Attachment 4

Financial Qualifications

1999 and 1998 Draft Financial Statements as submitted by Applicant to its auditors

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AFFINITY CORPORATION

Financial Statements

December 31, 1999 and 1998

(With Independent Auditors' Report Thereon)

AFFINITY CORPORATION

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Independent Auditor's Report

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Board of Directors
Affinity Corporation:

We have audited the accompanying balance sheets of Affinity Corporation as of December 31, 1999 and 1998, and the related statements of operations, shareholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Affinity Corporation as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Affinity Corporation will continue as a going concern. As discussed in note 6 to the financial statements, Affinity Corporation does not have a committed source of financing to make payments which could be required on the notes payable to Finova Mezzanine Capital Inc. (formerly Sirrom Capital, L.P.) and to meet expected operating requirements over the next year, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

April 7, 2000

AFFINITY CORPORATION

Balance Sheets

December 31, 1999 and 1998

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Assets	1999	1998
Current assets:		
Cash	$ 114,327	189,605
Certificate of deposit (notes 2a and 2c)	500,000	—
Accounts receivable (net of allowance for doubtful receivables of $44,000 and $66,000 at December 31, 1999 and 1998, respectively)	1,164,129	1,653,675
Receivable from shareholder (notes 2c and 7)	90,866	77,560
Prepaid expenses and other current assets	78,921	64,988
Total current assets	1,948,243	1,985,828
Property and equipment:		
Leasehold improvements	118,885	118,885
Equipment	145,582	139,935
Furniture and fixtures	205,589	188,315
Computer equipment and software	223,143	323,460
	693,199	770,595
Less: accumulated depreciation and amortization	(456,204)	(528,195)
Net property and equipment	236,995	242,400
Other assets	30,507	19,761
Total assets	$ 2,215,745	2,247,989

See accompanying notes to financial statements.

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Liabilities and Shareholders' Deficit	1999	1998
Current liabilities:		
Notes payable to MCI Telecommunications Corporation (note 2b)	$ —	7,223,623
Notes payable to Finova Mezzanine Capital Inc. (note 2a)	3,393,309	2,989,410
Notes payable to shareholder (note 2c)	100,000	75,000
Trade accounts payable (note 2b)	1,503,596	4,190,428
Commissions and royalties payable (note 4)	345,931	444,919
Sales and excise taxes payable	65,340	294,602
Accrued expenses and other current liabilities	152,867	243,542
Total current liabilities	5,561,043	15,461,524
Royalty interests (note 4)	324,000	324,000
Other noncurrent liabilities	1,750	—
Total liabilities	5,886,793	15,785,524
Commitments and contingencies (notes 2, 3, 4, 5 and 6)		
Shareholders' deficit:		
Common stock, $.01 par value; authorized 30,000 shares; issued 19,221 and 18,900 shares at December 31, 1999 and 1998, respectively; outstanding 5,450 and 5,129 shares at December 31, 1999 and 1998, respectively	192	189
Additional paid-in capital (note 2a)	316,011	280,311
Accumulated deficit	(487,251)	(10,318,035)
Treasury stock, 13,771 common shares at at cost	(3,500,000)	(3,500,000)
Total shareholders' deficit	(3,671,048)	(13,537,535)
Total liabilities and shareholders' deficit	$ 2,215,745	2,247,989

AFFINITY CORPORATION

Statements of Operations

Years ended December 31, 1999 and 1998

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	1999	1998
Sales	$ 9,035,778	13,909,806
Cost of sales	5,274,597	8,209,252
Gross profit	3,761,181	5,700,554
Selling, general and administrative expenses (note 2c)	4,260,015	5,279,264
Operating income (loss)	(498,834)	421,290
Other income (expense):		
Interest income	30,598	3,289
Interest expense (note 2)	(718,939)	(1,079,637)
Other, net	(33,955)	(4,770)
	(722,296)	(1,081,118)
Loss before extraordinary item	(1,221,130)	(659,828)
Extraordinary item:		
Gain on extinguishment of debt (notes 2b and 2c)	11,051,914	2,558,330
Net income	$ 9,830,784	1,898,502

See accompanying notes to financial statements.

AFFINITY CORPORATION

Statements of Shareholders' Deficit

Years ended December 31, 1999 and 1998

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		Common stock	Additional paid-in capital	Accumulated deficit	Treasury stock	Shareholders' deficit
Balance, December 31, 1997	$	189	280,311	(12,216,537)	(3,500,000)	(15,436,037)
Net income		—	—	1,898,502	—	1,898,502
Balance, December 31, 1998		189	280,311	(10,318,035)	(3,500,000)	(13,537,535)
Issuance of common stock, 320.56 shares at $36 per share (note 7)		3	11,537	—	—	11,540
Issuance of stock purchase warrants (note 2a)		—	24,163	—	—	24,163
Net income		—	—	9,830,784	—	9,830,784
Balance, December 31, 1999	$	192	316,011	(487,251)	(3,500,000)	(3,671,048)

See accompanying notes to financial statements.

AFFINITY CORPORATION

Statements of Cash Flows

Years ended December 31, 1999 and 1998

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	1999	1998
Cash flows from operating activities:		
Net income	$ 9,830,784	1,898,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of debt discount	103,568	126,305
Loss on disposals of property and equipment	31,700	36,937
Extraordinary gain on extinguishment of debt	(11,051,914)	(2,558,330)
Interest income	(30,598)	(3,289)
Issuance of common stock as compensation to an employee	11,540	—
Change in account balances:		
Accounts receivable	489,546	740,811
Trade accounts payable	1,891,459	149,840
Prepaid expenses and other current assets	(13,933)	117,177
Commissions and royalties payable	(98,988)	(209,788)
Sales and excise taxes payable	(229,262)	(50,278)
Accrued expenses and other current liabilities	(90,675)	17,169
Other, net	(8,996)	(9,870)
Net cash provided by operating activities	834,231	255,186
Cash flows from investing activities:		
Purchases of property and equipment	(101,801)	(19,341)
Purchase of certificate of deposit	(500,000)	—
Interest income	30,598	3,289
Increase in receivable from shareholder	(13,306)	(19,680)
Net cash used in investing activities	(584,509)	(35,732)
Cash flows from financing activities:		
Principal payments on note payable to MCI Telecommunications Corporation	(750,000)	—
Proceeds from issuance of note payable to Finova Mezzanine Capital Inc.	400,000	—
Proceeds from issuance of note payable to shareholder	100,000	350,000
Principal payments on note payable to shareholder	(75,000)	(375,000)
Principal payments on notes payable to former shareholders	—	(167,462)
Repurchase of royalty interests	—	(72,000)
Net cash used in financing activities	(325,000)	(264,462)
Net decrease in cash	(75,278)	(45,008)
Cash, beginning of year	189,605	234,613
Cash, end of year	$ 114,327	189,605
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 458,089	1,064,313
Supplemental schedule of noncash financing activities:		
Issuance of stock purchase warrants to Finova Mezzanine Capital Inc. (note 2a)	24,163	—
Forgiveness of notes and accounts payable to MCI Telecommunications Corporation (note 2b)	11,051,914	—
Forgiveness of notes payable to former shareholders (note 2c)	—	2,558,330

See accompanying notes to financial statements.

AFFINITY CORPORATION

Notes to Financial Statements

December 31, 1999 and 1998

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(1) Significant Accounting Policies and Practices

(a) Nature of Business

Affinity Corporation (the Company) is a switchless reseller of long distance telephone services. The Company purchases long distance telephone services in volume from Sprint Communications Company L.P. (Sprint) and resells these services throughout the United States to residential customers and small businesses. The Company changed their supplier of long distance telephone services from MCI Telecommunications Corporation (MCI) to Sprint in January 1999.

(b) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using accelerated methods applied to individual property items based on estimated useful lives ranging from three to seven years. Leasehold improvements are depreciated over the shorter of the asset's estimated useful life or the lease term.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(c) Revenue Recognition

The Company recognizes revenue as services are provided.

(d) Royalties

The Company records one-time fees received from individuals to whom the Company pays monthly royalties as noncurrent liabilities, which are adjusted upon the Company's repurchase of the royalty interests. The Company expenses monthly royalty payments as incurred.

(e) Advertising Costs

The Company expenses advertising costs, including telemarketing, postage, and printing expenses, to operations as incurred. Advertising costs were approximately $190,000 and $83,000 in 1999 and 1998, respectively.

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AFFINITY CORPORATION

Notes to Financial Statements

December 31, 1999 and 1998

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(f) Income Taxes

Under provisions of the Internal Revenue Code, the shareholders have elected to treat the Company as a Subchapter S Corporation for income tax purposes. Accordingly, the net income of the Company is not subject to Federal or state income taxes. All tax attributes of the Company are passed through to the shareholders; and income taxes, if any, are payable by the individual shareholders. The Company expects to make distributions to the shareholders at least equal to the personal income taxes resulting from the Subchapter S election.

(g) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Company 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Reclassifications

Certain amounts originally reported in 1998 have been reclassified to conform with the 1999 presentation.

(2) Notes Payable

(a) Notes Payable to Finova Mezzanine Capital Inc. (formerly Sirrom Capital, L.P.)

The Company has the following notes payable to Finova Mezzanine Capital Inc. (Finova), all requiring monthly interest payments and collateralized by substantially all of the Company's assets:

	1999	1998
13% note due June 2000	$ 2,400,000	—
14% note due June 2000	1,000,000	1,000,000
12.5% note due June 1998	—	1,500,000
12.5% note due October 1998	—	500,000
	3,400,000	3,000,000
Less: discount - stock purchase warrants	6,691	10,590
	$ 3,393,309	2,989,410

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December 31, 1999 and 1998

Effective February 4, 1999, the Company restructured their financing arrangement with Finova. Under the new agreement, Finova loaned the Company an additional $400,000 which, along with $100,000 of funding obtained from a shareholder (see note 2c), was used as a deposit for a one-year standby letter of credit in connection with the Company's conversion of the supplier of long distance telephone services from MCI to Sprint (see note 2b). The $1,500,000 and $500,000 notes and the $400,000 loan were combined into one note. The notes payable to Finova are collateralized by substantially all of the Company's assets and have a limited personal guarantee by the Company's President. Interest payments are due monthly and all principal and remaining interest payments are due at maturity. Upon expiration of the letter of credit on February 4, 2000, the $400,000 in funds were used to reduce the $2,400,000 note.

Effective March 10, 2000, the note agreement with Finova was amended, extending the maturity date on the remaining $3,000,000 of notes from March 10, 2000 to June 10, 2000.

In connection with the $1,500,000 note payable, the Company issued stock purchase warrants granting Finova the right to purchase 5% of the Company's common stock plus 316 shares for each year the note is outstanding after June 30, 1996, at an exercise price equal to $0.01 per share.

In connection with the $500,000 note payable, the Company issued stock purchase warrants granting Finova the right to purchase 1.67% of the Company's common stock plus 126 shares for each year the note is outstanding after October 31, 1996, at an exercise price equal to $0.01 per share.

In connection with the $1,000,000 note payable, the Company issued stock purchase warrants expiring April 30, 2000, granting Finova the right to purchase 3% of the Company's common stock plus 1% of the Company's common stock for each year the note is outstanding after March 10, 1997, at an exercise price equal to $0.01 per share.

Effective February 4, 1999, and in connection with the additional $400,000 note payable to Finova, the Finova stock purchase warrants were amended to increase the ownership percentages from a total of 9.67% previously to 16% of the Company's common stock. All other stock purchase rights previously granted to Finova were cancelled. The amended 16% stock purchase warrants expire February 4, 2004. Finova also received a 35% stock purchase warrant expiring September 4, 2000 which is to be canceled if all debt to Finova is fully repaid on or before June 10, 2000. Should the Company repay all indebtedness to Finova by May 4, 2000, the Company may repurchase the 16% stock purchase warrants held by Finova for $100,000.

No warrants were exercised and no additional shares were accrued, for any of the Finova notes, through December 31, 1999.

The Company records the estimated fair value of the warrants as debt discount with an offsetting credit to additional paid-in capital. The debt discount is amortized over the remaining period for which the respective notes are outstanding. Amortization of the debt discount of $28,062 and $15,324 is recorded as interest expense in 1999 and 1998, respectively.

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(b) Note Payable to MCI Telecommunications Corporation (MCI)

	1999	1998
7.5% note payable to MCI due in monthly installments of $120,394, plus accrued interest thereon, through September 2000; with a final payment of $3,009,833, plus accrued interest thereon, due in October 2000.	$ —	7,223,623
	$ —	7,223,623

Effective June 4, 1999, MCI issued a signed statement to the Company, confirming full execution of an agreement in which the parties agreed to mutually release each other from any and all claims, counterclaims, causes of action, security interests, or liabilities of any nature that have arisen out of MCI's provision of services to the Company. As such, the Company has fully satisfied all outstanding obligations to MCI, which included the following balances as of June 4, 1999: the note payable balance of $7,223,623, trade accounts payable balance of $4,578,291 (which included accrued interest of $812,657), less the payment by the Company to MCI of a $750,000 settlement amount, resulting in a extraordinary gain of $11,051,914 in 1999. This transaction resulted in no income tax liability to the Company.

(c) Notes Payable to Shareholder

The Company has the following notes payable to shareholder outstanding:

	1999	1998
Note bearing interest at 4% above the rate of interest obtainable by the holder (12.5% at December 31, 1999). The notes were paid in full on February 7, 2000	$ 100,000	—
13% note which was paid in full on January 7, 1999	—	75,000
	$ 100,000	75,000

Effective February 1, 1999, a shareholder loaned the Company $100,000 to be used along with the $400,000 of additional funding from Finova (see note 2a) as a deposit for a one-year standby letter of credit expiring on February 4, 2000 in connection with the Company's conversion of the supplier of long distance telephone services from MCI to Sprint.

Effective June 29, 1998, the Company entered into an agreement with the Company's President and the four former shareholders of the Company, whereby the former shareholders assigned their notes receivable from the Company with a remaining principal balance of $2,658,330, to the Company's President for $100,000 in cash. Under the terms of the agreement, the Company's President would indemnify and hold the former shareholders harmless against any recovery action, as defined in the agreement, against the Company.

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Effective July 10, 1998, the Company extinguished these notes payable for a $100,000 cash payment to the Company's President plus the cancellation of a receivable with a balance of $71,869 from the Company's President. The gain of $2,558,330 on the extinguishment of these notes payable is reflected as an extraordinary item in 1998 and the expense related to the cancellation of the receivable from the Company's President is included within selling, general and administrative expenses. This transaction resulted in no income tax liability to the Company.

(3) Leases

The Company is obligated under several noncancelable operating leases, primarily for office space, a computer server, and various office equipment, which expire at various times through 2004.

Approximate future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 1999 are as follows:

Year ending December 31:	
2000	$ 192,000
2001	187,000
2002	176,000
2003	118,000
2004	59,000
	$ 732,000

Rental expense in 1999 and 1998 was approximately $197,000 and $184,000, respectively.

(4) Royalty Interests

The Company has entered into agreements with various individuals whereby it will pay monthly commissions (royalties) on certain long distance telephone receipts from customers in specified states within the United States. The individuals paid a one-time fee to the Company in exchange for such royalties. Royalties paid range from .09% to .27% of the Company's total monthly receipts, excluding taxes and certain charges, from the specified states in 1999 and 1998, respectively. Royalty interests outstanding at December 31, 1999 and 1998 total $324,000.

The Company may repurchase these royalty interests and participating individuals have the right to require the Company to repurchase their royalty interests under certain conditions for a predetermined price, as specified in the agreements. Certain agreements entitle the participating individuals to convert their royalty interests into an equity interest in the Company, should the Company fail to make a required repurchase. In 1999, the Company did not repurchase any royalty interests. In 1998, the Company repurchased several royalty interests at a cost of $72,000.

(5) Employee Benefit Plan

The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering all eligible employees. Employees attain eligibility in the plan at the age of 21 and after completing one year of qualified service. Employees may contribute from 1% to 15% of their qualified compensation to the plan. Employer contributions are equal to 25% of the first 6% of the employees' elective qualified compensation deferral. Employer contributions were approximately $8,000 and $5,000 in 1999 and 1998, respectively.

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Notes to Financial Statements

December 31, 1999 and 1998

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(6) Liquidity

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2(b), effective June 4, 1999, MCI forgave a significant portion of the Company's notes and trade accounts payable. As discussed in note 2(a), effective February 4, 1999, and as amended March 10, 2000, the Company restructured their financing arrangement with Finova. However, the Company does not have a committed source of financing to make payments which could be required on the notes payable to Finova and to meet expected operating requirements over the next year. Although the Company is attempting to obtain a sufficient committed source of financing, if it is unable to do so, the Company may be unable to continue its normal operations.

(7) Related Party Transactions

The Company's President obtains unsecured personal loans from the Company and is charged interest quarterly at 8.25% per annum.

In February 1999, the Company granted 320.56 shares of common stock to an employee of the Company.