SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-06-30**
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USCI INC

CIK:**907069**| IRS No.: **133702647** | State of Incorp.:**DE** | Fiscal Year End: **1231**
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

Commission File Number 0-22282.

USCI, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)

13-3702647 (IRS Employer Identification No.)

6115-A Jimmy Carter Blvd., Norcross, Georgia 30071
(Address of principal executive offices) (Zip Code)

(770) 840-8888

(Registrant's telephone number including area code)

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 [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the Issuer's classes of Common Stock, as of the latest practicable date:

As of August 31, 1999, 92,826,873 shares of $.0001 par value Common Stock were outstanding.

USCI, INC.
FORM 10-Q
INDEX

<TABLE>
<S> <C> <C>

Part I	FINANCIAL INFORMATION	PAGE NO.
Item 1.	Condensed Consolidated Financial Statements	

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		Condensed Consolidated Balance Sheets as of June 30, 1999 and December 31, 1998	3
		Condensed Consolidated Statements of Operations and Accumulated Deficit for the Three months ended June 30, 1999 and June 30, 1998	4
		Condensed Consolidated Statements of Operations and Accumulated Deficit for the Six months ended June 30, 1999 and June 30, 1998	5
		Condensed Consolidated Statements of Cash Flows for the Six months ended June 30, 1999 and June 30, 1998	6
		Notes to Condensed Consolidated Financial Statements	7-8
	Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the Six and Three months Ended June 30, 1999 and June 30, 1998	9-14
PART II	OTHER INFORMATION		
	Item 1	Legal Proceedings - None	15
	Item 2	Changes in Securities - None	
	Item 3	Default Upon Senior Securities - None	
	Item 4	Submission of Matters to a Vote of Security Holders - None	
	Item 5	Other Information - None	
	Item 6	Exhibits and Reports on Form 8-K	15

</TABLE>

Part I
Item 1

USCI, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	June 30, 1999 (unaudited)	December 31, 1998*
ASSETS		
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents, including restricted cash of $181,500 in 1999 and $454,124 in 1998	$ 394,225	$ 754,758
Accounts receivable--trade, net of allowances of		

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$10,552,723 in 1999 and $11,787,545 in 1998	10,100,096	8,212,484
Accounts receivable-other	36,178	47,533
Prepaid expenses	2,019,668	310,000
Total current assets	12,550,167	9,324,775
PROPERTY AND EQUIPMENT, net	1,008,068	1,555,366
OTHER ASSETS	1,307,679	1,531,740
Total Assets	$14,865,914	$12,411,881
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Credit Facility	$10,843,394	$2,955,232
Other payables	2,556,693	2,700,000
Accounts payable and bank overdraft	10,425,652	10,805,063
Accrued expenses	5,920,286	4,069,927
Commissions payable	342,434	362,416
Total current liabilities	30,088,459	20,892,638
OTHER LIABILITIES	8,790,657	14,354,096
Total liabilities	38,879,116	35,246,734
STOCKHOLDERS' DEFICIT:		
Convertible preferred stock, $.01 par value; 5,000 shares authorized, 1,743 shares issued at June 30, 1999 and 1,910 shares issued at December 31, 1998	17	19
Common stock, $.0001 par value; 100,000,000 shares authorized; 92,826,873 shares issued at June 30, 1999 and 12,006,828 shares issued at December 31, 1998	9,284	1,201
Additional paid-in capital	65,925,174	63,453,345
Accumulated deficit	(89,919,627)	(86,261,368)
Treasury stock, at cost, 5,500 shares in 1999 and 1998	(28,050)	(28,050)
Total stockholders' deficit	(24,013,202)	(22,834,853)
Total liabilities and stockholders' deficit	$14,865,914	$12,411,881

</TABLE>

* Condensed from audited financial statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

USCI, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

Three Months Ended June 30,

(Unaudited)

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<TABLE>
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<S>	1999 <C>	1998 <C>
REVENUES		
Subscriber Sales	$4,126,023	$12,124,878
Total Revenues	4,126,023	12,124,878
COST OF SALES		
Cost of subscriber sales	1,703,520	7,227,092
Total cost of sales	1,703,520	7,227,092
GROSS MARGIN	2,422,503	4,897,786
OPERATING EXPENSES		
Selling, general and administrative	2,601,474	5,783,486
Subscriber acquisition and promotional costs	378,924	6,152,989
Other	380,333	0
Total Operating Expenses	3,360,731	11,936,475
OPERATING LOSS	(938,228)	(7,038,689)
Interest expense, Net	424,678	2,910,490
LOSS BEFORE INCOME TAXES	(1,362,906)	(9,949,179)
Income Taxes	0	0
NET LOSS	(1,362,906)	(9,949,179)
Preferred Dividends	78,424	126,667
Deficit at Beginning of Period	(88,478,297)	(54,681,267)
Deficit at End of Period	$(89,919,627)	$(64,757,113)
Basic and Diluted Net Loss per Share	$ (0.02)	$ (0.93)
Basic and Diluted Weighted Average Shares Outstanding	69,949,908	10,718,925

</TABLE>

The accompanying notes are an integral part of these condensed consolidated financial statements.

USCI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

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Six Months Ended June 30,
(Unaudited)

<TABLE>
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	1999	1998
<S>	<C>	<C>
REVENUES		
Subscriber Sales	$9,923,425	$21,302,934
Total Revenues	9,923,425	21,302,934
COST OF SALES		
Cost of subscriber sales	4,704,792	12,707,857
Total cost of sales	4,704,792	12,707,857
GROSS MARGIN	5,218,633	8,595,077
OPERATING EXPENSES		
Selling, general and administrative	5,759,047	11,978,206
Subscriber acquisition and promotional costs	1,116,079	12,786,501
Other	380,333	0
Total Operating Expenses	7,255,459	24,764,707
OPERATING LOSS	(2,036,826)	(16,169,630)
Interest expense, Net	1,271,540	5,338,238
LOSS BEFORE INCOME TAXES	(3,308,366)	(21,507,868)
Income Taxes	0	0
NET LOSS	(3,308,366)	(21,507,868)
Preferred Dividends	349,893	126,667
Deficit at Beginning of Period	(86,261,368)	(43,122,578)
Deficit at End of Period	$(89,919,627)	$(64,757,113)
Basic and Diluted Net Loss per Share	$ (0.09)	$ (2.04)
Basic and Diluted Weighted Average Shares Outstanding	41,138,432	10,555,707

</TABLE>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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USCI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30,
(Unaudited)

<TABLE>
<CAPTION>

<S>	1999 <C>	1998 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$(3,308,366)	$(21,507,868)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	723,353	1,201,061
Amortization of discount on notes payable	0	4,258,370
Amortization of deferred financing costs	86,600	629,600
Provision for losses on accounts receivable	637,000	983,721
Changes in operating assets and liabilities:		
Accounts receivable - trade	(2,524,612)	(10,940,156)
Accounts receivable - other	11,355	312,693
Inventory	0	17,588
Prepaids and other assets	318,434	(33,518)
Commissions payable	(19,983)	(315,109)
Accounts payable and accrued expenses	2,768,907	6,467,320
Promotional deposits	0	(200,000)
Total adjustments	2,001,054	2,381,570
Net cash used in operating activities	(1,307,312)	(19,126,298)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(11,085)	(276,622)
Net cash used in investing activities	(11,085)	(276,622)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and line of credit	10,564,896	13,589,200
Repayments of notes payable	(9,473,399)	(6,452,757)
Issuance of common stock	0	3,625,513
Costs associated with issuance of common stock	0	(185,970)
Issuance of preferred stock	0	10,000,000
Costs associated with issuance of preferred stock	0	(1,084,075)
Issuance of stock upon exercise of warrants	0	3,751
Issuance of stock upon exercise of options	0	893
Costs associated with term loan and line of credit	(133,633)	(388,710)
Net cash provided by financing activities	957,864	19,107,845
NET DECREASE IN CASH	(360,533)	(295,075)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	754,758	1,105,530
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 394,225	$ 810,455

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INTEREST PAID DURING THE PERIOD	$ 618,695	$ 334,675
	============	=============
WARRANTS ISSUED IN CONNECTION WITH DEBT FINANCING	$ 0	$ 4,647,000
	============	=============

</TABLE>
The accompanying notes are an integral part of these condensed consolidated financial statements.

USCI, INC.
Notes to Condensed Consolidated Financial Statements
June 30, 1999
(Unaudited)

Note 1: BASIS OF PRESENTATION
The unaudited financial information furnished herein in the opinion of management reflects all adjustments which are necessary to fairly state the Company's financial position, the results of its operations and its cash flows. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 1998. Footnote disclosure which would substantially duplicate the disclosure contained in those documents has been omitted. Operating results for the six month period ended June 30, 1999 are not necessarily indicative of the results that may be expected for the year ended December 31, 1999.

Note 2: LOSS PER SHARE
Basic earnings per share are based on the weighted average number of shares outstanding. Diluted earnings per share are based on the weighted average number of shares outstanding and the dilutive effect of outstanding stock options and warrants (using the treasury stock method). For all periods presented, outstanding options and warrants have been excluded from diluted weighted average shares outstanding, as their impact was antidilutive.

Net loss for the six and three month periods ended June 30, 1999 is adjusted by dividend requirements of $349,893 and $78,424, respectively, related to the Company's Convertible Preferred Stock.

Note 3: CREDIT FACILITY
On April 14, 1999, we entered into an Amended and Restated Loan and Security Agreement with Foothill Capital Corp. in which the original Loan and Security Agreement entered into on June 5, 1998 was amended to restructure the existing credit facility by reducing the total facility to $17.5 million. Additionally, certain of our preferred shareholders and certain other persons have entered into a Participation Agreement with Foothill Capital Corp. ("Foothill") in connection with the restructuring of the our outstanding $20 million credit facility with Foothill. An aggregate of $7 million has been made available by

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the participants in the Foothill facility as term loans. Although the limit of the credit facility has been reduced from $20 million to $17.5 million, the $7 million allocated for term loans will be available for working capital upon certain conditions. As of June 30, 1999, $2.6 million had been advanced and an additional $550,000 was advanced in July 1999. The balance of the $10.5 million limit has been structured as part revolver, part term loan and part letters of credit. As of June 30, 1999, $10,843,394 was outstanding comprised of revolver and term loans. Also, there were $925,000 in standby letters of credit outstanding under the line. Additionally, the financial covenants in the June 5, 1998 Agreement were replaced with revenue, subscriber and cash receipt covenants. For the month ended June 30, 1999, we were not in compliance with certain financial and other covenants. As a result, we have reclassified approximately $9 million in long-term debt to current liabilities. Foothill has continued to fund advances under our revolver. Subsequent to June 30, 1999, we obtained a waiver from Foothill until September 30, 1999 with respect to such non-compliance. We are working with Foothill to obtain a further waiver and to amend the Amended and Restated Loan and Security Agreement to better match our current business model.

Note 4: EQUITY

During the three months ended June 30, 1999 we issued common shares to various individuals as follows:

300,000 shares to the new Board of Directors (at 100,000 shares per member) as consideration for services and assistance.

520,045 replacement shares to current and former officers, directors, and other stockholders for the shares utilized in October 1997 as collateral for a letter of credit issued by an investment banker. As a result of the Company's failure

to replace the collateral with cash in January 1998, the investment banker exercised its rights to transfer the shares deposited as collateral into its name. See "Liquidity and Capital Resources".

5,000,000 shares issued to Howard Zuckerman as consideration for his operational and financial assistance and restructuring (as outlined in his consulting agreement dated May 1, 1999) from May 1, 1999 for a period of one year.

Note 5: RECLASSIFICATION

Certain prior year amounts have been reclassified to conform with the current year's presentation.

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Item 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF USCI, INC.

OVERVIEW

Historically, our revenues have consisted of commissions earned as an activation agent for cellular and paging carriers and, since the last quarter of 1996, revenues from the resale of cellular and paging services. Since completion of our transition in 1998 to becoming a reseller, we do not receive material revenues from agency commissions.

We bill our resale customers for monthly access to the underlying carrier's cellular or paging network, cellular usage based on the number, time and duration of calls, the geographic location of both the originating and terminating phone numbers, extra service features, the applicable rate plan in effect.

The wholesale cost of subscriber service includes monthly access, usage (home and roaming, long distance) and special features charges paid by us to the cellular and paging carriers.

Subscriber acquisition and promotional costs includes commission payments we make to our channels of distribution (or to equipment suppliers on their behalf) for each activation by their customers of a cellular telephone, certain advertising costs incurred by us or our distribution channels and reduced access and/or free airtime for a limited period to our cellular subscribers. These costs may be recoverable from the long-term revenue stream created by the continuation of subscribers services. Our ability to

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capture such revenue streams has been adversely affected by early service cancellations, known as churn, and by losses caused by fraudulent use of service by third persons which are not recoverable from subscribers. Under existing agreements with the carriers which provide us with cellular service, we have recovered access fraud in some instances and although not generally recoverable, subscriber fraud is also recoverable under certain circumstances. We believe that through the introduction of improved controls, the hiring of additional personnel to monitor fraud and install fraud prevention procedures, we will be able to reduce fraud in the future.

Selling, general and administrative expense include all personnel related costs, including the costs of providing sales and support services for customers, personnel required to support our operations and growth, and commissions to our independent sales representatives. It also includes the costs of the billing and information systems, other administrative expenses, bad debt expense, facilities related expenses, travel, professional fees, as well as all depreciation and amortization expenses.

We have experienced and will continue to experience significant operating and net losses and negative cash flow from operations. The loss of the RadioShack account in October 1998 further accelerated the losses and negative cash flow we had previously experienced. In response to the RadioShack termination, we reduced our workforce from 280 to 115 employees, which included a substantial number of customer service and collection personnel and reduced our leased facilities from 23,000 square feet to 18,000 square feet. The reductions in personnel resulted in reduced effectiveness of our customer service and collection departments causing higher churn rates. We believe that offering prepaid cellular services to specialized national channels of distribution and through the sales opportunities afforded by e-commerce, we could achieve positive operating margins and cash flow over time, provided that we have the capital to fund the introduction of this new marketing strategy. See "Risk Factors-Limited History of Losses; Uncertainty of Future Profitability" and "Need For Additional Financing."

RESULTS OF OPERATIONS
SIX AND THREE MONTHS ENDED JUNE 30, 1999 COMPARED TO
SIX AND THREE MONTHS ENDED JUNE 30, 1998

Revenues

Total revenues for the six months ended June 30, 1999 ("1999 Six Months"), consisting primarily of subscriber sales, were $9,923,425 as compared to $21,302,934 for the six months ended June 30, 1998 ("1998 Six Months"). Total revenues for the three months ended June 30, 1999 ("1999 Quarter"), consisting primarily of subscriber sales, were $4,126,023 as compared to $12,124,878 for the three months ended June 30, 1998 ("1998 Quarter"). The decreased revenues for the 1999 Six Months and the 1999 Quarter are attributable to a net decline in our subscriber base.

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As an agent, we received activation commissions from other wireless carriers in the first quarter of 1998. However, after we completed our transition from agent to reseller in 1998, agency activation commissions in 1999 were immaterial.

Cost of Sales

Costs of subscriber services, which consist of direct charges from cellular and paging carriers for access, airtime and services resold to our subscribers, amounted to $4,704,792 and $12,707,857 for the 1999 Six Months and the 1998 Six Months, respectively and $1,703,520 and $7,227,092 for the 1999 Quarter and the 1998 Quarter, respectively. The gross margin for subscriber sales was $5,218,633 or 52.6% and $8,595,077 or 40.4% for the 1999 Six Months and the 1998 Six Months, respectively, and $2,422,503 or 58.7% and $4,897,786 or 40.4% for the 1999 Quarter and the 1998 Quarter, respectively. The increase in the 1999 Six Months' and the 1999 Quarter's gross margin percentage is attributable to better wholesale rates experienced in areas we currently service.

Following the completion of our transition from agent to reseller, our agency commission expenses were immaterial in both the 1999 Six Months and the 1998 Six Months and the 1999 Quarter and the 1998 Quarter. Such expenses consisted primarily of commissions paid to our mass market distribution channels in the 1998 Six Months and the 1998 Quarter.

Operating Expenses

Subscriber acquisition and promotional costs represent expenses incurred by us to acquire new subscribers for our cellular and paging services. These costs consist primarily of commissions paid to retailers and outside sales representatives, below cost discounts (i.e. reduced monthly access charges or free minutes) granted to subscribers when purchasing cellular or paging services, rebates issued to subscribers and certain advertising costs. Subscriber acquisition and promotional costs amounted to $1,116,079 and $12,786,501 for the 1999 Six Months and the 1998 Six Months, respectively, and $378,924 and $6,152,989 for the 1999 Quarter and the 1998 Quarter, respectively. This decrease reflects the curtailment of acquisition of new subscribers. The decrease in these costs in the 1999 Six Months and the 1999 Quarter is also attributable to reduced activity relating to new subscribers in 1999 coupled with lower promotional costs due to the termination of promotions during a subscribers term.

Selling, general and administrative expenses for the 1999 Six Months were $5,759,047 as compared to $11,978,206 for the 1998 Six Months and were $2,601,474 for the 1999 Quarter as compared to $5,783,486 for the 1998 Quarter, reflecting our staff reductions and reduction of other operating expenses due to reduced activity. Salaries and related employee benefits decreased by 60.3% to $2,228,440 for the 1999 Six Months from $5,610,858 for the 1998 Six Months and decreased by 55.8% to $1,188,906 for the 1999 Quarter from $2,688,232 for the 1998 Quarter. Telecommunications and facilities expense decreased by 63.9% to $465,768 for the 1999 Six Months from $1,288,791 for the 1998 Six Months and decreased by 68.0% to $198,908 for the 1999 Quarter from $621,553 for the 1998 Quarter. Billing and credit review services decreased to $806,371 in the 1999 Six Months from

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$1,148,829 in the 1998 Six Months and decreased to $302,049 in the 1999 Quarter from $625,361 in the 1998 Quarter. Travel expense decreased by 89.1% to $39,604 for the 1999 Six Months from $363,114 for the 1998 Six Months and decreased by 85.6% to $24,706 for the 1999 Quarter from $171,970 for the 1998 Quarter. Professional and other fees increased to $1,041,118 in the 1999 Six Months from $785,274 in the 1998 Six Months and decreased to $420,017 in the 1999 Quarter from $444,982 for the 1998 Quarter. The increase in the 1999 Six Months over the 1998 Six Months is due to legal, consulting and other fees incurred in connection with our restructuring and reorganization as well as material litigation instituted by former customers and vendors including RadioShack and others. Depreciation and amortization for the 1999 Six Months was $723,353 as compared to $1,201,061 for the 1998 Six Months and was $361,676 for the 1999 Quarter as compared to $603,120 for the 1998 Quarter. As a percentage of revenues, the selling, general and administrative expenses were 58.0% for the 1999 Six Months and 63.1% for the 1999 Quarter compared to 136% in the fourth quarter of 1998 reflecting the Company's emphasis on controlling overhead costs.

During the three months ended June 30, 1999 we issued common shares to various individuals for either services or for replacement of shares previously used as collateral (see Footnote 4). Valuation for the shares issued for services amounted to approximately $380,000 and are included in other operating expenses.

Interest expense (net of income) was $1,271,540 for the 1999 Six Months compared to $5,338,238 for the 1998 Six Months and was $424,678 for the 1999 Quarter compared to $2,910,490 for the 1998 Quarter. The decrease in interest expense during the 1999 Six Months and the 1999 Quarter is related to $4,879,870 and $2,345,750, respectively, of non-cash charges attributable to the fair value of warrants issued in connection with three private financings offset by higher loan levels in 1999. See "Liquidity and Capital Resources".

Between January 1, 1999 and June 30, 1999, we did not add any new subscribers and our active cellular subscriber base was reduced from approximately 60,000 to approximately 33,000.

We incurred net losses of $3,308,366 and $21,507,868 for the 1999 Six Months and the 1998 Six Months, respectively, and $1,362,906 and $9,949,179 for the 1999 Quarter and the 1998 Quarter, respectively.

Liquidity and Capital Resources

Working capital deficiency at June 30, 1999 was $17,538,292 compared to $11,567,863 at December 31, 1998. Cash and cash equivalents at June 30, 1999 totaled $394,225 (of which $181,500 was restricted). We have a stockholders' deficit of $24,013,202 at June 30, 1999 compared to $22,834,853 at December 31, 1998. The increase in working capital deficiency is mostly due to the reclassification of approximately $9 million of long term debt to current liabilities due to certain defaults under the Amended and Restated Loan and Security Agreement with Foothill Capital Corp. ("Foothill") due to non-compliance with certain financial and other

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covenants which non-compliance was subsequently waived by Foothill. See Note 3. The decrease in cash and stockholders' equity is attributable to our operating loss for the six months ended June 30, 1999. We continue to experience monthly losses and negative cash flow from operations.

Our past growth in subscribers created losses and a working capital deficiency due to the acquisition costs associated with the high rate of subscriber acquisition. We currently require substantial amounts of capital to fund current operations, for the settlement and payment of past due obligations, and the deployment of our new business strategy. Due to recurring losses from operations, an accumulated deficit, stockholders' deficit, negative working capital, being in default under the terms of our letters of credit advances, having significant litigation instituted against us, and our inability to date to obtain sufficient financing to support current and anticipated levels of operations, our independent public accountant audit opinion states that these matters raise substantial doubt about our ability to continue as a going concern.

To date, we have funded operations and growth primarily through financing activities. As a consequence of the merger in May 1995, we received cash and cash equivalents of approximately $9,750,000 of which $3,450,000 was used to repay debt to private lenders. In November 1995, we received net proceeds of approximately $21,850,000 from the exercise, following a notice of redemption, of outstanding common stock purchase warrants.

In the fourth quarter of 1997 and the first quarter of 1998, we obtained letter of credit financing in the amount of approximately $3.1 million from our investment banker, and short term loans totaling $6.0 million from private individuals (all of which has been repaid). In addition, we raised approximately $2.5 million from the private sale of Common Stock and $19 million from the private sale of Convertible Preferred Stock in 1998 which was in part funded through the conversion of debt into shares of Preferred Stock. The $3.1 million letter of credit financing was collateralized by 544,545 shares of company common stock pledged by certain of our current and former officers, directors and other stockholders. We were required to provide the investment banker with replacement collateral in January 1998 which we failed to do. As a result, the investment banker has recently exercised its rights to transfer the shares deposited as collateral into its name and we have issued replacement shares (totaling 520,045) to the pledgors. From the letter of credit availability, a letter of credit for $2.5 million was issued to RadioShack and we have asserted in our counterclaims in the RadioShack lawsuit that RadioShack improperly drew down the $2.5 million letter of credit.

On June 5, 1998, we entered into a four-year $20 million revolving credit and term loan facility with Foothill Capital Corp. The Foothill credit facility provides for term loans which will amortize equally over a 30-month period and revolving credit borrowings. Availability is based on a number of factors, including eligible accounts receivable and eligible cellular subscribers. Term loan borrowings bear interest at the bank's base rate plus 2.5% and revolving credit borrowings bear interest at the base rate plus 1.5%. Concurrent with the closing of the credit facility, we received proceeds of $6.1 million under a term loan borrowing, of which $3 million

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was used to pay RadioShack.

On April 14, 1999, we entered into an Amended and Restated Loan and Security Agreement with Foothill in which the original Loan and Security Agreement entered into on June 5, 1998 was amended to restructure the existing credit facility by reducing the total facility to $17.5 million. Additionally, certain of our preferred shareholders and certain other persons have entered into a Participation Agreement with Foothill in connection with the restructuring of the outstanding $20 million credit facility with Foothill Capital Corp. An aggregate of $7 million has been made available by the participants in the Foothill facility as term loans. Although the limit of the credit facility has been reduced from $20 million to $17.5 million, the $7 million allocated for term loans will be available for working capital upon certain conditions. As of June 30, 1999, $2.6 million had been advanced and an additional $550,000 was advanced in July 1999. The balance of the $10.5 million limit has been structured as part revolver, part term loan and part letters of credit. Additionally, the financial covenants in the June 5, 1998 Agreement were replaced with revenue, subscriber and cash receipt covenants. For the months ending June 30 and July 31, 1999, we were not in compliance with certain financial and other covenants. As a result, we have reclassified approximately $9 million in long-term debt to current liabilities. Foothill has continued to fund advances under our revolver. Subsequent to June 30, 1999, we obtained a waiver from Foothill with respect to such non-compliance until September 30, 1999. We are working with Foothill to obtain a further waiver and to amend the Amended and Restated Loan and Security Agreement to better match our current business model.

We have been actively engaged in negotiations with our principal vendors and carriers to enter into long term payment plans for past due obligations. To date, we have been successful in concluding agreements aggregating approximately $13,000,000 of past due obligations. On April 13, 1999 we entered into an debt restructuring agreement with a cellular carrier which

is our largest vendor, allowing for payment of our debt to them, which was approximately $12 million reflecting charges through March 12, 1999 and payments through April 30, 1999, over a 48 month period with interest at the rate of 6% per annum. We have not made the June, July or August payments and are in the process of negotiating a restructuring of this debt.

Following the closing of the Foothill Amended Loan Agreement, the holders of our preferred shares entered into an agreement with us in which they converted $1.5 million stated value of preferred stock into 75 million shares of our common stock at $0.02 per share, agreed to waive all future dividends on the outstanding preferred shares, waived all defaults under the terms of the preferred shares, and cancelled all outstanding options and warrants held by them covering 4,485,707 shares of common stock.

In order to fund our capital needs for the year ending December 31, 1999, we will need substantial additional capital, since our cash flow from our existing subscriber base is not sufficient to fund both our current operating expenses and the settlement of past due obligations. While we are in a position to utilize the additional funds made available through the

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restructuring of our credit facility with Foothill Capital Corp., these funds will only be released upon certain conditions, including our ability to meet the performance requirements contained in the restructuring agreement. Accordingly, there is no assurance and no representation can be made that we will be successful, in increasing cash flow from our current subscriber base, or any increases in subscribers obtained through the deployment of our new strategy, meeting the conditions contained in the credit facility permitting the release of funds or that we will be able to negotiate settlements with the creditors which permit us to continue in business.

There is no assurance that we will be able to control or minimize churn or that our retention programs will be successful, that we will be able to control or minimize the damaging effect of fraud, that our subscribers will use a sufficient number of minutes each month to support the revenue required to support our cash flow needs, that Foothill will amend the Amended and Restated Loan and Security Agreement, that we will be able to control or fund the legal fees for the lawsuits that are currently pending, or that we will be able to avoid additional suits instituted by vendors for past due obligations, or that we will be able to successfully implement a plan to collect our delinquent accounts receivable on a timely basis or in sufficient amounts.

In the event that we are not successful in increasing revenues or obtaining additional financing or restructuring our current indebtedness, we will be required to seek other sources of funding and further restructure the payment schedules which we negotiated to satisfy past due obligations and substantially reduce or suspend operations to the extent that one or more of these conditions is not met. See "Risk Factors-Need For and Availability of Additional Financing."

Because the cost of implementing our new prepaid cellular and e-commerce strategies will depend upon a variety of factors (including our ability to negotiate additional distribution agreements and increase our penetration of existing distribution channels, our ability to negotiate favorable wholesale prices with carriers, the number of new customers and services for which they subscribe, the nature and penetration of services that we may offer, regulatory changes and changes in technology), actual costs and revenues will vary from expected amounts, possibly to a material degree, and such variations will affect our future capital requirements.

Year 2000 Compliance

Currently, many computer systems and software products are coded to accept only two digit, rather than four digit, entries in the date code field. Date-sensitive software or hardware coded in this manner may not be able to distinguish a year that begins with a "20" instead of a "19," and programs that perform arithmetic operations, make comparisons or sort date fields may not yield correct results with the input of a Year 2000 date. This Year 2000 problem could cause miscalculations or system failures that could affect our operations.

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Our State of Readiness

We have evaluated the effect of the Year 2000 problem on our information systems and we are implementing plans to ensure our systems and applications will effectively process information necessary to support ongoing operations in the Year 2000 and beyond. We believe our information technology, or IT, and our other systems will be Year 2000 compliant by the end of 1999.

While we expect that all significant computer systems will be Year 2000 compliant by the end of the third quarter of 1999, we cannot assure you that all Year 2000 problems will be identified or that the necessary corrective actions will be completed in a timely manner.

We have requested certification from our significant vendors and suppliers demonstrating their Year 2000 compliance. We intend to continuously identify critical vendors and suppliers and communicate with them about their plans and progress in addressing Year 2000 problems. We cannot assure you that the systems of these vendors and suppliers will be timely converted. We also cannot assure you that any failure of their systems to be Year 2000 compliant will not adversely effect our operations.

Our Costs of Year 2000 Remediation

We have not incurred material costs related specifically to Year 2000 issues and do not expect to in the future. However, we cannot assure you that the costs associated with Year 2000 problems will not be greater than we anticipate.

Our Year 2000 Risk

Based on the efforts described above, we currently believe that our systems will be Year 2000 compliant in a timely manner. We have completed the process of identifying Year 2000 issues in our computer systems and expect to complete any remediation efforts by the end of the third quarter of 1999. However, we cannot assure you that all Year 2000 problems will be successfully identified, or that the necessary corrective actions will be completed in a timely manner. Failure to successfully identify and remediate Year 2000 problems in critical systems in a timely manner could have a material adverse effect on our business, results of operations or financial condition.

In addition, we believe that there is risk relating to significant vendors' and suppliers' failure to remediate their Year 2000 issues in a timely manner. Although we are communicating with our vendors and suppliers regarding the Year 2000 problem, we do not know whether these vendors' or suppliers' systems will be Year 2000 compliant in a timely manner. If one or more significant vendors or suppliers are not Year 2000 compliant, this could have a material adverse effect on our business, results of operations or financial condition.

Our Contingency Plans

We plan by the end of the third quarter of 1999 to develop contingency plans to be implemented in the event planned solutions prove ineffective in solving Year 2000 compliance. If it becomes necessary for us to implement a

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contingency plan, such plan may not avoid a material Year 2000 issue.

INFLATION

To date, inflation has not had any significant impact on our business.

PART II

ITEM 2. CHANGES IN SECURITIES

(c) Incorporated by reference to Note 4 to the Condensed Consolidated Financial Statements filed under Part I, Item 1 of this Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are included herein:

10.1 Employment Agreement dated as of July 6, 1999 between the Registrant and Lee Feist.
27 Financial Data Schedule
99 Risk Factors

(b) Reports on Form 8-K

We filed one report on Form 8-K during the quarter ended June 30, 1999:

Date	Items Reported
May 11, 1999	Announcement that the we converted an aggregate of $1.5 million stated value of Preferred Stock into 75 million shares of the Company's Common Stock and that the credit facility provided by Foothill Capital Corp. has been restructured. Announcement of changes in personnel and retention of consultant.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned thereunto duly authorized.

USCI, INC.

/S/ ROBERT J. KOSTRINSKY

Robert J. Kostrinsky,
Executive Vice President;
Chief Financial Officer

Date: September 10, 1999

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Exhibit 10.1

EMPLOYMENT AGREEMENT

AGREEMENT made as of July 6, 1999, among USCI, Inc., a Delaware corporation with its principal office at 6115-A Jimmy Carter Blvd., Norcross, Georgia 30071 (the "Company"), and LEE FEIST, residing at 16 Copper Beech Lane, Ridgefield, Connecticut 06877 (the "Executive").

W I T N E S S E T H :

WHEREAS, the Company desires that Executive be employed to serve in a senior executive capacity with the Company, and Executive desires to be so employed by the Company upon the terms and conditions herein set forth.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations and covenants herein contained, the parties hereto agree as follows:

1. EMPLOYMENT.

The Company hereby employs Executive and Executive hereby accepts such employment, subject to the terms and conditions herein set forth. Executive shall hold the office of Chief Executive Officer of the Company, and such other office or offices of the Company and any of its subsidiaries as the Board of Directors shall designate, reporting to the Board of Directors of the Company, or such subsidiary or subsidiaries, as applicable. The Company shall nominate Executive for election as a director of the Company for all periods that Executive holds the office of Chief Executive Officer of the Company.

2. TERM.

The initial term of employment under this Agreement shall begin on the date hereof (the "Employment Date") and shall continue for a period of five (5) years from that date, subject to prior termination in accordance with the terms hereof. Thereafter, this Agreement shall automatically be renewed for a two-year term, unless the Company or the Executive shall give the other sixty (60) days prior written notice of its or his intent not to renew this Agreement.

3. PLACE OF PERFORMANCE

In connection with the Executive's employment by the Company, the Executive shall be based at the Company's principal office in Norcross, Georgia. The Company understands and agrees, however, that Executive will, for at least the first six months following the

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Employment Date, maintain his principal residence in Ridgefield, Connecticut and, accordingly, Executive shall be entitled to the benefits set forth in Section 9 hereof.

4. COMPENSATION.

(a) Base Salary. During the term of this Agreement, Executive shall receive an annual salary at the rate of $275,000 in the first year of the term, $295,000 in the second year of the term, $315,000 in the third year of the term, $335,00 in the fourth year of the term and $355,000 in the fifth year of the term. Executive's compensation shall be payable in equal installments in accordance with the Company's normal salary payment policies and shall be subject to such payroll deductions as are required by law or applicable employee benefit programs.

(b) Bonus. Executive shall receive a guaranteed $75,000 cash bonus at the end of the first year of employment, payable within thirty (30) days following the end of the first year of employment.

(c) Incentive Compensation. Executive shall receive incentive compensation ("Incentive Compensation") for each fiscal year of the Company during Executive's employment equal to five percent (5%) of the first $4,000,000 of EBITDA (earnings before depreciation, interest, amortization and taxes) of the Company and two percent (2%) of EBITDA in excess of $4,000,000 for that fiscal year. Since the fiscal year of the Company does not correspond to the employment year for the Executive, Incentive Compensation for 1999 will be prorated. In the event that Executive and the Company cannot agree, in good faith, on the computation of EBITDA, that determination shall be made by an independent public accounting firm which is not then performing services for either the Executive or the Company (or any of its subsidiaries), and which is selected by Executive and approved by the Company (whose approval shall not be unreasonably withheld.) Such determination shall be made in accordance with GAAP applied on a consistent basis and shall be final and binding upon the parties.

5. EXPENSES.

The Company shall pay or reimburse Executive, upon presentment of suitable vouchers, for all reasonable business and travel expenses which may be incurred or paid by Executive in connection with his employment hereunder, with such frequency as the Executive shall determine. Executive shall comply with such restrictions and shall keep such records as the Company may deem necessary to meet the requirements of the Internal Revenue Code of 1986, as amended from time to time, and regulations promulgated thereunder.

6. AUTOMOBILE.

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The Company shall lease, during the term of Executive's employment hereunder, for Executive an automobile with a retail purchase price not to exceed $25,000 and shall replace such automobile at least every three (3) years during Executive's term of employment.

7. INSURANCE AND OTHER BENEFITS.

Executive shall be entitled to such vacations and to participate in and receive any other benefits customarily provided by the Company to its senior management personnel (including any profit sharing, pension, health insurance, dental coverage, key man life insurance, AD&D and short and long-term disability in accordance with the terms of such plans), and including stock options and/or stock purchase plans, all as determined from time to time by the Board of Directors of the Company. The Company shall maintain director and officer ("D & O") insurance which will inure to Executive's benefit, in such amounts and with such scope of coverage as are customary in such circumstances for public corporations in the Company's industry.

8. STOCK OPTIONS.

(a) Non-Qualified Stock Options. The Company and Executive will enter into an Non-Qualified Stock Option Agreement dated the Employment Date, providing for the grant to Executive of a stock option to purchase .5% of the outstanding shares of the Company's Common Stock on a fully-diluted basis, at an exercise price per share equal to the par value of the Company's Common Stock. Executive shall receive non-qualified stock options to purchase an additional .5% of the outstanding shares of the Company's Common Stock on a fully-diluted basis on each of the second and third anniversaries of the Employment Date, at an exercise price per share equal to the par value of the Company's Common Stock. Each of the foregoing options shall be ten (10) year stock options, shall vest one hundred percent (100%) on the date of grant and shall terminate no earlier than one (1) year after the date of Executive's expiration or termination of employment or service; provided, however, that if Executive's employment is terminated for cause, as defined in Section 11(c) hereof, all such options shall terminate if not exercised within thirty (30) days following the date of employment termination. All Common Stock issuable upon exercise of the options shall be registered on a registration statement filed and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended.

(b) Incentive Stock Options. The Company and Executive will enter into an Incentive Stock Option Agreement dated the Employment Date, providing for the grant to Executive of a stock option to purchase .5% of the outstanding shares of the Company's Common Stock on a fully-diluted basis, at an exercise price per share equal to the fair market value of the Common Stock on the date of grant. Executive shall receive incentive stock options to purchase an additional .5% of the outstanding shares of the Company's Common Stock on a fully-diluted

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basis on each of the second, third and fourth anniversaries of the Employment Date, at an exercise price per share equal to the fair market value of the Company's Common Stock on the date of grant. Each of the foregoing options shall be ten (10) year options, shall vest one hundred percent (100%) on the date of grant and shall terminate no earlier than one (1) year after the date of Executive's termination of employment or service; provided, however, that if Executive's employment is terminated for cause, as defined in Section 11(c) hereof, all such options shall terminate if not exercised within thirty (30) days following the date of employment termination. All Common Stock issuable upon exercise of the options shall be registered on a registration statement filed and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended.

(c) Additional Stock Options. Executive shall receive stock options to purchase 1,500,000 shares of the Company's Common Stock at an exercise price per share of $1.50 in the event (i) the stock price of the Company's Common Stock is listed on any stock exchange or quoted on the Nasdaq Stock Market or on the pink sheets and (ii) the closing price or closing bid price per share is $1.50 or more for twenty-five (25) consecutive trading days. Such options shall be incentive stock options, if permissible by law, shall have a term of ten (10) years, shall vest one hundred percent (100%) on the date of the grant and shall terminate no earlier than one (1) year after the date of Executive's expiration or termination of employment or service. All Common Stock issuable upon exercise of these options shall be registered on a registration statement filed and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended.

9. RELOCATION SUPPORT.

(a) Because the Company is considering moving its corporate headquarters from Norcross, Georgia and Executive currently resides in Ridgefield, Connecticut, Executive shall initially commute from Connecticut to corporate headquarters on a weekly basis. During such period, the Company shall reimburse Executive for all reasonable transportation and temporary living expenses incurred. In the event that the Company determines (i) to move its corporate headquarters during the term of this Agreement such that Executive is still required to commute to another state, or (ii) to continue maintaining its headquarters in Norcross, Georgia, the Company shall continue to reimburse Executive for all such reasonable expenses; provided, however, that the Company shall reimburse Executive for temporary living expenses only for up to six (6) months from the date of such determination.

(b) Executive shall receive reimbursement for relocation, to the Atlanta, Georgia area, or where the corporate headquarters may be relocated, if necessary, including (i) reasonable moving expenses, and (ii) reasonable transportation expenses for Executive and his family in connection with the relocation described in 9(a). All reimbursements for

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relocation will be based upon actual expenses incurred, and shall be paid promptly following Executive's delivering receipts thereof to the Company. Any portion of such relocation expense reimbursement that is taxable to Executive will be "grossed up" to cover all federal and state taxes payable by Executive.

10. DUTIES.

(a) Executive shall perform such duties and functions as the Board of Directors of the Company shall from time to time determine and Executive shall comply in the performance of his duties with the policies of, and be subject to, the reasonable direction of the Board of Directors.

(b) Executive agrees to devote substantially all his working time, attention and energies to the performance of the business of the Company; Executive shall not, directly or indirectly, alone or as a member of any partnership or other organization, or as an officer, director or employee of any other corporation, partnership or other organization, be actively engaged in or concerned with any other duties or pursuits which interfere with the performance of his duties hereunder, or which, even if non-interfering, may be inimical, or contrary, to the best interests of the Company, except those duties or pursuits specifically authorized by the Board of Directors.

(c) The Company acknowledges that Executive is currently a director of International Consulting Resources LLC and American Entertainment Network, LLC, and consents to the continuation by Executive as a director of these companies. However, Executive will obtain Board of Directors approval before accepting any new director positions. This provision shall not be construed to prevent Executive from investing or trading in non-conflicting investments for his own account, including real estate, stocks, bonds, securities, commodities or other forms of investments.

11. TERMINATION OF EMPLOYMENT; EFFECT OF TERMINATION.

(a) Executive's employment hereunder may be terminated at any time upon written notice from the Company to Executive,

(i) upon the determination by the Board of Directors that Executive's performance of his duties has not been fully satisfactory for any reason, which would not constitute "cause" (as hereinafter defined), upon sixty (60) days' prior written notice to Executive;

(ii) upon the determination by the Board of Directors of the Company that there is cause for such termination, upon ten (10) days' prior written notice to Executive;

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(iii) the death of the Executive; or

(iv) the "disability" of Executive (as hereinafter defined).

(b) For the purposes of this Agreement, the term "disability" shall mean the inability of Executive, due to illness, accident or any other physical or mental incapacity, to perform his duties in a normal manner for a period of three (3) consecutive months or for a total of six (6) months (whether or not consecutive) in any twelve (12) month period during the term of this Agreement as reasonably determined by the Board of Directors of the Company after examination of Executive by an independent physician reasonably acceptable to Executive.

(c) For the purposes hereof, the term "cause" shall mean and be limited to: (i) Executive's conviction (which, through lapse of time or otherwise, is not subject to appeal) of any crime or offense involving money or other property of the Company or which constitutes a felony in the jurisdiction involved; (ii) Executive's willful or purposeful misconduct that is materially damaging or detrimental to the Company; (iii) Executive's continued willful failure or refusal without proper cause to perform his duties under this Agreement; provided that Executive shall have first received written notice from the Board of Directors of the Company stating with specificity the nature of such failure and refusal and affording Executive an opportunity to correct the acts or omissions complained of; (iv) any attempt by Executive to secure any unauthorized personal profit in connection with the business of the Company; and (v) the engaging by Executive in any business other than the business of the Company which interferes with the performance of his duties hereunder.

(d) Executive's employment hereunder may be terminated by Executive at any time upon sixty (60) days' prior written notice to the Company. Executive's employment hereunder may be terminated by Executive for "Good Reason" upon ten (10) days' prior written notice to the Company. For purposes hereof, the term "Good Reason" shall mean the failure by the Company to comply with any material provision of this Agreement which has not been cured within ten (10) days after notice of such noncompliance has been given by the Executive to the Company.

(e) If Executive shall die during the term of his employment hereunder, this Agreement shall terminate immediately. In such event, the estate of Executive shall thereupon be entitled to receive such portion of Executive's annual salary and benefits as has been accrued but remains unpaid through the end of the month of Executive's death, plus any reimbursement of expenses as provided herein and vested amounts to which he is entitled under any compensation or employee benefit plan of the Company, in accordance with the terms and

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conditions of each such plan, plus bonus, if any, and Incentive Compensation in respect of the fiscal year of Executive's death on a pro rata basis through the date of death.

(f) Upon Executive's "disability", the Company shall have the right to terminate Executive's employment. Notwithstanding any inability to perform his duties, Executive shall be entitled to receive his compensation (including bonus, if any, and Incentive Compensation on a pro rata basis through the termination date), plus any reimbursement of expenses as provided herein and vested amounts to which he is entitled under any compensation or employment benefit plan of the Company, in accordance with the terms and conditions of each such plan, until the termination of his employment for disability. Any termination pursuant to this subsection (f) shall be effective on the date thirty (30) days after which Executive shall have received written notice of the Company's rightful election to terminate.

(g) If the Executive's employment shall be terminated by the Company for cause or by Executive for reasons other than Good Reason, the Company shall pay the Executive his salary and earned but unpaid bonus and Incentive Compensation through the date of termination, plus any reimbursement of expenses as provided herein and vested amounts to which he is entitled under any compensation or employee benefit plan of the Company, in accordance with the terms and conditions of each such plan.

(h) Notwithstanding any provision to the contrary contained herein, in the event that Executive's employment is terminated by the Company at any time for any reason other than cause, disability or death, or in the event Executive's employment is terminated by Executive for Good Reason, the Company shall pay to Executive, Executive's earned but unpaid salary and Incentive Compensation prorated up to and including the date of termination, plus any reimbursement of expenses as provided herein and any vested amounts to which he is entitled under any compensation or employee benefit plan of the Company, in accordance with the terms and conditions of each such plan. Executive shall also receive his guaranteed $75,000 bonus if such termination on these grounds occurs prior to the end of the first 12 months of the term of employment and shall receive the stock options specified in Section 8(c) hereof, whether or not the triggering event for such grant has occurred, except to the extent previously granted. In addition, Executive shall also receive a lump sum cash severance payment of $600,000, payable within thirty (30) days following termination of his employment.

(i) Unless otherwise specified herein, the timing of any payments to be made to Executive upon an expiration or termination of his employment shall be within thirty (30) days after the applicable termination date, except that any Incentive Compensation to be paid shall be paid within thirty (30) days after the Company's fiscal year end in respect of the fiscal year in which Executive's employment

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expires or is terminated.

12. CHANGE IN CONTROL.

(a) Definition. A "Change in Control" shall mean the occurrence of any of the following events:

(i) The Company is merged with or consolidated with another corporation in a transaction in which (x) the Company is not the surviving corporation, and (y) the Company's stockholders immediately prior to such transaction do not have the same proportionate ownership of the outstanding voting securities of the surviving corporation immediately following the transaction; or

(ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or

(iii) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company; or

(iv) Any person or entity or affiliated group of persons or entities becomes the holder of more than 51% of the Company's outstanding shares of Common Stock.

(b) Payments. If a Change in Control occurs during the term of the Executive's employment pursuant to this Agreement then, if Executive resigns for any reason within ninety (90) days after the Change in Control, the Company shall (i) continue existing health insurance, dental coverage, key man life insurance, AD&D and long-term disability coverage in effect for Executive at the time of his resignation for a period of the lesser of one (1) year or until covered by another plan, and (ii) continue the Executive's salary for a one (1) year period; provided, however, that during the applicable period in which benefits are being paid by the Company, Executive agrees to maintain a consulting relationship with the Company which shall not interfere with any other obligations of the Executive.

13. REPRESENTATIONS AND AGREEMENTS OF EXECUTIVE.

(a) Executive represents and warrants that he is free to enter into this Agreement and to perform the duties required hereunder, and that there are no employment contracts or understandings, restrictive covenants or other restrictions, whether written or oral, preventing the performance of his duties hereunder.

(b) Executive agrees, if requested, to submit to a medical examination and to cooperate and supply such other information and documents as may be required by any insurance company in connection with he Company's obtaining life insurance on the life of Executive, and any other type of insurance or fringe benefit as the Company shall

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determine from time to time to obtain.

14. NON-COMPETITION.

(a) Executive agrees that during his employment by the Company and, in the event of a termination by the Company for cause, for a period of one (1) year following termination of Executive's employment hereunder (the "Non-Competitive Period"), Executive shall not, directly or indirectly, as owner, partner, joint venturer, stockholder, employee, broker, agent, principal, trustee, corporate officer, director, licensor, or in any capacity whatsoever engage in, become financially interested in, be employed by, render any consultation or business advice with respect to, or have any connection with, any business which is competitive with the business of the Company at the time of Executive's termination, and which is doing business in any geographic area where, at the time of such termination, the business of the Company is being conducted; provided, however, that Executive may own any securities of any corporation which is engaged in such business and is publicly owned and traded but in an amount not to exceed at any one time two percent (2%) of any class of stock or securities of such corporation.

(b) If any portion of the restrictions set forth in this Section 14 should, for any reason whatsoever, be declared invalid by a court of competent jurisdiction, the validity or enforceability of the remainder of such restrictions shall not thereby be adversely affected.

(c) Executive acknowledges that the Company conducts business on a world-wide basis, that its sales and marketing prospects are for continued expansion into world markets and that, therefore, the territorial and time limitations set forth in this Section 14 are reasonable and properly required for the adequate protection of the business of the Company. In the event any such territorial or time limitation is deemed to be unreasonable by a court of competent jurisdiction, Executive agrees to the reduction of the territorial or time limitation to the area or period which such court deems reasonable.

15. NON-DISCLOSURE OF CONFIDENTIAL INFORMATION

(a) Executive acknowledges that his employment by the Company will, throughout the term of this Agreement, bring him in contact with proprietary or confidential information relating to the business or interests of the Company not readily available to the public, ("Confidential Information"). In recognition of the foregoing, Executive covenants and agrees that, unless specifically authorized to do so by the Company, during the term of this Agreement and for a period of three (3) years thereafter, he will not, directly or indirectly, disclose or make use in any manner or permit to be known, any Confidential Information other than in performing the services required

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of him under this Agreement, except as required by court order, law or subpoena, or other legal compulsion to disclose. The provisions of this Section 15(a) shall not apply to any Confidential Information which is publicly known under circumstances involving no breach of this Agreement.

(b) Upon the expiration or termination of Executive's employment with the Company, all documents, records, reports, writings and other similar documents containing Confidential Information, including copies thereof, then in Executive's possession or control shall be returned and left with the Company.

16. RIGHT TO INJUNCTION.

Executive agrees that if he breaches, or threatens to commit a breach of, any of the provisions of Sections 14 or 15 hereof, then, in addition to all other rights and remedies which the Company may have under the terms hereof and pursuant to all applicable law, the Company shall have the right to seek equitable relief in the form of a temporary restraining order and permanent injunction against Executive's violation of the terms of Sections 14 or 15 hereof.

17. AMENDMENT OR ALTERATION.

No amendment or alteration of the terms of this Agreement shall be valid unless made in writing and signed by both of the parties hereto.

18. LETTER OF CREDIT.

In order to partially secure the full, complete and timely payment and performance of the Company's obligations under this Agreement, as amended from time to time, the Company shall deliver to Executive, within ten (10) business days following the execution of this Agreement, an irrevocable letter of credit in form acceptable to Executive and Executive's counsel, which shall be issued in favor of Executive by a major commercial center bank with a branch or office in either Georgia or Connecticut, in the aggregate principal amount (and at no time not less than) $300,000 for a term of the lesser of (i) five (5) years, or (ii) such time as the Company has positive profits (earnings before taxes) for six (6) consecutive months, which letter of credit can be drawn on by Executive upon demand, accompanied by a certificate of Executive certifying that the Executive has made a demand for payment to the Company under this Agreement and such demand has not been honored .

19. ARBITRATION AND CONSENT TO JURISDICTION

(a) In the event a dispute, claim or controversy shall arise between the parties with respect to any provision of this Agreement, or the interpretation or performance hereof or thereof, and such is declared by written notice from one party to the other, the parties

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agree to negotiate in good faith toward resolution of the dispute. If such dispute cannot be resolved within a period of thirty (30) days after such notice is given, either party may submit the dispute to arbitration. Such dispute shall then be settled by arbitration in the City of New York, New York, under the laws of the State of New York, in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). In rendering its decision, the arbitration tribunal shall apply the substantive laws of the State of New York, apply the rules of evidence of the State of New York and interpret this Agreement in accordance with its terms. The determination of the arbitration tribunal shall be conclusive and binding upon the parties hereto. The arbitration will be decided by a panel of three (3) arbitrators, mutually acceptable to both parties, who will preside and decide the controversy or claim unless the parties hereto agree in writing to the contrary. Should the parties fail to agree on three (3) mutually acceptable arbitrators, then the parties agree to accept those mutually acceptable arbitrator(s) and such additional arbitrators appointed by the AAA as may be necessary to complete an arbitration tribunal of three (3)persons.

(i) The award of the arbitration tribunal may be alternatively or cumulatively, for monetary damages, an order requiring the performance of non-monetary obligations (including specific performance) or any other appropriate order or remedy. The arbitrators may issue interim awards and order any provisions or measures which should be taken to preserve the respective rights of either party.

(ii) Any award rendered by the arbitration tribunal shall be in writing, setting forth the reasons for the award, and shall be a final disposition on the merits. Judgment upon the award may be rendered in any court having jurisdiction, or application may be made to any such court having jurisdiction for a judicial acceptance of the award and an order of enforcement, as the case may be. The parties waive any right they may enjoy in any Federal or state courts for relief from the provisions of this clause or from any decision of the arbitrators made prior to the award.

(iii) Each party shall bear their own costs and expenses of the arbitration, and the parties shall share equally the cost of the arbitrators; provided that any party instituting a claim or providing a defense under this Section 19 which the tribunal shall declare to be frivolous shall pay all costs and expenses, including attorney's fees and costs, incurred with such arbitration.

(iv) The arbitration procedures in Section 19(a) shall be the exclusive remedy available to the parties hereunder to resolve any dispute, claim or controversy arising hereunder, except as provided in Section 19(b), below.

(b) Notwithstanding anything to the contrary contained in paragraph (a) above, each party hereto hereby irrevocably

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submits to the exclusive jurisdiction of the Supreme Court of the State of New York, New York County, and to the exclusive jurisdiction of the United States District Court for the Southern District of New York, only for the purposes of (i) obtaining relief not within the jurisdiction or powers of the arbitration tribunal, in connection with any suit, action or other proceeding brought by any other party hereto, or any of their respective heirs, successors or assigns as applicable, arising out of or related to this Agreement, or (ii) the enforcement of the arbitration tribunal's determination as provided in paragraph (a) above; and agrees not to assert by way of motion, as a defense or otherwise, in any such suit, action or proceeding, any claim that such party is not subject to the jurisdiction of the above-named courts, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement may not be enforced in or by such courts. Executive and the Company hereby agree that all actions and proceedings permitted to be instituted hereunder by Executive or the Company, and their heirs, successors or assigns in a forum other than arbitration arising out of or related to this Agreement or the transactions contemplated hereby shall be commenced only in the courts having a situs in New York County.

20. SEVERABILITY.

The holding of any provision of this Agreement to be invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Agreement, which shall remain in full force and effect.

21. NOTICES.

Any notices required or permitted to be given hereunder shall be sufficient if in writing, and if delivered by hand, or sent by certified mail, return receipt requested, to the addresses set forth above or such other address as either party may from time to time designate in writing to the other, and shall be deemed given as of the date of the delivery or mailing.

22. WAIVER OR BREACH.

It is agreed that a waiver by either party of a breach of any provision of this Agreement shall not operate, or be construed, as a waiver of any subsequent breach by that same party.

23. ENTIRE AGREEMENT AND BINDING EFFECT.

This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, heirs, distributors, successors and assigns. Notwithstanding the foregoing, all prior agreements, if any, between Executive and the Company relating to the confidentiality of

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information, trade secrets and patents shall not be affected by this Agreement.

24. SURVIVAL.

The expiration or termination of Executive's employment hereunder shall not affect the enforceability of Sections 5, 8, 9, 11, 12, 14, 15, 16, 18, 19, 21, 23 and 24 hereof.

25. FURTHER ASSURANCES.

The parties agree to execute and deliver all such further documents, agreements and instruments and take such other and further action as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

26. HEADINGS.

The section headings appearing in this Agreement are for the purposes of easy reference and shall not be considered a part of this Agreement or in any way modify, demand or affect its provisions.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

USCI, INC.
By: /s/ Robert J. Kostrinsky
Name: Robert J. Kostrinsky
Title: Executive Vice President

EXECUTIVE:
/s/ Lee Feist

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Exhibit 99.1

RISK FACTORS

WE HAVE EXPERIENCED A HISTORY OF LOSSES AND ANY FUTURE PROFITABILITY IS UNCERTAIN

We have a history of losses and our future profitability is uncertain. We have never operated at a profit, and have experienced increasing losses and negative operating cash flow. We expect that such losses and negative operating cash flow will continue for at least the next several years as we develop our new marketing strategy. As of June 30, 1999, we had an accumulated deficit of approximately $90,000,000 and there is no assurance that we will ever achieve profitability or positive operating cash flow. We have also experienced a persistent working capital deficiency and expect that we will continue to incur significant losses and negative operating cash flow in the future. We are depending upon the successful transition to out recently adopted strategy of selling prepaid cellular services to meet our working capital and debt service requirements. If this transition is not successful, we will not be able to make required payments on our outstanding indebtedness and may have to refinance our outstanding indebtedness in order to repay our obligations of which there can be no assurance.

WE NEED ADDITIONAL FINANCING

The wireless resale industry is highly capital intensive, particularly for us as a reseller of telecommunications services since substantial costs are incurred in connection with the acquisition of new subscribers. We require substantial additional capital to meet past due obligations and to fully implement our new strategy. Although we are attempting to negotiate settlements of our past due obligations, there is no assurance that the funds made available through the recent restructuring of our loan with Foothill Credit Corp. and the income from our current subscriber base will be sufficient. In view of the substantial reduction in our subscriber base since November 1998, we will be required to seek additional capital and may also be required to slow the deployment of our new prepaid cellular strategy. We may seek to raise such additional capital from public or private equity or debt sources but there is no assurance that we may be able to obtain such additional capital on acceptable terms or at all. If we can only raise additional capital through the incurrence of additional debt, we may become subject to additional or more restrictive financial covenants. If additional funds are raised by issuing equity securities, our stockholders may experience further dilution. In addition, such equity securities may have rights, preferences or privileges senior to those of our Common Stock. If we are unable to obtain additional capital on acceptable terms or at all, we will be required to curtail our planned expansion and/or current operations, which would materially adversely affect our business, results of operations and financial condition and our ability to compete. We also may be compelled to

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seek protection under the federal bankruptcy system, either voluntarily or involuntarily.

WE HAVE RECEIVED A "GOING CONCERN" OPINION FROM OUR ACCOUNTANTS

We have received a "going concern" opinion from our independent accountants. Our past growth in subscribers created losses and a working capital deficiency due to the acquisition costs associated with the high rate of subscriber acquisition. We currently require substantial amounts of capital to fund current operations, the settlement of past due obligations, and the deployment of our new business strategy. Due to recurring losses from operations, an accumulated deficit, stockholders' deficit, negative working capital, being in default under the terms of our letters of credit advances, having significant litigation instituted against us, and our inability to date to obtain sufficient financing to support current and anticipated levels of operations, our independent public accountants' audit opinion states that these matters raise substantial doubt about our ability to continue as a going concern.

WE CANNOT ASSURE YOU THAT WE WILL BE SUCCESSFUL IN THE DEVELOPMENT OF OUR NEW BUSINESS STRATEGY

We cannot assure you that we can successfully operate our new business strategy. If we fail to execute our strategy in a timely or effective manner, we may be unable to successfully compete in our markets. Our business strategy is complex and requires that we successfully complete many tasks, a number of which must be completed simultaneously including the following.

- the negotiation of additional reseller agreements on commercially reasonable terms.

- attract and retain customers.

- attract and retain skilled employees

- expand our sales presence in existing and new markets.

- negotiate settlements of our past due indebtedness.

If we are unable to effectively coordinate the implementation of these multiple tasks, our business is likely to suffer.

RISKS OF THE INTERNET AS A MEDIUM FOR COMMERCE

Use of the Internet by consumers is at a relatively early stage of development, and market acceptance of the Internet as a medium for commerce is subject to a high level of uncertainty. Our future success will depend on our ability to significantly increase revenues, which will require the development and widespread acceptance of the Internet as a medium for commerce. There can be no assurance that the Internet will be a successful

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retailing channel. The Internet may not prove to be a viable commercial marketplace because of inadequate development of the necessary infrastructure, such as reliable network backbones, or complementary services, such as high speed modems and security procedures for financial transactions. The viability of the Internet or its viability for commerce may prove uncertain due to delays in the development and adoption of new standards and protocols (for example, the next generation Internet Protocol) to handle increased levels of Internet activity or due to increased government regulation or taxation. If use of the Internet does not continue to grow, or if the necessary Internet infrastructure or complementary services are not developed to effectively support growth that may occur, our e-commerce business could be materially adversely affected. In addition, the nature of the Internet as an electronic marketplace (which may, among other things, facilitate competitive entry and comparison shopping) may render it inherently more competitive than conventional retailing formats.

RAPID TECHNOLOGY CHANGE

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of future online business. The Internet and the e-commerce industry are characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render our existing online bookstore and proprietary technology and systems obsolete. Our success will depend, in part, on our ability to license leading technologies useful in our business, enhance our existing services, develop new services and technology that address the increasingly sophisticated and varied needs of our prospective customers and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The development of a Web site and other proprietary technology entails significant technical, financial and business risks. There can be no assurance that we will successfully implement new technologies or adapt our online business, proprietary technology and transaction-processing systems to customer requirements or emerging industry standards. If we are unable, for technical, legal, financial or other reasons, to adapt in a timely manner in response to changing market conditions or customer requirements, our business could be materially adversely affected.

SECURITY RISKS

Despite our implementation of network security measures, our infrastructure is potentially vulnerable to computer break-ins and similar disruptive problems caused by its customers or others. Consumer concern over Internet security has been, and could continue to be, a barrier to commercial activities requiring consumers to send their credit card information over the Internet. Computer viruses, break-ins or other security problems could lead to misappropriation of proprietary information and interruptions, delays or cessation in service to our customers. Moreover, until more comprehensive security technologies are developed, the security

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and privacy concerns of existing and potential customers may inhibit the growth of the Internet as a medium for commerce.

THERE ARE RISKS ASSOCIATED WITH DOMAIN NAMES

We currently hold various Web domain names relating to our brand, including the "americomonline.com" domain name. The acquisition and maintenance of domain names generally is regulated by governmental agencies and their designees. For example, in the U.S., the National Science Foundation has appointed Network Solutions, Inc. as the current exclusive registrar for the ".com," ".net" and ".org" generic top-level domains. The regulation of domain names in the U.S. and in foreign countries is expected to change in the near future. Such changes in the U.S. are expected to include a transition from the current system to a system which is controlled by a non-profit corporation and the creation of additional top-level domains. Requirements for holding domain names will also be affected. As a result, there can be no assurance that we will be able to acquire or maintain relevant domain names in all countries in which it conducts business. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We, therefore, may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of its trademarks and other proprietary rights. Any such inability could have a material adverse effect on our business.

WE ARE DEPENDENT UPON STRATEGIC ALLIANCES

We rely on certain strategic alliances to attract users to our online e-commerce site. We are attempting to enter into strategic alliances to attract users from numerous other Web sites or online service providers. We believe that such alliances result in increased traffic to our online business. Our ability to generate revenues from e-commerce may depend on the increased traffic, purchases, advertising and sponsorships that we expect to generate through such strategic alliances. There can be no assurance that these alliances will be maintained beyond their initial terms or that additional third-party alliances will be available to us on acceptable commercial terms or at all. The inability to enter into new, and to maintain any one or more of its existing, significant strategic alliances could have a material adverse effect on our business.

WE ARE DEPENDENT ON MAJOR CHANNELS OF DISTRIBUTION FOR THE ACQUISITION OF OUR SUBSCRIBERS

We were primarily dependent on RadioShack, our former principal customer, to obtain subscribers. In October 1998, RadioShack terminated its agreement with us. At that time, approximately 78% of our subscriber base resulted from sales at RadioShack stores. Following termination, we lost a substantial part of our subscriber base, thereby substantially reducing our cash flow. We are not presently adding new subscribers until we deploy our new prepaid business strategy.

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In the future, a material component of our growth strategy will be the development of relationships with new channels of distribution to sell our prepaid wireless services. As a result, our successful growth will be dependent in large part on the efforts of third parties whose efforts growth, whose efforts will depend on their own financial, competitive, marketing and strategic considerations. Such considerations include the relative advantages of alternate products being offered by competitors. There can be no assurance that these channels of distribution will devote sufficient time, attention and energy to the marketing of our wireless services.

WE ARE DEPENDENT ON WIRELESS CARRIERS TO SUPPLY THE SERVICES PROVIDED TO OUR CUSTOMERS

We are totally dependent upon facilities-based cellular telephone and paging service providers for the supply of cellular services to be resold to our subscribers as well as for the information as to usage needed by us to bill customers. Because of a lack of capital, we have not paid many of our carriers within the time period required under our agreements with the carriers and have been adversely affected by carriers who have failed to renew existing agreements with us. We would also be adversely affected if the carriers failed to renegotiate an agreement to allow us to activate new subscribers, failed to provide adequate service or billing information or if they experienced financial, technical or regulatory difficulties, or if future demand for service exceeds current service capabilities. Further, an increase in the wholesale rates charged by the carriers would force us to either increase the rates we charge to subscribers, which could adversely affect our ability to attract new, and retain existing, subscribers, or accept lower operating margins, which would adversely affect our results of operations.

OUR MARKET IS HIGHLY COMPETITIVE, AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY; MANY OF OUR COMPETITORS HAVE GREATER RESOURCES AND MORE EXPERIENCE.

We operate in a highly competitive environment. We have no significant market share in any market in which we operate. We will face substantial and growing competition from a variety of cellular service providers. The number of competitors who have entered the market have increased as a result of regulatory changes and industry consolidation. Many of our competitors are larger and better capitalized than we are. Also, many of our competitors have long standing relationships with their customers and greater name recognition. See "Business--Competition."

THE FAILURE OF OUR INFORMATION SYSTEMS TO PRODUCE ACCURATE AND PROMPT BILLING AND TO PROCESS CUSTOMER ORDERS COULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS.

The accurate and prompt billing of our customers is essential to our operations and future profitability. The implementation of our new prepaid

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and e-commerce strategy will place additional demands on our information systems. We cannot assure you that our information systems will perform how we expect. Also, if our business grows as we plan, we cannot assure you that our billing and management systems will be sufficient to provide us with accurate and efficient billing and other necessary processing capabilities. We may not identify all of our information and processing needs (including issues related to the Year 2000) and may not upgrade our information systems as needed. Either of these could materially adversely affect our business, results of operations and financial condition.

IF WE DO NOT RECEIVE TIMELY AND ACCURATE CALL DATA RECORDS FROM OUR SUPPLIERS, OUR BILLING AND COLLECTION ACTIVITIES COULD BE ADVERSELY AFFECTED.

Our billing and collection activities are dependent upon our suppliers providing us accurate call data records. If we do not receive accurate call data records in a timely manner, our business, results of operations and financial condition could be materially adversely affected. In addition, we pay our suppliers according to our calculation of the charges based upon invoices and computer tape records provided by these suppliers. Disputes may arise between us and our suppliers because these records may not always reflect current rates and volumes. If we do not pay disputed amounts, a supplier may consider us to be in arrears in our payments until the amount in dispute is resolved. We cannot assure you that disputes with suppliers will not arise or that such disputes will be resolved in our favor.

OUR ABILITY TO SERVE OUR CUSTOMERS DEPENDS UPON THE RELIABILITY OF THE NETWORKS, SERVICES AND EQUIPMENT OF THIRD PARTY PROVIDERS.

We depend entirely upon facilities-based carriers to provide cellular services to our customers. We cannot be sure that third party cellular services will be available when needed or upon acceptable terms.

Although we can exercise direct control of the customer care and support we provide, all of the cellular services we offer are provided by others. These services are subject to physical damage, power loss, capacity limitations, software defects, breaches of security and other factors which may cause interruptions in service or reduced capacity for our customers. These problems, although not within our control, could adversely affect customer confidence and damage our reputation. Either of these could have a material adverse effect on our business, results of operations and financial condition.

OUR OPERATING RESULTS HAVE BEEN ADVERSELY AFFECTED BY INCREASES IN CUSTOMER ATTRITION RATES.

We cannot assure you that our customers will continue to purchase cellular services from us. Because of the termination of the RadioShack agreement and our lack of capital, we have been compelled to reduce our customer service staff which has been one of the factors in causing an attrition in our customer base. In addition, since November 1998, we have

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devoted our principal efforts to obtaining additional financing and the development of our new business strategy. We could lose customers as a result of national advertising campaigns, telemarketing programs and customer incentives provided by major competitors as well as for other reasons not in our control. Increases in our customer attrition rates have had a material adverse effect on our business, results of operations and financial condition.

IF WE FAIL TO MANAGE OUR GROWTH, OUR BUSINESS COULD BE IMPAIRED.

We are pursuing a business plan that if successful will result in rapid growth and expansion of our operations. This rapid growth would place significant additional demands upon our current management and other resources. Our success will depend on our ability to manage our growth. To accomplish this we will have to train, motivate and manage an increasing number of employees. We will also need to continually enhance our information systems. Our failure to manage growth effectively could have a material adverse effect on our business, results of operations and financial condition.

OUR SUCCESS WILL DEPEND ON A LIMITED NUMBER OF KEY PERSONNEL WHO COULD BE DIFFICULT TO REPLACE AS WELL AS ON OUR ABILITY TO HIRE OTHER SKILLED PERSONNEL.

We believe that our continued success will depend upon the abilities and continued efforts of our management, particularly members of our senior management team. The loss of the services of any of these individuals could have a material adverse effect on our business, results of operations and financial condition. Our success will also depend upon our ability to identify, hire and retain additional highly skilled sales, service and technical personnel. Demand for qualified personnel with telecommunications experience is high and competition for their services is intense. We cannot be sure that we will be able to attract and retain the additional employees we need to implement our business strategy. Our inability to hire and retain such personnel could have a material adverse effect on our business, results of operations and financial condition.

RAPID TECHNOLOGICAL CHANGES IN THE TELECOMMUNICATIONS INDUSTRY COULD RENDER OUR SERVICES OBSOLETE FASTER THAN WE EXPECT OR COULD REQUIRE US TO SPEND MORE TO DEVELOP OUR NETWORK THAN WE CURRENTLY ANTICIPATE.

The telecommunications industry is subject to rapid and significant changes in technology. We cannot predict the effect that changes in technology will have on our business. Any changes could have a material adverse effect on our business, operating results and financial condition. Advances in technology could lead to more entities becoming facilities-based cellular and paging carriers. We believe that our long-term success will increasingly depend on our ability to offer advanced services and to anticipate or adapt to evolving industry standards. We cannot be sure that:

- we will be able to offer the services our customers require;

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- our services will not be economically or technically outmoded by current or future competitive technologies;

- our information systems will not become obsolete; or

- we will have sufficient resources to develop or acquire new technologies or introduce new services that we need to effectively compete.

WE MAY INCUR SIGNIFICANT COSTS AND OUR BUSINESS COULD SUFFER IF OUR SYSTEMS AND NETWORK, OR THE SYSTEMS OF OUR SUPPLIERS AND VENDORS, DO NOT PROPERLY PROCESS DATE INFORMATION AFTER DECEMBER 31, 1999.

Currently, many computer systems and software products are coded to accept only two digit, rather than four digit, entries in the date code field. Date- sensitive software or hardware coded in this manner may not be able to distinguish a year that begins with a "20" instead of a "19," and programs that perform arithmetic operations, make comparisons or sort date fields may not yield correct results with the input of a Year 2000 date. This Year 2000 problem could cause miscalculations or system failures that could affect our operations. We cannot assure you that we have successfully identified all Year 2000 problems with our information systems. We also cannot assure you that we will be able to implement any necessary corrective actions in a timely manner. Our failure to successfully identify and remediate Year 2000 problems in critical systems could have a material adverse effect on our business, results of operations and financial condition. Also, if the systems of other companies that provide us services or with whom our systems interconnect are not Year 2000 compliant, our business, operating results and financial condition could be materially adversely affected. The Year 2000 issue is discussed at greater length in "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Compliance."

OUR EXISTING PRINCIPAL STOCKHOLDERS CONTROL A SUBSTANTIAL AMOUNT OF OUR VOTING SHARES AND WILL BE ABLE TO INFLUENCE ANY MATTER REQUIRING SHAREHOLDER APPROVAL.

Our principal stockholders control approximately 92% of our outstanding voting stock. Therefore, these shareholders will be able to influence any matter requiring shareholder approval.

OUR STOCK PRICE IS LIKELY TO BE VOLATILE.

The trading price of our common stock is likely to be volatile. The stock market in general, and the market for technology and telecommunications companies in particular, has experienced extreme volatility. This volatility has often been unrelated to the operating performance of particular companies. Other factors that could cause the market price of our common stock to fluctuate substantially include:

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- announcements of developments related to our business, or that of our competitors, our industry group or our customers;

- fluctuations in our results of operations;

- hiring or departure of key personnel;

- a shortfall in our results compared to analysts' expectations and changes in analysts' recommendations or projections;

- sales of substantial amounts of our equity securities into the marketplace;

- regulatory developments affecting the telecommunications industry or data services; and

- general conditions in the telecommunications industry or the economy as a whole.

THE MARKET PRICE OF OUR COMMON STOCK COULD BE AFFECTED BY THE SUBSTANTIAL NUMBER OF SHARES THAT ARE ELIGIBLE FOR FUTURE SALE.

All of our shares will be freely tradeable, under the Securities Act, subject to compliance with Rule 144 under the Securities Act. We cannot be sure what effect, if any, future sales of shares or the availability of shares for future sale will have on the market price of the common stock. The market price of our common stock could drop due to sales of a large number of shares in the market after the offering or the perception that sales of large numbers of shares could occur. These factors could also make it more difficult to raise funds through future offerings of common stock.

WE HAVE ANTI-TAKEOVER DEFENSES THAT COULD DELAY OR PREVENT AN ACQUISITION AND COULD ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

Provisions of our certificate of incorporation and bylaws and the provisions of Delaware law could make it more difficult for a third party to acquire control of the company even if a change in control would be beneficial to our stockholders. These provisions may negatively affect the price of our common stock and may discourage third parties from bidding for our company. In addition, our board of directors may issue, without stockholder approval, shares of preferred stock with terms set by the board. In addition to delaying or preventing an acquisition, the issuance of a substantial number of preferred shares could depress the price of the common stock.

FORWARD LOOKING STATEMENTS ARE INHERENTLY UNCERTAIN.

Certain statements about us and our industry under the captions "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and elsewhere

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in this document are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations, intentions and assumptions and other statements in this document that are not historical facts. When used in this document, the words "estimate," "project," "believe," "anticipate," "intend," "plan," "expect" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, including those described in this "Risk Factors" section, actual results could differ materially from those expressed or implied by these forward-looking statements. We caution you not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date of this document. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect new information, future events or otherwise.

EXPOSURE TO FRAUDULENT USE OF WIRELESS SERVICES

The cellular industry has been subject to telecommunications fraud and, in particular, "cloning" of legitimate phone numbers leading to the illegal use of such numbers. Under our existing agreements with cellular carriers, access fraud, which results from the unauthorized duplication of a cellular telephone number, is generally recoverable from the carrier. However, subscriber fraud, which occurs when a customer fraudulently uses another person's identification to become a subscriber and obtain wireless services, is not recoverable from the carrier. Due to the failures of some of our channels of distribution to properly screen potential subscribers and obtain the required documentation from them, we have been severely damaged as a result of subscriber fraud. There can be no assurance that we will not in the future become subject to increased liability for access fraud or that future liability for fraud will not have a material adverse effect on our business.

GOVERNMENT REGULATION

The resale of interstate and intrastate cellular mobile telephone service is subject to federal regulation as a commercial mobile radio service, or CMRS and, as such, to certain aspects of common carrier regulation. Although the Federal Communications Commission, or FCC, has the authority to do so, it has to date elected not to regulate rates and the entry of wireless services providers, and states are precluded, as a matter of federal law, from regulating the rates or entry of CMRS resellers. However, we remain subject to the general obligations of all common carriers, including the requirement to charge just and reasonable rates and to service all customers in a non-discriminatory manner. Because Congress has preempted all state rate and entry regulation CMRS providers, we are not required to obtain state certification or file state tariffs in connection with its provision of wireless services. States, however, retain authority to regulate other terms and conditions of wireless services. This has been interpreted to include the ability of a state public utility commission to act on a complaint regarding an underlying carrier's alleged discrimination against a cellular reseller. We also remain subject to state regulations generally

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affecting corporations that do business within a state, including a state's consumer protection laws.

Common carriers are currently required to make their services available for resale. However, the FCC has determined to terminate the resale obligations of cellular, PCS and ESMR providers on November 24, 2002. The FCC order terminating such resale obligations is currently being reconsidered by the FCC. We cannot predict the outcome of the FCC's reconsideration; however, if the FCC upholds its decision to terminate the resale obligation of carriers, our business, results of operations and financial condition could be adversely affected.

Effective January 1, 1998, a new universal service support system went into effect to ensure the provision of service to rural, insular and high-cost areas, to low-income individuals and to eligible schools, libraries and rural healthcare providers. Under this system, we are required to contribute a percentage of our revenues to these universal service programs. Although these charges apply equally to all carriers, to the extent that the charges increase the rates we charge, they could adversely affect our business.

We expect that there will continue to be numerous changes in federal and state regulation of the telecommunications industry. We are unable to predict the future course of such legislation and regulation, and further changes in the regulatory framework could have a material adverse effect on our business, results of operations and financial condition.

INTELLECTUAL PROPERTY RISKS

We rely on copyrights, trade secret protection and non-disclosure agreements to establish and protect its rights relating to its proprietary software platform and other technology. We do not hold any patents. Despite our efforts to safeguard and maintain its proprietary rights, there can be no assurance that it will be successful in doing so, or that its competitors will not independently develop and/or patent computer software and hardware that is functionally substantially equivalent or superior to our Activation Services Network, or ASN system, which could have a material adverse effect on our business. We have also been advised that its use of the service mark and trade name "Ameritel" and the service mark "Family Link" may infringe on trademarks and service marks of others in certain states. Additionally, we are aware that several other companies are using the name "Ameritel" or similar names, and that it is unlikely that we can obtain exclusive or even broad service mark protection for the "Ameritel" name. There also can be no assurance that other companies using the "Ameritel" name or a similar name will not challenge our right to use the "Ameritel" name and will not seek to enjoin us from using such name. Accordingly, we are in the process of exploring whether to seek a new name under which to market its services; however, a change in name may cause confusion in the marketplace and may adversely affect our business strategy of developing a brand name and identity, which in turn may adversely affect our growth, particularly in the short-term.

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CONVERTIBLE PREFERRED STOCK DILUTION

We have approximately $16.6 million of Convertible Preferred Stock outstanding, which is convertible into shares of Common Stock at a conversion price equal to the lesser of (i) 85% of the average of the three lowest closing prices per share of Common Stock for the 25 trading days immediately preceding the conversion notice and (ii) $6.89 per share in respect of $5.0 million of Convertible Preferred Stock, $5.85 per share in respect of an additional $5.0 million of Convertible Preferred Stock $5.31 per share in respect of an additional $5.0 million of Convertible Preferred Stock and $5.51 per share with respect to an additional $4.0 million of Convertible Preferred Stock. Further, the conversion price of each series of Convertible Preferred Stock is subject to reduction if we do not comply with certain covenants within specified time periods. Accordingly, a decline in the price of the Common Stock below the fixed conversion price will result in the issuance of additional shares of Common Stock and the number of such additional shares may be material. In addition, holders of securities having conversion features similar to those of the Convertible Preferred Stock tend to sell their shares immediately upon conversion, which generally results in a decline in the price of the Common Stock and an increase in the number of shares issued upon the next conversion. Accordingly, any conversion of the Convertible Preferred Stock is likely to increase substantially the number of shares of Common Stock outstanding, adversely affect the price of the Common Stock and result in dilution to existing stockholders. In addition, under generally accepted accounting principles a portion of the proceeds from the sale of the Convertible Preferred Stock was allocated to this beneficial conversion feature, and this discount is amortized; to the extent conversion occurs prior to the full amortization of the discount, we will be required to recognize the remainder of the discount in the period of conversion, which will reduce earnings in that period.

ABSENCE OF DIVIDENDS

We have not paid and do not anticipate paying any cash dividends on its Common Stock in the foreseeable future. We intend to retain our earnings, if any, for use in our growth and ongoing operations. In addition, the terms of the Foothill Credit Facility restrict our ability to pay dividends on our Common Stock.

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