FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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Trinsic, Inc.

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

FORM 10-Q

(MARK ONE)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000-28467

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

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

601 SOUTH HARBOUR ISLAND BOULEVARD, SUITE 220
TAMPA, FLORIDA 33602
(813) 273-6261
(Address, including zip code, and
telephone number including area code, of
Registrant' s principal executive offices)

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

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

Indicate by check mark 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 ☑ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes ☐ No ☑

The number of shares of the Registrant' s Common Stock outstanding as of December 18, 2006 was approximately 18,453,983.

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TRINSIC, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	(Unaudited) September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 435	$ 79
Accounts receivable, net of allowance for doubtful accounts of $28,271 and $20,489	12,809	13,713
Prepaid expenses and other current assets	1,090	4,713
Total current assets	14,334	18,505
Property and equipment, net	12,056	19,931
Intangible assets, net	4,602	–
Other assets	3,595	2,884
Total assets	$ 34,587	$ 41,320
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	$ 35,203	$ 40,248
Deferred revenue	5,211	6,013
Current portion of long-term debt and capital lease obligations	9,012	2,418
Total current liabilities	49,426	48,679
Long-term debt and capital lease obligations	430	1,025
Total liabilities	49,856	49,704
Commitments and contingencies (Notes 7, 9 and 12)		
Stockholders' deficit:		
Common stock, $0.01 par value; 150,000,000 shares authorized; 18,762,994 and 17,756,944 shares issued; 18,457,496 and 17,518,573 outstanding	185	175
Unearned stock compensation	(297)	(360)
Additional paid-in capital	417,037	416,127
Accumulated deficit	(432,189)	(424,321)
Treasury stock, 305,498 and 238,371 shares at cost	(5)	(5)
Total stockholders' deficit	(15,269)	(8,384)
Total liabilities and stockholders' deficit	$ 34,587	$ 41,320

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

TRINSIC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues	$38,516	$44,030	$126,250	$151,958
Operating expenses:				
Network operations, exclusive of depreciation and amortization shown below	23,302	23,864	76,287	80,697
Sales and marketing	916	2,596	3,588	11,508
General and administrative	17,827	17,014	46,991	58,551
Loss on impairment of assets	2,594	–	2,594	–
Depreciation and amortization	5,326	2,398	12,502	9,531
Total operating expenses	49,965	45,872	141,962	160,287
Operating loss	(11,449)	(1,842)	(15,712)	(8,329)
Nonoperating income (expense):				
Interest and other income	11,845	806	13,887	8,100
Interest and other expense	(1,849)	(3,514)	(6,043)	(7,140)
Total nonoperating income (expense)	9,996	(2,708)	7,844	960
Net loss	$(1,453)	$(4,550)	$(7,868)	$(7,369)
Weighted average shares outstanding	18,457,497	5,520,137	18,150,582	5,493,993
Basic and diluted net loss per share	$(0.08)	$(0.82)	$(0.43)	$(1.34)

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

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TRINSIC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Nine Months Ended September 30,	
	2006	**2005**
Cash flows from operating activities:		
Net loss	$(7,868)	$(7,369)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,502	9,531
Provision for bad debts	10,842	9,306
Loss on impairment of assets	2,594	–
Gain on sale of building	97	–
Expense charged for granting of restricted stock	983	157
Change in operating assets and liabilities:		
Increase in accounts receivable	(9,938)	(4,423)
Decrease (increase) in prepaid expenses	2,274	(1,555)
Increase in other assets	(711)	(1,686)
Decrease in accounts payable and accrued liabilities	(5,045)	(5,977)
Decrease in deferred revenue	(802)	(66)
Total adjustments	12,796	5,287
Net cash provided by (used in) operating activities	4,928	(2,082)
Cash flows from investing activities:		
Purchases of property and equipment	(1,150)	(2,206)
Purchase of customer lists	(1,727)	–
Net cash used in investing activities	(2,877)	(2,206)
Cash flows from financing activities:		
Payments on long-term debt and capital lease obligations	(1,149)	(668)
Proceeds from sale of building	400	–
Principal repayments received on notes receivable issued for stock	–	250
Payments on note payable for customer lists	(2,423)	–
Proceeds from note payable	500	–
Proceeds from issuance of preferred stock	–	2,500
Payoff of asset based loan	–	(12,934)
Proceeds from stand by credit facility	977	13,977
Net cash provided by (used in) financing activities	(1,695)	3,125
Net increase (decrease) in cash and cash equivalents	356	(1,163)
Cash and cash equivalents, beginning of period	79	1,363
Cash and cash equivalents, end of period	$435	$200
Non-cash investing and financing activities:		
Purchase of customer lists	$5,671	$–
Conversion of stand by credit facility and accrued interest into preferred stock	$–	$21,585
Conversion of preferred stock into common stock	$–	$24,085

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

TRINSIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(ALL TABLES ARE IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

1. NATURE OF BUSINESS

DESCRIPTION OF BUSINESS

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

LIQUIDITY AND CAPITAL RESOURCES

Our inability to operate profitably and to consistently generate cash flows from operations and our reliance therefore on external funding either from loans or equity raise substantial doubt about our ability to continue as a going concern.

The accompanying consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business is dependent upon, among other things, our ability to operate profitably, to generate cash flow from operations and to obtain funding adequate to fund its business.

Our operations are subject to certain risks and uncertainties, particularly related to the evolution of the regulatory environment, which impacts our access to and cost of the network elements that we utilize to provide services to our customers.

We have incurred significant losses since our inception as a result of developing our business, performing ongoing research and development, building and maintaining our network infrastructure and technology, the sale and promotion of our services, and ongoing administrative expenditures. As of September 30, 2006, we had an accumulated deficit of approximately $432.2 million and $0.4 million in cash and cash equivalents. We have funded our expenditures primarily through operating revenues, private securities offerings, our asset based loan, our standby credit facility, a sale-leaseback credit facility, an accounts receivable factoring facility and an initial public offering.

For the nine months ended September 30, 2006, net cash provided by operating activities was $4.9 million as compared to $2.1 million used in operating activities for the same period in the prior year.

On April 4, 2005, we entered into an accounts receivable financing agreement with Thermo Credit, LLC ("Thermo"). The agreement provides for the sale of up to $33 million of our accounts receivable on a continuous basis to Thermo, subject to selection criteria as defined in the contract.

On December 15, 2005, we borrowed $1.0 million from the 1818 Fund III, L.P. ("the Fund") in order to take advantage of a tax settlement with the State of New York. On January 12, 2006, we borrowed $1.0 million from the Fund for general corporate purposes. In connection with the loan, and the previous $1.0 million loan received December 15, 2005, we delivered to the Fund a promissory note bearing interest at 12% annually and due on demand and a mortgage on certain real property we own in Atmore, Alabama where we have an operations center. Under the promissory note we may be required to grant additional security to the Fund.

Our net cash used in investing activities was $2.9 million for the nine months ended September 30, 2006, compared to $2.2 million for the same period in the prior year. The increase was attributable to purchasing local access lines from Sprint in 2006, offset by a reduction in our capital expenditures.

For the nine months ended September 30, 2006, net cash used in financing activities was $1.7 million as compared to $3.1 million provided by financing activities for the same period in 2005. This decrease in 2006 is primarily the result of the purchase of local access lines from Sprint in 2006 and the issuance of preferred stock in 2005.

Over the course of the first five months in 2006, we acquired 111,697 UNE-P local access lines from Sprint for which we previously provided services on a wholesale basis. We acquired the lines pursuant to a definitive agreement dated October 25, 2005. Under the agreement we purchased the lines for $11.2 million, $5.5 million of which has been paid as of September 30, 2006. The total purchase price includes $1.3 million that was escrowed during the latter part of 2005. The remaining purchase price will be paid in monthly installments through July 2007.

On March 3, 2006 we initiated a reduction in force which terminated the employment of approximately 118 employees. All post termination wages and salaries were paid out as of April 7, 2006. In association with the reduction in force we have ceased actively marketing our IP telephony services.

In June 2006, we sold a building to a related party for cash proceeds of $0.4 million. The proceeds were used to payoff our note payable to Corman Elegre and to make a small principal paydown on our $2 million loan from the Fund mentioned above. We recorded a $0.1 million loss associated with the sale.

Effective July 27, 2006, we finalized a settlement with an ILEC over disputed balances that reduced our accounts payable balance by $12.1 million. We paid a total of $3.9 million. The settlement resulted in a net gain of approximately $8.2 million that is included in interest and other income in our third quarter statement of operations.

On August 8, 2006 and September 6, 2006, we completed the sale of 13,439 and 13,923 local access lines to Access Integrated Networks, Inc., a privately-held telephone company headquartered in Macon, Georgia. The sale was pursuant to an Agreement for Purchase and Sale of Customer Access Lines that we entered into with Access Integrated Networks, Inc. on February 13, 2006. The sales price for these lines was $2.6 million. In addition, Access loaned to us $0.5 million for which we delivered a one-year, non-interest bearing promissory note.

On October 23, 2006, we entered into a definitive agreement to sell approximately 300 of our VoIP-based lines to CommX Holdings, Inc., a privately-held provider of business-class voice services, headquartered in Tampa, Florida. The lines, located in Tampa, Florida and New York City, represent all of our VoIP-based business. We are also selling portions of our VoIP network. We expect to close the sale within several months pending regulatory approvals. The total purchase price will depend upon the number of lines in service at the time of closing. As a result of this agreement to sell our VoIP-based lines, we expect our VoIP revenues to decline during the fourth quarter of 2006 and to cease sometime during the first half of 2007. As discussed below in Note 5 – Property and Equipment, we recorded an impairment charge of $2.6 million during the third quarter associated with this decision to sell our VoIP-based business.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by us in accordance with accounting principles generally accepted in the United States of America for interim financial information and are in the form prescribed by the Securities and Exchange Commission' s ("SEC") instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements as required by accounting principles generally accepted in the United States of America. The interim unaudited financial statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2005, included in our Annual Report on Form 10-K filed with the SEC on March 31, 2006. In the opinion of management, all adjustments considered necessary for a fair statement have been included. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATION

Certain amounts in the consolidated statements of operations for the three and nine months ended September 30, 2005 have been reclassified to conform to the presentation for the three and nine months ended September 30, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

(a) Significant Accounting Policies

Our significant accounting policies are included in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2005. There have been no changes to our significant accounting policies during 2006.

Consistent with our significant accounting policies referenced above, prepaid expenses and other current assets includes restricted certificates of deposits with various maturity dates ranging from December 2006 to April 2007 in the amount of $0.1 million and $2.4 million as of September 30, 2006 and December 31, 2006, respectively.

(b) Recent Accounting Pronouncements

In September 2006, the U.S. Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin ("SAB") No. 108, which expresses the views of the SEC staff regarding the process of quantifying financial statement misstatements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance of this SAB is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. We do not anticipate that the adoption of SAB No. 108 will have a material impact on our financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement, which is effective December 31, 2006 for the Company, requires employers to recognize the funded status of defined benefit postretirement plans as an asset or liability on the balance sheet and to recognize changes in that funded status through comprehensive income. SFAS No. 158 also establishes the measurement date of plan assets and obligations as the date of the employer' s fiscal year end, and provides for additional annual disclosures. We do not anticipate that the adoption of SFAS No. 158 will have a material impact on our financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. We are still assessing the impact the adoption of SFAS No. 157 will have on our financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes–an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that entities recognize the impact of a tax position in their financial statements, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We are still assessing the impact the adoption of FIN 48 will have on our financial statements.

In June 2006, the FASB issued Emerging Issues Task Force Issue No. 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)" ("EITF 06-03"), which states that any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer may be shown in the financials on a gross basis (included in revenues and costs) or a net basis (excluded from revenues). If an entity chooses the gross presentation, it must disclose the amount of such taxes for all income statement periods presented. EITF 06-03 is effective for all reporting periods beginning after December 15, 2006, with earlier application permitted. We currently use the net presentation method for such taxes and therefore we do not expect EITF 06-03 to have any impact on our financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 156, "Accounting for Servicing of Financial Assets" ("SFAS No. 156"), which amends SFAS No. 140. SFAS 156 provides guidance addressing the recognition and measurement of separately recognized servicing assets and liabilities, common with mortgage securitization activities, and provides an approach to simplify efforts to obtain hedge accounting treatment. SFAS 156 is effective for all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity' s fiscal year that begins after September 15, 2006, with early adoption being permitted. We are still assessing the impact that the adoption of SFAS No. 156 will have on our financial position, results of operations and cash flows.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS 155"), which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). SFAS 155 provides guidance to simplify the accounting for certain hybrid instruments by permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative and clarifies that beneficial interests in securitized financial assets are subject to SFAS 133. SFAS 155 is effective for all financial instruments acquired, issued or subject to a new basis occurring after the beginning of an entity' s first fiscal year that begins after September 15, 2006. We do not anticipate that the adoption of SFAS No. 155 will have a material impact on our financial position, results of operations or cash flows.

4. ACCOUNTS RECEIVABLE FINANCING AGREEMENT

On April 4, 2005, we entered into an accounts receivable financing agreement with Thermo Credit, LLC ("Thermo"). The agreement provided for the sale of up to $22 million of our accounts receivable on a continuous basis to Thermo, subject to selection criteria as defined in the contract.

During October 2005, we signed an amendment to our accounts receivable financing agreement with Thermo. The amendment increases the amount of accounts receivable that we can sell to Thermo from $22 million to $26 million, subject to selection criteria as defined in the original contract. The discount rate also increased from 2.5% to 2.75%. On February 1, 2006, we amended our accounts receivable financing facility once more by increasing the facility to $33 million.

We sold approximately $168.9 million of receivables to Thermo, for net proceeds of approximately $98.3 million, during the nine months ended September 30, 2006. We have not recorded a servicing asset or liability to date, as our servicing fees under the agreement represent the amount of cash collections in excess of the amounts funded by Thermo. To date, the amount of collections from our servicing activities have approximated the amounts funded by Thermo; therefore, not giving rise to any servicing asset or liability. We recognized costs related to the agreement of approximately $1.7 million and $2.3 million for the three months ended September 30, 2006 and 2005, respectively. During the nine months ended September 30, 2006 and 2005, we recognized $5.3 million and $2.3 million, respectively. We are responsible for the continued servicing of the receivables sold.

5. PROPERTY AND EQUIPMENT

At the respective dates, property and equipment consist of the following:

	Depreciable Lives in Years	September 30, 2006	December 31, 2005
Switching equipment	5-10	$ 15,298	$ 15,563
Computer equipment	5-10	38,560	39,457
Software	3	58,245	58,517
Furniture and office equipment	5-10	8,462	8,860
Leasehold improvements	3-15	6,571	6,430
Land and building	20-30	3,653	4,354
Construction-in-progress		–	153
Vehicles	5	20	20
		130,808	133,354
Less accumulated depreciation and amortization		(118,752)	(113,423)
Property and equipment, net		$ 12,056	$ 19,931

As a result of the decision to sell our VoIP-based business and various portions of our VoIP network as discussed in Note 14 – Subsequent Events, management performed an assessment of the value of our VoIP assets, which include computer equipment, software, software development, switching equipment and leasehold improvements. In the third quarter of 2006, it was determined that, based upon the undiscounted future cash flows, the carrying amount of the VoIP assets would not be recoverable.
The carrying value of the VoIP assets exceeded the fair value by $2.6 million, resulting in an impairment charge. We calculated the fair value of the assets to be sold to CommX Holdings, Inc. by using the estimated sales price as stated in the agreement. The fair value of the remaining assets was determined based upon market prices for similar assets advertised for sale.

The $2.6 million impairment charge recorded during the third quarter of 2006 was composed of $1.0 million related to computer equipment, $0.9 million related to software and software development and $0.7 million related to switching equipment. The impairment was recorded in our retail segment.

6. INTANGIBLE ASSETS

Over the course of the first five months in 2006, we acquired 111,697 UNE-P local access lines from Sprint for which we previously provided services on a wholesale basis. We acquired the lines pursuant to a definitive agreement dated October 25, 2005. Under the agreement we purchased the lines for $11.2 million, $5.5 million of which has been paid as of September 30, 2006. The remaining purchase price will be paid in monthly installments through July 2007. The entire purchase price has been recorded as an intangible asset.

	September 30, 2006			December 31, 2005		
	Carrying Amount	Accumulated Amortization	Net Intangible Assets	Carrying Amount	Accumulated Amortization	Net Intangible Assets
Customer related intangible assets:						
Customer list from Touch 1 acquisition	$9,145	$ 9,145	$ –	$9,145	$ 9,145	$ –
Customer list from acquisition of Sprint lines	11,170	6,568	4,602	–	–	–
	$20,315	$ 15,713	$ 4,602	$9,145	$ 9,145	$ –
Aggregate amortization expense:						
For the nine months ended September 30, 2006		$ 6,568				
For the nine months ended September 30, 2005		$ 457				
Expected amortization expense for the years ending December 31,						
2006		$ 3,452				
2007		$ 1,151				

7. OTHER DEBT

On December 15, 2005, we borrowed $1.0 million from the Fund in order to take advantage of a tax settlement with the State of New York. On January 12, 2006, we borrowed $1.0 million from the Fund for general corporate purposes. In connection with the loan, and the previous $1.0 million loan received December 15, 2005, we delivered to the Fund a promissory note bearing interest at 12% annually and due on demand and a mortgage on certain real property we own in Atmore, Alabama where we have an operations center. Under the promissory note we may be required to grant additional security to the Fund.

See Note 10 – Related Party Transactions for information related to the payoff of the Corman Elegre note payable as well as the small principal paydown on the loan payable to the Fund.

Concurrent with the sale of local access lines to Access Integrated Networks, Inc. during August 2006, Access Integrated Networks, Inc. loaned Trinsic $0.5 million in exchange for an unsecured, non-interest bearing promissory note. The note is due in August 2007.

The table below lists our current and long-term debt as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
RELATED PARTIES:		
Note payable to Corman Elegre, customer base pledged as collateral, payable in monthly installments, due September 2004, interest rate at 6%	$ –	$ 360
Loan payable to the Fund, secured by a mortgage on real property located in Atmore, AL; due on demand, interest rate at 12%	1,977	1,000
UNRELATED PARTIES:		
Tax settlement payable to the State of New York, payable in monthly installments through March 2008, non-interest bearing	1,289	2,050
Purchase price for local access lines due to Sprint, payable in monthly installments through July 2007, non-interest bearing	5,671	–
Note payable to Access Integrated Netorks, Inc., due August 2007, non-interest bearing	500	–
Capital leases	5	33

	$ 9,442	$ 3,443
Less: Current portion	(9,012)	(2,418)
Total long-term debt	$ 430	$ 1,025

8. STOCK-BASED COMPENSATION

In December 2004, the FASB issued SFAS No. 123R, “Share-Based Payment” (“SFAS 123R”), which revised SFAS 123, “Accounting for Stock-Based Compensation” (“SFAS 123”). SFAS 123R requires the grant-date fair value of all stock-based payment awards, including employee stock options, to be recognized as employee compensation expense over the requisite service period. We adopted SFAS 123R on January 1, 2006 and applied the modified prospective transition method. Under this transition method, we did not restate any prior periods and we are recognizing compensation expense for all stock-based payment awards that were outstanding, but not yet vested, as of January 1, 2006.

Prior to the adoption of SFAS 123R, the Company utilized the intrinsic-value based method of accounting under APB Opinion No. 25, (“APB 25”) “Accounting for Stock Issued to Employees” and related interpretations, and adopted the disclosure requirements of SFAS 123. Under the intrinsic-value based method of accounting, no compensation expense was historically recognized in the financial statements for stock options. For additional information about our stock-based compensation and for additional disclosures required under SFAS 123R, refer to Note 20 of the Notes to Consolidated Financial Statements in our Form 10-K.

On January 20, 2006, our board of directors approved the full vesting of all of our unvested, outstanding stock options. All of the stock options were out-of-the-money and we decided to accelerate the vesting in order to avoid future administrative and other costs. As a result of this accelerated vesting, all remaining compensation costs related to our stock options were recorded in the three months ended March 31, 2006.

During the nine months ended September 30, 2006, our general and administrative expense includes $1.0 million, or $0.06 per share, in compensation expense related to our stock-based payment awards.

As noted above, we previously accounted for our stock options under APB 25. The following table illustrates the effect on net loss and net loss per share for the three and nine months ended September 30, 2005, if we had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation. The fair value of the options granted has been estimated at the various grant dates using the Black-Scholes option-pricing model with the following assumptions:

Fair market value based on our closing common stock price on the date the option is granted;

Expected option term of 5 years;

Volatility based on the historical stock price over a period consistent with the expected term;

No expected dividend payments on our common stock.

	For the three months ended September 30, 2005	For the nine months ended September 30, 2005
Net loss attributable to common stockholders, as reported	$ (4,550)	$ (7,369)
Add: Stock based compensation included in net loss	64	157
Deduct: Total stock based employee compensation determined under the fair value based method for all awards	(577)	(1,856)
Net loss attributable to common stockholders, pro forma	$ (5,063)	$ (9,068)
Basic and Diluted Net Loss per Common Share		
As reported	$ (0.82)	$ (1.34)
Pro forma	$ (0.92)	$ (1.65)

9. COMMITMENTS AND CONTINGENCIES

We have disputed billings and access charges from certain inter-exchange carriers (“IXCs”) and incumbent local exchange carriers (“ILECs”). We contend that the invoicing and billings of these access charges are not in accordance with the interconnection, service level, or tariff agreements between us and certain IXCs and ILECs. We have not paid these disputed amounts and management believes that we will prevail in these disputes. At September 30, 2006 and 2005, the total disputed amounts were approximately $3.6 million and $18.4 million, respectively. As of September 30, 2006 and 2005, we have accrued for $1.2 million and $11.4 million, respectively, which represents the access charges that we believe are valid or that may be deemed valid.

As of September 30, 2006, we have agreements with three long-distance carriers to provide transmission and termination services for all of our long distance traffic. These agreements generally provide for the resale of long distance services on a per-minute basis and contain minimum volume commitments. As a result of not fulfilling all of our volume commitments as outlined in one of these contracts, we agreed to pay an increased per minute charge for minutes until the achievement of certain minimum minute requirements. Once we meet the new agreed upon minimum minutes we will revert to the terms of our original agreement. All other terms of the original agreement continue in full force.

In July 2004, we entered into an agreement with an Operations Support Systems services firm to outsource customer provisioning and other ordering through electronic bonding with the incumbent local exchange carriers. In November 2004, we renegotiated this agreement, resulting in a lowering of our monthly minimum payments for the six month time period beginning on July 1, 2005. In May 2005, we renegotiated this agreement once again, resulting in a minimum annual commitment of approximately $2.8 million for the year ending December 31, 2006. We made payments under the agreement totaling $0.5 million and $0.1 million during the three months ended September 30, 2006 and 2005, respectively. We paid $1.7 million and $0.2 million during the nine months ended September 30, 2006 and 2005, respectively.

On April 15, 2005, Trinsic entered into a Wholesale Advantage Services Agreement with Verizon Services Company on behalf of Verizon’ s Incumbent Local Exchange Carriers (Verizon ILECs). The Wholesale Advantage Services Agreement will act as a replacement for Trinsic’ s existing Interconnection Agreements for the provision of UNE-P services in Verizon service areas. As long as Trinsic meets certain volume commitments, Verizon will continue to provide a UNE-P “like” service at gradually increasing rates for a five year period. The contract contains a take-or-pay clause that is applicable for every month starting in May 2005. The calculation is based on a snapshot of lines we had in service as of March 31, 2005 – the baseline volume. If Trinsic is unable to replace lines generated by normal churn, this take-or-pay clause may become effective and significantly raise our cost in the Verizon footprint. In July 2006, we amended our Wholesale Advantage Services Agreement to exclude the newly acquired Sprint lines from the baseline volume. This significantly lowers our minimum volume commitments with Verizon. In exchange for the decreased minimums, we accepted a rate increase across the Verizon territory. Both the decreased volume commitment and the rate increase were effective as of January 1, 2006.

10. RELATED PARTY TRANSACTIONS

We recorded interest on our related party debt of $0.1 million and $0.5 million during the three months ended September 30, 2006 and 2005, respectively, and we recorded interest of $0.2 million and $1.6 million during the nine months ended September 30, 2006 and 2005, respectively.

In June 2006, we sold a building to a related party for cash proceeds of $0.4 million. The proceeds were used to payoff our note payable to Corman Elegre and to make a small principal paydown on our $2 million loan from the Fund mentioned above. We recorded a $0.1 million loss associated with the sale.

11. COMPUTATION OF NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Incremental shares of common stock equivalents are not included in the calculation of diluted net loss per share as the inclusion of such equivalents would be anti-dilutive.

Net loss per share is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Basic and diluted net loss per share:				
Net loss	$ (1,453)	$ (4,550)	$ (7,868)	$ (7,369)
Weighted average shares outstanding:	18,457,497	5,520,137	18,150,582	5,493,993
Basic and diluted net loss per share	$ (0.08)	$ (0.82)	$ (0.43)	$ (1.34)

For all periods shown, basic and diluted net loss per share are the same. The following table includes potentially dilutive items that were not included in the computation of diluted net loss per share because to do so would be anti-dilutive:

	Nine Months Ended September 30,	
	2006	2005
Unexercised stock options	57,389	102,808
Unexercised warrants	48,744	107,878
Total potentially dilutive shares of common stock equivalents	106,133	210,686

12. LEGAL AND REGULATORY PROCEEDINGS

During June and July 2001, three separate class action lawsuits were filed against us, certain of our current and former directors and officers (the "D&Os") and firms engaged in the underwriting (the "Underwriters") of our initial public offering of stock (the "IPO"). The lawsuits, along with approximately 310 other similar lawsuits filed against other issuers arising out of initial public offering allocations, have been assigned to a Judge in the United States District Court for the Southern District of New York for pretrial coordination. The lawsuits against us have been consolidated into a single action. A consolidated amended complaint was filed on April 20, 2002. A Second Corrected Amended Complaint (the "Amended Complaint"), which is the operative complaint, was filed on July 12, 2002.

The Amended Complaint is based on the allegations that our registration statement on Form S-1, filed with the Securities and Exchange Commission ("SEC") in connection with the IPO, contained untrue statements of material fact and omitted to state facts necessary to make the statements made not misleading by failing to disclose that the underwriters allegedly had received additional, excessive and undisclosed commissions from, and allegedly had entered into unlawful tie-in and other arrangements with, certain customers to whom they allocated shares in the IPO. The plaintiffs in the Amended Complaint assert claims against us and the D&Os pursuant to Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated by the SEC there under. The plaintiffs in the Amended Complaint assert claims against the D&Os pursuant to Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated by the SEC there under. The plaintiffs seek an undisclosed amount of damages, as well as pre-judgment and post-judgment interest, costs and expenses, including attorneys' fees, experts' fees and other costs and disbursements. Initial discovery has begun. We believe we are entitled to indemnification from our Underwriters.

A settlement has been reached by the plaintiffs, the issuers and insurers of the issuers. The principal terms of the proposed settlement are (i) a release of all claims against the issuers and their officers and directors, (ii) the assignment by the issuers to the plaintiffs of certain claims the issuers may have against the Underwriters and (iii) an undertaking by the insurers to ensure the plaintiffs receive not less than $1 billion in connection with claims against the Underwriters. Hence, under the terms of the proposed settlement our financial obligations will likely be covered by insurance. To be binding the settlement must be approved by the court. There is no assurance that the settlement will be finally approved by the court.

Susan Schad, on behalf of herself and all others similarly situated, filed a putative class action lawsuit against Trinsic Communications, Inc. (formerly known as Z-Tel Communications, Inc.), our wholly-owned subsidiary corporation, on May 13, 2004. The original complaint alleged that our subsidiary engaged in a pattern and practice of deceiving consumers into paying amounts in excess of their monthly rates by deceptively labeling certain line-item charges as government-mandated taxes or fees when in fact they were not. The original complaint sought to certify a class of plaintiffs consisting of all persons or entities who contracted with Trinsic for telecommunications services and were billed for particular taxes or regulatory fees. The original complaint asserted a claim under the Illinois Consumer Fraud and Deceptive Businesses Practices Act and sought unspecified damages, attorneys' fees and court costs. On June 22, 2004, we filed a notice of removal in the state circuit court action, removing the case to the Federal District Court for the Northern District of Illinois, Eastern Division, C.A. No. 04 C 4187. On July 26, 2004, the plaintiff filed a motion to remand the case to the state circuit court. On January 12, 2005, the federal court granted the motion and remanded the case to the state court. On October 17, 2005, the state court heard argument on our motion to dismiss the lawsuit and granted that motion, in part with prejudice. The court dismissed with prejudice the claims relating to the "E911 Tax," the "Utility Users Tax," and the "Communications Service Tax." The court found that those tax charges were specifically authorized by state law or local ordinance, and thus cannot be the basis of a Consumer Fraud claim. The court also dismissed (but with leave to replead) the claims relating to the "Interstate Recovery Fee" and the "Federal Regulatory Compliance Fee." The court determined that the plaintiff had failed to allege how she was actually damaged by the allegedly deceptive description of the charges. On November 15, 2005, the plaintiff filed a First Amended Class Action Complaint alleging that Trinsic mislabeled its "Interstate Recovery Fee" and "Federal Cost Recovery Fee" in supposed violation of the Illinois Consumer Fraud and Deceptive Business Practices Act. As with the original complaint, the First Amended Class Action Complaint seeks damages, fees, costs, and class certification. We filed a further Motion to Dismiss which was heard by the court on April 3, 2006. The court granted our motion by dismissing the plaintiff's claims for unfair practices under the Illinois Consumer Fraud and Deceptive Business Practices Act and dismissing in part the plaintiff's claims for deceptive practice under the Act. The court determined that the plaintiff did not state sufficient facts indicating that her alleged damages were caused by our alleged deception. On April 24, 2006, the plaintiff filed a Second Amended Class Action Complaint again alleging that Trinsic mislabeled its "Interstate Recovery Fee" and "Federal Cost Recovery Fee" in supposed violation of the Illinois Consumer Fraud and

Deceptive Business Practices Act. The Second Amended Class Action Complaint seeks damages, fees, costs, and class certification. We moved to dismiss this Second Amended Class Action Complaint, and the Court heard the motion on August 28, 2006. On September 27, 2006, the court issued a ruling allowing the plaintiff' s remaining claims to stand and ordered us to answer the Second Amended Complaint on October 4, 2006. We have filed an answer denying all material allegations. Discovery has recently begun. We believe the plaintiff' s allegations are without merit and intend to defend the lawsuit vigorously, but we cannot predict the outcome of this litigation with any certainty.

On November 19, 2004, the landlord of our principal Tampa, Florida facility sued us seeking a declaration of its rights and obligations under the lease and damages for breach of contract. We assert that the landlord has failed to provide certain services in accordance with the lease, including maintenance of air conditioning and emergency electrical generating systems crucial to our operations. We have taken steps necessary to provide this maintenance and have offset the costs of these measures against the rent, which we believe we are entitled to do under the lease. Thus far we have withheld approximately $0.3 million. We also believe we are entitled to reimbursement from the landlord for costs associated with improvements to the leased space.

On November 19, 2004, a provider of parking spaces for our Tampa facilities sued us for parking fees in excess of $0.3 million. Pursuant to our lease we are entitled to a number of free spaces and we are obligated to pay for additional usage of parking spaces. We have entered into a settlement understanding with the plaintiff. Under the settlement, we agreed to pay a total of $0.2 million, payable in installments over seven months. We made the final payment on November 1, 2006.

On August 11, 2006, Oracle sued us for payment of licensing fees alleging claims for copyright infringement, breach of contract, account stated, open book account, and goods sold and delivered based upon our license. We disagreed with the terms of our usage of the licensed software. We have entered into a settlement agreement with Oracle. Under the agreement we agree to pay $0.3 million over a 10 month period beginning November 15, 2006.

13. SEGMENT REPORTING

We have two reportable operating segments: Retail Services and Wholesale Services.

The retail services segment includes our residential and business services that offer bundled local and long-distance telephone services in combination with enhanced communication features accessible, through the telephone, the Internet and certain personal digital assistants. We offer these services in forty-nine states. This segment also includes our Touch 1 residential long-distance offering that is available nation-wide.

The wholesale services segment allows companies to offer telephone exchange and enhanced services to residential and small business customers. Sprint was our only wholesale customer during 2005 and 2006. As discussed in Note 6 above, we have acquired all of the Sprint lines for which we previously provided wholesale services.

Management evaluates the performance of each business unit based on segment results, exclusive of adjustments for unusual items and depreciation and amortization. Special items are transactions or events that are included in our reported consolidated results but are excluded from segment results due to their nonrecurring or non-operational nature. It is also important to understand when viewing our segment results that we only record direct expenses in our wholesale services and therefore, all employee benefits, occupancy, insurance, and other indirect or overhead related expenses are reflected in the retail services segment.

The following summarizes the financial information concerning our reportable segments for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
	2006	2005	2006	2005
Retail Services				
Revenues	$ 38,133	$ 34,045	$ 121,611	$ 118,378
Depreciation and amortization	$ 1,865	$ 2,374	$ 5,865	$ 9,423
Segment results	$ (6,251)	$ (2,873)	$ (4,114)	$ (9,045)
Capital expenditures	$ 97	$ 573	$ 1,150	$ 2,206
Identifiable assets			$ 29,688	$ 47,675

	Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
	2006	2005	2006	2005
Wholesale Services				
Revenues	$ 383	$ 9,984	$ 4,639	$ 33,580
Depreciation and amortization	$ 3,461	$ 24	$ 6,637	$ 108
Segment results	$ 128	$ 3,429	$ 904	$ 10,247
Capital expenditures	$ –	$ –	$ –	$ –
Identifiable Assets			$ 4,898	$ 5,722

The following table reconciles our segment information to the consolidated financial information for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues				
Retail segment	$38,133	$34,045	$121,611	$118,378
Wholesale segment	383	9,984	4,639	33,580
Total consolidated	$38,516	$44,029	$126,250	$151,958

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Segment results:				
Retail segment	$(6,251)	$(2,873)	$(4,114)	$(9,045)
Wholesale segment	128	3,429	904	10,247
Depreciation and amortization	(5,326)	(2,398)	(12,502)	(9,531)
Total consolidated operating loss	$(11,449)	$(1,842)	$(15,712)	$(8,329)

14. SUBSEQUENT EVENTS

On October 23, 2006, we entered into a definitive agreement to sell approximately 300 of our VoIP-based lines to CommX Holdings, Inc., a privately-held provider of business-class voice services using VoIP, headquartered in Tampa, Florida. The lines, located in Tampa, Florida and New York City, represent all of our VoIP-based business. We are also selling portions of our VoIP network. We expect to close the sale within several months pending regulatory approvals. The total purchase price will depend upon the number of lines in service at the time of closing. As discussed above in Note 5 – Property and Equipment, we recorded an impairment charge of $2.6 million during the third quarter associated with this decision to sell our VoIP-based business.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion together with financial statements and related notes included in this document. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those projected in the forward-looking statements as a result of certain factors, including, but not limited to, those discussed in "Item 1. Business," as well as "Cautionary Statements Regarding Forward-Looking Statements," and "Item 1A. Risk Factors" included in our Form 10-K filed with the Securities and Exchange Commission on March 31, 2006, and other factors relating to our business and us that are not historical facts. Factors that may affect our results of operations include, but are not limited to, our limited operating history and cumulative losses, access to financing, uncertainty of customer demand, rapid expansion, potential software failures and errors, potential network and interconnection failure, dependence on local exchange carriers, dependence on third party vendors, dependence on key personnel, uncertainty of government regulation, legal and regulatory uncertainties, and competition. We disclaim any obligation to update information contained in any forward-looking statement.

OVERVIEW

We offer local and long distance telephone services in combination with enhanced communication features accessible through the telephone or the Internet. These features include Personal Voice Assistant ("PVA"), "Find-Me," "Notify-Me," caller identification, call waiting and speed dialing. PVA allows users to store contacts in a virtual address book and then access and utilize that information by voice from any telephone. PVA users can also send voice e-mails. We provide advanced, integrated telecommunications services targeted to residential and business customers. We have successfully deployed Cisco soft switches in the Tampa and New York City markets, which allows us to provision VoIP services. In addition to providing our services on a retail basis, we are also providing these services on a wholesale basis. Our wholesale services provide other companies the ability to utilize our telephone exchange services, enhanced services platform, infrastructure and back-office operations to provide services to retail and business customers on a private label basis. For management purposes, we are organized into two reportable operating segments: retail services and wholesale services. As discussed in Note 6 to the consolidated financial statements, during second quarter we substantially completed our acquisition of all of the lines for which we previously provided wholesale services. The nature of our business is rapidly evolving, and we have a limited operating history.

RESULTS OF OPERATIONS

The following discussion of results of operations is by business segment. Management evaluates the performance of each business unit based on segment results, after making adjustments for unusual items. Unusual items are transactions or events that are included in our reported consolidated results, but are excluded from segment results due to their non-recurring or non-operational nature. See our segment footnote to our consolidated financial statements for a reconciliation of segmented results to the consolidated financial information.

Revenues

	For the three months ended September 30,		Percentage of Revenues	
Total revenues by segment (in millions)	2006	2005	2006	2005
Retail Segment	$38.1	$34.0	99.0 %	77.3 %
Wholesale segment	0.4	10.0	1.0 %	22.7 %
Total Revenues	$38.5	$44.0	100.0 %	100.0 %

	For the nine months ended September 30,		Percentage of Revenues	
Total revenues by segment (in millions)	2006	2005	2006	2005
Retail Segment	$121.6	$118.4	96.3 %	77.9 %
Wholesale segment	4.6	33.6	3.7 %	22.1 %
Total Revenues	$126.2	$152.0	100.0 %	100.0 %

Two significant drivers impact our revenues: number of lines in service and average (monthly) revenue per unit ("ARPU"). The more significant driver impacting our changes in revenue is the number of lines in service. The table below provides a detailed break-down of our lines:

Type of Service	Average lines in service for the three months ended September 30, 2006	2005	Average lines in service for the nine months ended September 30, 2006	2005
Bundled residential services	134,305	132,436	151,487	154,453
Bundled business services	39,311	44,121	44,135	45,259
1+ long distance services	24,898	34,509	26,758	36,742
Wholesale services	–	192,942	17,560	236,552
VoIP	3,107	5,288	3,269	3,457
Total lines under management	201,620	409,296	243,208	476,463

Type of Service	Ending lines in service as of September 30, 2006	2005
Bundled residential services	117,362	120,262
Bundled business services	36,245	43,218
1+ long distance services	24,334	33,090
Wholesale services	–	173,460
VoIP	3,021	5,357
Total lines under management	180,962	375,387

Average and ending lines in service for 2006 include the lines purchased from Sprint. See Note 6 – Intangible Assets.

ARPU provides us with a business measure as to the average monthly revenue generation attributable to each line in service, by business segment. ARPU is calculated by taking total revenues over a period divided by the number of months in the period to calculate the average revenue per month and this total is divided by the average lines in service during the period. We use this measure when analyzing our retail services business, but not when assessing our wholesale services business for the reasons summarized earlier within this section. The following table provides a detail of our ARPU:

Average revenue per unit in service	For the three months ended September 30, 2006	2005	For the nine months ended September 30, 2006	2005
Bundled residential services	$ 79.17	$ 70.73	$ 74.45	$ 71.65
Bundled business services	$ 44.94	$ 34.75	$ 42.80	$ 36.09
1+ long distance services	$ 12.05	$ 12.56	$ 12.87	$ 12.40

Price increases went into effect in the fourth quarter of 2005, causing the ARPU to increase for the three and nine months ended September 30, 2006 as compared to the same periods in 2005.

The company expects both its retail and wholesale revenue to decline in 2006. The expected decrease is the result of the sale of access lines to Access Integrated Networks, Inc., termination of the company' s wholesale operations, the agreement to sell all of our VoIP-based lines and normal attrition of the remaining customer base. The decrease should be partially offset by the acquisition of access lines from Sprint and the rate changes noted above.

Retail Segment

Retail segment revenues by type (in millions)	For the three months ended September 30, 2006	2005	Percentage of Revenues 2006	2005
Bundled residential services	$31.9	$28.1	83.7 %	82.7 %
Bundled business services	5.3	4.6	13.8 %	13.5 %
1+ long-distance services	0.9	1.3	2.5 %	3.8 %
Total Revenues	$38.1	$34.0	100.0 %	100.0 %

Retail segment revenues by type (in millions)	For the nine months ended September 30, 2006	2005	Percentage of Revenues 2006	2005
Bundled residential services	$101.5	$99.6	83.5 %	84.1 %
Bundled business services	17.0	14.7	14.0 %	12.4 %
1+ long-distance services	3.1	4.1	2.5 %	3.5 %
Total Revenues	$121.6	$118.4	100.0 %	100.0 %

During the three months ended September 30, 2006, the increases in bundled residential and bundled business revenue as compared to the same period in 2005, were primarily the result of the conversion of Sprint wholesale lines to the retail segment in addition to the price increases mentioned above. The decline in 1+ long distance revenue for these same comparative periods was primarily the result of the decline in 1+ long distance lines.

During the nine months ended September 30, 2006, bundled business and bundled residential revenue increased as compared to the same period in 2005 due to the conversion of the Sprint lines as well as price increases, offset slightly by decreases in average lines in service. The decrease in 1+ long distance revenue for these same comparative periods was attributable to the decreases in average lines in service during the nine month period in 2006 as compared to 2005.

Wholesale Segment

Wholesale segment revenues by type (in millions)	For the three months ended September 30, 2006	2005	Percentage of Revenues 2006	2005
Sprint	$0.4	$10.0	100.0 %	100.0 %
Total Revenues	$0.4	$10.0	100.0 %	100.0 %

Wholesale segment revenues by type (in millions)	For the nine months ended September 30, 2006	2005	Percentage of Revenues 2006	2005
Sprint	$4.6	$33.6	100.0 %	100.0 %
Total Revenues	$4.6	$33.6	100.0 %	100.0 %

Sprint wholesale lines have decreased from 173,460 at September 30, 2005 to zero at September 30, 2006, resulting in a significant decline in wholesale revenue. Given our decision to exit the wholesale services offering, we do not expect to have any significant wholesale revenue going forward.

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Network Operations

Our network operations expense primarily consists of fixed and variable transmission expenses for the leasing of the UNE-P components from ILECs, domestic and international charges from service level agreements with IXCs, and USF and certain other regulatory charges. The following table shows the detail by segment of network operations expense:

Network operations expense, exclusive of depreciation and amortization expense, by segment (in millions)	For the three months ended September 30,		Percentage of Segment Revenues	
	2006	2005	2006	2005
Retail Segment	$23.1	$18.7	60.5 %	55.0 %
Wholesale Segment	0.2	5.2	62.9 %	52.0 %
Total Network Operations Expense	$23.3	$23.9	60.5 %	54.3 %

Network operations expense, exclusive of depreciation and amortization expense, by segment (in millions)	For the nine months ended September 30,		Percentage of Segment Revenues	
	2006	2005	2006	2005
Retail Segment	$73.5	$63.0	60.5 %	53.2 %
Wholesale Segment	2.8	17.7	59.7 %	52.7 %
Total Network Operations Expense	$76.3	$80.7	60.4 %	53.1 %

The following table shows the detail by type of network operations expense:

Network operations expense, exclusive of depreciation and amortization, by type (in millions)	For the three months ended September 30,		Percentage of Network Operations	
	2006	2005	2006	2005
Bundled residential services	$19.1	$15.2	82.1 %	63.6 %
Bundled business services	3.8	3.3	16.2 %	13.8 %
1+ long distance services	0.2	0.2	0.7 %	0.8 %
Wholesale services	0.2	5.2	1.0 %	21.8 %
Total	$23.3	$23.9	100 %	100 %

Network operations expense, exclusive of depreciation and amortization, by type (in millions)	For the nine months ended September 30,		Percentage of Network Operations	
	2006	2005	2006	2005
Bundled residential services	$61.1	$52.1	80.1 %	64.6 %
Bundled business services	12.0	10.2	15.7 %	12.6 %
1+ long distance services	0.4	0.7	0.6 %	0.9 %
Wholesale services	2.8	17.7	3.6 %	21.9 %
Total	$76.3	$80.7	100 %	100 %

During the three and nine months ended September 30, 2006, network operations expense increased as compared to the same periods in 2005 for residential and business services. This is primarily due to increases in ILEC fees as well as our acquisition of Sprint lines that we previously served on a wholesale basis. For 1+ long distance services, the increased ILEC fees were offset by the decrease in lines in service, causing network operations expense to decrease from 2005 to 2006. Network operations expense decreased significantly for wholesale services during 2006 as compared to 2005 as a result of our acquisition of Sprint lines.

We also analyze the average expense per unit ("AEPU") for network operations, similar to the ARPU calculation for revenues. AEPU is calculated by taking total network operations expense over a period divided by the number of months in the period to calculate the average expense per month and this total is divided by the average lines in service during the period. The following details AEPU for network operations expense.

Average network operations expense per unit	For the three months ended September 30, 2006	For the three months ended September 30, 2005	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Bundled residential services	$ 47.40	$ 38.26	$ 44.81	$ 37.48
Bundled business services	$ 32.22	$ 24.93	$ 30.21	$ 25.04
1+ long distance services	$ 2.68	$ 1.93	$ 1.66	$ 2.12

During 2006, AEPU increased because of rate increases associated with the FCC' s UNE-P ruling effective March 11, 2005 and our commercial services agreements.

We expect network operations expense to increase in 2006 as we experience rate increases associated with our commercial services agreements with ILECs.

Retail Segment

The following table provides a detail of network operations expense as a percentage of revenues by the respective revenue types. This table excludes an analysis of the wholesale services business segment because management does not evaluate this measure, given that network expenses related to wholesale services are intended to be zero-margin direct cost pass-through in nature.

Network operations expense as a percentage of revenues	For the three months ended September 30, 2006	For the three months ended September 30, 2005	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Bundled residential services	59.9%	54.1%	60.2%	52.3%
Bundled business services	71.6%	71.7%	70.5%	69.4%
1+ long distance services	16.5%	15.4%	14.0%	17.1%

During the three and nine months ended September 30, 2006 as compared to the same periods in the prior year, network operations expense as a percentage of revenues increased for bundled residential and business services. The increase is a direct result of rate increases associated with the FCC' s UNE-P ruling effective March 11, 2005 and our commercial services agreements with Qwest, Verizon, SBC Communications (now AT&T) and BellSouth.

Wholesale Segment

Network operations expense from the wholesale segment decreased significantly for the three and nine month periods ended September 30, 2006 as compared to the same periods in 2005. This was the result of the significant decrease in wholesale lines in service during 2006.

Sales and Marketing

The sales and marketing expense primarily consists of telemarketing, direct mail, brand awareness advertising and independent sales representative commissions and salaries and benefits paid to employees engaged in sales and marketing activities. The following table shows the detail by segment of sales and marketing expense:

Sales & marketing expense by segment (in millions)	For the three months ended September 30, 2006	2005	Percentage of Segment Revenues 2006	2005
Retail Segment	$0.9	$2.6	2.5 %	7.6 %
Wholesale segment	–	–	0.0 %	0.0 %
Total Sales & Marketing Expense	$0.9	$2.6	2.5 %	5.9 %

Sales & marketing expense by segment (in millions)	For the nine months ended September 30, 2006	2005	Percentage of Segment Revenues 2006	2005
Retail Segment	$3.6	$11.5	3.0 %	9.7 %
Wholesale segment	–	–	0.0 %	0.0 %
Total Sales & Marketing Expense	$3.6	$11.5	2.9 %	7.6 %

Retail Segment

During the three and nine months of 2006, sales and marketing expense decreased significantly as compared to the same periods in 2005. This was mainly due to a decrease in sales commissions and payroll related expenses. Decreases were also experienced in direct mail expenses and marketing expenses as we have not actively marketed to VoIP or UNE-P customers in 2006.

Wholesale Segment

We are not actively seeking any new wholesale relationships at this time, therefore we have not incurred any expenses related to this segment for either period presented.

General and Administrative

General and administrative expense primarily consists of employee salaries and benefits, outsourced services, bad debt expense, billing and collection costs, occupancy costs, legal and provisioning costs. The following table shows the detail by segment of general and administrative expense:

General & administrative expense by segment (in millions)	For the three months ended September 30, 2006	2005	Percentage of Segment Revenues 2006	2005
Retail Segment	$17.8	$15.6	46.7 %	45.9 %
Wholesale segment	0.0	1.4	0.0 %	14.0 %
Total General & Administrative Expense	$17.8	$17.0	46.3 %	38.6 %

General & administrative expense by segment (in millions)	For the nine months ended September 30, 2006	2005	Percentage of Segment Revenues 2006	2005
Retail Segment	$46.0	$52.9	37.8 %	44.7 %
Wholesale segment	1.0	5.7	20.8 %	17.0 %
Total General & Administrative Expense	$47.0	$58.6	37.2 %	38.6 %

The increase in general and administrative expenses during the three months ended September 30, 2006 as compared to the same period in 2005 is primarily attributable to increases in bad debt expenses, tax and licenses expenses and customer provisioning expenses. Taxes and licenses expense increased due to a one-time assessment we received and the customer provisioning expenses increased as a result of a lump-sum penalty charged to us by a vendor. General and administrative expenses decreased for the nine months ended September 30, 2006 as compared to the same period in 2005 due to decreases in payroll and payroll related expenses, hardware and software support expenses and collection expenses. These decreases were partially offset by increases in customer provisioning expenses and legal fees.

We have improved our operating costs and overall operations. Decreases in total lines in service have directly impacted our general and administrative needs, causing a significant reduction in many of the expense items listed above. We anticipate general and administrative expenditures will decrease in total into the future as management continues to rationalize its operating cost structure. We will continue to evaluate our operations for efficiencies and our employee staffing requirements as they relate to increased efficiencies or needs to expand or outsource services.

Retail Segment

The increases and decreases in general and administrative expenses for the retail segment are explained above.

Included in the retail services general and administrative expense are all employee benefits expenses, occupancy, insurance, and other indirect or overhead-related expenses as only direct costs are recorded within our wholesale services business segment.

Wholesale Segment

The decreases in general and administrative expense for the three and nine months ended September 30, 2006 as compared to the same periods in 2005 are a direct result of our acquisition of the Sprint wholesale lines.

Loss on Impairment of Assets

As a result of the decision to sell our VoIP-based business and various portions of our VoIP network as discussed in Note 14 – Subsequent Events, management performed an assessment of the value of our VoIP assets, which include computer equipment, software, software development, switching equipment and leasehold improvements. In the third quarter of 2006, it was determined that, based upon the undiscounted future cash flows, the carrying amount of the VoIP assets would not be recoverable.

The carrying value of the VoIP assets exceeded the fair value by $2.6 million, resulting in an impairment charge. We calculated the fair value of the assets to be sold to CommX Holdings, Inc. by using the estimated sales price as stated in the agreement. The fair value of the remaining assets was determined based upon market prices for similar assets advertised for sale. The $2.6 million impairment charge was recorded in our retail segment.

Depreciation and Amortization

Depreciation and amortization expense increased for the three and nine months ended September 30, 2006 as compared to the prior year periods. The increase was the result of the amortization expense related to our customer list intangible that was created upon the acquisition of the Sprint lines in 2006.

Interest and Other Income

Interest and other income primarily consists of interest charged to our bundled residential and business customers for not paying their bills on time and income from interest earned on our cash balances.

During the three and nine months ended September 30, 2006, interest and other income includes an $8.2 million gain from a legal settlement and $2.6 million of proceeds from the sale of access lines to Access Integrated Networks, Inc.

During the nine months ended September 30, 2005, interest and other income includes $5.8 million of lawsuit proceeds from a legal settlement.

Interest and Other Expense

Interest and other expense includes late fees for vendor payments, discount fees related to our accounts receivable financing agreement, interest related to the asset based loan with Textron and our standby credit facility, capital leases and our other debt obligations.

The decreases in interest and other expense during the three and nine months ended September 30, 2006 as compared to the same periods in 2005 were primarily attributable to the decrease in the outstanding balance of our loan payable to The 1818 Fund, L.P.

LIQUIDITY AND CAPITAL RESOURCES

Our inability to operate profitably and to consistently generate cash flows from operations and our reliance therefore on external funding either from loans or equity raise substantial doubt about our ability to continue as a going concern.

The accompanying consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business is dependent upon, among other things, our ability to operate profitably, to generate cash flow from operations and to obtain funding adequate to fund its business.

Our operations are subject to certain risks and uncertainties, particularly related to the evolution of the regulatory environment, which impacts our access to and cost of the network elements that we utilize to provide services to our customers.

We have incurred significant losses since our inception as a result of developing our business, performing ongoing research and development, building and maintaining our network infrastructure and technology, the sale and promotion of our services, and ongoing administrative expenditures. As of September 30, 2006, we had an accumulated deficit of approximately $432.2 million and $0.4 million in cash and cash equivalents. We have funded our expenditures primarily through operating revenues, private securities offerings, our asset based loan, our standby credit facility, a sale-leaseback credit facility, an accounts receivable factoring facility and an initial public offering.

For the nine months ended September 30, 2006, net cash provided by operating activities was $4.9 million as compared to $2.1 million used in operating activities for the same period in the prior year.

On April 4, 2005, we entered into an accounts receivable financing agreement with Thermo Credit, LLC (“Thermo”). The agreement provides for the sale of up to $33 million of our accounts receivable on a continuous basis to Thermo, subject to selection criteria as defined in the contract.

On December 15, 2005, we borrowed $1.0 million from the 1818 Fund III, L.P. (“the Fund”) in order to take advantage of a tax settlement with the State of New York. On January 12, 2006, we borrowed $1.0 million from the Fund for general corporate purposes. In connection with the loan, and the previous $1.0 million loan received December 15, 2005, we delivered to the Fund a promissory note bearing interest at 12% annually and due on demand and a mortgage on certain real property we own in Atmore, Alabama where we have an operations center. Under the promissory note we may be required to grant additional security to the Fund.

Our net cash used in investing activities was $2.9 million for the nine months ended September 30, 2006, compared to $2.2 million for the same period in the prior year. The increase was attributable to purchasing local access lines from Sprint in 2006, offset by a reduction in our capital expenditures.

For the nine months ended September 30, 2006, net cash used in financing activities was $1.7 million as compared to $3.1 million provided by financing activities for the same period in 2005. This decrease in 2006 is primarily the result of the purchase of local access lines from Sprint in 2006 and the issuance of preferred stock in 2005.

Over the course of the first five months in 2006, we acquired 111,697 UNE-P local access lines from Sprint for which we previously provided services on a wholesale basis. We acquired the lines pursuant to a definitive agreement dated October 25, 2005. Under the agreement we purchased the lines for $11.2 million, $5.5 million of which has been paid as of September 30, 2006. The total purchase price includes $1.3 million that was escrowed during the latter part of 2005. The remaining purchase price will be paid in monthly installments through July 2007.

On March 3, 2006 we initiated a reduction in force which terminated the employment of approximately 118 employees. All post termination wages and salaries were paid out as of April 7, 2006. In association with the reduction in force we have ceased actively marketing our IP telephony services.

In June 2006, we sold a building to a related party for cash proceeds of $0.4 million. The proceeds were used to payoff our note payable to Corman Elegre and to make a small principal paydown on our $2 million loan from the Fund mentioned above. We recorded a $0.1 million loss associated with the sale.

Effective July 27, 2006, we finalized a settlement with an ILEC over disputed balances that reduced our accounts payable balance by $12.1 million. We paid a total of $3.9 million. The settlement resulted in a net gain of approximately $8.2 million that is included in interest and other income in our third quarter statement of operations.

On August 8, 2006 and September 6, 2006, we completed the sale of 13,439 and 13,923 local access lines to Access Integrated Networks, Inc., a privately-held telephone company headquartered in Macon, Georgia. The sale was pursuant to an Agreement for Purchase and Sale of Customer Access Lines that we entered into with Access Integrated Networks, Inc. on February 13, 2006. The sales price for these lines was $2.6 million. In addition, Access loaned to us $0.5 million for which we delivered a one-year, non-interest bearing promissory note.

On October 23, 2006, we entered into a definitive agreement to sell approximately 300 of our VoIP-based lines to CommX Holdings, Inc., a privately-held provider of business-class voice services, headquartered in Tampa, Florida. The lines, located in Tampa, Florida and New York City, represent all of our VoIP-based business. We are also selling portions of our VoIP network. We expect to close the sale within several months pending regulatory approvals. The total purchase price will depend upon the number of lines in service at the time of closing. As a result of this agreement to sell our VoIP-based lines, we expect our VoIP revenues to decline during the fourth quarter of 2006 and to cease sometime during the first half of 2007. As discussed below in Note 5 – Property and Equipment, we recorded an impairment charge of $2.6 million during the third quarter associated with this decision to sell our VoIP-based business.

DEBT INSTRUMENTS

Accounts Receivable Financing

On April 4, 2005, we entered into an accounts receivable financing agreement with Thermo Credit, LLC ("Thermo"). The agreement provides for the sale of up to $22 million of our accounts receivable on a continuous basis to Thermo, subject to selection criteria as defined in the contract.

During October 2005, we signed an amendment to our accounts receivable financing agreement with Thermo. The amendment increases the amount of accounts receivable that we can sell to Thermo from $22 million to $26 million, subject to selection criteria as defined in the original contract. The discount rate also increases from 2.5% to 2.75%. On February 1, 2006, we amended our accounts receivable financing facility once more by increasing the facility to $33 million.

ILEC, IXC AND RELATED DISPUTED CHARGES

Since our existence we have disputed and continue to dispute significant charges from the various ILECs, IXCs, and certain other carriers providing us services. We have a policy of treating all charges that we believe are without merit, but are still being presented on a bill to us as disputes, regardless of the age of the dispute. Our outstanding disputes at September 30, 2006 and 2005 are summarized in the following table:

	Outstanding Disputes at September 30,	
	2006	2005
	(in millions)	
Alternatively billed services	$ 0.1	$ 6.0
Late fees for non-payment of disputed charges	0.7	5.8
Billing errors	1.6	4.8
All others	1.2	1.8
	$ 3.6	$ 18.4

The late fees are accumulating from all of our disputes as we do not pay for disputed items and therefore incur and accumulate late fees for these disputed billings.

We believe that we have adequately accrued for our disputes and we believe our maximum exposure for these charges is $3.6 million. However, we do not believe that all of these charges are valid and intend to continue our dispute and non-payment of these charges.

Effective July 27, 2006, we finalized a settlement with an ILEC over disputed balances that reduced our accounts payable balance by $12.1 million. We paid a total of $3.9 million. The settlement, which was contingent upon final payment of the full $3.9 million, resulted in a net gain of approximately $8.2 million that is reflected in our third quarter statement of operations.

RELATED PARTY TRANSACTIONS

We recorded interest on our related party debt of $0.1 million and $0.5 million during the three months ended September 30, 2006 and 2005, respectively, and we recorded interest of $0.2 million and $1.6 million during the nine months ended September 30, 2006 and 2005, respectively.

In June 2006, we sold a building to a related party for cash proceeds of $0.4 million. The proceeds were used to payoff our note payable to Corman Elegre and to make a small principal paydown on our $2 million loan from the Fund mentioned above. We recorded a $0.1 million loss associated with the sale.

SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

See Note 3 "Significant Accounting Policies and Recent Accounting Pronouncements" and Note 8 "Stock-Based Compensation."

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments. Our operations are conducted primarily in the United States and as such are not subject to material foreign currency exchange rate risk.

The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of the major portion of our investment portfolio.

We have no material future earnings or cash flow exposures from changes in interest rates on our long-term debt obligations, as substantially all of our long-term debt obligations are fixed rate obligations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that material information related to us, including our consolidated subsidiaries, is recorded, processed, summarized and reported in accordance with SEC rules and forms. Our management, with the participation of Chief Executive Officer, Horace J. Davis, III and Chief Financial Officer, Donald C. Davis, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on their evaluation as of the end of the period covered by this report, Mr. Davis and Mr. Davis have concluded that, as a result of the material weakness discussed below, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were not sufficiently effective to ensure that the information required to be disclosed by us in our SEC reports was recorded, processed, summarized and reported so as to ensure the quality and timeliness of our public disclosures in compliance with SEC rules and forms. The areas of the internal controls that are deemed by our management to contain material weaknesses surround the failure during the nine months ended September 30, 2006 to retain financial reporting personnel necessary to properly identify, research, review and conclude in a timely fashion, related to certain non-routine or complex accounting issues and related disclosures timely, and the failure during the nine months ended September 30, 2006 to appropriately and accurately document the Company' s processes and procedures over the revenue and accounts receivable cycles, which could affect the reported results for the accounting period.

The certifications attached as Exhibits 31.1 and 31.2 hereto should be read in conjunction with the disclosures set forth herein.

Changes in Internal Control over Financial Reporting

As disclosed in the Company' s 2005 Annual Report on Form 10-K, the Company reported material weaknesses in the Company' s internal controls surrounding the failure during the year ended December 31, 2005 to retain financial reporting personnel necessary to properly identify, research, review and conclude in a timely fashion, related to certain non-routine or complex accounting issues and related disclosures timely, and the failure during the year ended December 31, 2005 to appropriately and accurately document the Company' s processes and procedures over the revenue and accounts receivable cycles, which could affect the reported results for the accounting period.

During the third quarter of 2006, the existing chief financial officer resigned to pursue other matters and was replaced. Despite the change in responsibility over our financial reporting that occurred during our most recent fiscal quarter we do not believe that the change has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Remediation of Material Weaknesses

The material weaknesses in our disclosure controls and procedures stated above in "Evaluation of Disclosure Controls and Procedures" require us to make changes in internal controls over financial reporting. As a result, we continue to build within departmental personnel the requisite skills necessary to properly identify, research, review and conclude related to non-routine or complex accounting issues and related disclosures timely. We also have initiated a structured process to appropriately and accurately document our processes and procedures related to the revenue and accounts receivable cycles. Our management believes that these changes in review procedures and the continued building of necessary skill sets within financial reporting personnel will ensure that the disclosed material weaknesses in reporting procedures no longer should have a material effect on financial reporting

Part II

ITEM 1. LEGAL PROCEEDINGS

1. *Master File Number 21 MC 92; In re Initial Public Offering Securities Litigation., in the United States District Court for the Southern District of New York (filed June 7, 2001)*

During June and July 2001, three separate class action lawsuits were filed against us, certain of our current and former directors and officers (the "D&Os") and firms engaged in the underwriting (the "Underwriters") of our initial public offering of stock (the "IPO"). The lawsuits, along with approximately 310 other similar lawsuits filed against other issuers arising out of initial public offering allocations, have been assigned to a Judge in the United States District Court for the Southern District of New York for pretrial coordination. The lawsuits against us have been consolidated into a single action. A consolidated amended complaint was filed on April 20, 2002. A Second Corrected Amended Complaint (the "Amended Complaint"), which is the operative complaint, was filed on July 12, 2002.

The Amended Complaint is based on the allegations that our registration statement on Form S-1, filed with the Securities and Exchange Commission ("SEC") in connection with the IPO, contained untrue statements of material fact and omitted to state facts necessary to make the statements made not misleading by failing to disclose that the underwriters allegedly had received additional, excessive and undisclosed commissions from, and allegedly had entered into unlawful tie-in and other arrangements with, certain customers to whom they allocated shares in the IPO. The plaintiffs in the Amended Complaint assert claims against us and the D&Os pursuant to Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated by the SEC there under. The plaintiffs in the Amended Complaint assert claims against the D&Os pursuant to Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated by the SEC there under. The plaintiffs seek an undisclosed amount of damages, as well as pre-judgment and post-judgment interest, costs and expenses, including attorneys' fees, experts' fees and other costs and disbursements. Initial discovery has begun. We believe we are entitled to indemnification from our Underwriters.

A settlement has been reached by the plaintiffs, the issuers and insurers of the issuers. The principal terms of the proposed settlement are (i) a release of all claims against the issuers and their officers and directors, (ii) the assignment by the issuers to the plaintiffs of certain claims the issuers may have against the Underwriters and (iii) an undertaking by the insurers to ensure the plaintiffs receive not less than $1 billion in connection with claims against the Underwriters. Hence, under the terms of the proposed settlement our financial obligations will likely be covered by insurance. To be binding the settlement must be approved by the court. There is no assurance that the settlement will be finally approved by the court. On December 5, 2006 the U.S. Court of Appeals, Second Circuit, vacated the District Court's order granting class certification in each of six focus cases and remanded for further proceedings. The District Court has stayed all proceedings pending a decision from the Second Circuit as to whether it will hear further arguments on class certification.

2. *C.A. No. 04CH07882, Susan Schad, on behalf of herself and all others similarly situated, v. Z-Tel Communications, Inc., in the Circuit Court of Cook County, Illinois, Illinois County Department, Chancery Division, filed May 13, 2004*

Susan Schad, on behalf of herself and all others similarly situated, filed a putative class action lawsuit against Trinsic Communications, Inc. (formerly known as Z-Tel Communications, Inc.), our wholly-owned subsidiary corporation, on May 13, 2004. The original complaint alleged that our subsidiary engaged in a pattern and practice of deceiving consumers into paying amounts in excess of their monthly rates by deceptively labeling certain line-item charges as government-mandated taxes or fees when in fact they were not. The original complaint sought to certify a class of plaintiffs consisting of all persons or entities who contracted with Trinsic for telecommunications services and were billed for particular taxes or regulatory fees. The original complaint asserted a claim under the Illinois Consumer Fraud and Deceptive Businesses Practices Act and sought unspecified damages, attorneys' fees and court costs. On June 22, 2004, we filed a notice of removal in the state circuit court action, removing the case to the Federal District Court for the Northern District of Illinois, Eastern Division, C.A. No. 04 C 4187. On July 26, 2004, the plaintiff filed a motion to remand the case to the state circuit court. On January 12, 2005, the federal court granted the motion and remanded the case to the state court. On October 17, 2005, the state court heard argument on our motion to dismiss the lawsuit and granted that motion, in part with prejudice. The court dismissed with prejudice the claims relating to the "E911 Tax," the "Utility Users Tax," and the "Communications Service Tax." The court found that those tax charges were specifically authorized by state law or local ordinance, and thus cannot be the basis of a Consumer Fraud claim. The court also dismissed (but with leave to replead) the claims relating to the "Interstate Recovery Fee" and the "Federal Regulatory Compliance Fee." The court determined that the plaintiff had failed to allege how she was actually damaged by the allegedly deceptive description of the charges. On November 15, 2005, the plaintiff filed a First Amended Class Action Complaint alleging that Trinsic mislabeled its "Interstate Recovery Fee" and "Federal Cost Recovery Fee" in supposed violation of the Illinois Consumer Fraud and Deceptive Business Practices Act. As with the original complaint, the First Amended Class Action Complaint seeks damages, fees, costs, and class certification. We filed a further Motion to Dismiss which was heard by the court on April 3, 2006. The court granted our motion by dismissing the plaintiff's claims for unfair practices under the Illinois Consumer Fraud and Deceptive Business Practices Act and dismissing in part the plaintiff's claims for deceptive practice under the Act. The court determined that the plaintiff did not state sufficient facts indicating that her alleged damages were caused by our alleged deception. On April 24, 2006, the plaintiff filed a Second Amended Class Action Complaint again alleging that Trinsic mislabeled its "Interstate Recovery Fee" and "Federal Cost Recovery Fee" in supposed violation of the Illinois Consumer Fraud and Deceptive Business Practices Act. The Second Amended Class Action Complaint seeks damages, fees, costs, and class certification. We moved to dismiss this Second Amended Class Action Complaint, and the Court heard the motion on August 28, 2006. On September 27, 2006, the court issued a ruling allowing the plaintiff' s remaining claims to stand and ordered us to answer the Second Amended Complaint on October 4, 2006. We have filed an answer denying all material allegations. Discovery has recently begun. We believe the plaintiff' s allegations are without merit and intend to defend the lawsuit vigorously, but we cannot predict the outcome of this litigation with any certainty.

3. *Case. No. 0410453, Wilder Corporation of Delaware, Inc. v. Trinsic Communications, Inc., In the Circuit Court of the Thirteenth Judicial Circuit in and for Hillsborough County, Florida, Civil Division, Division G, filed November 19, 2004*

On November 19, 2004, the landlord of our principal Tampa, Florida facility sued us seeking a declaration of its rights and obligations under the lease and damages for breach of contract. We assert that the landlord has failed to provide certain services in accordance with the lease, including maintenance of air conditioning and emergency electrical generating systems crucial to our operations. We have taken steps necessary to provide this maintenance and have offset the costs of these measures against the rent, which we believe we are entitled to do under the lease. Thus far we have withheld approximately $0.3 million. We also believe we are entitled to reimbursement from the landlord for costs associated with improvements to the leased space.

4. *Case. No. 0410441, Beneficial Management Corporation of America. v. Trinsic Communications, Inc., In the Circuit Court of the Thirteenth Judicial Circuit in and for Hillsborough County, Florida, Civil Division, Division F, filed November 19, 2004*

On November 19, 2004, a provider of parking spaces for our Tampa facilities sued us for parking fees in excess of $0.3 million. Pursuant to our lease we are entitled to a number of free spaces and we are obligated to pay for additional usage of parking spaces. We have entered into a settlement understanding with the plaintiff. Under the settlement, we agreed to pay a total of $0.2 million, payable in installments over seven months. We made the final payment on November 1, 2006.

5. *Case. No. 3:06-CV-4858-EDL Oracle USA, Inc. and Oracle International Corporation v. Trinsic Communications, Inc. In the United States District Court for the Northern District of California, filed August 11, 2006.*

On August 11, 2006, Oracle sued us for payment of licensing fees alleging claims for copyright infringement, breach of contract, account stated, open book account, and goods sold and delivered based upon our license. We disagreed with the terms of our usage of the licensed software. We have entered into a tentative settlement agreement with Oracle. Under the tentative agreement we agree to pay $0.3 million over a 10 month period beginning in December 2006.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareholders held on September 28, 2006, the following proposal was adopted by the margins indicated:

1. To elect the following individuals to the Board of Directors to hold office until their successors are elected and qualified:

	Number of Shares	
Nominee	**For**	**Withheld**
Lawrence C. Tucker	14,592,428	−
Roy Neel	14,592,428	−

The terms of office of the following other directors continued after the meeting:

Andrew C. Cowen
Raymond L. Golden
W. Andrew Krusen
Richard F. LaRoche, Jr.

ITEM 6. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation of Trinsic, Inc. as amended. Incorporated by reference to the correspondingly numbered exhibit to our Annual Report on Form 10-K for the year ended December 31, 2004 filed April 15, 2005.
3.2	Amended and Restated Bylaws of Trinsic, as amended. Incorporated by reference to the correspondingly numbered exhibit to our Quarterly report on Form 10-Q for the quarter ended September 30, 2004 filed November 15, 2004.
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Trinsic, Inc. Incorporated by reference to Exhibit 3.3 to our Form 8-K filed September 28, 2005.
4.1	Form of Common Stock Certificate. Incorporated by reference to the correspondingly numbered exhibit to our Annual Report on Form 10-K for the year ended December 31, 2004 filed April 15, 2005.
4.2	See Exhibits 3.1, 3.2 and 3.3. of this report for provisions of the Amended and Restated Certificate of Incorporation, as amended, and our Bylaws, as amended, defining rights of security holders.
4.9	Registration Rights Agreement between and among us and The 1818 Fund III, L.P. Incorporated by reference to the correspondingly numbered exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, filed on November 14, 2000.
4.11	Certificate of Designation of Series F Junior Participating Preferred Stock. Incorporated by reference to the correspondingly numbered exhibit to our Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 30, 2001.
4.12	Rights Agreement dated as of February 19, 2001 between Z-Tel Technologies, Inc. and American Stock Transfer & Trust Company, as Rights Agent, as amended July 2, 2001. Incorporated be reference to the correspondingly numbered exhibit to our quarterly report on Form 10-Q for the quarter ended June 30, 2001.
4.13	Amendment No. 1 to Rights Agreement dated as of November 19, 2004 between Z-Tel Technologies, Inc. and American Stock Transfer & Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.1 to our registration statement on form 8-A/A filed on December 6, 2004.
4.14	Amendment No. 2 to Rights Agreement dated as of July 19, 2005, between Trinsic, Inc. and American Stock Transfer & Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.1 to our registration statement on form 8-A/A filed on July 21, 2005.
4.15	Stock and Warrant Purchase Agreement, dated as of July 2, 2001, by and between us, D. Gregory Smith, and others. Incorporated by reference to Exhibit 1 to Amendment No. 1 of the Schedule 13D filed July 12, 2001 with respect to our common stock by, among other persons, The 1818 Fund III, L.P.
4.20	Exchange and Purchase Agreement dated July 15, 2005 between Trinsic, Inc. and The 1818 Fund III, L.P. Incorporated by reference to Exhibit A to our Form 8-K filed July 20, 2005.
10.1	Employment Agreement of Horace J. "Trey" Davis III, dated August 15, 2005, as amended January 30, 2006. Incorporated by reference to Exhibits A and B of our Form 8-K filed April 20, 2006.

EXHIBIT NUMBER	DESCRIPTION
10.2.1	1998 Equity Participation Plan. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-89063), originally filed October 14, 1999, as amended and as effective December 14, 1999.
10.2.2	2000 Equity Participation Plan, as amended. Incorporated by reference to the correspondingly numbered exhibit to our Annual Report on Form 10-K for the year ended December 31, 2004 filed April 15, 2005.
10.2.3	2004 Stock Incentive Plan. Incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-8 filed May 8, 2005.
10.3	Employment Agreement of Donald C. Davis dated August 15, 2005, as amended June 1, 2006 and October 10, 2006.
10.4	Employment Agreement of Michael M. Slauson dated August 15, 2005. Incorporated by reference to Exhibit E of our Form 8-K filed April 20, 2006
10.5	Form of Indemnification Agreement for our executive officers and directors. Incorporated by reference to the correspondingly numbered exhibit to our Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 30, 2001.
10.6	Employment Agreement of Paul T. Kohler dated August 15, 2005. Incorporated by reference to Exhibit F of our Form 8-K filed April 20, 2006.
10.11	Promissory Note, dated September 10, 1999, from Touch 1 Communications, Inc. to William F. Corman (First Revocable Trust). Incorporated by reference to the correspondingly numbered exhibits to our Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 30, 2001.
10.14	Receivables Sales Agreement, dated as of March 28, 2005, by and between Trinsic Communications Inc. and Touch 1 Communications s Inc., collectively as Seller and Subservicer, and Thermo Credit, LLC, as Purchaser and Master Servicer. Incorporated by reference to Exhibit 10.1 to our o Form 8-K filed April 5, 2005.
10.15	Promissory Note, dated December 15, 2005, from Trinsic, Inc. to The 1818 Fund III, L.P. Incorporated by reference to Exhibit A to Form 8-K filed December 21, 2005.
10.16	Agreement for Purchase and Sale of Customer Access Lines, dated October 25, 2005, by and among Sprint Communications Company L.P., Sprint Communications Company of Virginia, Inc. and Trinsic, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 31, 2006.
10.17	Agreement for Purchase and Sale of Customer Access Lines, dated as of February 10, 2006, between Trinsic Communications, Inc. and Access Integrated Networks, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed May 15, 2006.
10.18	Promissory Note, dated August 8, 2006, from Trinsic Communications, Inc. to Access Integrated Networks, Inc. Incorporated by reference to Exhibit 99.1 to Form 8-K filed August 16, 2006.
10.19	Agreement for Purchase and Sale of Assets, dated October 23, 2006, between Trinsic Communications, Inc. and CommX Holdings, Inc.
31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C.ss.1350

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, as of the 21st day of December 2006.

TRINSIC, INC.

By: */s/ HORACE J. DAVIS, III*
Horace J. Davis, III
Chief Executive Officer

By: */s/ DONALD C. DAVIS*
Donald C. Davis
Chief Financial Officer

A signed original of this report has been provided to Trinsic, Inc. and will be retained by the Trinsic, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 10.19

AGREEMENT

For

PURCHASE AND SALE

of

ASSETS

Dated as of October __, 2006

Between

TRINSIC COMMUNICATIONS, INC.

And

COMMX HOLDINGS, INC.

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AGREEMENT FOR PURCHASE AND SALE OF ASSETS

This Agreement for Purchase and Sale of Customer Access Lines (this "Agreement") is made and entered into this ___ day of October 2006, between Trinsic Communications, Inc., a Delaware corporation ("Seller"), and CommX Holdings, Inc., a Florida corporation ("Buyer").

RECITALS

A. Seller is a competitive local exchange carrier. Seller has a line of business whereby it utilizes a voice over Internet protocol ("VoIP")-based network to provide voice and data services to end users (the "Business"). The network includes aggregation devices placed on the customers' premises called integrated access devices or "IADs" and pure packet nodes or "PPNs." IADs are installed on the premises of multi-line business customers. PPN' s are installed on the premises of multi-unit dwellings where many single-line customers reside. Internally at Seller the VoIP network is referred to as NGN or "next generation network. The Business operates in three distinct locations: New York, Tampa and Parkcrest. Parkcrest is a condominium complex on Harbour Island in Tampa. Although Parkcrest is within Tampa, for the purposes of this Agreement, the Customers residing at Parkcrest are not a subset of and are separate and distinct from the Tampa Customers.

B. Buyer is a provider of voice application services over the internet.

C. Seller desires to sell, convey, assign, transfer and deliver to Buyer, and Buyer desires to buy, assume and accept from Seller, substantially all of Seller' s rights and obligations to operate the Business, all as set forth hereinafter.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree as follows:

ARTICLE 1
PURCHASE AND SALE OF ASSETS

1.1. <u>Purchase and Sale of Transferred Assets</u>. Upon the terms and subject to the conditions hereinafter set forth, at the Transfers described in Article 3, Seller agrees to sell, convey, transfer and assign to Buyer the "Transferred Assets," and Buyer agrees to purchase and receive such Transferred Assets from Seller. Moreover, Seller agrees to pay the Purchase Price (as defined in Section 1.3 below) as set forth in Section 1.3. Seller shall retain the Excluded Assets, including but not limited to all other lines of business and the service to customers of such lines of business.

1.2. <u>Assumption of Obligations by Buyer</u>. Buyer covenants and agrees that Buyer will assume and agree to perform and discharge the Assumed Liabilities as and when due. Except for the Assumed Liabilities, the parties agree that Buyer will not assume any other liability or obligation of Seller, including any liability relating to the Excluded Assets. All such liabilities not assumed by the Buyer pursuant to this Section 1.2 shall be retained by Seller and shall hereafter be referred to as the "Retained Liabilities."

1.3. Purchase Price. The aggregate purchase price for the Transferred Assets is $1,145,329 (the "Purchase Price"), allocated as set forth below, plus the assumption by Buyer of the Assumed Liabilities.

Transferred Asset	Amount
Tampa Customer Contracts	$418,000
New York Customer Contracts	255,750
Park Crest Customer Contracts	27,500
Equipment and other Assets	444,079
Total	$1,145,329

The Purchase Price shall be payable as set forth on Exhibit B, attached hereto and incorporated herein. On each Payment Date, Buyer shall pay by check in good, immediately available funds for guaranteed overnight delivery to Seller on the next business day, at Sellers address for notices provided in Section 12.1, the sum set forth on Exhibit B (each a "Transaction Payment").. Time is an essential element of Buyer' s obligations under this Section 1.3. The Purchase Price and Transaction Payments indicated on Exhibit **B** represent payment solely for the Transferred Assets and are not inclusive of charges between Seller and Buyer for adjunct services provided in association with Section 8.7 below and the Statement of Work referred to therein and attached hereto as Exhibit **A** and incorporated herein.

If Buyer fails or refuses to make all or any portion of any Transaction Payment in accordance with the procedure in the preceding paragraph Seller may prepare, and Buyer will sign and deliver to Seller, a security agreement granting to Seller a security interest in the Transferred Assets not paid for and file any appropriate Uniform Commercial Code forms it deems necessary or advisable in order to secure payment of such unpaid Transferred Assets.

1.3.1 Purchase Price Adjustment. The Purchase Price established in Section 1.3 above is based upon estimated Customer counts. For Section 1.3, the number of Customers was estimated as follows:

Tampa	152 Customers
New York	93 Customers
Parkcrest	55 Customers

If on the day before end user notifications of service provider change are mailed to the Customers in a given location the number of Customers in that location is less than 95% of the foregoing estimated level for that location, then there will be a Purchase Price adjustment. The Purchase Price adjustment will be calculated by multiplying the deficient number of Tampa or New York Customers by $2,750 and Parkcrest Customers by $500. The Purchase Price adjustment will be divided by the number of remaining Payment Dates to calculate a per Transaction Payment reduction to be applied to the remaining Transaction Payments under

Exhibit B. There will be no Purchase Price adjustment for actual levels that exceed the estimated levels.

1.3.2. Service Penalty. If through no material fault of Seller, Buyer does not complete the Transition of all Customers from any reliance upon Seller' s physical network architecture by midnight, March 31, 2007, then Buyer will owe and pay the following support service penalties for each subsequent date where Seller is provides network services because Transition has not been completed:

April 1, 2007	$10,000
April 14, 2007	$50,000
April 28, 2007	$100,000
May 28, 2007	$100,000
28th of Any Subsequent Month	$100,000

Such payments will be due within 5 days after the penalty is incurred.

1.4. Prorations. All taxes imposed on a periodic basis (including personal property taxes, ad valorem taxes, franchise fees or taxes and similar taxes and assessments with respect to the Transferred Assets), shall be prorated between Buyer and Seller as of 11:59 p.m., Eastern Time, on the applicable Transfer Date. With respect to measurement periods that include (but do not end on) the applicable Transfer Date (all such periods of time being hereinafter called "Proration Periods"), Seller shall be responsible for the portion of any such liabilities that relates to the portion of such Proration Period ending on the such Transfer Date, which shall be deemed to be the amount of such liability for the entire Proration Period multiplied by a fraction, the numerator of which is the number of days in the portion of the Proration Period ending on the Transfer Date, and the denominator of which is the number of days in the Proration Period. Buyer shall be responsible for the portion of any such liabilities that relates to the portion of such Proration Period beginning after the Transfer Date, which shall be deemed to be the amount of such liability for the entire Proration Period multiplied by a fraction, the numerator of which is the number of days in the portion of the Proration Period beginning on the day following the Transfer Date, and the denominator of which is the number of days in the Proration Period. On the Transfer Date, Buyer shall reimburse Seller, on this prorated basis, for Buyer' s portion of any such Proration Period liabilities that have been paid before the Transfer Date. Seller shall reimburse Buyer, on this prorated basis, for Seller' s portion of any such Proration Period liabilities paid on or after the Transfer Date within five (5) business days of Seller' s receipt of an invoice (including reasonable support for the calculation of the invoiced amount) from Buyer for such liabilities, but no earlier than five (5) days prior to the due date for the payment of any such liability. To the extent that Buyer or Seller has not reimbursed the other party for such a Proration Period liability for which Buyer or Seller is responsible by the due date for such reimbursement, the amount of such reimbursement payment shall bear simple interest at the rate of 8% per annum beginning on the due date for payment of each such liability.

1.5. Allocation of the Purchase Price for Tax Purposes. Seller may, in its discretion, make an allocation (the "Allocation") of the Purchase Price, the Assumed Liabilities and other relevant items to the individual assets or classes of assets comprising the Transferred Assets in accordance with Section 1060 of the United States Internal Revenue Code of 1986, as amended (the "Code"). Buyer agrees not knowingly to make any filing or take any position with any Governmental Authority that is inconsistent with the Allocation.

1.6. Transfer Taxes. Buyer shall bear and be responsible for any Transfer Taxes imposed by any Governmental Authorities in connection with the sale, transfer or assignment of the Transferred Assets or otherwise on account of the Transactions, regardless of whether Buyer or Seller is assessed therefor. Buyer shall pay such Transfer taxes directly to the taxing authorities or, if requested by Seller, shall remit to Seller on the Transfer Date amounts sufficient to enable Seller to pay any Transfer Taxes assessed against Seller. If Buyer pays any Transfer Taxes directly, Buyer shall provide to Seller within ten (10) days of each such payment written evidence of receipt of such payment by the appropriate taxing authority.

ARTICLE 2

ACCESS

2.1. Access to Books and Records. Upon execution of this Agreement, Seller, upon reasonable notice from Buyer, shall permit Buyer and its authorized representatives reasonable access during customary business hours at Seller' s place of business to the books and records, contracts, permits and other relevant data, information and things pertaining to the Transferred Assets. Seller agrees to update and keep current all such information for the period prior to the Transfer of the Transferred Assets.

2.2. Access to Customer Data. Upon execution of this Agreement, Seller shall provide Buyer with all customer information and data relating to the Transferred Assets as reasonably requested by Buyer that pertains to the Transferred Assets. Upon the request of Buyer, Seller shall provide Buyer with a complete computer download of all customer service records for Customers (including the feature sets, pricing and packages sold to the customer).

ARTICLE 3

TRANSFERS

3.1. Transfers. Upon the terms and subject to the conditions of this Agreement, the transfer of ownership of the Transferred Assets and the assumption of the Assumed Liabilities (a "Transfer") shall take place as outlined in Exhibit B at such location and time as the parties may mutually determine within the following framework, except with respect to Customer Contracts the Transfers shall take place according to the event dates identified in Exhibit B, or, if later, within three (3) days following the satisfaction or waiver of all the conditions precedent to such Transfer, including, but not limited to (i) the conditions precedent set forth in Article 4 hereof, (ii) the receipt of all necessary Governmental Approvals. For each Transfer the date on which the Transfer actually occurs is referred to as the "Transfer Date," or collectively as "Transfer Dates." The parties may consummate a Transfer by exchanging documents via e-mail, facsimile and overnight courier in a mutually acceptable manner. A Transfer shall be deemed to have occurred as of 11:59 p.m., Eastern Time, on the Transfer Date. Unless Buyer makes other arrangements acceptable to Seller, Seller will deliver Transferred Assets consisting of equipment to Buyer' s premises within the continental United States as directed by Buyer. Seller and Buyer will split the costs of delivery and insurance against loss in transit on a 50/50 basis.

3.2. Deliveries by Seller to Buyer. At or prior to each Transfer, Seller will deliver to Buyer:

3.2.1. Certificate. A duly executed certificate of Seller signed by the appropriate officer of Seller certifying as to the fulfillment of the conditions set forth in Sections 4.1.1 and 4.1.2 of this Agreement;

3.2.2. List of Customer Contracts. If applicable to the Transaction, Seller will provide to Buyer an updated complete list of the Customer Contracts to be Transferred (a copy of such list as of the date of this Agreement is attached hereto as Exhibit **C.**

3.2.3. Bill of Sale. A Bill of Sale of the Transferred Assets in form and substance reasonably satisfactory to Buyer.

3.2.4. Assignments and Consents. If applicable to the Transaction, all reasonable and necessary consents of third parties necessary to convey the Transferred Assets.

3.3 Deliveries by Buyer to Seller. At or before each Transfer, Buyer will deliver to Seller a duly executed certificate of Buyer signed by the appropriate Officer of Buyer certifying as to the fulfillment of the conditions set forth in Section 4.2.1 and 4.2.2 of this Agreement.

3.4. Further Assurances. Except as otherwise agreed by the parties, all instruments of conveyance, assignment or transfer referred to herein, and all records and data to be delivered as specified in this Agreement shall be delivered at the time of the applicable Transfer. The parties agree at any time to execute and deliver such further instruments of conveyance, assignment (including Uniform Commercial Code Forms) and assumption as may be reasonably necessary to consummate the Transfers and to give effect to the transfer of the Transferred Assets including any security interest in Transferred Assets not paid for in accordance with Section 1.3, and the assumption of the Assumed Liabilities.

ARTICLE 4

CONDITIONS

4.1. Conditions to Buyer' s Obligations. The obligation of Buyer to consummate a Transfer shall be subject to the satisfaction, on or prior to each Transfer Date, of each of the following conditions, any of which may be waived by Buyer in writing:

4.1.1. Representations and Warranties. All representations and warranties of Seller made in this Agreement shall be true and correct in all material respects as of the Transfer Date, except for such representations and warranties that are made expressly as of an earlier date which shall be true and correct as of date made.

4.1.2. Covenants and Agreements. Seller shall have performed and complied in all material respects with all covenants and agreements required or contemplated by the Transaction Documents to be performed by it on or prior to the Transfer Date.

4.1.3. Governmental Approvals. The Governmental Approvals applicable to the Transfer shall have been obtained and shall be in full force and effect.

4.1.4. Legal Proceedings; No Injunction. No action or proceedings before any court or Governmental Authority shall be pending or threatened wherein an unfavorable judgment, decree or order would (a) prevent the carrying out of this Agreement, or any of the transactions contemplated herein, (b) declare unlawful the transactions contemplated by this Agreement, (c) cause such transactions to be rescinded, (d) permit consummation of the transactions contemplated herein or therein subject to the imposition of substantial damages on Buyer, or (e) materially affect the right of Buyer to own the Transferred Assets.

4.1.5. Certificates and Other Documents. Seller shall have executed and delivered the certificates and other documents required by Article 3.

4.1.6. No Material Adverse Effect. Subsequent to the date hereof, there shall have occurred no uncured casualty or other event or change which has resulted in a Material Adverse Effect.

4.1.7 Other Agreements. Seller has no legal obligation to any other person or entity to: (a) sell the Transferred Assets, or (b) to enter into any agreement with respect to the same.

4.2. Conditions to Seller' s Obligations. The obligation of Seller to consummate any Transfer shall be subject to the satisfaction, on or prior to the Transfer Date, of each of the following conditions, any of which may be waived by Seller in writing:

4.2.1. Representations and Warranties. All representations and warranties of Buyer made in this Agreement shall be true and correct in all material respects as of the Transfer Date except for such representations and warranties that are made expressly as of an earlier date which shall be true and correct as of date made.

4.2.2. Covenants. Buyer shall have performed and complied with all covenants and agreements required or contemplated by the Transaction Documents to be performed by it on or prior to the Transfer Date, including the delivery of all Transaction Payments by the applicable Payment Dates (except where the Payment Date has not yet arrived).

4.2.3. Governmental Approvals. All Governmental Approvals applicable to the Transfer shall have been obtained and shall be in full force and effect.

4.2.4. Legal Proceedings; No Injunction. No action or proceeding before any court or Governmental Authority shall be pending or threatened wherein an unfavorable judgment, decree or order would (a) prevent the carrying out of this Agreement or any of the transactions contemplated herein (b) declare unlawful the transactions contemplated by this Agreement (c) cause such transactions to be rescinded, or (d) permit consummation of the transactions contemplated herein subject to the imposition of substantial damages on Seller.

4.2.5. Certificates and Other Documents. Buyer shall have delivered the certificates and other documents required under Article 3.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES

5.1 Buyer' s Representations and Warranties. Buyer represents and warrants to Seller that:

5.1.1 Organization. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida, with full authority (i) to execute and deliver the Transaction Documents, to consummate the Transactions and to perform all of its obligations under the Transaction Documents, and (ii) to own, lease or otherwise hold the assets owned, leased or held by it. Buyer has obtained all corporate approvals necessary to authorize the execution, delivery and performance of this Agreement, and Buyer has obtained, or will have obtained prior to each Transaction, all corporate approvals necessary to consummate the Transactions and authorize the execution, delivery and performance of the Transaction Documents.

5.1.2 Authority. This Agreement has been, and when executed by Buyer each of the other Transaction Documents will be, duly and validly executed and delivered by Buyer. This Agreement constitutes, and when executed by Buyer each of the other Transaction Documents will constitute, the valid and binding agreement of Buyer enforceable against Buyer in accordance with its terms, except to the extent that such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other Laws relating to creditors' rights generally and by principles of equity.

5.1.3. No Restrictions Against Transactions. The execution, delivery and performance of this Agreement and the Transaction Documents by Buyer do not, and the fulfillment by Buyer of its obligations under this Agreement and the Transaction Documents will not, conflict with, violate or result in the breach of any provision of (i) the Articles of Incorporation or Bylaws of Buyer or (ii) any contract, agreement, instrument or other legally binding arrangement to which Buyer is a party or by which any of Buyer' s assets are bound. The execution, delivery and performance of this Agreement and the Transaction Documents by Buyer will not, to Buyer' s Knowledge, violate any Law. Except for the FCC Approvals and PUC Approvals the parties contemplate obtaining pursuant to Sections 6.4.3 and 6.4.4 of this Agreement, Buyer' s execution, delivery and performance of this Agreement and the Transaction

Documents do not require authorization or approval of, or filing with, any Governmental Authority. At the time of Transfer of each Transaction, Buyer will have all required certifications, permits and licenses necessary and required to own and operate the Transferred Assets.

5.1.4. Brokers. Buyer has not paid or become obligated to pay any fee or commission to any broker, finder, investment banker or other intermediary in connection with the transactions contemplated by this Agreement in such a manner as to give rise to a valid claim against Seller for any broker' s or finder' s fees or similar fees or expenses.

5.1.5 Litigation. As of the date hereof there are no actions, suits, proceedings, claims, arbitrations or investigations, either at law or in equity, of any kind now pending (or to Buyer' s Knowledge threatened) against Buyer (i) that question the validity of any of the Transaction Documents or the Transactions; or (ii) that seek to delay, prohibit or restrict in any manner any actions taken or contemplated to be taken by Buyer under the Transaction Documents.

5.2. Seller' s Representations and Warranties. Seller represents and warrants to Buyer that:

5.2.1 Organization. Seller is a corporation duly and validly existing and in good standing under the laws of the State of Delaware. Seller has full corporate power and authority to execute and deliver the Transaction Documents, to consummate the Transactions and to perform all of its obligations under the Transaction Documents. Seller has obtained all corporate and partnership approvals necessary to consummate the Transactions and authorize the execution, delivery and performance of the Transaction Documents.

5.2.2. Authorization, Execution and Delivery. This Agreement has been, and when executed by Seller each of the other Transaction Documents will be, duly and validly executed and delivered by Seller. This Agreement constitutes, and when executed by Seller each of the other Transaction Documents will constitute, the valid, legal and binding agreement of Seller enforceable against Seller in accordance with its terms, except to the extent that such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other Laws relating to creditors' rights generally and by principles of equity.

5.2.3 Transferred Assets. Seller has good title to all of the Transferred Assets and shall deliver same free and clear of all Encumbrances (except for any necessary security interest delivered by Buyer to Seller pursuant to Section 1.3) to Buyer at any applicable Transfer Date. The Transferred Assets are in reasonable operating condition and free from known material defects.

5.2.4. Governmental Authorization. Except for the FCC Approvals and PUC Approvals the parties contemplate obtaining pursuant to Sections 6.4.3 and 6.4.4 of this Agreement, Seller' s execution, delivery and performance of this Agreement and the Transaction Documents do not require authorization or approval of, or filing with, any Governmental Authority.

5.2.5. Litigation. As of the date hereof there are no actions, suits, proceedings, claims, arbitrations or investigations, either at law or in equity, of any kind now pending (or to Seller' s Knowledge threatened) against Seller (i) that relate to the Transferred Assets; (ii) that question the validity of any of the Transaction Documents or the Transactions; or (iii) that seek to delay, prohibit or restrict in any manner any actions taken or contemplated to be taken by Seller under the Transaction Documents.

5.2.6. Tax Matters. All taxes and assessments, including interest and penalties thereon, of any kind whatsoever accrued with respect to the Business through the each Transfer Date (other than Transfer Taxes and taxes subject to proration pursuant to Section 1.4) have been or will be paid in full by Seller. There are no liens for federal, state or local taxes upon the Transferred Assets, except for statutory liens for taxes or assessments not yet delinquent or the validity of which is being contested in good faith by Seller in appropriate proceedings, the ultimate liability for which shall remain the obligation of Seller. Seller has timely filed, or will cause to be timely filed, all material federal, state and local tax returns and reports of any kind (including income, franchise, sales, use, excise, employment and real and personal property) which Seller is obligated to file with respect to the Business for all periods up to and including the each Transfer Date.

5.2.7. No Material Violation. The execution and delivery by Seller of the Transaction Documents and the consummation by Seller of the Transactions do not and will not: (i) conflict with or violate any provision of the Articles of Incorporation or Bylaws (or comparable governing documents or instruments) of Seller or any legally binding agreement to which Seller is a party to or by which any of the Transferred Assets are bound; (ii) except as set forth in Section 5.2.4 and subject to receipt of the FCC Approvals and PUC Approvals the parties contemplate obtaining pursuant to Sections 6.4.3 and 6.4.4 of this Agreement, violate any applicable Law issued, enacted, entered or deemed applicable by any Governmental Authority having jurisdiction over Seller or any of the Transferred Assets; or (iii) result in the creation or imposition of any Encumbrance on any of the Transferred Assets, except for any security interest delivered by Buyer to Seller pursuant to Section 1.3.

5.2.8. Brokers. Seller has not paid or become obligated to pay any fee or commission to any broker, finder, investment banker or other intermediary in connection with the transactions contemplated by this Agreement in such a manner as to give rise to a valid claim against Buyer for any broker' s or finder' s fees or similar fees or expenses.

5.2.9 Absence of Undisclosed Liabilities. Seller has no known liabilities or obligations which could have a Materially Adverse Effect on the value of the Transferred Assets.

5.2.10. Customer Contracts. All Customer Contracts listed in Exhibit C hereto are in full force and effect and without material default on the part of Seller.

ARTICLE 6

COVENANTS

6.1. Covenants of Seller.

6.1.1. Satisfaction of Conditions. Seller will satisfy all of the conditions to each Transfer to be performed or satisfied by Seller.

6.1.2. Maintenance and Conduct of Business. From the date of this Agreement to each Transfer Date, the Seller will cause the Business to be conducted consistent with the ordinary and normal course of the Business existing prior to the date of this Agreement and will use its best commercial efforts to preserve business relationships of the Business with customers, suppliers and others having regular business dealings with it.

6.1.3. Consent to Assignment. To the extent that the Transfer of any Transferred Asset shall require the consent of another person, this Agreement shall not constitute an agreement to assign the Transferred Asset if an attempted assignment would constitute a breach thereof. Prior to the Transfer, both parties shall use their best commercial efforts to obtain the consent of any other party to the assignment of such Transferred Asset to Buyer.

6.2. Confidentiality and other Post-Transfer Restrictions on Seller. Seller agrees that for the period ending March 31, 2009 Seller will be bound by the following:

6.2.1. Confidentiality. Except as required by law, rule or regulation or court order, all information, whether or not written, regarding the Business and the Transferred Assets will be kept in confidence by Seller and (a) not used by Seller for its personal advantage, and (b) not disclosed or made available by Seller for use by any third parties.

6.2.2. Non-Competition. Seller will not engage directly or indirectly in the conduct or management of, or own a controlling interest in, any VoIP network-based business which competes or is competitive with the Business. Nothing in this Article 6 will be construed to limit Seller' s right to engage in telecommunications related businesses other than the line of business to be sold under this Agreement.

6.2.3. Non-Solicitation. Seller will not solicit any officer, director, executive or other employee of Buyer to leave his or her employment.

6.2.4. Reasonableness. Buyer and Seller acknowledge that the covenants in 6.2.1. through 6.2.3. above are reasonable and no greater than is necessary for the protection of Buyer.

6.2.4. Successors/Other Assets. The parties agree that nothing contained in this section 6 shall restrict any successor, following a change of control, of the Seller from engaging in the Business or using the Business Knowledge**.** In addition, nothing in this Article 6 shall restrict the Seller from continuing to market and sell any assets contained within the portion of Business not purchased by the Buyer.

6.3. Confidentiality and other Post-Transfer Restrictions on Buyer. Buyer agrees that it shall be restricted in its ability to further transfer any Customer to any third party service provider as follows:

6.3.1. Seller Consent. Until such time that Buyer has satisfied all payment obligations established under Sections 1.3, 1.3.1 and 1.3.2, Buyer shall only be allowed to transfer Customers to an alternative service provider with the written consent of Seller which Seller may withhold until Buyer' s payment obligations have been fulfilled.

6.3.2. Reverting of Customers. Should Buyer cease to offer Customer services in the ordinary course of its business before Transition of all Customers hereunder, all Customers shall, at Sellers option, revert back to Seller at zero cost to Seller, unless other arrangements are mutually agreed by the parties.

6.4. Mutual Covenants.

6.4.1. Public Announcements. The parties agree that following the execution of this Agreement, the parties will jointly issue a press release in the form attached hereto as Exhibit D. Except as set forth in the preceding sentence, neither party may publicly announce the signing of this Agreement and the Transactions contemplated herein before or after any Transfer without the prior written approval of the other party, except as and to the extent that such party is required to so disclose such information by Law or rule of any stock exchange. In such event, such disclosing party shall advise the other party of the disclosure required and shall provide the other party with a copy of the disclosure to be made, and shall use commercially reasonable efforts to cause a mutually acceptable release, announcement or filing to be made.

6.4.2. Cooperation. Except as expressly provided otherwise in this Agreement, each party covenants to use all commercially reasonable efforts to take or cause to be taken all actions, and to do or cause to be done all things, that are necessary, proper or advisable under applicable Laws and regulations, expeditiously and practicably to consummate and make effective the Transactions, including but not limited to (i) using its commercially reasonable efforts to resolve any disagreements between Buyer and Seller with respect to any applications for governmental or regulatory approval prior to application for such approval, (ii) obtaining all necessary actions, waivers, consents and approvals from third parties or Governmental Authorities, (iii) effecting all necessary filings with Governmental Authorities, and (iv) developing a list of tasks essential to the transition and administration of the portion of the Business relating to the Transferred Assets and a seamless as possible transition to Buyer (including but not limited to those in 6.4.3 through 6.4.4 below) and assigning responsibilities and completion dates for the performance of such tasks, The Statement of Work in Exhibit A represents the parties agreement with respect to such tasks and responsibilities as of the date of execution of this Agreement. To the extent that either Party undertakes responsibility for developing and implementing processes and procedures for the other Party which are outside the scope of this Agreement or the Statement of Work, the parties will either amend the applicable terms of this Agreement or add the additional tasks to the Statement of Work by an appropriate change order.

6.4.3. PUC Filings. Promptly after the execution of this Agreement, each of the parties will take such reasonable actions as may be necessary or helpful (including, but not limited to, making available witnesses, information, documents, and data requested by the PUC) to apply for and receive all approvals necessary from PUCs for the transfer of the Transferred

Assets to Buyer and the change in the provider of telecommunications services to the Customers. Seller and Buyer will work together to prepare any applications and customer notice waivers required to be filed with PUCs and will diligently pursue the fulfillment of these obligations utilizing their best efforts to complete such activities in a timely manner. Seller shall take the lead in preparing petitions to discontinue current service offerings related to the Transferred Assets as required, if any. Buyer and Seller will share all costs and expenses relating to such filings equally.

6.4.4. FCC Filings. The parties agree to promptly file after execution of this Agreement such applications and to take such reasonable actions as may be necessary or helpful to apply for and receive approval by the FCC for the transfer of the Transferred Assets to Buyer. Seller and Buyer will work together to prepare the applications and customer notice waivers to be filed with the FCC and will diligently pursue the fulfillment of these obligations utilizing their best efforts to complete such activities in a timely manner. Seller shall take the lead in preparing petitions to discontinue current service offerings related to the Transferred Assets as required, if any. Buyer and Seller will share all costs and expenses relating to such filings equally.

6.4.5. Buyer State Filings. Buyer shall be responsible for filing any required affidavits regarding its status as the "acquiring carrier" as well as any future tariffs relating to new rate plans.

ARTICLE 7

TERMINATION

7.1. Termination By Buyer. If any condition precedent to Buyer' s obligation to effect **any of** the Transfers set forth in Section 4.1 shall become incapable of satisfaction through no fault of Buyer and such condition is not waived by Buyer, Buyer shall not be obligated to effect the Transfer and may terminate this Agreement by written notice to Seller. If Seller materially breaches any provisions of this Agreement, and such breach remains uncured for thirty (30) days after notice from Buyer, Buyer may terminate this Agreement upon written notice to Seller.

7.2. Termination By Seller. If any condition precedent to Seller' s obligation to effect any Transfer set forth in Section 4.2 shall become incapable of satisfaction through no fault of Seller and such condition is not waived by Seller, Seller shall not be obligated to effect the Transfer and may terminate this Agreement by written notice to Buyer. If Buyer materially breaches any provisions of this Agreement, and such breach remains uncured for thirty (30) days after notice from Seller, Seller may terminate this Agreement upon written notice to Buyer.

7.3. Termination By Buyer or Seller. If (i) a final, non-appealable order is issued by any Governmental Authority to restrain, enjoin or prohibit the consummation of any of the Transactions, or (ii) the Transfer with respect to any of the Customer Contracts shall not have occurred on or before **April 30, 2007** or any other or subsequent date to which the parties may mutually agree, then either party may terminate this Agreement by written notice to the other. Notwithstanding the foregoing, if a non-appealable order is issued by a state PUC to restrain, enjoin or prohibit the consummation of any of the Transactions, then within ten (10) days of the date such an order becomes final and non-appealable, the Buyer and Seller will initiate good faith negotiations to modify the Agreement to address the terms of the PUC order. If the parties are unable to successfully modify the Agreement, either party shall, at its option, have the right to terminate this Agreement by written notice to the other party.

7.4. Effect of Termination. In the event of the termination of this Agreement pursuant to this Article 7, the terms of any Transfer not yet effected, and this Agreement shall thereafter become void and there shall be no further liability on the part of any party hereto or its respective shareholders, directors, officers or employees in respect thereof, except as follows: (i) nothing herein shall relieve any party from liability for any intentional breach of this Agreement, and (ii) the rights and obligations of the parties hereto with respect to Transfers already effected will not be affected.

ARTICLE 8

ADDITIONAL MATTERS

8.1. Pre-Transfer. In order to effectuate orderly Transitions in the provision of telecommunications services to Customers, Buyer and Seller agree to utilize the measures set forth below:

8.1.1. Collection of Receivables. Each billing party will collect its own receivables, as described in the Statement of Work in Exhibit A

8.1.2. Notice to Customers. Buyer and Seller agree that Buyer, in cooperation with Seller, will deliver multiple written notifications to each Customer in order to meet requisite regulatory standards and to facilitate an orderly Transition of services to Buyer with minimal attrition. All such written notifications shall be provided to Seller in advance of any use thereof, and shall be in form reasonably acceptable to Seller. In no less than the last bill delivered to each Customer by the Seller, the Customers shall be informed that Seller will no longer be the Customer' s telecommunications provider and Customers shall be provided the name, address and telephone number of Buyer, including the payment information relating to the newly established lock-box and a request that all such payments due on the last Seller issued or any prior bill be directed to the new payment location.

8.2. Customer Records. To the extent not previously provided to Buyer, Seller shall maintain all billing and service records for goods sold or services provided, including any third-party verifications, to Customers prior to Transfer until the later of one year from the Transfer Date or the minimum time required by Law. Seller shall make available, upon reasonable request from Buyer, all such billing and service records. Such records will be provided without cost to the Buyer and will include applicable third party verifications and letters of authorization associated with end user subscriptions.

8.3. Carrier Access Billing. Seller shall render its own final carrier access bills to its interexchange carriers for minutes, messages and other applicable charges. Seller shall be responsible for collecting and settling any disputes associated with its final carrier access billings to interexchange carriers, and there shall be no adjustment to the Purchase Price for any bad debts of these interexchange carriers.

8.4. New Customer Service Orders and Service Change Orders. Except as Seller and Buyer may otherwise agree, (i) after customers are Transitioned to Buyer following the Transfer Date**(s)**, Buyer shall be responsible for processing all new customer service requests and service change order requests submitted by customers or applicants for service**, and (ii)** Seller shall forward within ten (10) business days any new customer service orders or service change orders received by Seller to Buyer for service.

8.5. Access to Books and Records.

8.5.1. After the **final** Transfer, Seller will retain all Retained Books and Records for a period of three (3) years.

8.5.2. After the **final** Transfer, upon reasonable notice the parties will give to the representatives, employees, counsel and accountants of the other party reasonable access during normal business hours, to books and records relating to the Transferred Assets and the Assumed Liabilities, and will permit such persons to examine and copy such records, in each case to the extent reasonably requested by the other party in connection with tax and financial reporting matters (including any tax returns and related information, but not attorney work product), audits, legal proceedings, governmental investigations and other business purposes (including such financial information and any receipts evidencing payment of taxes as may be requested by Seller to substantiate any claim for tax credits or refunds); provided, however, that nothing herein will obligate any party to take actions that would unreasonably disrupt the normal course of its business or violate the terms of any contract to which it is a party or to which it or any of its assets is subject. Seller and Buyer will cooperate with each other in the conduct of any tax audit or similar proceedings involving or otherwise relating to the Business (or the income therefrom or assets thereof) with respect to any tax and each will execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this Section 8.5.2.

8.6. Bulk Sales Laws. Seller and Buyer waive compliance with applicable laws under any version of Article 6 of the Uniform Commercial Code adopted by any state or any similar Law relating to the sale of inventory, equipment or other assets in bulk in connection with the sale of the Transferred Assets.

8.7. Post-Transfer Support. Until June 30, 2007, Seller agrees to provide to the Buyer all services necessary to providing services to the Customers until those Customers are fully Transitioned to the Buyer' s network facilities. Provision of services by the Buyer under this Section 8.7 shall be subject to the terms and conditions contained in the Statement of Work in Exhibit A as the same may be amended by the parties from time to time.

ARTICLE 9

SURVIVAL AND INDEMNIFICATION

9.1. Survival. The representations and warranties made in this Agreement, the Schedules and the certificates to be delivered by the parties shall survive for a period of twelve (12) months following each Transfer Date (except for Sections 5.2.3, which shall survive indefinitely, and Section 5.2.6 which shall survive for the applicable statute of limitations), except to the extent such party, at or prior to a Transfer Date, shall have actual knowledge of a breach or inaccuracy of a representation or warranty of the other party. No claim may be made for the breach of a representation or warranty made in this Agreement unless notice of such claim has been delivered to the breaching party prior to the expiration of the representation or warranty.

9.2**.** Indemnification and Payment of Damages by Seller. Subject to the limitations set forth in Section 9.6, Seller will indemnify and hold harmless Buyer and its respective representatives, stockholders, controlling persons and Affiliates (collectively, the "Indemnified Persons") for, and will pay to such Indemnified Persons the amount of, any loss, liability, claim, damage expense (including costs of investigation and defense and reasonable attorneys' fees), whether or not involving a third-party claim (collectively, "Damages"), arising, directly or indirectly, from or in connection with (a) any breach of representation or warranty made by Seller in this Agreement, (b) any breach of any covenant or obligation of a Seller in this Agreement; (c) the use, operation or conduct of the Transferred Assets prior to the Transfer Date; (d) the Excluded Assets or the Retained Liabilities; or (e) any claim by any person for brokerage or finder' s fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such person with Seller (or any person acting on its behalf) in connection with any of the contemplated transactions.

9.3. Indemnification and Payment of Damages by Buyer. Subject to the limitations set forth in Section 9.7, Buyer will indemnify and hold harmless Seller and its Indemnified Persons for, and will pay to such Indemnified Persons the amount of, any Damages arising, directly or indirectly, from or in connection with (a) any breach of representation or warranty made by Buyer in this Agreement; (b) any breach of any covenant or obligation of Buyer in this Agreement; (c) the use, conduct or operation of the Transferred Assets from and after the Transfer Date solely to the extent that any such Damages result from events occurring on or after the Transfer Date, (d) the failure of Buyer to perform any of the Assumed Liabilities, and (e) any claim by any person for brokerage or finder' s fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such person with Buyer (or any person acting on its behalf) in connection with any of the contemplated transactions.

9.4. Procedure for Indemnification – Third Party Claims.

9.4.1. Promptly after receipt by an Indemnified Person under Section 9.2 or 9.3 of notice of the commencement of any claim (a "Proceeding") against it, such Indemnified Person shall, if a claim is to be made against an indemnifying party under such section, give notice to the indemnifying party of the commencement of such claim, but the failure to notify the indemnifying party will not relieve the indemnifying party of any liability that it may have to any Indemnified Person, except to the extent that the indemnifying party demonstrates that the defense of such action is prejudiced by the Indemnified Person' s failure to give such notice.

9.4.2. If any proceedings referred to in Section 9.4.1 is brought against an Indemnified Person and it gives notice to the indemnifying party of the commencement of such Proceeding, the indemnifying party shall, be entitled to participate in such Proceeding and, to the extent that it wishes (unless the indemnifying party is also a party to such Proceeding and the Indemnified Person determines in good faith that joint representation would be inappropriate) to assume the defense of such Proceeding with counsel reasonably satisfactory to the Indemnified Person and, after notice from the indemnifying party to the Indemnified Person of its election to assume the defense of such Proceeding, the indemnifying party will not, as long as it diligently conducts such defense, be liable to the Indemnified Person under this Article 9 for any fees of other counsel or any other expenses with respect to the defense of such Proceeding, in each case subsequently incurred by the Indemnified Person in connection with the defense of such Proceeding, other than reasonable costs of investigation. If the indemnifying party assumes the defense of a Proceeding, (i) no compromise or settlement of such claims may be effected by the indemnifying party without the Indemnified Person' s consent unless (A) there is no finding or admission of any violation of legal requirements or any violation of the rights of any Person and no effect on any other claims that may be made against the Indemnified Person, and (B) the sole relief provided is monetary damages that are paid in full by the indemnifying party; and (ii) the Indemnified Person will have no liability with respect to any compromise or settlement of such claims effected without the consent of such Indemnified Person. In no event will the Indemnified Person consent to the entry of any judgment or enter into any settlement with respect to a Proceeding without the prior written consent of the Indemnifying Person, which consent shall not be unreasonably withheld.

9.5. Procedure for Indemnification – Other Claim. A claim for the indemnification for any matter not involving a third-party claim may be asserted by notice to the party from whom indemnification is sought.

9.6. Limitations on Seller' s Indemnification of Purchaser. Notwithstanding any other provision to the contrary, Seller shall be obligated to indemnify Buyer and its Indemnified Persons only to the extent that the amount of such Damages, when aggregated with the total amount of other claims for indemnification under Section 9.2, does not exceed $250,000 and (ii) any such claims are made upon Seller in writing prior to the close of business on the second anniversary of the Transfer Date.

9.7. Limitations on Buyer' s Indemnification of Seller. Notwithstanding any other provision to the contrary, Buyer shall be obligated to indemnify Seller and its Indemnified Persons only to the extent that the amount of such Damages, when aggregated with the total amount of other claims for indemnification under Section 9.3, does not exceed $250,000, and (ii) any such claims are made upon Buyer in writing prior to the close of business on the second anniversary of the applicable Transfer Date. However, nothing in the preceding sentence will limit indemnification by the Buyer in any manner in regard to the Buyer' s compliance with published rules and regulations of state public service commissions and the Federal

Communications Commission**,** which apply directly to Buyer' s conduct of the Business sold hereunder.

ARTICLE 10

WAIVER OF TRIAL BY JURY AND RESOLUTION OF DISPUTES

10.1. Waiver of Trial by Jury. Each party waives its right to a jury trial in any court action arising between the parties, whether under this Agreement or otherwise related to this Agreement, and whether made by claim, counterclaim, third party claim or otherwise. If for any reason the jury waiver is held to be unenforceable, the parties agree to binding arbitration under the applicable commercial rules of the American Arbitration Association and 9 U.S.C. § 1, et seq. Any arbitration will be subject to the Governing Law provision set forth in Section. 12.9. Discovery in the arbitration will be governed by the Federal Rules of Civil Procedure. The determination of the arbitrator shall be final, binding and conclusive upon the parties and enforceable in a court of competent jurisdiction. The agreement of each Party to waive its right to a jury trial will be binding on its successors and assignees.

10.2. Dispute Resolution. If a dispute arises under this Agreement the parties shall endeavor to resolve it first by amicable, private negotiations, and each party shall provide a representative to such negotiations with authority to settle the matter. If, for whatever reason, the parties are unable to resolve a dispute as aforesaid, they shall appoint a neutral, qualified intermediary with experience resolving disputes of a similar nature, such as a mediator with authority to render a binding decision, an arbitrator, or other similarly qualified person who is given binding authority to settle the dispute. If the parties are unable to agree on a qualified intermediary, each shall designate legal counsel to select an appropriate individual for them, or, if necessary, two individuals, one for each of them, along with authority for the two so selected to appoint a third.qualified intermediary. The person or persons so selected shall conduct the proceedings in accordance with such conventional rules and procedures as may be equitable and appropriate in the circumstances, and the parties agree that the decision of such intermediary(ies) shall be final and binding on each of them, enforceable in any court of competent jurisdiction. Costs and fees shall be shared equally by the parties. No resolution so reached shall include special, consequential or incidental damages.

ARTICLE 11

CERTAIN DEFINITIONS

11.1. Defined Terms. For purposes of this Agreement, certain terms used in this Agreement and not otherwise defined herein shall have the meanings designated below:

“Affiliate” of a specified entity means any legal entity directly or indirectly controlling, controlled by, or under the common control with the specified entity. The term “control” (including “controlling,” “controlled by” and “under common control with”) of an entity means the possession, directly or indirectly, of the power to (i) vote 50% or more of the voting securities or other voting interests of such person, or (ii) direct or cause the direction of the management and policies of such entity, whether through the ownership of voting shares, by contract or otherwise. “Agreement” means this Agreement for Purchase and Sale of Customers Line’ s, together with all Schedules and Exhibits hereto, as any of the foregoing may be amended, modified or supplemented in writing from time to time.

“Assumed Liabilities” means any and all of the following liabilities and obligations of Seller relating directly to the Transferred Assets.

(a) to the extent arising out of events occurring after the Transfer Date, all liabilities and obligations of Seller or its Affiliates arising under the Customer Contracts and the Permits pursuant to Buyer’ s existing Tariffs;

(b) All liabilities and obligations arising out of litigation and claims relating to the Customer Contracts arising out of events occurring after the Transfer Date;

(c) All obligations of Seller to timely pay compensation to independent sales organizations and individuals in connection with revenues derived by Buyer from Customer Contracts and accounts Transferred hereunder as set forth on Exhibit E, attached hereto and incorporated herein;

(d) Except for Assumed Liabilities Buyer does not assume any liabilities or obligations of Seller or its Affiliates of any nature, whether direct, contingent or otherwise, including, without limitation, any liabilities or obligations of the Business prior to the Transfer.

“Business” means Seller’ s business of providing voice and data services via Seller’ s VoIP-based network.

“Buyer” is defined in the preamble of this Agreement.

“Buyer’ s Knowledge” means the actual knowledge of Buyer after reasonable investigation.

“Code” is defined in Section 1.5.

“Customer” means an end user customer of the Business and where applicable includes such end users after the Transfer has occurred.

“Customer Access Line” means a Customer access line.

“Customer Contracts” means all contracts, agreements, instruments and other legally binding arrangements (and all amendments and modifications thereto) relating to the provision of VoIP-based voice and data services by Seller to an end user, and all such contracts, agreements and instruments entered into by a Seller in the ordinary course of the Business between the date of this Agreement and the applicable Transfer Date relating to the provision of services to the Customers. A list of all Customer Contracts as of the date of this Agreement is attached hereto as Exhibit **C.** .

"Encumbrances" means any and all security interests, liens, charges or similar restrictions, except for (i) liens for taxes not yet due and payable or that are being contested in good faith, (ii) liens of workers, carriers or materialmen or similar liens arising by operation of Law in the ordinary course of the Business in respect of obligations that are not yet due and payable or that are being contested in good faith, and (iii) any liens, defects or irregularities that are the result of Buyer' s or its representative' s actions.

"Excluded Assets" means, any of the following:

(a) all assets, properties and rights of Seller and its Affiliates, including the name "Trinsic" and other names used by Seller to denote its legal existence, , associated with other lines of business of Seller and its affiliates that are not the subject of this Agreement (i.e. the Business);

(b) this Agreement and all rights of Seller under this Agreement;

(c) the Retained Books and Records;

(d) all cash or cash equivalents of Seller and its Affiliates, including, without limitation, checks or drafts received by the Business for which Seller has not received funds on or prior to the Transfer Date**s**, certificates of deposit, time deposits and marketable securities; and all of the right, title and interest in the bank accounts, safe deposit boxes and checking accounts of either Seller, its Affiliates and the Business;

(e) all rights to refunds of all federal, state, local and foreign taxes relating to Seller or its Affiliates, the Transferred Assets or the Business to the extent such taxes relate to a period ending on or prior to the Transfer Date and were not paid or assumed by Buyer;

(f) all accounts receivable, inventory and fixed assets of Seller and its Affiliates other than those set forth in Exhibits attached hereto;.

(g) all real property and interests in real property owned by Seller and its Affiliates; and

(h) all policies of insurance and fidelity, surety or similar bonds and the coverages afforded thereby, and any and all claims or rights thereunder;

(i) Buyer shall have no liability or obligation with respect to any Excluded Assets.

"FCC" means the Federal Communications Commission or any other Federal agency which succeeds in whole or in part to its jurisdiction so far as the subject matter of this Agreement is concerned.

FCC Approval" means the approval of the FCC to completion of the transactions contemplated hereunder.

"Governmental Approval" means the PUC Approval, the FCC Approval and all consents and approvals of, filings and registrations with, and notifications to any other Governmental Authority necessary to consummate the transactions contemplated by this Agreement.

"Governmental Authority" means any United States, state or local governmental entity or municipality or subdivision thereof or any authority, department, commission, board, bureau, agency, court or instrumentality thereof.

"Law" or "Laws" means any statute, rule, regulation or ordinance of any Governmental Authority.

"Material Adverse Effect" means a materially adverse effect on the Business or the Transferred Assets, taken as a whole, other than effects relating to or arising from (i) the execution of this Agreement, (ii) the United States economy generally (iii) events or circumstances that affect the Business in the same manner and to the same extent as other businesses in the industry generally;or (iv) other claims or actions of any kind or nature against Seller relating to the Transferred Assets.

"Payment Date" is the date on which Buyer is to make a Transaction Payment under this Agreement.

"Permits" means all permits of any Governmental Authority relating to the Transferred Assets.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated association, corporation, entity or government (whether federal, foreign, state, county, city or otherwise, including any instrumentality, division, agency or department thereof).

"PUC" means a state ublic utility commission or equivalent regulatory body.

"PUC Approval" means the approval of a PUC to completion of the transactions contemplated hereunder.

"Proration Periods" is defined in Section 1.4.

"Purchase Price" is defined in Section 1.3.

"Required Consents" the consents required in Section **3.2.4.**

"Retained Books and Records" means, collectively, all corporate records and stock books of Seller and their Affiliates, the general ledger, all records required by Law to be retained by Seller and all books and records relating to (i) tax returns and tax records; (ii) the Excluded Assets; (iii) the organization, maintenance and existence of Seller as a corporation or partnership;

and (iv) attorney work product; provided that where reasonably necessary or prudent, Retained Books and Records shall also include copies of the Transferred Books and Records.

"Retained Liabilities" is defined in Section 1.2 of this Agreement.

"Seller" is defined in the preamble of this Agreement.

"Seller' s Knowledge" means the actual knowledge of Seller after reasonable investigation.

"Transfer" means the transfer of ownership of the Transferred Assets and the assumption of the Assumed Liabilities.

"Transfer Date" is a date on which a Transfer takes place or is contemplated to take place under this Agreement.

"Transactions" means any or all of the Transfers, deliveries, payments contemplated by the Transaction Documents in connection with the sale of the Business.

"Transaction Documents" means this Agreement and each document referred to, described in or contemplated by the Agreement. When used with respect to Seller or Buyer, "Transaction Documents" means this Agreement and such documents as are required to be executed by such party with respect to the Transactions.

"Transaction Payment" means the payments of the Purchase Price described in Section 1.3. hereof.

"Transfer Taxes" means any and all federal, state, county, municipal, foreign or other taxing jurisdiction sales, use, transfer, gross receipts, consumer levy, privilege or similar taxes, duties, excises or governmental charges, including any penalties and interest thereon, arising out of the sale of the Transferred Assets by Seller to Buyer hereunder.

"Transferred Assets" means all of Seller' s right, title and interest in and to the following assets:

(a) the Customer Contracts including any rights to collect contract termination fees for end user disconnects that are effective after the date of this Agreement;

(b) the equipment and other items listed in the Exhibits hereto and in the Statement of Work and its attachments;

(c) the Transferred Books and Records; and

(d) With respect to Customer Contracts, Transferred Assets shall be limited to:

(i) those which the applicable Governmental Authority will permit to be transferred to Buyer without a written and executed Letter of Authority; and

(ii) those for which Seller has obtained prior to the applicable Transfer Date a written and executed Letter of Authority.

(e) accounts receivable from Customer Contracts for services rendered by Buyer after the applicable Transfer;

(f) all marketing materials and product literature, trademarks, tradenames, logos, service marks and other similar information used by Seller in connection with the portion of the Business covered by the Transferred Assets.

but excluding from the foregoing the Excluded Assets.

"Transferred Books and Records" means copies of Seller' s customer lists and records, accounts and billing records, plans, blueprints, specifications, drawings, surveys and engineering reports that relate directly to the operation of the Business.

"Transition" means the transfer of Customers from Seller' s softswitch to Buyer' s softswitch.

"Transition Date" means the date of completion for the conversion of a customer from Seller' s softswitch to Buyer' s softswitch.

11.2. Interpretation. Unless the context otherwise requires, (i) all references to Sections, Articles or Schedules are to Sections, Articles or Schedules of or to this Agreement, (ii) the term "primarily" means primarily or exclusively, and (iii) the term "including" means including without limitation.

ARTICLE 12

GENERAL

12.1. Notices. All notices hereunder will be in writing and served by certified mail, return receipt requested. Notice shall be deemed to have been duly given on the earlier of the date received or the fifth business day following the date mailed by the notifying party using first class mail, postage prepaid. Notices shall be sent as follows:

If to Seller:

Trinsic Communications, Inc.
100 Brookwood Road
Atmore, AL 36502
Attention: Trey Davis
Facsimile: 251-368-1314

with a required copy (which shall not constitute notice) to:

Trinsic Communications, Inc.
Andrew L. Graham, Legal Counsel
601 S. Harbour Island Boulevard, Suite 220
Tampa, FL 33602

Facsimile: 813-233-4623

If to Buyer:

CommX Holdings, Inc.
3550 Buschwood Park Drive Suite 320
Tampa, FL 33618
Attn:**Oscar Williams**
Facsimile: **813-931-7369**

12.2. Waivers. No failure of a party to enforce a provision of this Agreement will be construed as a general or a specific waiver of that provision, or of a party' s right to enforce that provision, or of a party' s right to enforce any other provision of this Agreement. No waiver of any breach of any covenant or other provision herein contained shall be deemed to be a waiver of any preceding or succeeding breach, or of any other covenant or provision herein contained. No extension of time for performance of any obligation or act shall be deemed to be an extension of the time for performance of any other obligation or act.

12.3. Payment of Expenses. Except as otherwise provided herein, each of the parties shall pay all costs and expenses incurred or to be incurred by it in the negotiation and preparation of this Agreement and in consummating and carrying out the Transactions, whether or not the Transactions are consummated.

12.4. Headings. The subject headings of the sections and subsections of this Agreement are included only for purposes of convenience, and shall not affect the construction or interpretation of any of its provisions.

12.5. Counterparts; Facsimile. This Agreement may be executed in counterparts, each of which shall be deemed an original and, when each of the parties hereto has executed and delivered a counterpart to the other party, this Agreement shall be binding and effective even though no single counterpart has been executed by both of the parties. This Agreement may be executed and delivered by facsimile transmission, and a facsimile of this Agreement or of a signature of a party will be effective as an original.

12.6. Successors and Assigns. This Agreement shall be binding on and shall inure to the benefit of the parties hereto and their permitted successors and assigns; provided, however, that no assignment shall be permitted except as provided for in this Agreement.

12.7. Assignment. The rights and obligations of the parties to this Agreement or any interest in this Agreement shall not be assigned, transferred, hypothecated, pledged or otherwise disposed of without the prior written consent of the non-assigning party, which consent may be withheld in such party' s sole discretion; provided, however, that Buyer or Seller may, without the prior consent of the other party, assign its rights under this Agreement to any Affiliate.

12.8. Additional Instruments and Assistance. Each party hereto shall from time to time execute and deliver such further instruments, provide additional information and render such further assistance as the other party or its counsel may reasonably request in order to complete and perfect the Transactions.

12.9. Governing Law. To the extent that federal law does not apply exclusively, this Agreement shall be construed in accordance with the laws of the State of Florida (without reference to the choice of law provisions of any jurisdiction).

12.10. Severability. If any term or provision of this Agreement is held or deemed to be invalid or unenforceable when applied to any person or circumstance, the remaining provisions of this Agreement and the enforcement of such provision to other persons or circumstances shall not be affected thereby, and each provision of this Agreement shall be enforced to the fullest extent allowed by Law.

12.11. Amendments. This Agreement may not be modified, changed, supplemented or terminated, nor may any obligations hereunder be waived by a party, except by written instrument signed by the party to be charged or by its agent duly authorized in writing or as otherwise expressly permitted herein.

12.12. No Construction. Each party hereto acknowledges that such party and its counsel have reviewed this Agreement and participated in its drafting. This Agreement shall not be construed against either party for having prepared it. Wherever from the context it appears appropriate, each term stated in either the singular or the plural will include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender will include the other genders. Moreover, the term "or" is not exclusive. The words "Agreement," "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this contract as a whole (as it may be amended, modified, restated, or supplemented), including any schedules, exhibits, addenda, annexes and other documents incorporated by reference (as they may be amended, modified, restated, or supplemented) and not to any particular provision of this contract. Whenever the word "include," "includes" or "including" is used in this Agreement, it will not be limiting or exclusive and will be deemed to be followed by the words "without limitation." All references in this Agreement to statutes and related regulations will include any amendments of and any successor statutes and regulations. All references in this Agreement or in the schedules, addenda, annexes or exhibits to this Agreement to sections, schedules, disclosure schedules, exhibits, and attachments will refer to the corresponding sections, schedules, disclosure schedules, exhibits, and attachments of or to this Agreement. All references to any instruments or agreements, including references to this Agreement will include any and all modifications or amendments thereto and any and all extensions or renewals thereof. The various headings contained in this Agreement are inserted solely for convenience of reference and in no way define, limit or extend the scope or intent of any of the provisions of this Agreement. Notwithstanding the foregoing the parties agree that any conflict or inconsistency between the provisions of this Agreement and those in the attached Exhibits A, B, and C shall be resolved in favor of the provisions in the aforesaid Exhibits.

12.13. Entire Agreement; No Third Party Beneficiaries. This Agreement, including all schedules and exhibits attached hereto, constitutes the entire agreement between the parties hereto with respect to the subject matter hereof, and there are no agreements, understandings, warranties or representations between the parties with respect to such subject matter except as set forth or noted herein. The parties do not intend to confer any benefit hereunder on any person, firm or corporation other than the parties hereto.

IN WITNESS WHEREOF, the parties to this Agreement for Purchase and Sale of Assets have executed it as of the date first above written.

BUYER:

CommX Holdings, Inc.

By: ______________________________

Name: ______________________________

Its: ______________________________

SELLER:

TRINSIC COMMUNICATIONS, INC.

By: ______________________________

Name: ______________________________

Its: ______________________________

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Horace J. Davis III, certify that–

1. I have reviewed this Quarterly Report on Form 10-Q of Trinsic, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have–

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons fulfilling the equivalent function)–

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: December 21, 2006

/s/ HORACE J. DAVIS III
Horace J. Davis
Chief Executive Officer

A signed original of this certifiction has been provided to Trinsic, Inc. and will be retained by Trinsic, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald C. Davis, certify that−

1. I have reviewed this Quarterly Report on Form 10-Q of Trinsic, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have−

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons fulfilling the equivalent function)−

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: December 21, 2006

/s/ *DONALD C. DAVIS*.
Donald C. Davis
Chief Financial Officer

A signed original of this certification has been provided to Trinsic, Inc. and will be retained by Trinsic, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.1

WRITTEN STATEMENT OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SS.1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Executive Officer of Trinsic, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HORACE J. DAVIS III
Horace J. Davis III
December 21, 2006

A signed original of this written statement has been provided to Trinsic, Inc. and will be retained by Trinsic, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

WRITTEN STATEMENT OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SS.1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Acting Chief Financial Officer of Trinsic, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DONALD C. DAVIS
Donald C. Davis.
December 21, 2006

A signed original of this written statement has been provided to Trinsic, Inc. and will be retained by Trinsic, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.