KT AMERICA, INC.
(A Wholly Owned Subsidiary of KT Corp.)

Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
KT America, Inc.:

We have audited the accompanying balance sheets of KT America, Inc. (a wholly owned subsidiary of KT Corp.) (the Company) as of December 31, 2007 and 2006, and the related statements of income and accumulated 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 KT America, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

January 23, 2008

KT AMERICA, INC.
(A Wholly Owned Subsidiary of KT Corp.)

Balance Sheets

December 31, 2007 and 2006

Assets		**2007**	**2006**
Current assets:			
Cash and cash equivalents (note 3)	$	1,552,539	1,080,092
Short-term investments (note 4)		1,909,776	2,307,704
Accounts receivable, less allowance for doubtful accounts of $40,150 in 2007 and 2006 (note 5)		669,644	333,425
Other current assets		35,542	27,115
Total current assets		4,167,501	3,748,336
Property and equipment at cost, less accumulated depreciation (note 6)		1,318,255	1,368,112
Other assets		16,770	21,870
	$	5,502,526	5,138,318
Liabilities and Stockholder's Equity			
Current liabilities:			
Accounts payable (note 5)	$	331,185	132,978
Deferred revenue		1,075,414	998,438
Accrued expenses (note 5)		965,817	988,241
Total current liabilities		2,372,416	2,119,657
Stockholder's equity:			
Common stock, $1 par value. Authorized, issued, and outstanding 6,000 shares		6,000	6,000
Additional paid-in capital		5,994,000	5,994,000
Accumulated deficit		(2,869,890)	(2,981,339)
Total stockholder's equity		3,130,110	3,018,661
Commitments (note 8)			
	$	5,502,526	5,138,318

See accompanying notes to financial statements.

KT AMERICA, INC.
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Statements of Income and Accumulated Deficit

Years ended December 31, 2007 and 2006

		2007	2006
Revenues and other income:			
Telecommunications services (note 5)	$	6,425,407	5,645,145
Service revenue (note 5)		1,690,866	976,759
Interest income		174,097	150,166
Rental income (note 8)		155,211	160,608
Other		—	4,579
		8,445,581	6,937,257
Costs and expenses:			
Cost of telecommunications services (note 5)		5,157,093	4,317,544
Cost of service – service revenue		622,183	210,205
Operating expenses		2,434,879	2,188,552
		8,214,155	6,716,301
Income before income tax expense		231,426	220,956
Income tax expense (note 7)		119,977	105,086
Net income		111,449	115,870
Accumulated deficit at beginning of year		(2,981,339)	(3,097,209)
Accumulated deficit at end of year	$	(2,869,890)	(2,981,339)

See accompanying notes to financial statements.

KT AMERICA, INC.
(A Wholly Owned Subsidiary of KT Corp.)

Statements of Cash Flows

Years ended December 31, 2007 and 2006

		2007	2006
Cash flows from operating activities:			
Net income	$	111,449	115,870
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization		50,921	110,510
Gain on disposition of property and equipment		—	(4,579)
Change in operating assets and liabilities:			
Accounts receivable		(336,219)	28,154
Other current assets		(8,427)	(16,315)
Other assets		5,100	7,750
Accounts payable		198,207	(1,434,236)
Deferred revenue		76,976	158,412
Accrued expenses		(22,424)	351,720
Net cash provided by (used in) operating activities		75,583	(682,714)
Cash flows from investing activities:			
Purchase of property and equipment		(1,064)	(52,253)
Proceeds from sale of equipment		—	14,252
Decrease (increase) in short-term investments		397,928	(933,815)
Net cash provided by (used in) investing activities		396,864	(971,816)
Net increase (decrease) in cash and cash equivalents		472,447	(1,654,530)
Cash and cash equivalents at beginning of year		1,080,092	2,734,622
Cash and cash equivalents at end of year	$	1,552,539	1,080,092
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$	115,100	125,000

See accompanying notes to financial statements.

(1) Organization and Description of Business

KT America, Inc. (the Company) is a wholly owned subsidiary of KT Corp. (the Parent), a Korean corporation. The Company was incorporated as a Delaware corporation on March 25, 1993.

The Company's telecommunications services consist of retail services, including prepaid and rechargeable calling cards and designated cable facility wholesale services. The Company also renders various industry-related services to its Parent and receives service fee income.

Approximately 60% and 49% of the Company's revenues were derived from transactions with the Parent in 2007 and 2006, respectively. Consequently, the Company is significantly dependent on the Parent for a substantial portion of its activities. Significant related-party transactions are disclosed separately in the accompanying financial statements and notes thereto (see note 5).

(2) Summary of Significant Accounting Policies

(a) Revenue Recognition and Deferred Revenue

The Company generates telecommunications services revenue from the sale of its prepaid calling cards to distributors, at a discount to their face values. The Company records these sales as deferred revenue and recognizes revenue as the card user utilizes the prepaid calling time on the Company's telecommunication transmission system.

Also included in telecommunications services revenue is revenue generated from the lease and maintenance of global telecommunications capacity, which is recognized as the services are provided in accordance with contractual terms of the related service agreement.

Service revenue includes research, promotion, and advertising services provided to the Parent. The Company receives fixed-fee income from the Parent relating to such services in accordance with contractual terms of the related service agreements. The cost of service revenue represents the Company's direct costs associated with its research, advertising, and promotion activities for the Parent.

Rental income from noncancelable operating leases associated with the Company's office space is recognized in accordance with the contractual terms of the lease agreements.

In accordance with Emerging Issues Task Force 99-19, the Company recognizes revenue based on the gross basis, as the Company acts as the principal in such transactions.

(b) Property and Equipment

Property and equipment are stated at cost. Depreciation on property and equipment is calculated on the straight-line method with a half-year convention over the estimated useful lives of the assets, ranging from 5 to 39 years.

(c) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

(d) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(e) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases.

(3) Cash Equivalents

Cash equivalents of $1,313,378 and $755,400 at December 31, 2007 and 2006, respectively, consist of short-term money market investment accounts and certificates of deposit with initial terms of less than three months.

(4) Short-Term Investments

Short-term investments of $1,909,776 and $2,307,704 at December 31, 2007 and 2006, respectively, include certificates of deposit with initial terms of more than three months and less than one year.

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(5) Related-Party Transactions

The Company provided its Parent with various services that primarily include research on the U.S. telecommunications industry and other activities contracted with the Parent. Significant transactions and balances with this related party during 2007 and 2006 were approximately as follows:

		2007	2006
Telecommunications services	$	3,417,000	2,357,000
Service revenue		1,581,000	977,000
Cost of telecommunications services		566,000	466,000
Accounts receivable		523,000	176,000
Accrued expenses		511,000	874,000
Accounts payable		22,000	—

(6) Property and Equipment

Property and equipment, at cost, as of December 31, 2007 and 2006, are summarized as follows:

		2007	2006	Estimated useful lives (in years)
Land	$	628,206	628,206	
Building		537,922	537,922	39
Building improvements		432,950	432,950	39
Furniture and fixtures		61,432	61,432	7
Computer and equipment		1,843,001	1,841,938	5
Automobiles		52,253	52,253	5
		3,555,764	3,554,701	
Less accumulated depreciation		(2,237,509)	(2,186,588)	
Net property and equipment	$	1,318,255	1,368,113	

(7) Income Taxes

A summary of the income tax provision for the years ended December 31, 2007 and 2006 is as follows:

		2007	2006
Current:			
Federal	$	91,000	98,383
State		24,100	26,617
		115,100	125,000
Deferred:			
Federal		3,780	(15,433)
State		1,097	(4,481)
		4,877	(19,914)
Total	$	119,977	105,086

The actual expense for the years ended December 31, 2007 and 2006 differs from the "expected" tax expense (computed by applying the U.S. Federal corporate income tax rate of 34% to income before income taxes) approximately as follows:

		2007	2006
Computed "expected" tax expense	$	78,000	75,000
Increase (reduction) in income taxes resulting from:			
State income tax, net of Federal income tax benefit		13,000	13,000
Change in valuation allowance		—	(22,000)
Permanent differences		27,000	28,000
Other		1,977	11,086
	$	119,977	105,086

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) at December 31, 2007 and 2006 are presented below:

		2007	2006
Deferred tax assets (liabilities):			
Allowance for doubtful accounts	$	16,061	16,061
Depreciation		(1,023)	3,853
		15,038	19,914
Less valuation allowance		—	—
Net deferred tax assets	$	15,038	19,914

(Continued)

At December 31, 2007 and 2006, the Company has no net operating loss carryforwards for tax reporting purposes.

As of December 31, 2007, since it was more likely than not that all of the deferred tax assets would be realized, no valuation allowance was provided.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

(8) Commitments

(a) The Company is obligated under noncancelable operating leases, which expire through 2011, for rental of its office facility in California and for office equipment. The minimum future rental payments due under these noncancelable operating leases approximately are:

		Amount
Year ending December 31:		
2008	$	57,000
2009		56,000
2010		46,000
2011		43,000
	$	202,000

Total rental expense for the operating leases in 2007 and 2006 was $57,085 and $61,309, respectively.

(b) The Company purchased its office building in 1995 and leases some office space to several tenants under noncancelable operating leases expiring in 2008. The minimum future rentals under these noncancelable operating leases are:

		Amount
Year ending December 31:		
2008	$	57,000
	$	57,000

Total rental income from the operating leases in 2007 and 2006 was $155,211 and $160,608, respectively.