the Common Stock under the Exchange Act, the Company will no longer be subject to the provisions of Sarbanes-Oxley or the liability provisions of the Exchange Act. Also, the officers of the Company will no longer be required to certify the accuracy of the Company's financial statements.

Effective December 14, 2005, the Common Stock was delisted from the Nasdaq National Market. The Company has determined not to have the Common Stock relisted on a national exchange. Any trading in the Common Stock since being delisted has occurred in the over-the-counter market on the OTC Bulletin Board. In the event that we terminate the registration of the Common Stock under the Exchange Act, the Common Stock will no longer be eligible for trading on any securities market except through the "pink sheets," which stockholders may not find to be an adequate source of liquidity. Furthermore, there is no assurance that shares of the Common Stock will be available for purchase or sale after the Reverse/Forward Stock Split has been consummated. Lastly, because market makers (and not the Company) quote our Common Stock in the "pink sheets," we cannot guarantee that our Common Stock will always be available for trading in the "pink sheets." For further discussion of the market for the Common Stock, please refer to the section below entitled "Trading Market and Price of our Common Stock and Dividend Policy."

The deregistration and subsequent decreased liquidity of the Common Stock may result in the Company having less flexibility in attracting and retaining executives and other employees because equity-based incentives (such as stock options) tend not to be viewed as having the same value in a non-public reporting company. Further, the Company will be less likely to be able to use stock to acquire other companies, it will be more difficult for the Company to access the public equity and public debt markets (although we have not done this in many years), it will be more difficult and more expensive for the Company to access the private debt markets, and it will be more difficult for our vendors and customers to determine the creditworthiness of the Company.

Special Interests of the Majority stockholder and Executive Officers and Directors in the Reverse/Forward Stock Split

In considering the recommendation of the Board of Directors and Special Committee with respect to the proposed Reverse/Forward Stock Split, stockholders should be aware that the Company's majority stockholder, The 1818 Fund, and the Company's executive officers and directors have interests in the Reverse/Forward Stock Split that may be in addition to, or different from, the stockholders generally. These interests may create potential conflicts of interest and include the following:

· Each executive officer and each member of the Board of Directors holds shares, options, and/or or restricted stock that, individually in the aggregate**,** exceed 50 shares and will, therefore, retain shares of Common Stock, options to purchase Common Stock, and/or restricted stock after the Reverse/Forward Stock Split;

· After the Reverse/Forward Stock Split, the directors and executive officers of the Company will continue to hold the offices and positions they held immediately prior to the Reverse/Forward Stock Split;

· As a result of the Reverse/Forward Stock Split, the stockholders who own more than 50 shares of Common Stock on the Effective Date of the Reverse/Forward Stock Split, including the Company's executive officers and directors and The 1818 Fund, will slightly increase their percentage ownership interest in the Company because only an estimated 75,000 shares of Common Stock will be eliminated as a result of the Reverse/Forward Stock Split. Assuming the Reverse/Forward Stock Split is implemented and based on information and estimates of record ownership and shares outstanding and other ownership information and assumptions as of December 20, 2006, the beneficial ownership percentage of The 1818 Fund will increase by less than 1% as a result of the reduction of an estimated 75,000 shares in the number of shares of Common Stock outstanding;

· The legal exposure for board members of public companies has increased significantly, especially in the aftermath of recent legislation and related regulations. While there are still significant controls, regulations and liabilities for directors and executive officers of non-public reporting companies, the legal exposure for the Company's directors and executive officers will be reduced after the Reverse/Forward Stock Split.

The 1818 Fund has indicated to the Company that it will vote its Common Stock in favor of the Reverse/Forward Stock Split.

Potential Disadvantages of the Reverse/Forward Stock Split to Stockholders; Accretion in Ownership and Control of Certain Stockholders

Stockholders owning fewer than 50 shares of Common Stock immediately prior to the effective time of the Reverse/Forward Stock Split will, after the Reverse/Forward Stock Split takes place, no longer have any equity interest in the Company and therefore will not participate in any future potential earnings or increased value in shares. It will not be possible for cashed out stockholders to re-acquire an equity interest in the Company unless they purchase an interest from one or more of the remaining stockholders.

The Reverse/Forward Stock Split will require stockholders who own fewer than 50 shares of Common Stock involuntarily to surrender their shares for cash. These stockholders will not have the ability to continue to hold their shares. The ownership interest of certain stockholders will be terminated as a result of the Reverse/Forward Stock Split, but the Board has concluded that the completion of the Reverse/Forward Stock Split will be an overall benefit to these stockholders because of the liquidity provided to them by the transaction at a price determined by the Board to be fair to the stockholders.

The Reverse/Forward Stock Split will increase the percentage of beneficial ownership of each of the executive officers, directors and major stockholders of the Company. See also the information under the caption “Security Ownership of Certain Beneficial Owners and Management” in this Information Statement.

After the Reverse/Forward Stock Split is effected, we intend to terminate the registration of our Common Stock under the Exchange Act. As a result of the termination, we will no longer be subject to the reporting requirements or the proxy rules of the Exchange Act. Our Common Stock is currently traded in the over-the-counter market on the OTC Bulletin Board, which is a quotation service that displays real time quotes, last sales prices and volume information in over-the-counter equity securities. This source of liquidity and information will no longer be available to our stockholders following the Reverse/Forward Stock Split and the termination of our registration and reporting obligations to the SEC.

Financial Effect of the Reverse/Forward Stock Split

Completion of the Reverse/Forward Stock Split will require approximately $526,000 of cash, which includes the cash payments to stockholders holding fewer than 50 shares of our Common Stock prior to the Reverse/Forward Stock Split, legal, accounting, mailing and Transfer Agent costs and other expenses related to the transaction. As a result, we will have decreased working capital and borrowing capacity following the Reverse/Forward Stock Split, which may have a material effect on our capitalization, liquidity, results of operations and cash flow. We intend to use available cash on hand and cash generated from our operations to pay these costs.

Effects on the Company

If the Reverse/Forward Stock Split is consummated, we intend to apply for termination of registration of the Common Stock under the Exchange Act as soon as practicable after completion of the Reverse/Forward Stock Split. The Reverse/Forward Stock Split is expected to reduce the number of stockholders of record of the Company from approximately 385 to approximately 185. Upon the termination of our reporting obligations under the Exchange Act, the Common Stock will remain eligible for quotation on the “pink sheets,” as described below. However, the completion of the Reverse/Forward Stock Split and the deregistration of the Common Stock under the Exchange Act may cause the trading market for shares of the Common Stock to be significantly reduced and as result, adversely affect the liquidity of the Common Stock. In addition, because market makers (and not the Company) quote our Common Stock in the “pink sheets,” we cannot guarantee that our Common Stock will always be available for trading in the “pink sheets.”

As a result of the approximately 75,000 pre-split shares of Common Stock that are expected to be cashed out at $0.35, for a total cost (including expenses) of $526,000, (i) the aggregate stockholders' equity of the Company as of September 30, 2006, would reduce from approximately $(15.3) million on a historical basis to approximately $(15.8) million on a pro forma basis; and (ii) the book value par share of Common Stock as of September 30, 2006, would decrease from $(0.827) per share on a historical basis to approximately $(0.859) on a pro forma basis.

We have no current plans to issue Common Stock after the Reverse/Forward Stock Split other than pursuant to our Stock Incentive Plans, but we reserve the right to do so at any time and from time to time at such prices and on such terms as the Board of Directors determines to be in the best interests of the Company. Continuing Stockholders will not have any preemptive or other preferential rights to purchase any of our stock that we may issue in the future, unless such rights are specifically granted to the stockholders.

While the Company has no present plan to do so, after the Reverse/Forward Stock Split has been consummated, the Company may, from time to time, repurchase shares of Common Stock pursuant to a repurchase program, privately negotiated sale, or other transaction. Whether or not the Company seeks to purchase shares in the future will depend on a number of factors, including the Company's financial condition, operating results, and available capital at the time. We cannot predict the likelihood, timing or prices of such purchases and they may well occur without regard to our financial condition or available cash at the time.

We expect to use approximately $526,000 of cash to complete the Reverse/Forward Stock Split, including the transaction costs, and that this use of cash will not have any materially adverse effect on our liquidity, results of operation, or cash flow. Because we do not know the exact amount of shares that would be cashed out, we can only estimate the total amount to be paid to stockholders in the Reverse/Forward Stock Split. We have sufficient funds available from cash on hand and cash generated from our operations, and believe that such funds will be more than offset by anticipated cost savings. For further discussion of our financing of the Reverse/Forward Stock Split, please refer to the section below entitled "Financing of the Reverse/Forward Stock Split."

If implemented, the Reverse/Forward Stock Split will not have any effect on the compensation to be received by our directors or executive officers or on our employment arrangements with our executive officers. We refer you to the information under the heading "Security Ownership of Directors and Executive Officers" for information regarding our current officers and directors and their stock ownership. We expect that upon the completion of the Reverse/Forward Stock Split, the shares beneficially owned by our directors and executive officers will increase by less than 1% from the approximately 82% held by our officers and directors prior to the Reverse/Forward Stock Split. Although there is a slight change in the percentage of Common Stock collectively beneficially owned by the executive officers and directors of the Company, it will not affect the control of the Company.

No Change in Authorized Capital or Par Value

After giving effect to the Reverse/Forward Stock Split, our authorized capital will remain at 150,000,000 shares of Common Stock. Additionally, the par value of the Common Stock will remain $0.01 per share following consummation of the Reverse/Forward Stock Split.

Material Federal Income Tax Consequences of the Reverse/Forward Stock Split

The following is a summary of material U.S. federal income tax consequences of the Reverse/Forward Stock Split, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated under the Code, administrative rulings and judicial decisions. These authorities may be changed, perhaps with retroactive effect, so as to result in U.S. federal income tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service with respect to the statements made and the conclusions reached in the following summary, and we cannot assure you that the I.R.S. will not assert, or that a court will not sustain, a position contrary to any aspect of this summary.

This summary is limited to holders who hold shares of our Common Stock as capital assets for U.S. federal income tax purposes. This summary also does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies or other financial institutions;
- foreign persons or entities;
- holders subject to the alternative minimum tax;
- tax-exempt organizations;
- dealers in securities or commodities;
- persons who acquired shares of our Common Stock in compensatory transactions;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of the Company (except to the extent specifically set forth below);
- certain former citizens or long-term residents of the United States;
- persons who hold our Common Stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction; or
- persons deemed to sell our Common Stock under the constructive sale provisions of the Code.

In addition, if a partnership holds our Common Stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Accordingly, partnerships that hold our Common Stock and partners in partnerships should consult their tax advisors regarding the tax consequences of the Reverse/Forward Stock Split.

THIS DISCUSSION IS NOT TAX ADVICE. YOU ARE URGED TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR SITUATION, AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK ARISING UNDER THE U.S. FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, FOREIGN OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Federal Income Tax Consequences to Trinsic, Inc.

We believe that the Reverse/Forward Stock Split will constitute a reorganization as described in Section 368(a)(1)(E) of the Code. Accordingly, we will not recognize taxable income, gain or loss in connection with the Reverse/Forward Stock Split.

Federal Income Tax Consequences to Stockholders Who Receive Solely Shares of Post-Split Common Stock

Holders who receive solely shares of post-split Common Stock in the Reverse/Forward Stock Split will not recognize gain or loss or income as a result of the Reverse/Forward Stock Split. Such holder will have an aggregate tax basis in the post-split Common Stock received in the Reverse/Forward Stock Split equal to the aggregate adjusted tax basis in such holder's pre-split Common Stock. The holding period of the shares of post-split Common Stock will include the holding period of the holder's shares of pre-split Common Stock.

Federal Income Tax Consequences to Stockholders Who Receive Solely Cash in the Reverse/Forward Stock Split

Each holder of our Common Stock who receives solely cash pursuant to the Reverse/Forward Stock Split and does not actually or constructively own any shares of post-split Common Stock will recognize capital gain or loss equal to the difference between the amount of cash received in the Reverse/Forward Stock Split and the holder's adjusted tax basis in his or her shares of pre-split Common Stock. Any recognized capital gain or loss generally will be long-term capital gain or loss if the holder has held his or her shares of our Common Stock for more than one year and otherwise will constitute short-term capital gain or loss. Capital gains of individuals and other noncorporate taxpayers derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. There are limitations on the deductibility of capital losses.

Treatment of Cash as a Dividend

In general, the determination of whether the gain recognized by a holder of our Common Stock will be treated as capital gain or dividend income depends on whether and to what extent the Reverse/ Forward Stock Split reduces a holder's deemed percentage stock ownership interest in the Company and upon such holder's particular circumstances. For purposes of this determination, a holder of our Common Stock will be treated as if the portion of the shares of pre-split Common Stock exchanged for cash had been redeemed by the Company for cash ("deemed redemption"). The gain recognized in the Reverse/Forward Stock Split will be treated as capital gain if the deemed redemption is (i) "substantially disproportionate" with respect to the holder or (ii) "not essentially equivalent to a dividend," as those terms are used in the Code.

The deemed redemption, generally, will be "substantially disproportionate" with respect to a holder if the percentage described in (ii) below is less than 80 percent of the percentage described in (i) below, and immediately after the deemed redemption the holder owns less than 50 percent of the total combined voting power of all classes of our voting stock. Whether the deemed redemption is not "essentially equivalent to a dividend" with respect to a holder will depend upon the holder's particular circumstances. At a minimum, however, in order for the deemed redemption to be "not essentially equivalent to

a dividend," the deemed redemption must result in a "meaningful reduction" in the holder's deemed percentage stock ownership of our Common Stock. In general, that determination requires a comparison of (i) the percentage of our Common Stock that the holder is deemed actually or constructively to have owned immediately before the deemed redemption and (ii) the percentage of the outstanding Common Stock that is actually and constructively owned by the holder immediately after the deemed redemption. The I.R.S. has ruled that a stockholder in a publicly-held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a "meaningful reduction" if the stockholder has any reduction in his or her percentage stock ownership interest under the foregoing analysis. In applying the foregoing tests, a holder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or otherwise in addition to the shares of our Common Stock actually owned. Holders of our Common Stock are strongly urged to consult their own tax advisors as to the application of the constructive ownership rules and as to whether the cash received in the merger will be treated as a dividend.

Special Rate for Certain Dividends

In general, dividends are taxed at ordinary income rates. However, you may qualify for a 15 percent rate of tax on any cash received in the Reverse/Forward Stock Split that is treated as a dividend as described above, if (i) you are an individual or other noncorporate holder of our Common Stock, (ii) you have held the shares of our Common Stock with respect to which the dividend was received for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, as determined under the Code, and (iii) you were not obligated during such period (pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. You are urged to consult your tax advisor regarding the applicability of the 15 percent rate to any cash that is treated as a dividend as described above.

Backup Withholding

Backup withholding at 28 percent may apply with respect to certain payments, including cash received in the Reverse/Forward Stock Split, unless a holder of our Common Stock (1) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (2) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and that such holder is a U.S. person and otherwise complies with applicable requirements of the backup withholding rules. You generally will be entitled to credit any amounts withheld under the backup withholding rules against your U.S. federal income tax liability provided that the required information is furnished to the I.R.S. in a timely manner.

Termination of Exchange Act Registration

Our Common Stock is currently registered under the Exchange Act and quoted on the OTC Bulletin Board.

We are permitted to terminate such registration if there are fewer than 300 record holders of outstanding shares of our Common Stock. As of the Record Date, we had approximately record holders of our Common Stock. Upon the effectiveness of the Reverse/Forward Stock Split, we will have approximately record holders of our Common Stock. We intend to terminate the registration of our Common Stock under the Exchange Act and to delist our Common Stock from the OTC Bulletin Board as promptly as possible after the Effective Date.

Termination of registration under the Exchange Act will substantially reduce the information that we will be required to furnish to our stockholders. After we become a privately-held company, our stockholders will have access to our corporate books and records to the extent provided by the General Corporation Law of the State of Delaware and to any additional disclosures required by our directors' and officers' fiduciary duties to us and our stockholders.

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Termination of registration under the Exchange Act also will make the provisions of the Exchange Act no longer applicable to us, including the short-swing profit provisions of Section 16, the proxy solicitation rules under Section 14 and the stock ownership reporting rules under Section 13. In addition, stockholders may be deprived of the ability to dispose of their Common Stock under Rule 144 promulgated under the Securities Act. Furthermore, there will no longer be a public market for our Common Stock, and market makers will not be able to make a market in our Common Stock.

We estimate that termination of registration of our Common Stock under the Exchange Act will save us approximately $700,000 per year in accounting, legal, stockholder communication and other expenses, plus a one-time savings of approximately $300,000 by not having to comply with the internal control over financial reporting requirements for public companies. We also believe our management will have more time to devote to our operations once we become a private company. See also the information under the caption “Special Factors—Reasons for and Purposes of the Reverse Stock Split” in this Information Statement.

DESCRIPTION OF THE REVERSE/FORWARD STOCK SPLIT

The following is a description of the material terms and effects of the transaction. Copies of the proposed amendments to our Certificate of Incorporation, effecting the reverse stock split and the forward stock split following immediately thereafter, are attached as Annex A-1 and Annex A-2 to this proxy statement. This discussion does not include all of the information that may be important to you. You should read the proposed amendments and this information statement and related annexes before deciding how to vote at the Special Meeting.

MECHANICS OF THE REVERSE/FORWARD STOCK SPLIT

The transaction includes both a reverse stock split and a forward stock split of the Common Stock. If the transaction is approved by stockholders and implemented by the Board of Directors, the transaction is expected to occur as soon as practicable after the Special Meeting.

When approved by the stockholders at the Special Meeting, the Reverse/Forward Stock Split will be effectuated in the following manner.

- The Reverse/Forward Stock Split will take effect on the date we file Certificates of Amendment to our Certificate of Incorporation (one Certificate effecting a reverse stock split, the other effecting a forward stock split) with the Secretary of State of the State of Delaware, or on any later date that we may specify in such Certificates of Amendment, which we refer to as the Effective Date.

- On the Effective Date, we will effect a 1-for-50 reverse stock split of our Common Stock, pursuant to which a holder of 50 or more shares of Common Stock immediately before the reverse stock split will, immediately after the reverse stock split, hold one share of Common Stock for each 50 shares held prior to the reverse stock split, and a fractional share representing former shares in excess of the nearest lower multiple of 50 former shares.

- Any stockholder owning fewer than 50 shares of our Common Stock immediately before the reverse stock split will receive the right to be paid cash in exchange for the resulting fractional share of Common Stock and will no longer be a stockholder of the Company. We will pay these Cashed Out Stockholders an amount in cash equal to $0.35 per share.

- Any stockholder owning 50 or more shares of our Common Stock immediately before the reverse stock split will not be entitled to receive any cash for their fractional share interests resulting from the reverse stock split. The forward stock split that will immediately follow the reverse stock split will reconvert their whole shares and fractional share interests back into the same number of shares of Common Stock they held immediately before the effective time of the transaction. As a result, the total number of shares held by such a stockholder will not change after completion of the transaction.

- On the Effective Date (and after completion of the reverse stock split), we will effect a 50-for-1 forward stock split of our Common Stock, pursuant to which a holder of one or more shares of Common Stock immediately after the reverse stock split and immediately before the forward stock split will, immediately after the forward stock split, hold 50 shares of Common Stock for each share held prior to the forward stock split. A stockholder holding 50 or more shares of Common Stock immediately before the Reverse/Forward Stock Split will continue to hold the same number of shares after the completion of the Reverse/Forward Stock Split and will not receive any cash payment.

CONVERSION OF SHARES IN THE REVERSE/FORWARD STOCK SPLIT

At the effective time of the Reverse/Forward Stock Split:

- Stockholders owning fewer than 50 shares of Common Stock immediately before the effective time will have their shares converted into the right to receive cash consideration of $0.35 for each share of Common Stock; and

- All outstanding shares of Common Stock other than those described above will remain outstanding with all rights, privileges, and powers existing immediately prior to the Reverse/Forward Stock Split.

We (along with any other person or entity to which we may delegate or assign any responsibility or task with respect thereto) shall have full discretion and exclusive authority (subject to its right and power to so delegate or assign such authority) to:

- make such inquiries, whether of any stockholder(s) or otherwise, as we may deem appropriate for purposes of effecting the Reverse/forward Stock Split; and

- resolve and determine, in our sole discretion, all ambiguities, questions of fact, and interpretive matters relating to such inquiries, including, without limitation, any questions as to the number of shares held by any holder immediately before the effective time. All such determinations by us shall be final and binding on all parties, and no person or entity shall have any recourse against us or any other person or entity with respect thereto.

For purposes of effecting the Reverse/Forward Stock Split, we may, in our sole discretion, but without any obligation to do so:

- presume that any shares of Common Stock held in a discrete account (whether record or beneficial) are held by a person distinct from any other person, notwithstanding that the registered or beneficial holder of a separate discrete account has the same or a similar name as the holder of a separate discrete account; and

· aggregate the shares held (whether of record or beneficially) by any person or persons that we determine to constitute a single holder for purposes of determining the number of shares held by such holder.

Rule 12g5-1 under the Exchange Act provides that, for the purpose of determining whether an issuer is subject to the registration provisions of the Exchange Act, securities shall be deemed to be "held of record" by each person who is identified as the owner of such securities on the records of security holders maintained by or on behalf of the issuer, subject to the following:

· in any case where the records of security holders have not been maintained in accordance with accepted practice, any additional person who would be identified as such an owner on such records if they had been maintained in accordance with accepted practice shall be included as a holder of record;

· securities identified as held of record by a corporation, a partnership, a trust (whether or not the trustees are named), or other organization shall be included as so held by one person;

· securities identified as held of record by one or more persons as trustees, executors, guardians, custodians or in other fiduciary capacities with respect to a single trust, estate, or account shall be included as held of record by one person;

    · securities held by two or more persons as co-owners shall be included as held by one person; and

· securities registered in substantially similar names where the issuer has reason to believe, because of the address or other indications that such names represent the same person, may be included as held of record by one person.

EXCHANGE OF CERTIFICATES; PAYMENT OF CASH CONSIDERATION

On the Effective Date, all stock certificates evidencing ownership of Common Stock held by Cashed Out Stockholders shall be deemed canceled without further action by the stockholders. Those certificates will no longer represent an ownership interest in the Company, but will represent only the right to receive cash equal to $0.35 per share in exchange for those shares. Certificates formerly representing the shares owned by Cashed Out Stockholders subsequently presented for transfer will not be transferred on our books or records. Cashed Out Stockholder will not receive any interest on cash payments owed as a result of the Reverse/Forward Stock Split.

We have appointed the Transfer Agent to act as paying agent to carry out the payment of cash to Cashed Out Stockholders who surrender their stock certificates. The Transfer Agent will furnish stockholders with the necessary materials and instructions to effect the surrender promptly following the Effective Date. The letter of transmittal will direct how certificates are to be surrendered for cash. Stockholders must complete and sign the letter of transmittal and return it with their stock certificate(s) to the Transfer Agent in accordance with the instructions set forth in the transmittal letter before they can receive cash payment for those shares. The letter of transmittal will also contain instructions in the event that your certificate(s) has been lost, destroyed, or mutilated. Do not send your stock certificates to us, and do not send them to the Transfer Agent, until you have received a transmittal letter and followed the instructions in the letter of transmittal.

We anticipate that the Transfer Agent will disburse the amount payable to Cashed Out Stockholders within three weeks of the Effective Date, subject to its receipt of a letter of transmittal in proper form and corresponding stock certificate(s). No service charges will be payable by Cashed Out Stockholders in connection with the surrender of their stock certificates. All expenses of the Reverse/Forward Stock Split will be borne by us, subject to any stockholder's agreement with its broker, bank, or other nominee, if any.

If you are a Continuing Stockholder with a stock certificate representing your shares, your stock certificate(s) can be exchanged for a new stock certificate(s) that will bear a new CUSIP number.

The Transfer Agent will furnish stockholders with the necessary materials and instructions to effect the surrender promptly following the Effective Date. The letter of transmittal will direct how old certificates are to be surrendered for new certificates. Stockholders must complete and sign the letter of transmittal and return it with their stock certificate(s) to the Transfer Agent in accordance with the instructions set forth in the transmittal letter before they can receive their new stock certificate(s) for those shares. The letter of transmittal will also contain instructions in the event that your certificate(s) has been lost, destroyed, or mutilated. Do not send your stock certificates to us, and do not send them to the Transfer Agent, until you have received a transmittal letter and followed the instructions in the letter of transmittal.

YOU SHOULD NOT SEND YOUR STOCK CERTIFICATES NOW. YOU SHOULD SEND THEM ONLY AFTER YOU RECEIVE A LETTER OF TRANSMITTAL FROM THE TRANSFER AGENT. IF THE REVERSE/FORWARD STOCK SPLIT IS APPROVED AT THE SPECIAL MEETING, LETTERS OF TRANSMITTAL WILL BE MAILED SOON AFTER THE REVERSE/FORWARD STOCK SPLIT IS COMPLETED.

Nominees and brokers are expected to deliver to the Transfer Agent the beneficial ownership positions they hold. However, if you are a beneficial owner of Common Stock who is not the record holder of those shares and wish to ensure that your ownership position is accurately delivered to the Transfer Agent, you should instruct your broker or nominee to transfer your shares into a record account in your name. Nominees and brokers may have required procedures. Therefore, such holders should contact their nominees and brokers to determine how to effect the transfer in a timely manner prior to the effective date of the Reverse/Forward Stock Split.

No service charges will be payable by stockholders in connection with the exchange of certificates, all expenses of which will be borne by us.

Nominees (such as a bank or broker) may have required procedures, and a stockholder holding Common Stock in street name should contact his or her nominee to determine how the Reverse/Forward Stock Split will affect them. The Transfer Agent informed us that nominees are expected to provide beneficial ownership positions to them so that beneficial owners may be treated appropriately in effecting the Reverse/Forward Stock Split. However, if you are a beneficial owner of shares of Common Stock, you should instruct your nominee to transfer your shares into a record account in your name in a timely manner to ensure that you will be considered a holder of record prior to the effective date of the Reverse/Forward Stock Split, which is anticipated to be on or after , 2007, the date of the Special Meeting to which this Information Statement relates.

EFFECTIVE TIME OF THE REVERSE/FORWARD STOCK SPLIT

If the Reverse/Forward Stock Split is approved by our stockholders and implemented by the Board of Directors, it is anticipated that the transaction will occur as soon as practicable after the Special Meeting. For a more detailed discussion, please see “Special Factors” in this proxy statement.

REGULATORY APPROVALS

Aside from stockholder approval of the Amendments, the Certificates of Amendment of Certificate of Incorporation and the Reverse/Forward Stock Split are not subject to any regulatory approvals.

VOTE REQUIRED

A majority of the outstanding stock entitled to vote at the Special Meeting by holders of the issued and outstanding shares of Common Stock is required to approve the Reverse/Forward Stock Split. We have been informed that the shares of Common Stock owned or controlled on the Record Date by our directors, executive officers and The 1818 Fund, which constituted approximately 82% of the outstanding shares of our Common Stock as of such date, will be voted in favor of the Reverse/Forward Stock Split at the Special Meeting. Consequently, approval of the Reverse/Forward Stock Split appears to be assured.

Under the General Corporation Law of the State of Delaware and other applicable law, the Reverse/Forward Stock Split does not require the approval of a majority of the unaffiliated stockholders. Our Board believes the Reverse/Forward Stock Split is in our best interest and in the best interest of all our stockholders. In particular, the Board determined that the appointment of a Special Committee adequately protected the interests of our unaffiliated stockholders. Accordingly, the Board decided not to condition the approval of the Reverse/Forward Stock Split on approval by unaffiliated stockholders.

APPRAISAL RIGHTS

No appraisal rights are available under either the General Corporation Law of the State of Delaware or our Certificate of Incorporation.

FINANCING OF THE REVERSE/FORWARD STOCK SPLIT

Completion of the Reverse/Forward Stock Split will require approximately $526,000, which includes approximately $500,000 in legal costs, Transfer Agent fees and other expenses related to the transaction, plus approximately $26,000 in payments to holders of our Common Stock in lieu of fractional shares. You should read the discussion under the caption “Costs of the Reverse/Forward Stock Split” in this Information Statement for a description of the fees and expenses we expect to incur in connection with the transaction. As a result, we will have decreased working capital following the Reverse/Forward Stock Split, which may have a material effect on our capitalization, liquidity, results of operations and cash flow. We intend to use available cash on hand and cash generated from our operations to pay the costs of the transaction and related fees and expenses.

COSTS OF THE REVERSE/FORWARD STOCK SPLIT

The following is an estimate of the costs incurred or expected to be incurred by us in connection with the Reverse/Forward Stock Split. Final costs of the transaction may be more or less than the estimates shown below. We will be responsible for paying these costs. Please note that the following estimate of costs does not include the actual cost of paying for fractional shares pursuant to the Reverse/Forward Stock Split, which we project to be approximately $26,000.

Legal fees	$ 300,000
Transfer and Transfer Agent fees	10,000
Printing and mailing costs	10,000
Accounting fees	25,000
Miscellaneous	155,000
Total	$ 500,000

INTERESTS OF CERTAIN PERSONS

Our directors and executive officers have interests in the Reverse/Forward Stock Split that may be different from your interests as a stockholder and have relationships that may present conflicts of interest, including the following:

- As detailed below, each of Lawrence C. Tucker, Andrew C. Cowen, Richard F. LaRoche, Jr., W. Andrew Krusen, Jr., Roy Neel and Raymond L. Golden, who are members of our Board of Directors, and Horace J. Davis III, Donald C. Davis, Michael Slauson and Paul T. Kohler, our Named Executive Officers, owns 50 or more shares of our Common Stock and will continue to own shares of Common Stock after the transaction; and

- As a result of the Reverse/Forward Stock Split, the stockholders who own 50 or more shares, such as our directors and executive officers, will have a slight increase in their percentage ownership interest in the Company as a result of the transaction. Our directors and executive officers currently beneficially own approximately 82% of the outstanding Common Stock and will have their beneficial ownership increased by less than 1% following completion of the Reverse/Forward Stock Split

Two of our directors are associated with The 1818 Fund: Andrew C. Cowen is a senior vice president at, and Lawrence C. Tucker is a general partner of, Brown Brothers Harriman & Co., a private investment banking firm that manages The 1818 Fund.

CONDUCT OF THE COMPANY’S BUSINESS AFTER THE REVERSE/FORWARD STOCK SPLIT

We expect our business and operations to continue as they are currently being conducted, except as disclosed in this Information Statement.

We expect to realize time and cost savings as a result of terminating our public company status. When the Reverse/Forward Stock Split is consummated, all persons owning fewer than 50 shares of Common Stock at the effective time of the Reverse/Forward Stock Split will no longer have any equity interest in, and will not be stockholders of, the Company and therefore will not participate in any savings that we anticipate as a private company.

When the Reverse/Forward Stock Split is effected, we believe that, based on our stockholder records, there will be approximately 185 stockholders. See also the information under the caption “Security Ownership of Certain Beneficial Owners and Management” in this Information Statement.

We plan, following the consummation of the Reverse/Forward Stock Split, to become a privately-held company. The registration of our Common Stock under the Exchange Act will be terminated and our Common Stock will cease to be quoted on the OTC Bulletin Board and only will be traded in the “pink sheets.” In addition, because our Common Stock will no longer be publicly held, we will be relieved of the obligation to comply with the proxy rules of Regulation 14A under Section 14 of the Exchange Act, and our officers and directors and stockholders owning more than 10% of Common Stock will be relieved of the stock ownership reporting requirements and “short swing” trading restrictions under Section 16 of the Exchange Act. Further, we will no longer be subject to the reporting requirements of the Exchange Act and will cease filing information with the SEC. Among other things, this change will be cost saving to us because we will not have to comply with the requirements of the Exchange Act.

From time to time, we engage in informal discussions with other parties about possible corporate transactions. We do not have any current plans, proposals or arrangements to enter into any sale transactions after the Reverse/Forward Stock Split is effected. Nevertheless, we routinely engage in the evaluation of such transactions and opportunities and may enter into such transactions in the future. There can be no guarantee that any such transactions will occur on commercially acceptable terms or at all.

RECOMMENDATION OF THE BOARD WITH RESPECT TO THE AMENDMENTS AND THE REVERSE/FORWARD STOCK SPLIT

The Board believes that the Reverse/Forward Stock Split is fair to our stockholders, both unaffiliated and affiliated, including those whose interests are being completely cashed out pursuant to the Reverse/Forward Stock Split and those who will retain an equity interest in the Company subsequent to the consummation of the Reverse/Forward Stock Split.

In consideration of the factors discussed under the captions “Special Factors—Reasons for the Reverse/Forward Stock Split,” “Special Factors—Purpose of and Reasons for the Transactions— Alternatives to the Reverse/Forward Stock Split,” “Special Factors—Background of the Reverse/Forward Stock Split” and “Special Factors—Fairness of the Reverse/Forward Stock Split to Stockholders” in this Information Statement, the Board approved the Reverse/Forward Stock Split by a unanimous vote, declared its advisability, submitted the Amendments to a vote of the requisite number of stockholders holding sufficient shares to approve the transaction and recommended that such stockholders vote for approval and adoption of the Amendments and the payment of cash in the amount of $0.35 per share to stockholders in lieu of fractional shares resulting from the Reverse/Forward Stock Split. Each member of the Board and each of our officers who owns, or controls directly or indirectly, shares of Common Stock intends to vote his shares, or cause all such controlled shares to be voted, in favor of the Amendments.

RESERVATION OF RIGHTS

Even if the Reverse/Forward Stock Split has been approved by the requisite number of stockholders, the Board reserves the right, in its discretion, to abandon the Reverse/Forward Stock Split prior to the proposed effective date if it determines that abandoning the Reverse/Forward Stock Split is in our best interest and the best interest of our stockholders. The Board presently believes that the Reverse/Forward Stock Split is in the best interest of the Company, our stockholders that will no longer have an equity interest in the Company subsequent to the consummation of the Reverse/Forward Stock Split and our stockholders that will retain an equity interest in the Company subsequent to the consummation of the Reverse/Forward Stock Split and thus recommends a vote for the proposed Amendments. Nonetheless, the Board believes that it is prudent to recognize that, between the date of this Information Statement and the date that the Reverse/Forward Stock Split will become effective, factual circumstances could possibly change so that it might not be appropriate or desirable to effect the Reverse/Forward Stock Split at that time or on the terms currently proposed. Among the circumstances that might cause the Board to abandon the Reverse/Forward Stock Split are the development of a significant risk of the Reverse/Forward Stock Split failing to achieve the overall goal of reducing the number of record holders to fewer than 300 or where the expense of cashing out the stockholders with fewer than 50 shares becomes so high that the transaction becomes financially prohibitive. Such circumstances could also include a superior offer to our stockholders, a material change in our business or litigation affecting our ability to proceed with the Reverse/Forward Stock Split. If the Board decides to withdraw or modify the Reverse/Forward Stock Split, the Board will notify the stockholders of such decision promptly in accordance with applicable rules and regulations.

SUMMARY FINANCIAL INFORMATION

Our audited financial statements are included in our annual report on Form 10-K for the year ended December 31, 2005, a copy of which is included in this information statement as Annex B. In addition, our unaudited consolidated financial statements as of and for the three months ended September 30, 2006 are included in our quarterly reports on Form 10-Q that period a copy of which is included in this information statement as Annex C.

Set forth below is a summary of the financial information provided in Annexes B and C:

	Fiscal Year Ended December 31, 2005	Fiscal Year Ended December 31, 2004	Fiscal Year Ended December 31, 2003	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Income Statement Data:	(in thousands, except for per share data)				
Revenues	$ 189,205	$ 251,477	$ 289,180	$ 126,250	$ 151,958
Operating expenses	$ 203,220	$ 281,732	$ 304,166	$ 141,962	$ 160,287
Operating loss	$ (14,015)	$ (30,255)	$ (14,986)	$ 15,712)	$ (8,329)
Nonoperating income (expense)	$ (412)	$ (3,358)	$ (1,141)	$ 7,844	$ 60
Net loss	$ (14,427)	$ (33,613)	$ (16,127)	$ (7,868)	$ (7,369)
Manditorily redeemable convertible preferred stock	$ -	$ 15,326	$ 17,480	$ -	$ -

dividends and accretion

Deemed dividend related to beneficial conversion feature	$ -	$ 57,584	$ 86	$ -	$ -
Net loss attributable to common stockholders	$ (14,427)	$ (106,523)	$ (33,793)	$ (7,868)	$ (7,369)
Basic and diluted net loss per share	$ (1.69)	$ (91.23)	$ (47.73)	$ (0.43)	$ (34)
Interest expense	9,263	6,111	3,071	6,043	7,140
Ratio of earnings to fixed charges	$ (0.56)	$ (4.50)	$ (4.25)	$ 0.30)	$ (0.03)

	December 31, 2005	December 31, 2004	September 30, 2006
Balance Sheet Data:			
Current assets	$ 18,505	$ 29,441	$ 14,334
Long-term assets	$ 22,815	$ 31,895	$ 20,253
Current liabilities	$ 48,679	$ 82,339	$ 49,426
Long-term liabilities	$ 1,025	$ 79	$ 430
Stockholders' deficit	$ 8,384	$ 21,082	$ 15,269
Book value per common share	$ (0.48)	$ (3.82)	$ (0.83)

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of December 20, 2006, concerning shares of our voting securities beneficially owned by (i) each stockholder known by us to be the beneficial owner of more than 5% of the outstanding voting securities of the Company, (ii) each of our directors and executive officers, and (iii) all directors and executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Brown Brothers Harriman & Co.(2)	14,592,428	79.07%
Lawrence C. Tucker(2)	14,594,560	79.07%
Andrew C. Cowen(3)(11)	2,110	*
Richard F. LaRoche, Jr.(4)(11)	26,788	*
W. Andrew Krusen, Jr.(5)(11)	25,886	*
Roy Neel (6)(11)	25,044	*
Raymond L. Golden (7)(11)	25,044	*
Horace J. Davis III(8)(11)	209,500	*
Donald C. Davis (11)	80,200	*
Michael Slauson (9)(11)	82,516	*
Paul T. Kohler (10)(11)	76,080	*
All directors and officers as a group(1)	15,147,728	82.08%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the aggregate number of shares beneficially owned by the individual stockholders and groups of stockholders described above and the percentage ownership of such individuals and groups, shares of common stock subject to convertible securities currently convertible or convertible or convertible within 60 days and shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of the date of this report are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of the other stockholders or groups of stockholders.

(2) This information is derived from a Schedule 13D dated November 20, 2000, as amended July 12, 2001, August 3, 2001, August 26, 2004, December 3, 2004, July 18, 2005, September 2, 2005, October 3, 2005, December 20, 2005 and January 18, 2006, filed jointly by Brown Brothers Harriman & Co., The 1818 Fund III, L.P., T. Michael Long and Lawrence C. Tucker. Each of these parties is shown to have shared voting and dispositive power with respect to all of the shares shown, except that Mr. Tucker’s shares include 2,132 shares deemed beneficially owned by him by virtue of certain stock options currently exercisable or which become exercisable within 60 days. The address of Brown Brothers Harriman & Co., The 1818 Fund III, L.P., T. Michael Long and Lawrence C. Tucker is 140 Broadway, New York, New York 10005.

(3) Common Stock includes 2,110 shares deemed beneficially owed by Mr. Cowen by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(4) Common Stock includes 1,288 shares deemed beneficially owned by Mr. LaRoche by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(5) Common Stock includes 866 shares deemed beneficially owned by Mr. Krusen by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(6) Common Stock includes 44 shares deemed beneficially owned by Mr. Neel by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(7) Common Stock includes 44 shares deemed beneficially owned by Mr. Golden by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(8) Common Stock includes 9,500 shares deemed beneficially owned by Mr. Davis by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(9) Common Stock includes 7,200 shares deemed beneficially owned by Mr. Slauson by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(10) Common Stock includes 1,080 shares deemed beneficially owned by Mr. Kohler by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(11) The stockholder’s address is c/o Trinsic, Inc., 601 South Harbour Island Boulevard, Suite 220, Tampa, Florida 33602.

TRADING MARKET AND PRICE OF OUR COMMON STOCK AND DIVIDEND POLICY

Our Common Stock is traded under the symbol "TRINE" through the OTC Electronic Bulletin Board maintained by the National Association of Securities Dealers, Inc. The OTC Bulletin Board has no financial eligibility standards and is totally separate from the National Association of Securities Dealers Automatic Quotation System. The following table sets forth the range of high and low sales prices for our Common Stock for the fiscal periods indicated.

Year Ended December 31, 2006	**Low**	**High**
1st Quarter	$0.53	$1.05
2nd Quarter	$0.38	$0.80
3rd Quarter	$0.20	$0.47
4th Quarter through December 21	$0.14	$0.33
Year Ended December 31, 2005	**Low**	**High**
1st Quarter	$0.50	$1.82
2nd Quarter	$0.22	$0.59
3rd Quarter	$0.12	$2.05
4th Quarter	$0.36	$1.93
Year Ended December 31, 2004	**Low**	**High**
1st Quarter	$2.00	$4.79
2nd Quarter	$1.25	$3.19
3rd Quarter	$0.29	$1.41
4th Quarter	$0.33	$2.60

We have not paid any cash dividends to our stockholders since our inception and at this time we do not anticipate making any payments in the future. Any future declaration and payment of cash dividends will be subject to the discretion of the Board and will depend upon our results of operations, financial condition, cash requirements, future prospects, changes in tax legislation and other factors deemed relevant by our Board.

On December 21, the last trading day prior to the date of this Information Statement, our Common Stock's closing price was $0.17.

OTHER MATTERS

The Board of Directors is not aware of any other matters which are to be presented at the Special Meeting. However, if any other matter should properly come before the Special Meeting, the persons entitled to vote on that matter will be given the opportunity to do so.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Exchange Act and in accordance with the Exchange Act file reports, information statements and other information with the SEC. These reports, information statements and other information can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of this material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. In addition, these reports, information statements and other information are available on the SEC's website (http://www.sec.gov).

By Order of the Board of Directors,

Horace J. Davis III
Chief Executive Officer
Dated: , 2007
Atmore, Alabama

ANNEX A-1

**CERTIFICATE OF AMENDMENT
OF THE AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION OF
TRINSIC, INC.**

TRINSIC, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "DGCL"), hereby certifies as follows:

FIRST: The name of the Corporation is TRINSIC, INC. (the "Corporation").

SECOND: Article IV of the Corporation's current Restated Certificate of Incorporation, as amended, is hereby amended to include the following text as Subsection D to Article IV:

"D. Upon this Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the corporation becoming effective in accordance with the General Corporation Law of the State of Delaware (the "Effective Time"), each fifty (50) shares of Common Stock, par value $.01 per share, of the corporation ("Old Common Stock") issued and outstanding immediately prior to the Effective Time shall be automatically reclassified as and converted into one (1) share of Common Stock, par value $.01 per share, of the corporation ("New Common Stock"); provided that no fractional shares of New Common Stock shall be issued to any holder of fewer than 50 shares of Old Common Stock, and that in lieu of issuing such fractional shares of New Common Stock to such holders, such fractional shares shall be cancelled and converted into the right to receive the cash payment of $0.35 per share of Old Common Stock.

Subject to the fractional share treatment described above, certificates for Old Common Stock will be deemed for all purposes to represent the appropriately reduced number of shares of New Common Stock, automatically and without the necessity of presenting the same for exchange."

THIRD: This Certificate of Amendment of the Corporation's Amended and Restated Certificate of Incorporation has been duly adopted by the Board of Directors and Stockholders of the Corporation in accordance with the provisions of Section 242 of the DGCL.

IN WITNESS WHEREOF, TRINSIC, INC., has caused this certificate to be duly executed in its corporate name on this day of , 2007.

TRINSIC, INC.

By:
Name:
Title:

ANNEX A-2

**CERTIFICATE OF AMENDMENT
OF THE AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION OF
TRINSIC, INC.**

TRINSIC, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "DGCL"), hereby certifies as follows:

FIRST: The name of the Corporation is TRINSIC, INC. (the "Corporation").

SECOND: Article IV of the Corporation's current Restated Certificate of Incorporation, as amended, is hereby amended to include the following text as Subsection E to Article IV:

"E. Upon this Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the corporation becoming effective in accordance with the General Corporation Law of the State of Delaware (the "Effective Time"), each one (1) share of Common Stock, par value $.01 per share, of the corporation ("Old Common Stock") issued and outstanding immediately prior to the Effective Time shall be automatically reclassified as and converted into fifty (50) shares of Common Stock, par value $.01 per share, of the corporation ("New Common Stock")

Each stock certificate that, immediately prior to the Effective Time, represented shares of Old Common Stock shall, from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent that number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified."

THIRD: This Certificate of Amendment of the Corporation's Amended and Restated Certificate of Incorporation has been duly adopted by the Board of Directors and Stockholders of the Corporation in accordance with the provisions of Section 242 of the DGCL.

IN WITNESS WHEREOF, TRINSIC, INC., has caused this certificate to be duly executed in its corporate name on this day of , 2007.

TRINSIC, INC.

By:
Name:
Title:

ANNEX B

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(MARK ONE)
|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE YEAR ENDED DECEMBER 31, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000-28467

TRINSIC, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	59-3501119
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

601 South Harbour Island Boulevard, Suite 220
Tampa, Florida 33602
(813) 273-6261
(Address, including zip code, and telephone number including area code, of Registrant's principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: COMMON STOCK, PAR VALUE $.01 PER SHARE, PREFERRED STOCK PURCHASE RIGHTS

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Exchange Act.)

Yes No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes x No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ].

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (as defined in Rule 12b-2 of the Exchange Act.) Large accelerated filer Accelerated filer Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant’s most recently completed second fiscal quarter. $2,390,703.

The number of shares of the Registrant's Common Stock outstanding as of March 30, 2006 was approximately 17,559,119.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement relating to its 2006 Annual Meeting of Stockholders, to be filed subsequently, are incorporated by reference into Part III of this Report.

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ITEM 1. BUSINESS

GENERAL

Trinsic, Inc. (formerly Z-Tel Technologies, Inc.) and subsidiaries (“Trinsic,” “we” or “us”) is a provider of residential and business telecommunications services. We offer local and long distance telephone services in combination with enhanced communications features accessible through the telephone, the Internet and certain personal digital assistants. In 2004 we began offering services utilizing Internet protocol, often referred to as “IP telephony,” “voice over Internet protocol” or “VoIP.” We provide services at both the retail and wholesale level.

At the retail level, we provide our traditional circuit-switched local services in forty-nine states. Our facilities based residential services are provided to customers in some areas of New York City and our business VOIP offerings are limited to the New York City metropolitan area and Tampa. Excluding VoIP lines, we served at year end 2005 under the Trinsic ‘brand” approximately 105,000 retail residential lines, 41,000 retail business lines, and 30,000 retail stand-alone long distance lines. We gained nearly all of the long distance customers with our acquisition of Touch 1 Communications, Inc. in April 2000. We serve approximately 3,000 VoIP lines.

We introduced our wholesale services during 2002 and Sprint Nextel Corp. (formerly Sprint Communications Company) (“Sprint”) has been our principal wholesale customer since February 2003. At the wholesale level, we served approximately 126,000 billable lines as of year end 2005. On October 26, 2005, we entered into a definitive agreement to acquire substantially all of these lines for which we currently provide services under a wholesale, "private-label" arrangement. Where regulatory authority for the transfer was completed, the transfer of in service lines was effected on February 2, 2006 and February 16, 2006. As of

today, slightly less than 10,000 wholesale lines remain in place. It is intended that these remaining wholesale lines will be transferred to Trinsic as further regulatory approvals are obtained over the course of the next 60 days.

Historically we have utilized the unbundled network elements platform (“UNE-P”) as the primary basis of delivering our services to our retail customers and to the end users of our wholesale customers. Under UNE-P, we utilize various unbundled elements of the traditional local telephone companies ("incumbent local exchange carriers" or "ILECs") to facilitate the delivery of our services to end users. Our access to ILEC networks has historically been based upon the Telecommunications Act of 1996 (the "Telecommunications Act") which imposed a variety of duties upon the ILECs, including the duty to provide “competitive local exchange carriers” (“CLECs”), like us, with access to the individual components of their networks. Court decisions and rulings by the Federal Communications Commission (“FCC”), however, have sharply limited our rights to access the ILEC networks and have directly and negatively impacted the cost of obtaining that access. FCC rules effective on March 11, 2005 eliminated mandatory national access to UNE-P for new customers and required us to transition our customers to alternative arrangements within one year unless we entered into commercial service agreements with ILECs that provided otherwise. We have entered into commercial services agreements with BellSouth, Qwest, Verizon and SBC Communications that will allow us to continue utilizing UNE-P in their territories. See the section of this Item 1 entitled “Government Regulation” and Item 1A. Risk Factors.

We have invested heavily in our enhanced communications platform and our operational support systems. Our enhanced communications platform enables us to offer distinctive Web integrated and voice activated features. Our advanced operational support systems are functionally integrated to support the entire customer life cycle including price quotation, order entry and processing, ILEC interaction, customer care, billing and subscriber management. We believe our operational systems are scalable, both vertically and horizontally, and give us reliable, flexible, low-cost operational capabilities.

SEGMENT FINANCIAL INFORMATION

For internal reporting purposes, we evaluate our business performance in terms of two segments: retail services and wholesale services. Financial information relating to both segments (including information relating to the revenue contributed by our services) is set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and footnote 23 "Segment Reporting" in the "Notes to the Consolidated Financial Statements."

INDUSTRY BACKGROUND

The Telecommunications Act of 1996 (the "Telecommunications Act") was enacted principally to foster competition in the local telecommunications markets. The Telecommunications Act imposed a variety of duties upon the ILECs, including the duty to provide other communications companies, like us, with access to the individual components of their networks, called "network elements," on an unbundled basis at any feasible point and at rates and on terms and conditions that were just, reasonable and nondiscriminatory. A network element is a facility or piece of equipment of the ILEC’s network or the features, functions or capabilities such facility or equipment provides. In 1996, the FCC, pursuant to the Telecommunications Act, mandated that incumbent local exchange carriers provide access to a set of unbundled network elements including, among other elements, local loops (i.e. the wires that reach from the ILEC central office to the end user’s premises), switching, transport and signaling. This combined set of elements is referred to as the "unbundled network element platform" or "UNE-P." Moreover, the FCC mandated that ILECs must provide the unbundled network element platform at rates based on a forward-looking, total long-run incremental cost methodology. Court decisions and FCC rulings over the past two years have substantially reversed these earlier FCC mandates. (See the section of this Item 1 entitled “Government Regulation” and Item 1A. Risk Factors.)

The Telecommunications Act also established procedures by which the regional Bell operating companies (“Bell operating companies”) were allowed to handle "in-region" long distance calls, that is, calls that originated from within their telephone service areas and terminated outside their service areas. The 1984 court order that divided AT&T

prohibited Bell operating companies from providing "in-region" long distance telephone service. Under the Telecommunications Act, Bell operating companies could provide such in-region service if they demonstrated to the FCC and state regulatory agencies that they complied with a 14-point regulatory checklist, including offering interconnection to other communications companies, like us, and providing those companies access to their unbundled network elements on terms approved by a state public service commission. Bell operating companies received authority to provide in-region long distance services in all applicable states. However, the Section 271 "checklist" is a continuing obligation pursuant to section 271(d)(6) of the Telecommunications Act. (See section of this report entitled “Government Regulation.”)

RETAIL SERVICES

Within the retail segment, our principal services are traditional, circuit-switched local and long-distance telephone services for residences and businesses.

Circuit-Switched Residential Services

Our local residential circuit-switched telephone service is typically bundled with long distance and a suite of our proprietary Internet-accessible and voice-activated functions called “Trinsic Center.” The enhanced features include voicemail, “Find Me” "Notify Me," caller identification, call forwarding, three-way calling, call waiting, speed dialing and Personal Voice Assistant™ (“PVA”), which utilizes voice-recognition technology so that users can access secure, online address books from any phone using simple voice commands in order to send voice e-mails, find contact information and dial numbers, among other things. We offer various plans, including unlimited plans that include unlimited, nationwide, direct-dialed long distance calling toll-free and lower priced plans that include a limited number of long distance minutes at no additional charge. Bell operating company customers switching to our local services keep their existing phone numbers. We currently provide residential services in every state except Alaska, in areas served by a Bell operating company or Sprint and areas formerly served by GTE.

Our residential service includes unique features, all of which can be accessed and manipulated by telephone or Internet. Our proprietary voicemail enables subscribers to retrieve and listen to their voice-mail messages via telephone or the Internet. Our voicemail system also enables users to forward voicemails via e-mail, as attachments. Our "Find-Me" feature forwards an incoming call to as many as three additional numbers. Our "Notify Me" feature notifies the subscriber via e-mail, pager or ICQ Internet Chat (instant messaging) when a new voice mail message arrives. Both “Find Me” and “Notify Me” are accessible via the Internet so that users may easily enable, disable or otherwise alter the functions. PVA allows users to store contacts in a virtual address book and then access and utilize that information through voice commands from any telephone. Users say "call" and the contact's name, "call John Doe" for example, and PVA connects the call. PVA users can also send voice e-mails. Users record a message via telephone and instruct PVA to deliver the message to a contact. PVA then attaches the voice message to an e-mail and sends the e-mail to the contact.

We market and sell residential services primarily through direct mail, telemarketers, joint marketing efforts with entities that have access to large numbers of consumers, independent sales contractors (including multi-level marketing companies) and referral programs.

Circuit-Switched Business Services

Our local business circuit-switched business telephone service is targeted to small and medium sized businesses (typically having four or fewer lines) and businesses having multiple units. The service is local telephone service bundled with long distance (1+) telephone service, calling card services and enhanced features, including our proprietary features. Because we provide service in nearly every state, our business services are particularly valuable to firms having multiple locations in various states. With us, they deal with only one telephone company. We began offering business services in 2002. We provide service in every state but Alaska, in areas served by a Bell operating company or formerly served by GTE. Current customers include Darden Restaurants, Compass, Metromedia Restaurant Group and Circuit City Stores.

We do not actively market our circuit-switched business telephone services.

Long Distance

We offer long distance services on a stand-alone basis to residences and business. Our stand-alone long-distance is a usage-based service that allows customers to use us as their primary long distance calling provider to complete their direct-dialed long distance (1+) calls. We do not actively market standalone long distance services. We gained nearly all of the long distance customers with our acquisition of Touch 1 Communications, Inc. in April 2000.

VoIP Services

We provide VoIP telephone services in areas within reach of our own IP telephony network. Our VoIP network utilizes Cisco technology and services and is integrated with our enhanced communications services platform so that in addition to increased bandwidth and service flexibility, our customers enjoy features such as PVA. The services are provided to both residences and businesses. Our facilities based residential services are provided to customers in some areas of New York City and our business VOIP services are limited to the New York City metropolitan area and Tampa.

Billing and Collection

We have three primary methods for billing and collecting from our retail customers. For our residential customers, we can (1) direct bill by mail and receive payment through a check or money order by mail; (2) charge a credit card account or (3) set up an automatic withdrawal from a checking account. Currently, we bill the majority of our retail customers by mail and receive payment through checks delivered by mail.

WHOLESALE SERVICES

Within the wholesale segment, we previously offered a comprehensive package of communications and advanced support services to other communications companies for their use in providing services to their own retail customers. Among the wholesale services provided were local exchange telephone services, long distance telephone services, our proprietary enhanced features, enhanced features we acquire from incumbent local exchange carriers, ordering, provisioning (i.e. the process by which a telephone company is established as the end user's primary telephone company), inbound sales, fulfillment, billing, collections and customer care. Our enhanced communications platform had the capability to integrate with most communications transport networks, including wireless, cable, and Internet networks.

On February 4, 2003, we signed a non-exclusive, wholesale services agreement with Sprint. The agreement gives Sprint access to our telephone exchange services and our Web-integrated, enhanced communications platform and operational support systems in connection with Sprint's local residential telephone service.

On October 26, 2005, we entered into an agreement to acquire the Sprint lines for which we currently provide services on a wholesale basis. As of February 16, 2006, over 90% of the Sprint bases had been acquired by Trinsic. Upon the completion of this transaction over the course of the next 60 days, we will no longer have a wholesale business since Sprint is currently our only wholesale customer.

OPERATIONS SUPPORT SYSTEMS

We have invested heavily in our operations systems and support platform. The platform integrates ordering, provisioning, customer care and billing functionality throughout the customer lifecycle and consequently gives us (and our wholesale customers) reliable, flexible, low-cost operational capabilities. We believe our operational systems are scalable, both vertically and horizontally. They have the capability to integrate with wireline, wireless, cable, Internet and other communications transport networks.

Our principal method of delivering services to our customers requires access to ILEC networks. To facilitate interaction with the ILECs, we have established, with outside integration and consulting assistance, electronic gateways, software and a standard internal provisioning interface. Our systems can interact with the ordering systems of multiple incumbent local exchange carriers. They reduce the number of steps required to provision a customer and consequently reduce costs and increase accuracy. Our systems also support mediation, network administration and revenue assurance.

BUSINESS STRATEGY

Our basic business strategy is to -

- Focus our resources on preserving and maintaining our existing customer base of UNE-P and VoIP customers
    - Grow these customer bases through acquisition of mature customer bases or geographic focus
- Limit our capital expenditures to capacity and required technical upgrades of existing equipment, and projects that will produce immediate or significant positive cash returns

- Identify and seek to divest assets that do not meet internal return requirements

- Continually undertake a corporate wide evaluation of expenses. This includes the consolidation of functions, divesting of unused and under utilized facilities, renegotiation of vendor contracts, extension of vendor payment terms and other cost cutting measures.

- Continue to evaluate our markets and reduce sales staffing levels and close retail outlets that do not meet minimum internal rates of returns.

GOVERNMENT REGULATION

Overview and Current Regulatory Developments

The Telecommunications Act of 1996 (the "Telecommunications Act"), signed into law on February 8, 1996, comprehensively amended the Communications Act of 1934 (the "Communications Act") and effected changes in regulation at both the federal and

state levels that impact nearly every segment of the telecommunications industry. The stated purpose of the Telecommunications Act is to promote competition in all areas of telecommunications.

Some of our services are regulated and some are not. In providing our non-common carrier services such as Personal Voice Assistant, voice mail, “Find-Me” notification and directory services, we operate as an unregulated provider of “information services,” as that term is defined in the Communications Act, and as an “enhanced service provider,” as that term is defined in the rules of the Federal Communications Commission (“FCC”). These operations currently are not regulated by the FCC or the states in which we operate. In providing residential and business telecommunications services, we are regulated as a common carrier at the state and federal level and are subject to additional rules and policies not applicable to providers of information services alone. Certain aspects of our voice over Internet protocol (“VoIP”) services (also called IP telephony services) may or may not be subject to common carrier regulation. The regulatory classification of these services is currently subject to a number of regulatory proceedings before state regulatory commissions, the FCC, and the courts. However, unlike many of our VoIP competitors, we are certified as a facilities-based competitive local exchange carrier in forty-nine states and the District of Columbia. We believe our certification as a common carrier gives us the flexibility to operate and offer our advanced IP telephony services regardless of the final regulatory classification of those services.

The local and long distance telecommunications services we provide are regulated by federal, state, and, to some extent, local government authorities. The FCC has jurisdiction over all telecommunications common carriers to the extent they provide interstate or international communications services. Each state regulatory commission has jurisdiction over the same carriers with respect to intrastate communications services. (As discussed below, the FCC has ruled that VoIP services in certain instances are “inherently interstate” and therefore subject to federal regulation, and not state level regulation.) The extent of federal or state regulation of “information services” depends upon the nature of the service offered. Local governments sometimes seek to impose franchise requirements and fees on telecommunications carriers and regulate construction activities involving public rights-of-way. Changes to the regulations imposed by any of these regulatory authorities could have a material adverse effect on our business, operating results and financial condition.

In recent years, the regulation of the telecommunications industry has been in a state of flux as the United States Congress and various state legislatures have passed laws seeking to foster greater competition in telecommunications markets. The FCC and state utility commissions have adopted many new rules to implement this legislation and encourage competition. These changes, which are still incomplete, have created new opportunities and challenges for us and our competitors. The following summary of regulatory developments and legislation is intended to describe the most important, but not all, present and proposed federal, state and local regulations and legislation affecting the telecommunications industry. Some of these and other existing federal and state regulations are the subject of judicial proceedings and legislative and administrative proposals that could change, in varying degrees, the manner in which this industry operates. We cannot predict the outcome of any of these proceedings or their impact on the telecommunications industry at this time. Some of these future legislative, regulatory or judicial changes may have a material adverse impact on our business.

FEDERAL REGULATION

FCC Policy on Unbundled Access to Network Elements of Incumbent Local Exchange Carriers

While Trinsic's regulatory environment continues to be dynamic and complex, there is one overriding issue that drives our business: our ability to interconnect with, access and use the local networks of incumbent local telephone exchange carriers (like Verizon, SBC (now AT&T), BellSouth and Qwest) to provide our services. The "incumbent local exchange carrier" or "ILEC" is the old established wireline telephone company. Non-incumbent telephone companies like us are referred to as competitive local exchange carriers or "CLECs." All of our telecommunications services, residential and business, analog and VoIP, utilize, to some extent, an ILEC network.

§ Historically, in providing our residential and business local telephone services throughout the United States, we have utilized the unbundled network element platform (or "UNE-P") which is a combination of functions and components of an ILEC network, including analog loops, switching and transport. As discussed below, FCC rules effective on March 11, 2005 restricted our access to UNE-P for new customers and are requiring us to transition our customers to alternative commercial arrangements, different networks or resale.

§ As an alternative to utilizing UNE-P, in New York City and in Tampa, Florida, we provide VoIP residential and business telephone services through a network architecture called "UNE loop," or "UNE-L." The UNE-L entry strategy requires us to establish collocation arrangements with the ILEC and have unbundled access to analog loops, and transport.

- We provide VoIP telephony services to businesses in the New York City metropolitan area and Tampa utilizing an IP network. This network requires us to purchase or lease high-capacity digital connections from the customer's premises to our IP facilities. In many instances, the only cost-effective means of obtaining that high-capacity digital connection is from the ILEC. Typically, we provide service by means of a combination of unbundled high-capacity loops and transport, which is called an "Enhanced Extended Link," or "EEL." In some situations, we obtain transport from another, non-incumbent provider but are dependent upon the ILEC for the final, "last-mile" connection to the customer premises. In those situations, we purchase an unbundled high-capacity loop from the ILEC. In the absence of access to unbundled access to high-capacity loops and transport, our only option would be to purchase these connections as retail, "special access" circuits that are available from ILECs and other providers. The prices of these retail (and largely-deregulated) special access circuits are, in many instances, substantially higher than the wholesale (and regulated) prices for unbundled network elements.

Court decisions and FCC rulings have sharply limited our ability to utilize the networks of incumbent local telephone companies to provide our services, requiring us to adjust our business plan accordingly.

On December 15, 2004, the FCC limited the availability of unbundled network elements pursuant to section 251 of the Telecommunications Act of 1996 that Trinsic utilized to provide services to our customers in the *Triennial Review Remand Order*, *Review of Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers,* WC Docket No. 04-313, CC Docket No. 01-338, FCC 04-290 (rel. Feb. 4, 2005). The FCC ruled that ILECs are no longer required to provide Trinsic and other entrants access to unbundled analog switching - a key component of the "unbundled network element platform" combination of elements, which is how we provide services to the vast majority of our customers. This FCC *Triennial Review Remand Order* also limited our ability to access unbundled high-capacity loops and dedicated transport in many urban and suburban locations.

The FCC *Triennial Review Remand Order* became effective March 11, 2005. After that date, we are unable to place orders for new customers and lines that utilized unbundled switching and high-capacity loops and transport that no longer qualified for unbundling under the new rules. For Trinsic's embedded base of customers, the FCC imposed a price increase of $1 per month for each line that utilized unbundled switching and a price increase of 15% for each high-capacity loop or transport arrangement that no longer qualified for unbundling under the new rules. The FCC *Triennial Review Remand Order* also established a one-year transition period for this embedded base of customers - at the end of that transition period, currently set as March 15, 2006, the prices for access to unbundled switching and those loop and transport arrangements will no longer be federally regulated.

In the normal course of our business, we enter into contractual arrangements with ILECs for access to their networks. In order to ensure continued access to UNE-P service elements, Trinsic has signed and implemented Commercial Service Agreements with Verizon, SBC (now AT&T), BellSouth and Qwest. These agreements allow us to continue to provide UNE-P based services after the March 15th transition period. While terms contained in these Commercial Agreements include rates that are higher than previously available, the do allow us to continue providing services in much the same manner as prior to the FCC's rulings.

Court consideration of the unbundled access rules followed a parallel track. The FCC first established network element unbundling rules in its August 1996 *Local Competition Order* in CC Docket No. 96-98. Those rules were appealed to the Eighth Circuit Court of Appeals and later to the U.S. Supreme Court. In its January 25, 1999 *AT&T v. Iowa Utilities Board* ruling, the Supreme Court remanded the network unbundling rules to the FCC for further consideration of the necessity of each one under the Telecommunications Act's statutory standard for unbundling. On November 5, 1999, the FCC released an order (referred to as the *UNE Remand Order)* that retained many of its original list of unbundled network elements, but providing further explanation of the need for such unbundling and eliminated the requirement that incumbent local exchange carriers provide unbundled access to operator services and directory assistance and limiting unbundled access to local switching in certain geographic areas. With regard to operator services and directory assistance, the FCC concluded that the market has developed since 1996 such that competitors can and do self-provision these services, or acquire them from alternative sources. The FCC also noted that incumbent local exchange carriers remain obligated under the non-discrimination requirements of the Communications Act of 1934 to comply with the reasonable request of a carrier that purchases these services from the incumbent local exchange carriers to rebrand or unbrand those services, and to provide directory assistance listings and updates in daily electronic batch files. With regard to unbundled local switching, the FCC concluded that, notwithstanding the incumbent local exchange carriers' general duty to provide unbundled local circuit switching, an incumbent local exchange carrier is not required to unbundle local circuit switching for competitors for end-users with four or more voice grade (DSO) equivalents or lines, provided that the incumbent local exchange carrier provides nondiscriminatory access to combinations of unbundled loops and transport (also known as the "Enhanced Extended Link" or "EEL") throughout Density Zone 1, and the incumbent local exchange carrier's local circuit switches are located in (i) the top 50 Metropolitan Statistical Areas as set forth in Appendix B of the Third Report and Order and Fourth Further Notice of Proposed Rulemaking in CC Docket No. 96-98, and (ii) in Density Zone 1, as defined in the FCC's rules. For operator services and directory assistance, as well as for unbundled local switching, the FCC noted that the competitive checklist contained in Section 271 of the Communications Act of 1934 requires Bell operating companies to provide

nondiscriminatory access to these services. Thus, Bell operating companies must continue to provide these services to competitors; however, Bell operating companies may charge different rates for these offerings.

The FCC's 1999 *UNE Remand Order* was appealed by several parties to the United States Court of Appeals for the D.C. Circuit, including incumbent local exchange carriers, *USTA v. FCC*. In addition, competitive carriers sought reconsideration of that decision, including the FCC's limitation on the availability of unbundled local switching, before the FCC. While that appeal was pending, the FCC, on December 20, 2001, released a Notice of Proposed Rulemaking in CC Dockets No. 01-338, 96-98 and 98-147 as part of its comprehensive "Triennial Review" of the 1999 *UNE Remand Order*.

While the *Triennial Review* proceeding was pending before the FCC, the D.C. Circuit ruled in the *USTA* appeal of the 1999 *UNE Remand Order.* The D.C. Circuit reversed the *UNE Remand Order* on the court's belief that the FCC had not taken into sufficient account the availability of substitutes for unbundled network elements from outside incumbent local telephone networks. The court called upon the FCC to engage in a detailed "granular" review as to whether any particular network element should be unbundled, based upon a specific analysis as to whether competitors could obtain comparable elements from other sources or whether a network element possessed "natural monopoly" characteristics. In addition, the D.C. Circuit required that the FCC balance the benefits of unbundling for competitors and consumers against the costs that unbundling might impose upon incumbent local telephone companies. Competitors filed for review of the *USTA* decision before the United States Supreme Court, but the Supreme Court denied the competitors' request for an appeal.

In August 2003, the FCC released its final decision in the *Triennial Review* proceeding. In the *Triennial Review Order,* the FCC also ruled that entrants would no longer be able to access network elements utilized by incumbent local telephone companies to provide "broadband" services, such as fiber-to-the-premises loops, high-capacity transport, packet switching, line-sharing for DSL services, and fiber-fed "digital loop carrier" loops. In subsequent decisions, the FCC has even more sharply limited the ability of companies like Trinsic to obtain unbundled access to ILEC fiber optic lines. On August 9, 2004, in a reconsideration order in CC Docket No. 01-338, the FCC ruled that ILECs need not be required to unbundled fiber to multiple dwelling units, even if fiber only reaches the minimum point of entry of the building. On October 18, 2004, in a second reconsider order in CC Docket No. 01-338, the FCC ruled that "fiber-to-the-curb" loops will also be exempt from unbundling requirements just as fiber-to-the-premises loops were exempted in the August 2003 order. The FCC also clarified that ILECs were not required to add time-division multiplexing capabilities to any new packetized transmission facilities constructed in order to facilitate interconnection by competitors.

These restrictions on access to ILEC fiber networks and architecture could have a significant impact on our ability to provide services to our customers. In particular, even in situations in which Trinsic would otherwise be entitled to unbundled access to a loop, transport circuit or EEL, these exclusions could permit ILECs to refuse to offer these connections to us, on the basis that loop, transport or EELs qualifies as "fiber-to-the-premises," or "fiber-to-the-curb," or involves access to "packet switching." As a result, these exclusions from unbundling could limit our ability to provide service to customers cost-effectively and could have a significant and material impact upon our business.

The regulatory uncertainty and the absence of effective network access rules have required us to adjust our business plan in a number of ways, as discussed elsewhere in this report. As a result, these regulatory developments have had an immediate, significant, adverse and material impact upon our business. In order to minimize the impact, we entered

into discussions and executed Commercial Service Agreements with ILECs to establish commercial terms and arrangements for access to their local networks. There is no assurance that we will be able to renew these commercial arrangements with Verizon, SBC (now AT&T), BellSouth, Qwest or other ILECs at the time of their expiration. Moreover, even in the interim, the terms of those existing arrangements might require us to adjust our business plan and service offerings significantly. We may be required by these financial implications and/or regulatory developments to limit access to our service and/or withdraw from certain markets.

Pricing of Unbundled Network Elements

Even in situations where we retain the right to unbundled access under the new FCC rules (for example, analog loops and high-capacity loops and transport in many instances), the regulated pricing of those network elements is subject to change.

The FCC issued its first interconnection order on August 8, 1996 and in that *Local Competition Order,* the FCC established the pricing methodology for unbundled network elements. That methodology was Total Element Long-Run Incremental Cost, or "TELRIC." Incumbent local telephone companies and state commissions appealed the FCC's 1996 *Local Competition Order* to the United States Court of Appeals for the Eighth Circuit. On July 18, 1997, the Eighth Circuit issued a decision vacating the FCC's pricing rules, as well as certain other portions of the FCC's interconnection rules, on the grounds that the FCC had improperly intruded into matters reserved for state jurisdiction. On January 25, 1999, the Supreme Court, in *AT&T Corp. v. Iowa Utilities Board*, largely reversed the Eighth Circuit's holding that the FCC has general jurisdiction to implement the local

competition provisions of the Telecommunications Act. In so doing, the Supreme Court stated that the FCC has authority to set pricing guidelines for unbundled network elements, to prevent incumbent local exchange carriers from physically separating existing combinations of network elements, and to establish "pick and choose" rules regarding interconnection agreements.

The Supreme Court in 1999 did not evaluate the specific forward-looking pricing methodology mandated by the FCC and remanded the case to the Eighth Circuit for further consideration. Some incumbent local exchange carriers argued that this pricing methodology does not allow adequate compensation for the provision of unbundled network elements. The Eighth Circuit subsequently upheld the FCC's TELRIC rules, which use forward-looking incremental costs as the basis for establishing rates for interconnection and unbundled network elements. The Eighth Circuit further agreed with the FCC's interpretation of the Telecommunications Act as rejecting "historical costs" as the basis for setting rates. However, the Eighth Circuit vacated the FCC's regulation, codified at 47 C.F.R. Sec. 51.505(b), setting forth the FCC's approach to computing forward-looking incremental costs, and directed the FCC to review its approach so that it is based on the costs incurred by the incumbent local exchange carrier to provide the actual facilities and equipment that will be used by the requesting carrier instead of the lowest cost based on the most efficient technologies currently available. In 2001, the United States Supreme Court granted a writ of certiorari to the Eighth Circuit decision, and in 2002, in *Verizon v. FCC,* the Supreme Court upheld the FCC's TELRIC pricing rules.

Although the FCC's TELRIC rules have been supported by the courts, the establishment of rates occurs on a state-by-state basis and is subject to change. Some states are currently re-evaluating the pricing of these unbundled network elements. As a result, it is possible that prices in some states could increase or lower rates over existing levels. Our intent is to be an active participant in many of these rate cases and any others that might be critical to our operations. We anticipate joining other competitive service providers on a limited basis in arguing that existing rates and rates proposed by the incumbents are overstated and do not reflect the true total element long run incremental costing principles required by the FCC and the Telecommunications Act.

Despite the fact that the TELRIC rules have been supported by the courts, the FCC is currently reevaluating several of these rules, by means of a rulemaking notice issued in September 2003 in WC Docket No. 03-173. The FCC rulemaking proposes to modify the TELRIC methodology by mandating that states set prices based upon the forward-looking costs of operating the existing network architecture of incumbent local telephone company networks. In many instances, modifying the TELRIC methodology in this way could increase the rates we pay for certain elements; for other elements, such a modification could result in lower rates. We believe that the FCC's proposals to modify TELRIC are inconsistent with the Supreme Court's decision in the *Verizon* case, meaning that new FCC TELRIC rules may be subject to considerable litigation if they are adopted. The FCC rulemaking is still pending, and changes to the FCC's TELRIC rules could significantly alter the prices we pay for unbundled access to ILEC network elements. While the prevailing productivity trends within the industry would predict the adoption of lower rates in association with the provision of unbundled network elements and network element combinations, we cannot predict the outcome of any pending or potential rate case or judicial proceeding. Increases or decreases in rate levels charged by incumbent local exchange carriers as a result of regulatory and/or judicial review through rate case, court case or arbitration proceedings could significantly impact our business plans.

The Rights and Obligations Common Carriers Under Federal Law

We are certified as a local exchange common carrier in forty-nine states and the District of Columbia. The Communications Act, as amended by the Telecommunications Act, imposes a number of regulatory requirements on common carriers generally and local exchange carriers specifically. There is currently significant regulatory uncertainty as to whether certain new enhanced services such as VoIP-based telephone services must be subject to common carrier regulation. We believe that having our common carrier licenses gives us the flexibility to provide our customers a broad array of services and does not make our service offerings dependent upon any one particular regulatory classification.

In addition, our status as a common carrier gives us rights under section 251 of the Telecommunications Act to interconnect with, obtain access to, and collocate on the premises of incumbent local exchange carriers like Verizon, SBC (now AT&T), BellSouth, and Qwest. Section 251 of the Act requires ILECs to —

- provide physical collocation to other common carriers, which allows companies such as us and other competitive local exchange carriers to install and maintain our own network termination equipment in incumbent local exchange carrier central offices or, if requested or if physical collocation is demonstrated to be technically infeasible, virtual collocation;

- offer components of their local service networks on an unbundled basis to other common carriers so that other providers of local service can use these elements in their networks to provide a wide range of local services to customers (*See* FCC Policy on Unbundled Access, above); and

- establish “wholesale” rates for their services to promote resale by competitive local exchange carriers.

Companies that are not common carriers do not have the section 251 rights described above. In addition, all local exchange carriers must —

- interconnect with the facilities of other common carriers;
- establish number portability, which will allow customers to retain their existing phone numbers if they switch from the local exchange carrier to a competitive local service provider;
- provide nondiscriminatory access to telephone poles, ducts, conduits and rights-of-way; and
- compensate other local exchange carriers on a reciprocal basis for traffic originated by one local exchange carrier and terminated by another local exchange carrier.

The FCC is charged with establishing national guidelines to implement certain portions of the Telecommunications Act. FCC implementation of those provisions of the Telecommunications Act has been the subject of ongoing litigation that continues to this day. The most contentious litigation has centered around FCC and state rules regarding the rates, terms and conditions of unbundled network access, and the current status of those rules is discussed above (“FCC Policy on Unbundled Access” and “Pricing of Unbundled Network Elements”)

The rights and obligations of common carriers under federal law impact our business, as do other pending FCC proceedings. The subsections that follow outline a number of these areas. These and many other issues remain subject to further consideration by the courts and the FCC. We cannot predict the ultimate disposition of any of these and other matters.

These and other FCC determinations are likely to be the subject of further appeals or reconsideration. Thus, while the Supreme Court has resolved many issues, including aspects of the FCC’s jurisdictional authority, other issues remain subject to further consideration by the courts and the FCC. We cannot predict the ultimate disposition of any of these and other matters.

Regulation of Rates, Terms and Conditions of Interstate Service

With regard to the FCC, Trinsic is classified by the FCC as a non-dominant provider of interstate telecommunications services. In general, the FCC does not regulate the rates, services, and market entry of non-dominant telecommunications carriers, but does require them to contribute to universal service and comply with other regulatory requirements. We are currently regulated as a non-dominant carrier with respect to both our local and long distance telephone services.

As a result, we currently are not subject to rate of return regulation at the federal level and are not currently required to obtain FCC authorization for the installation, acquisition or operation of our domestic exchange or interexchange network facilities. However, we must comply with the requirements of common carriage under the Communications Act. We are subject to the general requirement that our charges and terms for our telecommunications services be “just

and reasonable" and that we not make any "unjust or unreasonable discrimination" in our charges or terms. The FCC has jurisdiction to act upon complaints against any common carrier for failure to comply with its statutory obligations. We are also subject to FCC rules that limit our ability to discontinue to provide certain interstate services; however, the FCC has implemented a process that generally permits a non-dominant, competitive company to discontinue such interstate services on an expedited basis.

We are entitled to file tariffs for the termination of interstate traffic by other carriers to our customers, and those tariffs are subject to certain FCC regulation (*See* "Interstate Tariffs and Rates," below).

Interconnection Agreements

The rights and obligations Trinsic has pursuant to section 251 and 271 of the Telecommunications Act are generally implemented through "interconnection agreements" and commercial services agreements with ILECs through which we obtain access to the ILEC networks.

In the normal course of business, we have entered into interconnection agreements and commercial service agreements with the ILECs in all states where we currently offer local exchange services. However, at any point in time an interconnection agreement may not contain the best-available terms offered to our competitors, a situation that could adversely affect our ability to compete in

the market. In addition, several of our interconnection agreements with Verizon, SBC (now AT&T) and BellSouth have expired. The terms of those contracts provide for the agreements to continue in place until a replacement is executed or upon termination by either party. The incentive of the incumbent local exchange carrier to negotiate fair or proper interconnection agreement terms is a function of the willingness and authority of state commissions and the FCC to enforce rules and policies promulgated under the Telecommunications Act. The potential cost in resources and delay from this interconnection agreement negotiation and arbitration process could harm our ability to compete in certain markets, and there is no guarantee that a state commission would resolve disputes, including pricing disputes, in our favor.

The ability of a CLEC like Trinsic to enforce interconnection agreements with incumbent local exchange carriers or appeal state commission arbitrations regarding such agreements is currently subject to considerable legal uncertainty. A January 2002 decision by the United States Circuit Court for the Eleventh Circuit ruled that the Georgia state commission did not have authority to enforce interconnection agreements between incumbent local exchange carriers and new entrants. This decision is in apparent conflict with decisions by other United States Circuit Courts. As a result of this decision, litigating enforcement of interconnection agreements in state or federal courts in the Eleventh Circuit and elsewhere could substantially increase the cost of such litigation. A November 2003 decision by the United States Circuit Court for the Fifth Circuit ruled that state commission jurisdiction to arbitrate terms and conditions of access pursuant to section 252 may relate only to items specifically-related to section 251 of the 1996 Act and other items voluntarily negotiated by the parties. That decision could limit our ability to arbitrate acceptable interconnection terms with incumbent local telephone companies before state commissions; at the same time, that decision could enhance our ability to resist inclusion of clauses in our contracts by those ILECs that we deem unacceptable.

Collocation

The FCC has adopted rules designed to make it easier and less expensive for competitive local exchange carriers to collocate equipment at incumbent local exchange carriers' central offices by, among, other things, restricting the incumbent local exchange carriers' ability to prevent certain types of equipment from being collocated and requiring incumbent local exchange carriers to offer alternative collocation arrangements, such as cageless collocation. Restrictions and impediments to collocation could harm our business, as we collocate in ILEC central offices to provide both our UNE-L network services and our network VoIP services.

The FCC's collocation rules have been subject to a number of legal challenges by incumbent local telephone companies. On June 18, 2002, the D.C. Circuit affirmed the legality of the FCC's collocation rules in *Verizon Telephone Companies v. FCC*. In the process of these court challenges, the FCC was required to modify its rules in a way that could increase the cost and time for competitors to collocate equipment and could have a substantial and material impact on Trinsic's future network deployment.

Line Sharing, Line Splitting, and Dialtone-DSL Tying

In the *Triennial Review Order,* the FCC eliminated its rules that required ILECs to facilitate "line-sharing" arrangements. Line-sharing permits a competitive carrier to obtain unbundled access to the high-frequency portion of a loop in order to provide DSL on that loop while the ILEC continues to provide analog dialtone service over the low frequencies. Line-splitting is an alternative arrangement that permits one competitive carrier to provide DSL service

over the high-frequency portion of an ILEC's loop while another competitive carrier provides analog dialtone service over the ILEC's loop. FCC rules adopted in 1999 (for line-sharing) and 2001 (for line-splitting) required ILECs to offer to facilitate these arrangements on an unbundled basis. The FCC eliminated these requirements in the 2003 *Triennial Review Order*. The elimination of the line-sharing rules could harm Trinsic's business. If a customer chooses to purchase DSL from the ILEC, Trinsic's ability to provide voice services over that facility will be limited.

Many ILECs require their DSL customers to purchase analog dialtone service from them as well. Those policies limit the market for VoIP services that utilize broadband, DSL connections to provide dialtone service, as DSL customers will have already purchased dialtone from the ILEC. The FCC is also considering a petition filed by BellSouth that would preempt state orders in Kentucky, Georgia and Louisiana that order BellSouth to stop requiring its DSL customers to purchase analog dialtone service from BellSouth. Trinsic and other entrants have opposed BellSouth's efforts to "tie" the sale of DSL to analog dialtone service on the basis that such a policy has an unreasonable and unlawful effect of suppressing competition for VoIP services. The FCC has not yet ruled on the BellSouth petition.

Bell Operating Company Entry into the Long Distance Market.

The Telecommunications Act permitted the Bell operating companies (Verizon, SBC (now AT&T), Qwest, and BellSouth) to provide long distance services outside their local service regions immediately, and permits them to provide in-region long distance service upon demonstrating to the FCC that they have adhered to the Telecommunication Act's Section 271 14-point competitive

checklist. The FCC must also find that granting the application would be in the "public interest." Bell operating companies have received long-distance authority in all 50 states.

With Bell operating companies authorized to provide long-distance service nationwide, it is generally expected that competition for Trinsic's local and long-distance services will increase. Section 271 entry permits the Bell operating company to offer a bundle of local, long-distance and enhanced services comparable to Trinsic's services and therefore could increase competition and harm our business, especially if we cannot obtain adequate access to unbundled network elements from that same Bell operating company.

At the same time, the Section 271 process also provides an important ongoing incentive for Bell operating companies to comply with the unbundling and interconnection requirements of the Telecommunications Act. The section 271 "competitive checklist" specifically requires Bell companies to provide competitors access to "loop transmission", "switching", "transport" and "signaling." In the *Triennial Review Order*, the FCC ruled that these section 271 checklist requirements were independent legal obligations that Bell companies must comply with, regardless of the status of the unbundling rules under section 251. In the *USTA II* decision, the D.C. Circuit characterized this independent legal obligation as a "reasonable" approach. The *Triennial Review Remand Order* issued earlier this year did not directly address the question of a Bell company's statutory obligation under section 271 of the Act to provide access to the network elements specifically-enumerated in section 271, particularly with regard to checklist item six, "switching", even if those network elements are not required to be unbundled pursuant to section 251. However, the FCC ruled that with regard to the "broadband" network elements that it did not require to be unbundled under section 251 in the 2003 *Triennial Review Order,* the FCC ruled that Bell companies are not required to offer access to broadband elements pursuant to section 271 absent a 251 unbundling requirement. Trinsic disagrees with that FCC ruling. All of the Bell companies have currently pending before the FCC petitions requesting that the FCC "forbear" from these independent section 271 regulatory requirements. Trinsic has vigorously opposed those petitions. Trinsic will vigorously enforce its rights to access to Bell company networks pursuant to the independent legal authority that the section 271 checklist requires. If the FCC, state commissions or the courts do not enforce section 271 checklist items as separate obligations on Bell companies, our ability to provide service to our customers and our business would be harmed.

Universal Service Contributions.

In May 1997, the FCC released an order establishing a significantly expanded universal service regime to subsidize the cost of telecommunications service to high cost areas, as well as to low-income customers and qualifying schools, libraries and rural health care providers. Providers of interstate telecommunications services, like us, as well as certain other entities, must pay for these programs. We are also eligible to receive funding from these programs if we meet certain requirements. Our share of the payments into these subsidy funds is based on our share of certain defined "interstate telecommunications end-user revenues." Currently, the FCC assesses funds owed bas