NEW APPLICATION
ORIGINAL

000001O055

ShawPittman LLP

A Limited Liability Partnership Including Professional Corporations

RECEIVED

GLENN S. RICHARDS
(202) 663-8215
glenn.richards@shawpittman.com

2004 AUG -9 P 4: 44

AZ CORP COMMISSION
DOCUMENT CONTROL

August 6, 2004

Via Federal Express

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2927

T-04271A-04-0589

**Re: A.R.C. Networks, Inc. d/b/a InfoHighway
Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services**

To Whom It May Concern:

Transmitted herewith on behalf of our client, A.R.C. Networks, Inc. d/b/a InfoHighway ("InfoHighway"), are an original and thirteen (13) copies of InfoHighway's Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services.

Please date-stamp the enclosed Receipt copy of this filing and return it to the undersigned in the enclosed self-addressed, stamped envelope. Please refer all questions and correspondence regarding this filing to the undersigned.

Sincerely,

Glenn S. Richards
Counsel for A.R.C. Networks, Inc. d/b/a InfoHighway

Enclosure

Document #: 1421928 v.1

Arizona Corporation Commission
DOCKETED

AUG 09 2004

DOCKETED BY

ARIZONA CORPORATION COMMISSION

Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services

Mail original plus 13 copies of completed application to:

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

For Docket Control Only:
(Please Stamp Here)

Please indicate if you have current applications pending in Arizona as an Interexchange reseller, AOS provider, or as the provider of other telecommunication services. N/A

Type of Service: ______________

Docket No.: __________ Date: __________ Date Docketed: __________

Type of Service: ______________

Docket No.: __________ Date: __________ Date Docketed: __________

A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and answer the appropriate numbered items:

- [X] Resold Long Distance Telecommunications Services (Answer Sections A, B).
- [ ] Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).
- [ ] Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).
- [ ] Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, C, D, E)
- [ ] Alternative Operator Services Telecommunications Services (Answer Sections A, B)
- [ ] Other ________ (Please attach complete description)

(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

A.R.C. Networks, Inc.
175 Pinelawn Road
Melville, NY 11747
(E-Mail) pbulloch@InfoHighway.com

(T) 631-249-1616
(F) 631-249-1806
www.infohighway.com

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2): InfoHighway
(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact: Paola Bulloch, Director, Regulatory Affairs (T) 212-566-6954 1333 Broadway (F) 212-695-9680 New York, NY 10018 (E-Mail) pbulloch@InfoHighway.com
(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant: Glenn S. Richards (T) 212-663-8215 Shaw Pittman LLP (F) 202-663-8007 2300 N Street, N.W. (E-Mail) glenn.richards@shawpittman.com Washington, D.C. 20037
(A-6) The name, address, telephone number (including area code), facsimile number (including area code), E-mail address of the Applicant's Complaint Contact Person: Judy Dworken, Customer Service Manager (T) 631-815-1207 175 Pinelawn Road (F) 631-249-1816 Melville, NY 11747 (E-Mail) jdworken@InfoHighway.com
(A-7) What type of legal entity is the Applicant? ☐ Sole proprietorship ☐ Partnership: _____ Limited, _____ General, _____ Arizona, _____ Foreign ☐ Limited Liability Company: _____ Arizona, _____ Foreign ☒ Corporation: _____ "S", __X__ "C", _____ Non-profit ☐ Other, specify: ____________________
(A-8) Please include "Attachment A": Attachment "A" <u>must</u> include the following information: 1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in the State of Arizona. 2. A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify). 3. Indicate percentages of ownership of each person listed in A-8.2.

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).
5. The proposed fee that will be charged for returned checks (reference by Tariff page number).

(A-10) Indicate the geographic market to be served:

[X] Statewide. (Applicant adopts statewide map of Arizona provided with this application).

[ ] Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.
4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

The Applicant is the subject of an informal complaint proceeding at the Federal Communications Commission brought by payphone companies alleging that Applicant has not made payphone compensation payments. Applicant has filed an answer to the complaint denying that it was responsible for such payments. The complaint remains pending at the FCC.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

NONE

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

[X] Yes [ ] No

(A-14) Is applicant willing to post a Performance Bond? Please check appropriate box(s).

☐ For Long Distance Resellers, a $10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

☐ Yes ☒ No

If "No", continue to question (A-15).

☐ For Local Exchange Resellers, a $25,000 bond will be recommended.

☐ Yes ☐ No

If "No", continue to question (A-15).

☐ For Facilities-Based Providers of Long Distance, a $100,000 bond will be recommended.

☐ Yes ☐ No

If "No", continue to question (A-15).

☐ For Facilities-Based Providers of Local Exchange, a $100,000 bond will be recommended.

☐ Yes ☐ No

If "No", continue to question (A-15).

Note: Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If No to any of the above, provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the applicant's superior financial position limits any risk to Arizona consumers.

Applicant does not collect advances, prepayments or deposits which eliminates risk to Arizona customers.

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the applicant is requesting authority to provide service.

Note: For Resellers, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C" before Staff prepares and issues its report. Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication). For Facilities-Based Service Providers, the Hearing Division will advise the Applicant of the date of the hearing and the publication of legal notice. Do not publish legal notice or file affidavits of publication until your are advised to do so by the Hearing Division.

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in the State of Arizona:

☒ Yes ☐ No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

Global Crossing Telecommunications, Inc. and/or Sprint Communications Company L.P.

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona:

Note: If the Applicant is currently approved to provide telecommunications services that the Applicant intends to provide in Arizona in less than six states, excluding Arizona, list the Public Utility Commission ("PUC") of each state that granted the authorization. For each PUC listed provide the name of the contact person, their phone number, mailing address including zip code, and e-mail address.

See Attachment A-18.

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona.

Note: If the Applicant currently provides telecommunication services that the Applicant intends to provide in Arizona in six or more states, excluding Arizona, list the states. If the Applicant does not currently provide telecommunications services that the Applicant intends to provide in Arizona in five or less states, list the key personnel employed by the Applicant. Indicate each employee's name, title, position, description of their work experience, and years of service in the telecommunications services industry.

See Statement A-19.

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

NONE

B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

[X] Yes [ ] No

If "No," explain why and give the date on which the Applicant began operations.

See B-3.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

Note: Make sure "most recent years" includes current calendar year or current year reporting period.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

Applicant is a wholly owned subsidiary of InfoHighway Communications Corporation ("Parent"). A copy of Parent's Financial Statements including all the information required in Question B-2 is enclosed as Attachment D.

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.

   $50,000.00

2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.

   $30,000.00

3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.

   None

4. If the projected value of all assets is zero, please specifically state this in your response.

5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

   N/A

C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(C-1) Indicate if the Applicant has a resale agreement in operation,

☐ Yes ☐ No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

N/A

D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in the State of Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

☐ Yes ☐ No

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services for the State of Arizona.
2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in the State of Arizona.

N/A

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in the State of Arizona:

(D-2) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

☐ Decision # 64178 Resold Long Distance

☐ Decision # 64178 Resold LEC

☐ Decision # 64178 Facilities Based Long Distance

☐ Decision # 64178 Facilities Based LEC

E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59421:

☐ Yes ☐ No

N/A

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service: ☐ Yes ☐ No
(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A): ☐ Yes ☐ No

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

Edward Seidenberg
(Signature of Authorized Representative)

8/5/04
(Date)

Edward Seidenberg
(Print Name of Authorized Representative)

COO
(Title)

SUBSCRIBED AND SWORN to before me this 5 day of August, 2004

Lois Ciraolo
NOTARY PUBLIC

My Commission Expires 1/21/07

LOIS CIRAOLO
Notary Public, State of New York
No. 01CI5071869
Qualfied in Nassau County
Commission Expires January 21, 2007

ATTACHMENT A

A.R.C. Networks, Inc.		Percentage Of Ownership
Officers:		
A. CEO	Joseph A. Gregori (D)	0.00
B. President	Peter F. Parrinello (D)	0.00
C. Vice President of Sales & Marketing	Peter Karoczkai	0.00
D. Vice President, Chief Operating Officer & Secretary	Edward Seidenberg (D)	0.00
E. Treasurer, Controller & Assistant Secretary	Francine Mambuca	0.00
F. Assistant Secretary	Lois Ciraolo	0.00

(D) Directors:

ARIZONA CORPORATION COMMISSION

BRIAN C. MCNEIL
Executive Secretary

DAVID RABER
Director, Corporations Division

July 17, 2004

CSC/ACCUSEARCH, INC.
2338 W ROYAL PALM RD STE.J
PHOENIX, AZ 85021

RE: INFOHIGHWAY, INC. (FN)
File Number: F-1142751-7

We are pleased to notify you that your Application for Authority to transact business in Arizona was approved and filed on June 8, 2004.

You must publish a copy of your Application for Authority. The publication must be in a newspaper of general circulation in the county of the known place of business in Arizona, as filed with the Commission for three (3) consecutive publications. An affidavit from the newspaper, evidencing such publication, must be delivered to the Commission for filing WITHIN NINETY (90) DAYS from the date of this letter.

All corporations transacting business in Arizona are required to file an Annual Report with the Commission, on the anniversary of the date of incorporation. Each year, a preprinted Annual Report form will be mailed to the corporation's known place of business approximately two months prior to the due date of the report. Should the report fail to arrive, contact the Commission. It is imperative that corporations notify the Commission immediately (in writing) if they change their corporate address, statutory agent or agent address. Address change orders must be executed (signed) by a corporate officer. Postal forwarding orders are not sufficient.

The Commission strongly recommends that you periodically check Commission records regarding the corporation. The Commission web site www.cc.state.az.us/corp contains information specific to each corporation of record and is a good general source of information.

If you have any questions or need further information, please contact us at (602) 542-3135 in Phoenix, (520) 628-6560 in Tucson, or Toll Free (Arizona residents only) at 1-800-345-5819.

Sincerely,
AMADOR REJANO
Examiner
Corporations Division

CF:07, Rev: 01/2003

ARIZONA CORPORATION COMMISSION
CORPORATIONS DIVISION

Phoenix Address: 1300 West Washington
Phoenix, Arizona 85007-2929

Tucson Address: 400 West Congress
Tucson, Arizona 85701-1347

PROFIT
CERTIFICATE OF DISCLOSURE
A.R.S. §10-202.D

A.R.C. Networks, Inc.
EXACT CORPORATE NAME

A. Has any person serving either by election or appointment as officer, director, trustee, incorporator and persons controlling or holding over 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation:

1. Been convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate?
2. Been convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses, or restraint of trade or monopoly in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate?
3. Been or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven-year period immediately preceding the execution of this Certificate wherein such injunction, judgment, decree or permanent order:
   (a) Involved the violation of fraud or registration provisions of the securities laws of that jurisdiction?; or
   (b) Involved the violation of the consumer fraud laws of that jurisdiction?; or
   (c) Involved the violation of the antitrust or restraint of trade laws of that jurisdiction?

Yes_____ No ✓

B. IF YES, the following information MUST be attached:

1. Full name, prior name(s) and aliases, if used.
2. Full birth name.
3. Present home address.
4. Prior addresses (for immediate preceding 7-year period).
5. Date and location of birth.
6. Social Security number.
7. The nature and description of each conviction or judicial action, date and location, the court and public agency involved and file or cause number of case.

C. Has any person serving as an officer, director, trustee or incorporator of the corporation served in any such capacity or held or controlled over 20% of the issued and outstanding common shares, or 20% of any other proprietary, beneficial or membership interest in any other corporation which has been placed in bankruptcy, receivership or had its charter revoked, or administratively or judicially dissolved by any state or jurisdiction?

Yes_____ No ✓

IF YOUR ANSWER TO THE ABOVE QUESTION IS "YES", YOU MUST ATTACH THE FOLLOWING INFORMATION FOR EACH CORPORATION:

1. Name and address of the corporation.
2. Full name (including aliases) and address of each person involved.
3. State(s) in which the corporation:
   (a) Was incorporated. (b) Has transacted business.
4. Dates of corporate operation.
5. Date and case number of Bankruptcy or date of revocation/administrative dissolution.

D. The fiscal year end adopted by the corporation is 12/31.

Under penalties of law, the undersigned incorporator(s)/officer(s) declare(s) that I(we) have examined this Certificate, including any attachments, and to the best of my(our) knowledge and belief it is true, correct and complete, and hereby declare as indicated above. THE SIGNATURE(S) MUST BE DATED WITHIN THIRTY (30) DAYS OF THE DELIVERY DATE.

BY Francine Mambuca BY __________
PRINT NAME Francine Mambuca PRINT NAME __________
TITLE Treasurer DATE 6/4/04 TITLE __________ DATE ______

DOMESTIC CORPORATIONS: ALL INCORPORATORS MUST SIGN THE INITIAL CERTIFICATE OF DISCLOSURE. If within sixty days, any person becomes an officer, director, trustee or person controlling or holding over 10% of the issued and outstanding shares or 10% of any other proprietary, beneficial, or membership interest in the corporation and the person was not included in this disclosure, the corporation must file an AMENDED certificate signed by at least one duly authorized officer of the corporation.

FOREIGN CORPORATIONS: MUST BE SIGNED BY AT LEAST ONE DULY AUTHORIZED OFFICER OF THE CORPORATION.

CF: 0022 - Business Corporations
Rev. 04/04

AZ. CORP. COMMISSION
DELIVERED

JUN 0 8 2004

APPR. [signature]
TERM.
DATE. 06-08-04
F-1142751-7

APPLICATION FOR AUTHORITY TO TRANSACT BUSINESS IN ARIZONA

DO NOT PUBLISH THIS SECTION

1. The corporate name must contain a corporate ending which may be "corporation," "association," "company," "limited," "incorporated" or an abbreviation of any of these words. If you are the holder or assignee of a trade name or trademark, attach Declaration of Tradename Holder form. If your name is not available for use in Arizona, you must adopt a fictitious name and provide a resolution adopting the name, which must be executed by the corporation Secretary.

3. You must provide the total duration in years for which your corporation was formed to endure. If perpetual succession, so indicate in this section. Do not leave blank, or state not applicable.

5. The statutory agent must provide both a physical and mailing address. If statutory agent has a P.O. Box, then they must also provide a physical description of their street address/location.

The name of the corporation is: A.R.C. Networks, Inc.
A(n) New York Corporation
(State, Province or Country)

X We are a foreign corporation applying for authority to transact business in the state of Arizona.

___ We are a foreign corporation currently authorized to transact business in Arizona and must now file this Application for New Authority pursuant to A.R.S. § 10-1504 because we have changed the following in our domicile jurisdiction:
- ☐ Our actual corporate name (or the name under which we originally obtained authority in Arizona).
- ☐ The period of our duration.
- ☐ The state, province or country of our incorporation.

1. The exact name of the foreign corporation is:

A.R.C. Networks, Inc.

If the exact name of the foreign corporation is not available for use in this state, then the fictitious name adopted for use by the corporation in Arizona is:

InfoHighway, Inc. (FN).

2. The name of the state, province or country in which the foreign corporation is incorporated is:

New York

3. The foreign corporation was incorporated on the 2 day of February, 1993 and the period of its duration is: perpetual.

4. The street address of the principal office of the foreign corporation in the state, province or country of its incorporation is:

175 Pinelawn Road, Suite 408
Melville, NY 11747

5. The name and street address of the statutory agent for the foreign corporation in Arizona is:

Corporation Service Company
2338 W. Royal Palm Road, Suite J
Phoenix, AZ 82021

DO NOT PUBLISH THIS SECTION

5.a. The street address of the known place of business of the foreign corporation in Arizona IF DIFFERENT from the street address of the statutory agent is:

no actual office

5.b. Indicate to which address the Annual Report should be mailed.

5.b. The Annual Report and general correspondence should be mailed to the address specified above in section 4 X or 5a ____.

6. If the purpose of your corporation has any limitations with regard to this section, so indicate. If not, state no limitations or leave blank.

6. The purpose of the corporation is to engage in any and all lawful business in which corporations may engage in the state, province or country under whose law the foreign corporation is incorporated, with the following limitations if any:

N/A

7. The names and usual business addresses of the current directors and officers of the foreign corporation are: (Attach additional sheets if necessary.)

Name: please see attached, ____ [title]
Address: ____
City, State, Zip: ____

Name: ____, ____ [title]
Address: ____
City, State, Zip: ____

Name: ____, ____ [title]
Address: ____
City, State, Zip: ____

8. The total number of authorized shares cannot be "zero" or "N/A". Include authorized, not issued shares in this section.

8. The foreign corporation is authorized to issue 200 shares, itemized as follows: (Attach additional sheets if necessary.)

200 shares of Common [class or series] stock at Ø no par value or par value of $____ per share.

____ shares of ____ [class or series] stock at ____ no par value or par value of $____ per share.

____ shares of ____ [class or series] stock at ____ no par value or par value of $____ per share.

DO NOT PUBLISH THIS SECTION

9. The total number of issued shares cannot be "N/A".

The Application must be accompanied by the following: A Certificate of Disclosure, executed within 30 days of delivery to the Commission, by a duly authorized officer

Attach a certified copy of your articles of incorporation, all amendments and mergers (AZ Const. Art. XIV, §8) and a certificate of existence or document of similar import duly authenticated (within 60 days) by the official having custody of corporate records in the state, province or country under whose laws the corporation is incorporated.

The agent must consent to the appointment by executing the consent.

ARS §10-140 requires that changes to corporation(s) be executed by an officer of the Corporation, whose file is to be changed.

9. The foreign corporation has issued 200 shares, itemized as follows:

200 shares of Common [class or series] stock at

0 no par value or par value of $ ________ per share.

________ shares of ________ [class or series] stock at

________ no par value or par value of $ ________ per share.

________ shares of ________ [class or series] stock at

________ no par value or par value of $ ________ per share.

10. The character of business the foreign corporation initially intends to conduct in Arizona is:

telecommunication services.

DATED this 28 day of May, 2004

A.R.C. Networks, Inc.

[Name of Corporation]

Executed by Francine Mambuca

Duly Authorized Officer or Director

Francine Mambuca, Treasurer

[print name] [title]

PHONE 631-815-1008 FAX 631-249-1802

[optional] [optional]

ACCEPTANCE OF APPOINTMENT BY STATUTORY AGENT

The undersigned hereby acknowledges and accepts the appointment as statutory agent of this corporation effective this 3 day of June, 2004

Carol K Dolor

Signature

Carol K. Dolor, Asst. V.P.

[Print Name]

Corporation Service Company

[If signing on behalf of a company serving as statutory agent, print company name here]

CF:0026
Rev. 01/04

Directors and Officers of
A.R.C. Networks, Inc.

---

1. Peter F. Parrinello, President and Director
   1333 Broadway, Suite 1001
   New York, NY 11747

2. Joseph A. Gregori, Chief Executive Officer and Director
   175 Pinelawn Road, Suite 408
   Melville, NY 11747

3. Edward Seidenberg, Vice President and Director
   175 Pinelawn Road, Suite 408
   Melville, NY 11747

4. Peter Karoczkai, Vice President, Sales and Marketing
   1333 Broadway, Suite 1001
   New York, NY 11747

5. Francine Mambuca, Treasurer, Controller and Assistant Secretary
   175 Pinelawn Road, Suite 408
   Melville, NY 11747

6. Lois Ciraolo, Assistant Secretary
   175 Pinelawn Road, Suite 408
   Melville, NY 11747

CERTIFIED COPIES OF RESOLUTIONS

Francine Mambuca, Secretary of A.R.C. Networks, Inc., a corporation duly organized under the laws of the State of New York, does hereby certify that the following is a true and correct copy of a resolution of the Board of Directors of said corporation, adopted at a special meeting held on the 26 day of May, 2004.

> "RESOLVED, that, inasmuch as this corporation desires to transact business in the State of Arizona, and inasmuch as the Board of Directors has been advised that the name of this corporation is not available for corporate use in the Sate of Arizona, this corporation adopt the fictitious name InfoHighway for use in transacting business in the State of Arizona pursuant to Section 10-1506, Arizona Business Corporation Code and
>
> "FURTHER RESOLVED, that the officers of the corporation be and hereby are authorized and directed to cause any and all required documents to be prepared, executed, and filed so that this corporation may obtain a Certificate of Authority pursuant to the Arizona Business Corporation Code, and to cause this corporation to use the said fictitious name in the transaction of business in the State of Arizona."

Francine Mambuca

Francine Mambuca, Secretary

ATTACHMENT A-18

Arkansas
California
Colorado
Connecticut
Delaware
District of Columbia
Florida
Georgia
Illinois
Indiana
Kansas
Louisiana
Massachusetts
Maryland
Maine
Michigan
Minnesota
Missouri
North Carolina
New Hampshire
New Jersey
Nevada
New York
Ohio
Oklahoma
Pennsylvania
Rhode Island
South Carolina
Tennessee
Texas
Utah
Vermont
Wyoming

ATTACHMENT A-19

Arkansas
California
Colorado
Connecticut
Delaware
District of Columbia
Florida
Georgia
Illinois
Indiana
Kansas
Louisiana
Massachusetts
Maryland
Maine
Michigan
Minnesota
Missouri
North Carolina
New Hampshire
New Jersey
Nevada
New York
Ohio
Oklahoma
Pennsylvania
Rhode Island
South Carolina
Tennessee
Texas
Utah
Vermont
Wyoming

ATTACHMENT B

PROPOSED TARIFF OF A.R.C. NETWORKS, INC.

TITLE SHEET

ARIZONA TELECOMMUNICATIONS TARIFF

This Tariff contains the descriptions, regulations, and rates applicable to the furnishing of service and facilities for telecommunications services provided by A.R.C. Networks, Inc. d/b/a InfoHighway (hereinafter "Carrier") with principal offices at 1333 Broadway, Suite 1001, New York, New York 10018. This Tariff applies to services furnished within the state of Arizona. This Tariff is on file with the Arizona Corporation Commission (the "Commission"), and copies may be inspected, during normal business hours, at Carrier's principal place of business.

By:
Paola Bulloch, Director, Regulatory Affairs
A.R.C. Networks, Inc. d/b/a InfoHighway
1333 Broadway, Suite 1001
New York, NY 10018

CHECK SHEET

Sheets of this Tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets, as named below comprise all changes from the original Tariff that are currently in effect as of the date on the bottom of this sheet.

SHEET	NUMBER OF REVISION (except as indicated)	EFFECTIVE DATE
1	Original	
2	Original	
3	Original	
4	Original	
5	Original	
6	Original	
7	Original	
8	Original	
9	Original	
10	Original	
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17	Original	
18	Original	
19	Original	
20	Original	

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Paola Bulloch, Director, Regulatory Affairs
A.R.C. Networks, Inc. d/b/a InfoHighway
1333 Broadway, Suite 1001
New York, NY 10018

EXPLANATION OF SYMBOLS AND ABBREVIATIONS

The following are the only symbols used for the purposes indicated below.

D - Delete or Discontinue

I - Change resulting in an increase to a Customer's bill

M - Moved from another Tariff location

N - New

R - Change resulting in a reduction to a Customer's bill

T - Change in text or regulation but no change in rate or charge

The following are abbreviations used in this tariff.

LATA - Local Access and Transport Area

TARIFF FORMAT

A. Sheet Numbering – Sheet numbers appear in the upper-right corner of the sheet. Sheets are numbered sequentially. However, new sheets are occasionally added to the Tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between Sheets 14 and 15 would be 14.1.

B. Sheet Revision Numbers - Revision numbers also appear in the upper-right corner of the sheet. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the third revised Sheet 14. Because of various suspension periods, deferrals, etc. the Commission follows in their Tariff approval process, the most current sheet number on file with the Commission is not always the Tariff page in effect. Consult the Check Sheet for the sheet currently in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level of coding.

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a)
2.1.1.A.1.(a).I
2.1.1.A.1.(a).I.(i)
2.1.1.A.1.(a).I.(i)(1)

D. Check Sheets - When a Tariff filing is made with the Commission, an updated check sheet accompanies the Tariff filing. The check sheet lists the sheets contained in the Tariff, with a cross reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some sheets). The Tariff user should refer to the latest check sheet to find out if a particular sheet is the most current sheet on file with the Commission.

SECTION 1 - DEFINITIONS

Application for Service - A standard order form which includes all pertinent billing, technical, and other descriptive information which will enable the Carrier to provide telecommunication service as required.

Carrier - A.R.C. Networks, Inc. d/b/a InfoHighway ("Carrier"), unless the context indicates otherwise.

Commission – Arizona Corporation Commission, unless context indicates otherwise.

Customer – The person, firm, corporation, or other entity which orders or uses service and is responsible for the payment of rates and charges and compliance with Tariff regulations.

Day – From 8:00 a.m. up to but not including 5:00 p.m. local time Monday through Friday.

Disconnection - The disconnection of a circuit, dedicated access line, or port connection being used for existing service.

Evening – From 5:00 p.m. up to but not including 11:00 p.m. local time Sunday through Friday.

Holiday – Carrier specified holidays are New Year's Day, Martin Luther King's Birthday (federally observed), Presidents' Day, Memorial Day (federally observed), Independence Day, Labor Day, Columbus Day, Veterans' Day, Thanksgiving Day, and Christmas Day.

Night/Weekend – From 11:00 p.m. up to but not including 8:00 a.m. and 8:00 a.m. Saturday up to but not including 5:00 p.m. Sunday.

Premises - The space designated by a Customer as its place or places of business for termination of service (whether for its own communications needs or for its resale Customers). In the case of a non-profit sharing group, this term includes space at each sharer's place or places of business, as well as space at the Customer place of business.

Service or Services – The service covered by this Tariff shall include only the State of Arizona.

Terminal Equipment - Telecommunications devices, apparatus, and their associated wiring, such as teleprinters, telephone, and data sets.

Underlying Carrier – The telecommunications carrier whose network facilities provide the technical capability and capacity necessary for the transmission and reception of Customer telecommunications traffic.

SECTION 2 - RULES AND REGULATIONS

2.1 UNDERTAKING OF CARRIER

Carrier is a resale common carrier providing intrastate communications services to Customers for their direct transmission and reception of voice, data, and other types of telecommunications. Service is available 24 hours a day, seven days a week, throughout the state.

2.2 LIMITATIONS OF SERVICE

2.2.1 The Carrier offers service to all those who desire to purchase service from the Carrier consistent with all provisions of this Tariff. Customers or subscribers interested in the Carrier's services shall file a service application with the Carrier which fully satisfies the Carrier and identifies the services required.

2.2.2 Service is offered subject to the availability of the necessary facilities and/or equipment and subject to the provisions of this Tariff. Carrier reserves the right not to provide service to or from a location where legally prohibited or the necessary facilities or equipment are not available.

2.2.3 Carrier reserves the right to discontinue furnishing service, upon a written notice, when necessitated by conditions beyond its control, or when the Customer is using the service in violation of any provision in this Tariff, the rules and regulations of the Commission, or the law.

2.2.4 Title to all facilities provided by the Carrier under these regulations remains with the Carrier. Prior written permission from the Carrier is required before any assignment or transfer. All regulations and conditions contained in this Tariff shall apply to all such permitted assignees or transferees, as well as all conditions for service.

2.3 USE OF SERVICE

Service may not be used for any unlawful purposes or for any purpose for which any payment or other compensation is received by the Customer, except when the Customer is a duly authorized and regulated common carrier. This provision does not prohibit an arrangement between the Customer, authorized user, or joint user to share the cost of the service as long as the arrangement generates to profit for any participant in the arrangement.

2.3.1 Minimum Service Period

The minimum period of service is one month (30 days), unless otherwise stated in this Tariff.

2.4 LIABILITY

2.4.1 The liability of the Carrier for any claim or loss, expense or damage, due to any interruption, delay, error, omission, or defect in any service, facility, or transmission provided under the Tariff shall not exceed an amount equivalent to the proportionate charge to the Customer for the period of service or the facility provided during which such interruption, delay, error, omission, or defect occurs. For the purpose of computing this amount, a month is considered to have 30 days. In no event will Carrier be liable for any indirect, consequential, or special damages, or for any lost profits, even if advised of the possibility of the same.

2.4.2 Carrier shall not be liable for any claim or loss, expense, or damage, due to any interruption, delay, error, omission, or other defect in service, facility, or transmission provided under this Tariff, if caused by any person or entity other than Carrier, any malfunction of any service or facility provided by any other carrier, act of God, fire, war, civil disturbance, act of government, or by any other cause beyond Carrier's control.

2.4.3 Carrier shall not be liable for and shall be fully indemnified and held harmless by Customer against any claim of loss, expense, or damage, including indirect, special, or consequential damage for:

A. defamation, libel, slander, invasion of privacy, infringement of copyright or patent, unauthorized use of any trademark, trade name, or service mark, unfair competition, interference with or misappropriation, or violation of any contract, proprietary or creative right, or any other injury to any person, property, or entity arising from the material, data, information, or content revealed to, transmitted, processed, handled, or used by Carrier under this Tariff;

B. connecting, combining, or adapting Carrier's facilities with Customer's apparatus or systems;

C. any act of omission by the Customer; or

D. any personal injury or death of any person or for any loss of or damage to Customer's premises or any other property, whether owned by Customer or others, caused directly or indirectly by the installation, maintenance, location, condition, operation, failure, presence, use, or removal of equipment or wiring provided by the Carrier, if not caused by gross negligence of the Carrier.

2.4.4 No agent or employee of any other carrier shall be deemed to be an agent or employee of the Carrier.

2.4.5 CARRIER MAKES NO WARRANTY REGARDING THE PROVISION OF SERVICE PURSUANT TO THIS TARIFF, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

2.5 INTERRUPTION OF SERVICE

Credit allowance for interruption of service which is not due to the negligence of Customer or to the failure of channels, equipment, and/or communications systems provided by the Customer and other carriers are subject to the general liability provisions set forth in Section 2.4 herein. It shall be the obligation of the Customer to notify Carrier immediately of any interruption in service for which a credit allowance is desired by Customer. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission of the Customer within his or her control, or is not in wiring or equipment, if any, furnished by Customer and connected to Carrier's terminal.

2.6 RESPONSIBILITY OF THE CUSTOMER

2.6.1 All Customers assume general responsibilities in connection with the provisions and use of Carrier's service. When facilities, equipment, and/or communications systems provided by others are connected to Carrier's facilities, Customer assumes additional responsibilities. Customers are responsible for the following:

A. Customer is responsible for placing orders for service, paying all charges for service rendered by Carrier, and complying with Carrier's regulations governing the service. Customer is also responsible for assuring that its users comply with regulations.

B. When placing an order for service, Customer must provide:

1. the name(s) and address(es) of the person(s) responsible for the payment of service charges; and
2. the name(s), telephone number(s), and address(es) of the Customer contact person(s).

C. Customer must pay Carrier for the replacement or repair of Carrier's equipment when the damage results from:

1. the negligence or willful act of Customer or user;

2. improper use of service; or

3. any use of equipment or service provided by others.

2.6.2 Availability of Service for Maintenance, Testing, and Adjustment

Upon reasonable notice, the facilities provided by Carrier shall be made available to Carrier for such tests and adjustments as may be necessary to maintain them in satisfactory condition. No interruption allowance will be granted for the time during which such tests and adjustments are made.

2.6 RESPONSIBILITY OF THE CUSTOMER (continued)

2.6.3 Credit Allowances

A. Credit for failure of service or equipment will be allowed only when failure is caused by or occurs in facilities or equipment owned, provided and billed for, by Carrier.

B. Credit allowances for failure of service or equipment starts when Customer notifies Carrier of the failure or when Carrier becomes aware of the failure and ceases when the operation has been restored and an attempt has been made to notify Customer.

C. Customer shall notify Carrier of failures of service or equipment and make reasonable attempts to ascertain that the failure is not caused by Customer provided facilities, any act or omission of the Customer, or in wiring or equipment connected to the terminal.

D. Only those portions of the service or equipment disabled will be credited. No credit allowances will be made for:

1. interruptions of service resulting from Carrier performing routine maintenance;

2. interruptions of service for implementation of a Customer order for a change in the service;

3. interruptions caused by negligence of Customer or his authorized user; or

4. interruptions of service because of the failure of service or equipment provided by Customer, authorized user, or other carriers.

2.6.4 Cancellation by Customer

A. Customer may cancel service any time after meeting the minimum service period. Termination charges will apply if Customer cancels prior to the expiration of a one-year or multi-year service agreement. Such termination charge will be equal to one month's usage as projected in the Carrier's proposal for service, or the actual average monthly usage to date, whichever is higher, plus the monthly account charge for the remainder of the contract period.

B. If Customer orders service requiring special facilities dedicated to the Customer's use and then cancels the order before the service begins, before completion of the minimum service period, or before completion of some other period mutually agreed upon by Customer and Carrier, a charge will be made to Customer for the nonrecoverable portions of expenditures or liabilities incurred expressly on behalf of Customer by Carrier and not fully reimbursed by installation and monthly charges. If, based on the order, any construction has either begun or been completed, but no service provided, the nonrecoverable cost of such construction shall be borne by Customer. Such charge will be determined on a case-by-case basis.

2.6 RESPONSIBILITY OF THE CUSTOMER (continued)

2.6.5 Payment and Charges for Service

A. Charges for service are applied on recurring and nonrecurring bases. Service is billed on a monthly basis. Service continues to be provided until canceled by Customer or by Carrier in accordance with provisions of this Tariff.

B. Payment will be due upon receipt of the statement. A Customer shall have at least twenty-one (21) days from the rendition of the bill to pay the charges stated. If payment is not received by Carrier within that time period, the Customer's account will be considered delinquent. Additionally, a nonrecurring 1.5 percent per month penalty fee (unless a lower rate is prescribed by law in which event at the highest rate allowable by law) will accrue upon any unpaid amount commencing twenty-one (21) days after rendition of the bill.

C. The Customer is responsible for payment of all charges for service furnished to the Customer, including, but not limited to all calls originated at the Customer's number(s); received at the Customer's number(s); billed to the Customer's number(s) via third-party billing; incurred at the specific request of the Customer; or placed using a calling card issued to the Customer. The initial billing may include the account set-up charge where applicable. Charges based on actual usage during a month will be billed monthly in arrears. All fixed monthly and nonrecurring charges for services ordered will be billed monthly in advance.

D. Service may be denied or discontinued at Carrier's discretion, for non-payment of amounts due to Carrier, past the delinquent date. Restoration of service will be subject to all applicable installation charges.

E. Customer is liable for all costs associated with collecting past due charges, including all attorneys' fees.

F. Customers of toll free (e.g., 800 or 888) services are responsible for payment for all calls placed to or via Customer's toll free service number(s). This responsibility is not changed by virtue of any use, misuse, or abuse of Customer's service by Customer-provided systems, equipment, facilities, or services interconnected to Customer's toll free service, or use, misuse, or abuse occasioned by third parties, including, without limitation, Customer's employees, other common carriers, or members of the public who dial Customer's toll free service number(s) by mistake. Carrier reserves the right to not switch Customer's toll free number(s) to another carrier until Customer has paid in full all amounts owned to Carrier for such toll free service.

2.6 RESPONSIBILITY OF THE CUSTOMER (continued)

2.6.6 Application of Charges

The charges for service are those in effect for the period that service is furnished. If the charge for a period covered by a bill changes after the bill has been rendered, the bill will be adjusted to reflect the new charges.

2.6.7 Disputed Bills

Customer shall notify Company of any disputed items on a bill within a reasonable time. If Customer and Company are unable to resolve the dispute to their mutual satisfaction, Customer may file a complaint with the Arizona Corporation Commission in accordance with the Commission's rules of procedure.

A. The date of the dispute shall be the date Company receives sufficient documentation to enable it to investigate the dispute.

2.6.8 Deposits And Advance Payments

A. Carrier does not require a deposit or advance payment as a condition of service.

2.6.9 Returned Check Charge

Carrier will bill Customer a one-time charge of $25.00 if Customer's check for payment of service is returned for insufficient or uncollected funds, closed accounts, or any other insufficiency or discrepancy necessitating return of the check at the discretion of the drawee bank or other financial institution

2.7 RESPONSIBILITY OF CARRIER

2.7.1 Calculation of Credit Allowance

Pursuant to limitations set forth in Section 2.6.3, when service is interrupted the credit allowance will be computed on the following basis:

A. No credit shall be allowed for an interruption of less than two hours.

B. Customer shall be credited for an interruption of two hours or more for as long as the interruption continues.

C. When a minimum usage charge is applicable and Customer fails to meet the minimum usage charge because of a service interruption, a credit shall be applied against that minimum usage charge in the following manner. For each period of two hours that the interruption continues the credit shall equal 1/360th of the monthly minimum charge. Note: in this instance a fractional period of more than one hour shall be treated as a two hour period.

2.7 RESPONSIBILITY OF CARRIER (continued)

2.7.2 Cancellation of Credit

Where Carrier cancels a service and the final service period is less than the monthly billing period, a credit will be issued for any amounts billed in advance, prorated at 1/30th of the monthly recurring charge for each day after the service was discontinued. This credit will be issued to Customer or applied against the balance remaining on Customer's account.

2.7.3 Disconnection of Service by Carrier

Carrier may discontinue service or cancel an application for service without incurring any liability for any of the following reasons:

A. After five (5) days' written notice, for non-payment of any undisputed charge more than thirty (30) days delinquent provided Carrier has made a reasonable effort to effect collection. Notice of disconnection shall be separate and apart from the regular monthly bill for service;

B. After five (5) days' written notice, in the event of a violation of any regulation governing the service under this Tariff;

C. Without notice, in the event of a violation of any law, rule, or regulation of any government authority having jurisdiction over the service;

D. Without notice in the event Carrier is prohibited from furnishing services by order of a court or other government authority having jurisdiction; or

E. In the event of fraudulent use of Carrier's network, Carrier will discontinue service and/or seek legal recourse to recover all costs involved in enforcement of this provision.

2.7.4 Fractional Charges

Charges for a fractional part of a month are calculated by counting the number of days remaining in the billing period after service is furnished. Divide that number of days by 30 days (billing period). The result is then multiplied by the applicable monthly service charge to arrive at the appropriate fractional monthly service charge.

2.8 RESTORATION OF SERVICE

The use and restoration of service in emergencies shall be in accordance with the priority system specified in Part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

2.9 TAXES

Customer will be billed and is responsible for payment of applicable local, state, and federal taxes assessed in conjunction with service used.

2.10 TIMING OF CALLS

2.10.1 When Billing Charges Begin and Terminate for Phone Calls

Customer's long distance usage charge is based on the actual usage of Carrier's network. Usage begins when the called party picks up the receiver (i.e., when two-way communication, often referred to as "conversation time," is possible). When the called party picks up is determined by hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. A call is terminated when the calling or called party hangs up.

2.10.2 Billing Increments

Unless otherwise specified in this Tariff, the minimum call duration for billing purposes is one minute for a connected call. Calls beyond one minute are billed in one-minute increments. Billing will be rounded to the nearest penny for each call.

2.11 START OF BILLING

For billing purposes, the start of service is the day following acceptance by the Customer of Carrier's service or equipment. The end of service date is the last day of the minimum notification of cancellation or any portion of the last day, after receipt by Carrier of notification of cancellation as described in Section 2.6.4 of this Tariff.

2.12 INTERCONNECTION

2.12.1 Service furnished by Carrier may be interconnected with services or facilities of other authorized communications common carriers and with private systems, subject to the technical limitation established by Carrier. Service furnished by Carrier is not part of a joint undertaking with such other carriers. Any special interface equipment or facilities necessary to achieve compatibility between the facilities of Carrier and other participating carriers shall be provided at the Customer's expense.

2.12.2 Interconnection with the facilities or services of other carriers shall be under the applicable terms and conditions of the other carriers' tariffs. The Customer is responsible for taking all necessary legal steps for interconnecting his or her customer provided terminal equipment of communications systems with Carriers' facilities. Customers shall secure all licenses, permits, rights-of-way, and other arrangements necessary for such interconnections.

2.13 CALCULATION OF DISTANCE

Usage charges for all mileage-sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the call. The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal coordinates associated with the rate centers involved.

FORMULA:

$$\sqrt{\frac{(V1-V2)^2+(H1-H2)^2}{10}}$$

2.14 SERVICE OFFERINGS

2.14.1 1+ Dialing

This service permits Customers to originate calls via switched or dedicated access lines, and to terminate intrastate calls. The Customer dials "1+" followed by "ten digits" or dials "101XXXX" followed by "1+ ten digits."

2.14.2 Calling Cards

The Customer utilizes an 11 digit "toll-free" access number established by the Company to access a terminal. Upon receiving a voice prompt, the Customer uses push button dialing to enter an identification code assigned by the Company, and the ten digit number of the called party.

2.14.3 Toll-Free Service

This service is inbound calling only where an 800, 888 or other toll-free prefix number rings into a Customer's premise routed to a specific telephone number or terminated over the dedicated facility.

2.14.4 Prepaid Phone Card Service

Prepare phone card service permits customers to place direct dialed calls to terminating locations from equal access areas using the Carrier's calling card via a toll free access number. There is no per call service fee. Such cards are issued on an Individual Case Basis ("ICB") to Corporate Customers at negotiated rates based on volume and mainly used by such customers for promotional purposes.

2.15 CUSTOMER SERVICE AND COMPLAINT RESOLUTION

2.15.1 The Company will provide a toll-free customer service telephone number for Customer use.

2.15.2 The Company will handle all Customer complaints courteously and promptly. The Company will fully investigate and attempt to resolve Customer complaints in a timely manner and in full compliance with all Commission rules and regulations. In addition, the Company will notify all Customers making a complaint that the telephone utility is under the jurisdiction of the Commission and that the Customer may wish to contact the Commission about the complaint.

SECTION 3 - SERVICE DESCRIPTIONS AND RATES

3.16 USAGE RATES

The following are the usage charges which apply to all of Carrier's intrastate services. These charges are in addition to nonrecurring and recurring charges referred to hereafter.

3.17 SWITCHED INBOUND USAGE

Switched inbound service permits inward calling (via toll-free codes) to a specific location utilizing premium switched Feature Group D access on both the originating and terminating ends.

Each 6 second increment*	$0.0169

3.18 DEDICATED INBOUND USAGE

Dedicated inbound service permits inward calling (via toll free codes) to a specific location featuring the use of dedicated special access type connection on the terminating end.

Each 6 second increment*	$0.0120

3.19 SWITCHED OUTBOUND USAGE

Switched outbound service permits outward calling utilizing premium switched Feature Group D assess on both the originating and terminating ends.

Each 6 second increment*	$0.0118

3.20 DEDICATED OUTBOUND USAGE

Dedicated outbound service permits outward calling to station in diverse areas and its distinguished from other services by the existence of a dedicated special access connection on one end.

Each 6 second increment*	$0.0110

3.21 CALLING CARD USAGE

Calling card service permits Customers to place direct dial to termination locations from equal access areas using the Carrier's calling card. There is no per call service fee.

Each 60 second increment*	$0.22
Payphone Surcharge, per call*	0.50

* or fraction thereof

By:
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3.22 OPERATOR ASSISTANCE

Customer Service Surcharges: The following surcharges will be applied on a per call basis:

Person-to-Person	$3.00
Station to Station	3.00
Director Assistance	.95

3.23 RESERVED FOR FUTURE USE

3.24 NONRECURRING CHARGES

The following one-time nonrecurring installation charges may apply to Carrier's offerings. These charges are billed to Customer following the work performed.

Service/Access Arrangement	Charge
Single Dedicated	Mile dependent from POP
Single Charge Per Port	$5.00 per port or channel Inbound or Outbound
Split Port Charge	$250.00 per port-sharing Inbound or Outbound on same T-1
Billing Setup	$45.00 related to verified account codes

3.25 RECURRING CHARGES

The following monthly Recurring Charges for service may apply as indicated. These charges are in addition to any charges (Rates per time) and nonrecurring charges for the Service. The charges are charged to Customer one month in advance.

Service/Access Arrangement	Charge
Billing fee	Electronic media up to $200.00 per bill
Dedicated Service	$25.00 per T-1 Access line
Toll Free Service	$3.00 per month per toll free number dependent in agreement and contract.

By:
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3.26 SPECIAL PROMOTIONAL OFFERINGS

Carrier may from time to time engage in Special Promotional Offerings or Trial Service Offerings designed to attract new Customers or increase Customer usage. Such promotional service offerings shall be limited to certain dates, times, or locations, and shall be subject to prior notification to the Commission.

3.27 PAYPHONE ORIGINATION COMPENSATION

Inbound toll free calls, per call	$0.50

3.28 NETWORK ACCESS USAGE

Per line, per month	$0.59

3.29 PRESUBSCRIBED INTEREXCHANGE CARRIER CHARGE (PICC)

Carrier Charge (PICC)

Per line, per month on multiline business customers	$3.25

3.30 ACCOUNT SERVICE SURCHARGE

Monthly, per account	$4.95

Applicable when the total of current charges excluding taxes, surcharges and credits is less than $50.00.

3.31 REGULATORY COMPLIANCE ADMINISTRATIVE FEE

Fee is imposed to recover reporting and compliance costs

Monthly, per account	$4.40

By:
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SECTION 4 - MAXIMUM RATES

4.1 USAGE RATES

4.2 SWITCHED INBOUND USAGE

6 second increment	$0.0338

4.3 DEDICATED INBOUND USAGE

6 second increment	0.0240

4.4 SWITCHED OUTBOUND USAGE

6 second increment	0.0236

4.5 DEDICATED OUTBOUND USAGE

6 second increment	0.0220

4.6 CALLING CARD USAGE

60 second increment	0.44
Payphone surcharge, per call	1.00

4.7 OPERATOR ASSISTANCE

Person to Person	6.00
Station to Station	6.00
Directory Assistance	1.90

4.8 RESERVED FOR FUTURE USE

4.9 NON RECURRING CHARGES

Single dedicated	mile dependent from POP	
Single charge per port	per port or channel	10.00
Split Port Charge	per port sharing	500.00
Billing set up	related to verify account codes	90.0

4.10 RECURRING CHARGES

Billing fee	Electronic media up to per bill	400.00
Dedicated Service	Per t-1 Access line	50.00
Toll Free Service	per month per toll free number	6.00

SECTION 4 – MAXIMUM RATES (Continued)

4.11 PAYPHONE ORIGINATION COMPENSATION

Inbound toll free calls, per call	$1.00

4.12 NETWORK ACCESS USAGE

Per line, per month	$1.00

4.13 PRESUBSCRIBED INTEREXCHANGE CARRIER CHARGE (PICC)

Carrier Charge (PICC)

Per line, per month on multiline business customers	$5.00

4.14 ACCOUNT SERVICE SURCHARGE

Monthly, per account	$10.00

4.15 REGULATORY COMPLIANCE ADMINISTRATIVE FEE

Fee is imposed to recover reporting and compliance costs

Monthly, per account	$8.00

Document #: 1405246 v.1

ATTACHMENT D

FINANCIAL STATEMENTS OF A.R.C. NETWORKS, INC.

InfoHighway Communications Corporation

Consolidated Financial Statements
As of December 31, 2003 and 2002 and for each of the three years in the period ending December 31, 2003 and Independent Auditors' Report

INFOHIGHWAY COMMUNICATIONS CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
InfoHighway Communications Corporation
Melville, New York

We have audited the accompanying consolidated balance sheets of InfoHighway Communications Corporation and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. 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 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Jericho, New York
May 3, 2004

INFOHIGHWAY COMMUNICATIONS CORPORATION

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,225,063	$ 2,340,037
Accounts receivable, net of allowances of $977,802 in 2003 and $570,263 in 2002	7,432,347	7,770,204
Earned revenue in excess of billings on uncompleted contracts	572,651	422,649
Prepaid expenses and other current assets	1,240,336	442,000
Total current assets	15,470,397	10,974,890
PROPERTY AND EQUIPMENT, Net	2,179,891	986,270
GOODWILL	8,074,706	8,271,684
OTHER ASSETS	799,506	1,028,393
TOTAL	$ 26,524,500	$ 21,261,237
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,790,290	$ 4,149,696
Accrued expenses	10,138,675	6,485,820
Notes payable to stockholder	3,750,000	-
Other current liabilities	601,941	788,994
Total current liabilities	17,280,906	11,424,510
LONG-TERM LIABILITIES:		
Notes payable to stockholder	-	3,750,000
Other long-term liabilities	-	16,941
Total long-term liabilities	-	3,766,941
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Class A redeemable convertible preferred stock - $0.001 par value, 170,000 shares authorized, 44,631 shares issued and outstanding in 2003 and 2002, liquidation preference $44,631,000, plus accrued dividends of $13,405,567 and $8,985,817 at December 31, 2003 and 2002, respectively	45	45
Class B convertible preferred stock - $.001 par value, 30,000 shares authorized, 6,728 shares issued and outstanding in 2003 and 2002, liquidation preference $6,728,000, plus accrued dividends of $ 2,047,656 and $1,379,349 at December 31, 2003 and 2002, respectively	7	7
Class C redeemable convertible preferred stock - $.001 par value, 50,000 shares authorized, 1,176 shares issued at December 31, 2002, liquidation preference of $1,176,000 plus accrued dividends of $34,607 at December 31, 2002	-	1
Class A common stock - $.001 par value, 95,000,000 shares authorized, 29,156,318 and 28,756,318 shares issued and outstanding at December 31, 2003 and 2002, respectively	29,156	28,756
Class B convertible non-voting common stock - $.001 par value, 40,000,000 shares authorized, 119,100 shares issued and outstanding at December 31, 2003 and 2002, respectively	119	119
Additional paid-in capital	39,944,929	40,940,333
Notes receivable from stockholders	(46,288)	(24,918)
Accumulated deficit	(30,684,374)	(34,874,557)
Total stockholders' equity	9,243,594	6,069,786
TOTAL	$ 26,524,500	$ 21,261,237

See notes to consolidated financial statements.

INFOHIGHWAY COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	2001
REVENUES	$59,614,747	$34,847,963	$ 25,513,967
COST OF REVENUES	30,965,131	20,491,464	20,121,314
GROSS MARGIN	28,649,616	14,356,499	5,392,653
OPERATING EXPENSES:			
Selling expenses	7,981,231	3,680,156	3,955,895
General and administrative expenses	14,615,334	10,480,537	10,510,367
Abandoned acquisitions and related financing	967,733	399,399	-
Management fee income	-	(966,199)	-
OPERATING INCOME (LOSS)	5,085,318	762,606	(9,073,609)
OTHER (INCOME) EXPENSE:			
Interest income	(2,942)	(25,992)	(217,977)
Interest expense	736,598	463,017	-
INCOME (LOSS) FROM CONTINUING OPERATIONS	4,351,662	325,581	(8,855,632)
INCOME TAXES	161,479	-	-
LOSS FROM DISCONTINUED OPERATIONS	-	-	(2,050,343)
LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS	-	-	(12,699,180)
NET INCOME (LOSS)	$ 4,190,183	$ 325,581	$ (23,605,155)

See notes to consolidated financial statements.

INFOHIGHWAY COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 4,190,183	$ 325,581	$(23,605,155)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities of continued operations:			
Depreciation and amortization	906,027	787,688	2,214,981
Bad debt expense	943,103	592,230	449,743
Loss on disposition of data network	-	147,707	-
Settlement of capital lease arrangement	-	(450,000)	-
Loss on disposal of discontinued operations	-	-	12,699,180
Loss from discontinued operations	-	-	2,050,343
Changes in operating assets and liabilities:			
Accounts receivable, net	(605,246)	597,477	(303,170)
Note receivable	-	-	364,470
Earned revenue in excess of billings on uncompleted contracts	(150,002)	(33,034)	(160,589)
Prepaid expenses and other current assets	(798,336)	(772,349)	(540,983)
Other assets	(188,611)	210,678	(306,970)
Accounts payable and accrued expenses	1,564,486	1,640,686	(387,450)
Other current liabilities	(177,559)	355,957	906,719
Billings in excess of earned revenues on uncompleted contracts	-	(834,136)	223,967
Net cash provided by (used in) operating activities of continued operations	5,684,045	2,568,485	(6,394,914)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired	-	(5,771,975)	-
Purchases of property and equipment	(1,778,814)	(449,665)	(1,292,204)
Net cash used in investing activities of continued operations	(1,778,814)	(6,221,640)	(1,292,204)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital lease payments	(26,435)	(23,465)	(488,654)
Repurchase and retirement of shares	-	(58,374)	-
Proceeds received from notes payable	-	3,750,000	-
Repayments on notes receivable	6,230	6,229	-
Exercise of warrants	-	-	17,554
Net cash (used in) provided by financing activities of continued operations	(20,205)	3,674,390	(471,100)
NET CASH USED IN DISCONTINUED OPERATIONS	-	-	(4,538,992)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,885,026	21,235	(12,697,210)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,340,037	2,318,802	15,016,012
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,225,063	$ 2,340,037	$ 2,318,802
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 141,168	$ 157,017	$ 13,400

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

1. BUSINESS AND ORGANIZATION

InfoHighway Communications Corporation ("IHCC" or the "Company") was incorporated in December 1996 in Delaware. IHCC was formed to become a leading provider of integrated telecommunications, internet and data solutions to small and medium sized businesses.

On June 30, 1999, the Company acquired ARC Networks, Inc. ("ARC"), a competitive local exchange carrier based in New York, offering local and long distance phone service, internet services, data cabling and other network services, primarily in the New York metropolitan area.

On September 6, 2000, the Company acquired InfoHighway International, Inc. ("IHI"), a Texas corporation. Services provided by IHI included Digital Subscriber Line ("DSL") connectivity, dedicated high-speed and dial-up internet access, web hosting, collocation and website design for small to medium-sized businesses. As of August 31, 2001 the Company discontinued the operations of IHI as a result of management's decision to terminate its operations in Texas (Note 4).

On September 6, 2000 the Company entered into a private equity transaction ("Private Placement") with an investor ("Investor") pursuant to which the Company received $45.0 million in cash in exchange for preferred and common stock. As a result of this transaction, the Investor is the controlling stockholder of the Company. The Investor has committed to invest up to an additional $105.0 million in preferred and common stock of the Company, subject to certain conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from their respective dates of acquisition. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates - 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 liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk - The Company extends credit to customers, which results in accounts receivable arising from its normal course of business activities. The financial strength of customers is routinely assessed and, based upon this assessment, the Company believes that its credit risk exposure is limited. Such estimates of financial strength of customers may be subject to changes in the near term.

The Company generally does not require collateral, or other security, to support the financial instruments subject to credit risk. For the years ended December 31, 2003 and 2002, no customer accounted for more than 10 percent of the Company's revenues, and as of December 31, 2003 and 2002 no customer accounted for more than 5 percent of accounts receivable.

At December 31, 2003 and 2002, the cash balances of $6,225,063 and $2,340,037, respectively, were primarily held at a single financial institution. The Company places its cash with a high-credit-quality financial institution and, as a result, believes no significant concentration of credit risk exists with respect to cash.

Revenue Recognition - For local and long distance telephone service, the Company recognizes revenue as service is provided to customers.

The Company recognizes revenue from network design and cabling services using the percentage of completion method, measured by the percentage of cost incurred to date to the total estimated cost for each contract. Revisions in cost estimates and recognition of losses, if any, on these contracts are reflected in the accounting period in which the facts become known. Contract terms provide for billing schedules that differ from revenue recognition and give rise to earned revenues in excess of billings. The amount of earned revenue in excess of billings is evaluated periodically over the course of each project.

Cash and Cash Equivalents - Cash equivalents are stated at cost, which approximates market value. Highly liquid investments with maturities of three months or less at the purchase date are considered cash equivalents for purposes of the Consolidated Balance Sheets and Consolidated Statements of Cash Flows.

Property, Equipment and Depreciation - Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized over the life of the improvement or the remaining lease term, whichever is shorter. Maintenance and repair costs are charged to expense as incurred. Expenditures that significantly increase value or extend useful asset lives are capitalized.

Goodwill and Other Intangible Assets - Through December 31, 2001 goodwill was amortized on a straight-line basis over ten years. Effective on January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS No. 141"), and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). In accordance with SFAS No. 142 the Company no longer amortizes goodwill, but rather reviews goodwill for impairment on an annual basis, or earlier if indicators of potential impairment exist. Other intangible assets, comprised at December 31, 2003 of customer lists, are carried at cost less accumulated amortization. Amortization of customer lists is computed over a three-year estimated useful life.

Included in the loss on disposal of discontinued operations in 2001 is an impairment of goodwill of $8,001,000 relating to the Company's decision to discontinue the operations of IHI. There were no goodwill impairments in 2003 and 2002. Included in the loss from discontinued operations in 2001 is amortization of goodwill of $624,920 related to the Company's acquisition of IHI. Such amounts are included in the goodwill amortization adjustments below. A reconciliation of previously reported net income (loss) to the amounts adjusted for the exclusion of goodwill amortization is as follows:

	Year Ended December 31,		
	2003	2002	2001
Net income (loss) as reported	$ 4,190,183	$ 325,581	$(23,605,155)
Goodwill amortization, net of related tax effects	-	-	1,457,552
Adjusted net income (loss)	$ 4,190,183	$ 325,581	$(22,147,603)

Long-lived Assets - During fiscal 2001 the Company early adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). In accordance with SFAS No. 144, the Company reviews its long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value. In fiscal 2001, the Company applied the broadened reporting requirements of SFAS No. 144 when recording the loss on discontinued operations (Note 4).

Income Taxes - The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the Company's financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between financial accounting and tax bases of assets and liabilities using enacted tax rates in effect for the period in which differences are expected to be realized or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. 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.

Stock-Based Compensation - The Company applies the intrinsic-value based method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), and related interpretations in accounting for its stock-based employee compensation. Accordingly, stock-based employee compensation cost is recognized only when employee stock options are granted with exercise prices below the fair market value at the date of grant. Since all employee stock options have been granted at exercise prices equal to or greater than the fair market value on the date of grant, no compensation expenses has been recognized by the Company in the Consolidated Statement of Operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123* ("SFAS No. 148"). The Company adopted the disclosure requirements of SFAS No. 148 for the year ended December 31, 2002 and has continued to account for stock-based employee compensation under APB No. 25 and its related interpretations.

The following table illustrates the effect on net income (loss) if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), to stock-based employee compensation for all periods:

	2003	2002	2001
Net income (loss) as reported	$ 4,190,183	$ 325,581	$(23,605,155)
Less: Stock-based employee compensation cost determined under the fair value method, net of related tax effects	-	-	-
Pro forma net income (loss)	$ 4,190,183	$ 325,581	$(23,605,155)

The fair value of these options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2003	2002	2001
Risk free rate	3.26%	2.78%	4.40%
Dividend yield	0%	0%	0%
Volatility	0%	0%	0%
Expected option life	4 years	4 years	4 years

The weighted-average fair value of options granted for each of the three years ended December 31, 2003, 2002 and 2001 is estimated at $0.00 per share.

The Company applies the provisions of SFAS No. 123 to transactions in which the Company issues its equity instruments to acquire goods or services from non-employees. These transactions are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

Fair Value of Financial Instruments - For certain financial instruments, including cash equivalents, trade receivables and payables and short-term liabilities, the carrying amount approximated fair value because of the near-term maturities of such obligations. The fair value of the notes payable to stockholder approximates fair value based on the market rate of interest for similar loans.

New Accounting Pronouncements - In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"). SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 did not have a material impact on the Company's financial statements.

In April 2002, Statement of Financial Accounting Standards No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("SFAS No. 145") was issued. This statement provides guidance on the classification of gains and losses from the extinguishment of debt and on the accounting for certain specified lease transactions. Certain provisions of this statement related to the classification of gains and losses from the extinguishment of debt. The Company adopted SFAS No. 145 in 2002 and the adoption did not have a material impact on the Company's financial statements.

In June 2002, Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS No. 146") was issued. This statement provides guidance on the recognition and measurement of liabilities associated with disposal activities and is effective for the Company on January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on the Company's financial statements.

In May 2003, Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS No. 150") was issued. SFAS No. 150 establishes standards for how to classify and measure certain financial instruments with characteristics of both liabilities and equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. For nonpublic entities, mandatorily redeemable financial instruments are subject to the provisions of this statement for fiscal periods beginning after December 31, 2003. The adoption of SFAS No. 150 is not expected to have a material impact on the Company's financial statements.

Reclassifications - Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation.

3. ACQUISITIONS

Lightyear Communications, Inc. - On June 14, 2002, the Company signed an asset purchase agreement with Lightyear Communications, Inc. ("Lightyear") to purchase its customer base receiving local telephone service in the northeast Verizon territory ("Customer Base") and the related accounts receivable for cash, subject to the approval of the United States Bankruptcy Court and the satisfaction of regulatory requirements. In addition, the Company signed a management agreement with Lightyear, whereby the Company managed the servicing of the Customer Base effective July 23, 2002. The Company completed the purchase of the Customer Base and accounts receivable, and terminated the management agreement, during February 2003 with an effective date of January 1, 2003. While the management agreement was in effect, all revenues and expenses associated with the Customer Base were the responsibility of the Company and are included on a net basis in the accompanying Consolidated Statement of Operations as management fee income. The revenues and expenses related to servicing the acquired customers are included in the revenues and expenses of the Company as of January 1, 2003.

The acquisition of the Customer Base and related accounts receivable of Lightyear was accounted for as a purchase. The fair value of the Customer Base was determined based upon an independent valuation, and is being amortized over an estimated life of three years, resulting in amortization expense of $174,000 for the year ended December 31, 2003. The excess of the purchase consideration over the fair value of purchased accounts receivable and customer base is recorded in goodwill in the accompanying Consolidated Balance Sheet, calculated as follows:

Cash consideration	$3,883,659
Transaction costs	133,213
Total purchase consideration	4,016,872
Fair value of accounts receivable	3,398,208
Fair value of customer base	522,000
Goodwill	$ 96,664

North American Communications Control, Inc. - On May 31, 2002, the Company signed an asset purchase agreement with North American Communications Control, Inc. ("NACC") to purchase the customer base and accounts receivable of NACC, subject to the satisfaction of regulatory requirements, for a combination of cash and redeemable convertible preferred stock of the Company. In addition, the Company signed a management agreement with NACC, whereby the Company managed the servicing of NACC's customer base and business. The Company completed the purchase of the customer base and accounts receivable, and terminated the management agreement, effective September 30, 2002. While the management agreement was in effect, all revenues and expenses associated with NACC's customer base were the responsibility of the Company and are included on a net basis in the accompanying Consolidated Statement of Operations as management fee income. The revenues and expenses related to servicing the acquired customers are included in revenues and expenses of the Company starting on October 1, 2002, commensurate with the termination of the management agreement.

The acquisition of the customer base and related accounts receivable of NACC was accounted for as a purchase. The purchase price consisted of $1,908,951 and 1,176 shares of Class C redeemable convertible preferred stock valued at $1,022,603 on September 30, 2002. The number of shares of Class C redeemable convertible preferred stock was subject to adjustment based on the billed revenue of the acquired customer base. During December 2003, the Company negotiated a settlement which included an adjustment to the shares of Class C redeemable convertible preferred stock issued as well as a redemption of all shares and accumulated dividends for $728,961. Goodwill was adjusted to reflect the difference between the estimated fair value of the stock on September 30, 2002 and the amount paid. Goodwill recorded on the accompanying Consolidated Balance Sheet on December 31, 2003 and 2002 was determined as follows:

Cash consideration	$ 1,908,951
Fair value of preferred stock on September 30, 2002	1,022,603
Transaction costs	94,918
Total purchase consideration	3,026,472
Fair value of accounts receivable	683,933
Fair value of customer base	440,500
Deferred revenue	(92,478)
Goodwill at December 31, 2002	1,994,517
Adjustment to value of preferred stock	(293,642)
Goodwill at December 31, 2003	$ 1,700,875

The fair value of the customer base was determined based upon an independent valuation and is being amortized over three years, resulting in amortization expense in 2003 and 2002 of $146,833 and $36,708, respectively. The net unamortized amount of customer base is included in other assets in the Consolidated Balance Sheet at December 31, 2003.

On May 31, 2002, the Company entered into a consulting agreement with an employee of NACC for a period through and including May 30, 2003, whereas in exchange for consulting services the Company will pay $174,000 for each twelve-month period of the agreement. The duties of the consultant include managing certain telecom agents, assisting the Company to transition the customer base and providing general advisory services from time to time that may arise out of the purchase of the assets pursuant to the purchase agreement. In addition to the cash payments, the consultant received warrants to purchase 50,000 shares of the common stock of the Company at an exercise price of $3.00 per share.

Abandoned Acquisitions - During the past two years the Company has aggressively pursued potential acquisition targets. The due diligence process requires the use of legal, accounting, financing and regulatory advisors, whose costs are capitalized and included in the determination of the purchase price. In the event the transaction does not occur, the costs are expensed in the period the transaction is no longer pursued. The Company has accumulated these direct acquisition related costs in the abandoned acquisitions and related financing line in the Company's Statement of Operations.

4. DISCONTINUED OPERATIONS

During 2001, the Company decided to discontinue its internal network and technical support operations related to providing DSL services and to dispose of all of the operations of IHI. The remaining unamortized balance of goodwill of $8,001,000 relating to this transaction was written off.

Revenues and expenses from discontinued operations were as follows:

	Year Ended December 31,		
	2003	2002	2001
Revenues	$ -	$ -	$ 825,471
Operating expenses	-	-	(2,875,814)
Loss from discontinued operations	$ -	$ -	$ (2,050,343)

5. CONTRACTS IN PROGRESS

Earned revenues in excess of billings on uncompleted contracts at December 31, 2003 and 2002 consist of the following:

	2003	2002
Costs incurred	$ 1,193,199	$ 909,533
Estimated profits	414,399	307,941
Totals	1,607,598	1,217,474
Billings to date	(1,034,947)	(794,825)
Net	$ 572,651	$ 422,649

6. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2003 and 2002 consist of the following:

	2003	2002
Computers and computer software	$ 2,636,892	$ 982,067
Furniture and fixtures	566,220	455,612
Leasehold improvements	133,527	123,065
Telephone equipment	67,294	64,375
	3,403,933	1,625,119
Less accumulated depreciation and amortization	(1,224,042)	(638,849)
	$ 2,179,891	$ 986,270

7. ACCRUED EXPENSES

Accrued expenses at December 31, 2003 and 2002 consist of the following:

	2003	2002
Salaries and wages	$ 1,309,542	$ 1,091,630
Accrued telecom taxes	1,991,568	1,703,746
Costs accrued on network design and cabling services contracts	442,426	624,148
Other	6,395,139	3,066,296
	$ 10,138,675	$ 6,485,820

8. CAPITAL LEASES

During 2001, the Company entered into a capital equipment lease for data communications equipment valued at approximately $2,440,000 to build out the Company's network. The terms of the lease provided for an initial payment of approximately $488,000, upon initiation of the lease, thirty-six monthly payments thereafter, and a purchase option at the end of the lease equal to the negotiated fair market value of the equipment. During 2002, the Company negotiated a settlement for the return of the leased equipment for a cash payment of $450,000. Based on the $1,446,421 net book value of the leased equipment, the $2,153,264 capital lease obligation, and the disposal costs of $13,119, the Company recorded a gain on settlement of the capital lease of $243,724, which is reflected in general and administrative expenses in the accompanying Consolidated Statement of Operations.

Concurrent with the capital lease termination, all other data communications equipment owned by the Company was deemed to no longer provide value and was written off, resulting in a net loss of $391,431 which is reflected in general and administrative expenses in the accompanying Consolidated Statement of Operations.

9. NOTES PAYABLE TO STOCKHOLDER

In May and September 2002, the Company entered into two demand notes payable with the Investor in the amounts of $2.0 million and $1.75 million, respectively, in order to consummate the asset purchase agreements described in Note 3. The notes, which provide for 12% quarterly compounded interest, were intended to be a bridge loan until a new private equity transaction was completed in connection with a pending acquisition. The Company decided during December 2003 that the acquisition and new private equity transaction would not be completed. The total amount of the demand notes payable plus accrued interest were repaid in March 2004.

10. STOCKHOLDERS' EQUITY

Class A Redeemable Convertible Preferred Stock - In connection with a public offering, as defined, and at the option of either the Company or the holder, each share of Class A Redeemable Convertible Preferred Stock ("Class A Preferred Stock") may be converted into such number of shares of Class A Common Stock equal to the Liquidation Value, or $1,000 per share (plus accrued and unpaid dividends thereon), of such share of Class A Preferred Stock being converted divided by the price per share of Class A Common Stock in such public offering. The Company may redeem all or a portion of the Class A Preferred Stock at any time at a price equal to Liquidation Value, or $1,000 per share plus accrued and unpaid dividends thereon. The holders of the Class A Preferred Stock may redeem all or a portion of their shares of Class A Preferred Stock upon the occurrence of a public offering or change in ownership, as defined, at a price equal to Liquidation Value, or $1,000 per share plus accrued and unpaid dividends thereon. Each outstanding share of Class A Preferred Stock is entitled to a dividend equal to eight percent per annum of the Liquidation Value, or $1,000 per share, plus accrued and unpaid dividends thereon. Dividends accrue at 8% and are payable at the end of each calendar quarter of each year and, to the extent not paid, shall accumulate. The holders of the Class A Preferred Stock do not have any voting rights.

Class B Convertible Preferred Stock - In connection with a public offering, as defined, and at the option of either the Company or the holder, each share of Class B Convertible Preferred Stock ("Class B Preferred Stock") may be converted into such number of shares of Class A Common Stock equal to the Liquidation Value, or $1,000 per share (plus accrued and unpaid dividends thereon), of such share of Class B Preferred Stock being converted divided by the price per share of Class A Common Stock in such public offering. Each outstanding share of Class B Preferred Stock is entitled to a dividend equal to eight percent per annum of the Liquidation Value, or $1,000 per share, plus accrued and unpaid dividends thereon. Dividends accrue at 8% and are payable at the end of each calendar quarter of each year and, to the extent not paid, shall accumulate. The holders of the Class B Preferred Stock do not have any voting rights.

Class B Convertible Common Stock - Each share of Class B Convertible Common Stock ("Class B Common Stock") is convertible into one share of Class A Common Stock at the option of the holder. The holders of the Class B Common Stock do not have any voting rights. In 2001, the holders of 19,850,086 shares of Class B Common Stock exercised their conversion rights and received 19,850,086 shares of Class A Common Stock.

Repurchase and Dividend Restrictions - The Company is prohibited from repurchasing or paying dividends on its Class A Common Stock or Class B Common Stock (collectively, the "Common Stock") without the consent of a majority of the holders of the outstanding shares of Class A Preferred Stock and the Class B Preferred Stock, with the exception that the Company may repurchase the Common Stock from present and former employees of the Company in accordance with the provisions of their employment agreements.

Repurchase and Retirement of Shares - In January 2002, the Company repurchased 423,651 shares of Class A Common Stock from two former officers of the Company for an aggregate purchase price of $58,374.

Notes Receivable from Stockholders – On March 10, 2003, the Company entered into an agreement with an executive of the Company pursuant to which the Company issued 400,000 shares of Class A Common Stock at a price of approximately $0.07 per share in exchange for a promissory note for $27,600. The note bears interest at 8.5% per annum and is payable annually and the principal is payable in five equal annual installments.

On March 31, 2001, the Company entered into agreements with two executives of the Company pursuant to which the Company issued 450,000 shares of Class A Common Stock at a price of approximately $0.07 per share in exchange for promissory notes for $31,147. The notes bear interest at 8.5% per annum and is payable annually and the principal is payable in five equal annual installments.

Stock Options - On January 9, 2001, The Board of Directors of the Company adopted the 2001 Stock Option Plan (the "Plan") covering up to 1,500,000 of the Company's common shares pursuant to which employees of the Company are eligible to receive incentive and/or nonqualified stock options to purchase the Company's common shares. The option exercise price per share shall be not less than 90% of the fair market value of a share on the date of grant and, in the case of the grant of any incentive stock option, the exercise price may not be less than 100% of the fair market value of a share as of the date of grant of the option. The right to exercise options generally vests in increments over periods of up to four years from the date of grant or the commencement of the grantee's employment with the Company, up to a maximum term of ten years for all options granted.

Stock option activity was as follows:

	Number Outstanding	Exercise Price
Outstanding at January 1, 2001	-	
Granted during fiscal 2001	796,800	$ 2.00
Exercised during fiscal 2001	-	-
Cancelled, terminated or expired during fiscal 2001	(350,100)	2.00
Outstanding at December 31, 2001	446,700	2.00
Granted during fiscal 2002	260,950	2.00
Excised during fiscal 2002	-	-
Cancelled, terminated or expired during fiscal 2002	(78,900)	2.00
Outstanding at December 31, 2002	628,750	2.00
Granted during fiscal 2003	284,500	2.00
Exercised during fiscal 2003	-	-
Cancelled, terminated or expired during fiscal 2003	(5,000)	2.00
Outstanding at December 31, 2003	908,250	$ 2.00

Warrants – In connection with the Private Placement the Company issued warrants to purchase 677,249 shares of Class A Common Stock with an exercise price of approximately $.07 per share. On January 23, 2001, one of the placement agents exercised warrants to purchase 250,000 shares of Class A Common Stock in exchange for $17,554. At December 31, 2003 and 2002 there were 427,249 warrants still outstanding.

As of December 31, 2003 and 2002, warrants to purchase 41,000 shares of Class A Common Stock were outstanding with an exercise price of $4.00 per share.

On January 9, 2001, the Board of Directors of the Company adopted the 2001 Warrant Program and authorized the issuance of up to 190,900 warrants to purchase Class A Common Stock to various distribution channels of the Company's services to encourage them to promote the Company's interests. During 2003, 2002 and 2001, the Company granted 75,700, 61,500 and 25,000 warrants, respectively, to purchase the Company's Class A Common Stock with an exercise price ranging from $3.00-$4.00 per share under the program. The fair value of these warrants was not material.

11. INCOME TAXES

At December 31, 2003, the Company recorded a provision for income taxes of $161,479 of income tax expense associated with Federal and state income taxes. There was no provision for income taxes for the years ended December 31,2002 and 2001. Although the Company has significant net operating loss carryforwards, Federal taxes incurred as a result of the alternative minimum tax. The temporary differences that give rise to the Company's deferred tax assets and liabilities as of December 31, 2003 and 2002 are as follows:

	2003	2002
Deferred tax asset (liability):		
Net operating loss carryforwards	$ 9,364,870	$11,178,079
Accounts receivable	391,121	228,105
Difference in depreciation and amortization of assets	(218,859)	(8,685)
Nondeductible reserves	890,350	300,993
	10,427,482	11,698,492
Less valuation allowance	(10,427,482)	(11,698,492)
Net deferred tax asset	$ -	$ -

At December 31, 2003 and 2002, the Company has established a valuation allowance against its deferred tax assets due to the Company's history of pretax losses and lack of significant offsetting objective evidence that the deferred tax assets are realizable. The decrease in the valuation allowance is due primarily to the utilization of net operating loss carryforwards.

The provision for income taxes varies from the amount computed by applying statutory rates for the reasons summarized below for the years presented:

	Year Ended December 31,		
	2003	2002	2001
Provision based on statutory rates	34 %	(34) %	(34) %
State taxes, net of federal tax benefit	1	(6)	(6)
Losses for which there is no current tax benefits	-	40	40
Valuation allowance	3	-	-
Utilization of net operating loss	(34)	-	-
Total	4 %	0 %	0 %

For financial reporting purposes, the Company has approximately $12.9 million of tax loss carryforwards expiring through 2021. In addition, the Company has approximately $10.2 million of tax loss carryforwards subject to an annual limitation of approximately $0.7 million imposed by the Internal Revenue Code Section 382.

12. COMMITMENTS AND CONTINGENCIES

Operating Leases - The Company occupies approximately 35,810 square feet of space at a total of four locations for use in its corporate offices, regional sales offices, telephone customer service and provisioning operations center and cable installation services business. All leases contain renewal options and escalation clauses. Rent expense for the years ended December 31, 2003, 2002 and 2001 was $1,025,511, $904,130, and $707,196, respectively.

Future minimum rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2003 for each of the next five years and in the aggregate are:

December 31,	**Payments**
2004	$ 854,539
2005	873,448
2006	896,055
2007	935,441
2008	933,236
Thereafter	1,731,951
Total	$ 6,224,670

Minimum Purchase Commitments - The Company has entered into agreements with certain local and long-distance carriers ("Carriers") from which it purchases telephone service. Such agreements include minimum purchase obligations, which require monthly payments to the Carriers based on minutes of usage, even if the minimum usage is not attained. The minimums are stated in both dollar amounts and minutes of usage. Actual purchases made under unconditional purchase obligations for the year ended December 31, 2003 were $4,973,057.

Estimated future minimum payments under the agreements are:

Year Ending December 31,	**Minimum Payments**
2004	$ 7,260,000
2005	6,260,000
2006	1,560,000
2007	390,000
Thereafter	-
Total	$ 15,470,000

Employment Agreements - The Company has entered into employment agreements with six officers of the Company. The employment period under each agreement continues until the executive's resignation, disability, death or until the Company decides to terminate the executive's employment with or without cause. The agreements provide for a specified annual salary, an annual bonus to be determined by the Board of Directors, restricted stock grants and severance compensation if the executive's employment is terminated without cause. The minimum aggregate annual compensation under these agreements for the years ended December 31, 2003 and 2002 was $1,194,000 and $1,079,500, respectively.

Management Fee - The Company is required to pay the Investor a management fee plus reasonable out-of-pocket expenses. For the years ended December 31, 2003 and 2002, management fees paid to the Investor were $200,000.

Litigation - From time to time, the Company is subject to certain legal actions arising in the normal course of business. After taking into consideration legal counsel's evaluation of such actions, management is of the opinion that their final resolution will not have any significant adverse effect upon the Company's financial position or results of operations.

Regulatory Issues - The telecommunications industry is experiencing significant volatility as regulatory issues, competition and uncertain costs from incumbent local exchange carriers make the operating environment for competitive local exchange carriers unstable, especially those operating exclusively by leasing unbundled network elements ("UNE's") without the benefit of their own network facilities. There is no assurance that the Federal Communications Commission and the State Public Utility Commissions, the primary agencies which regulate the telecommunications industry in the areas in which the Company primarily does business, will continue to support the competitive atmosphere fostered by the 1996 Act. The FCC has requested that incumbent and local exchange carriers negotiate in good faith to reach commercial agreements. The outcome of these negotiations, if reached, cannot be predicted at this time. If commercial agreements are not reached, the outcome of the ongoing regulatory actions cannot be determined. Any ruling that limits the access to UNE's or materially increases their costs could have a material adverse effect on the Company.

13. CREDIT FACILITY

On February 1, 2002, the Company entered into a receivables sale agreement with Textron Financial Corporation ("Textron"), with a purchase commitment up to $5.0 million based upon eligible accounts receivable. Interest during the term of the agreement was charged at a variable rate equal to the prime lending rate plus 3.9% per annum, with a minimum interest payment of $5,000 per month. On October 1, 2003, at the agreement of both parties, the Company terminated the receivables sale agreement and paid $40,000 in termination fees.

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