

ORIGINAL

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION
OF ACCIPITER COMMUNICATIONS, INC.,
FOR AUTHORIZATION TO ASSUME
NEW DEBT.

DOCKET NO. T-02847A-05-0846
FINANCING APPLICATION
(REQUEST FOR EXPIDITED
APPROVAL)

I. INTRODUCTION

Pursuant to Decision 67675, Accipiter Communications, Inc., ("Accipiter" or the "Company") submits its application ("Application") requesting an Order from the Arizona Corporation Commission ("Commission") authorizing a new assumption of debt in the total amount of \$21,655,600 from the U.S. Department of Agriculture, Rural Utilities Service, ("RUS") and Rural Telephone Bank ("RTB") (collectively, the "C Loan"). The C Loan amount is the total amount of funds requested by Accipiter and approved by RUS and RTB. The C Loan is a direct cost-of-money loan that will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States having a final maturity comparable to the final maturity of the various advances. The interest rate for advances of loan funds from RUS will be fixed at the time of each advance and will apply to that advance. The initial interest rate for advances of loan funds from RTB loan advance will be an interim rate, and a permanent interest rate will be fixed for each RTB loan advance at the end of the fiscal year in which the advance is made based upon the cost-of-money rate for that fiscal year. Interest rates of 4.27% and 5.00% for the approved RUS and RTB loans, respectively, were used in the loan feasibility study completed by the United States Department of Agriculture,

Snell & Wilmer

LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2201
(602) 382-6000

1 Rural Development ("USDA"). The maturity period for the C Loan is 21 years from the first
2 advance of funds. The principal repayment period will be 19 years. Accipiter further requests
3 that the Commission authorize the pledge, mortgage, lien and/or encumbrance of Accipiter's
4 utility plant and assets as security for the C Loan as required by USDA.

5 Accipiter further requests that the Commission authorize that the loan proceeds be used
6 for the following purposes, including purposes incidental thereto, as more particularly described
7 below:

8 (1) Install communications facilities to provide basic local exchange and advanced
9 telecommunications services to 393 square miles of previously un-served area;

10 (2) Serve an estimated 321 new telephone subscribers in the un-served rural
11 developments of Crozier and Whispering Ranch located north and west of Phoenix;

12 (3) Install fiber optic facilities to connect Accipiter's Lake Pleasant Exchange and Sun
13 Valley Exchange (as described below) to support all basic and advanced telecommunications
14 services;

15 (4) Meet the anticipated service demands to be placed on Accipiter as the incumbent
16 local exchange carrier for the newly certificated territory approved in Decision 67675. Accipiter
17 estimates 5,050 subscribers in the Sun Valley Exchange by 2009.

18 Accipiter further requests that the Commission issue its finding that the C Loan is
19 reasonably necessary and appropriate for the purposes described in Section III of this Application,
20 in accordance with A.R.S. §40-301 *et seq.*, and that such purposes are not, wholly or in part,
21 reasonably chargeable to operative expenses or to income.

22 Finally, Accipiter requests that the Commission expedite its review and approval of this
23 Application, and that the Application be approved without hearing.

24 **II. THE APPLICANT**

25 Accipiter is a Nevada corporation with headquarters at 2238 Lone Cactus Drive in
26 Phoenix, Arizona. Accipiter is an incumbent local exchange carrier that was initially granted a

1 Certificate of Convenience and Necessity ("CC&N") by the Commission in Decision 59346
2 (October 11, 1995) to provide local exchange telecommunications services in portions of
3 Maricopa and Yavapai counties, including the Castle Hot Springs and Lake Pleasant Regional
4 Park areas. Earlier this year, the Commission approved two extensions of Accipiter's CC&N. In
5 Decision 67574 (February 15, 2005), the Commission approved an extension of Accipiter's
6 CC&N to include a portion of the master planned development known as Vistancia¹ and
7 miscellaneous other parcels. The extension territory was added to Accipiter's Lake Pleasant
8 Exchange.

9 In Decision 67675 (March 9, 2005), the Commission conditionally approved the extension
10 of Accipiter's CC&N to include approximately 393 square miles of "unserved" territory in and
11 around the communities of Buckeye and Surprise, Arizona, including unincorporated areas in
12 northwest Maricopa County. This newly certificated territory is identified as the Sun Valley
13 Exchange, and is designated as a non-contiguous part of Accipiter's Lake Pleasant rate center.
14 Pursuant to Decision 67675, Accipiter has one year—or until March 9, 2006—to obtain
15 Commission approval of RUS financing in an amount sufficient to fund construction of
16 infrastructure necessary to serve the Sun Valley Exchange or the extension is null and void.
17 Because of the time deadline, Accipiter requests that its application be approved without a
18 hearing and on an expedited basis.

19 Accipiter is privately owned and was formed to offer high-speed, broadband
20 telecommunications, voice and video services. Accipiter presently offers telephone and
21 broadband Internet services to its mostly rural customers.

22 **III. USE OF THE "C" LOAN PROCEEDS**

23 Accipiter will use the C Loan to provide basic local and long distance telephone services,
24 broadband telecommunications services and video services to its Sun Valley Exchange, which

25 ¹ The remaining portion of the Vistancia development was already located within Accipiter's original CC&N. Thus,
26 as a result of Decision 67574, the entire Vistancia development is now included in Accipiter's Lake Pleasant Exchange.

1 encompasses approximately 393 square miles north and west of Phoenix, Arizona. Accipiter
2 plans to deploy a Passive Optical Network (PON) broadband system. The initial infrastructure
3 build through 2009 is estimated to cost \$21,230,765. Once service is available, customers will
4 have access to basic local telephone services and a network currently capable of 32 Mb data
5 service to support Internet and video services. The Sun Valley Exchange was previously
6 unassigned territory.

7 The C Loan will be used to fund a variety of projects to be constructed for the benefit of
8 Accipiter's customers over the next five years and is therefore in the public interest. A general
9 breakdown of the various construction categories is set forth in the following Table 1:

10 **TABLE 1 – USE OF C LOAN PROCEEDS (BY GENERAL CATEGORY)**

11 PROJECT	12 ESTIMATED COST
13 New Central Office	\$5,852,000
14 Outside Plant Facilities	\$12,435,000
15 Land and Buildings	\$625,000
16 Engineering (Pre-loan)	\$50,000
17 Engineering (Construction)	\$2,249,000
18 Vehicles and Work Equipment	\$20,000
19 Class B Stock ²	\$424,600
20 TOTAL	\$21,655,600

21 **IV. STATUS OF EXISTING ACCIPITER LOANS**

22 Accipiter has previously obtained loans from USDA as follows: (1) RUS "A" loan
23 consisting of a hardship rate loan in the amount of \$7,088,000 at 5.00% per annum maturing in
24 October 1, 2017, and a RTB cost of money loan in the amount of \$51,450 maturing on October 1,
25 2017; (2) RUS "B" loan with a variable rate note in the amount of \$5,792,000 maturing October

26 ² Pursuant to the terms of the RTB loan agreement, Accipiter is required to invest in RTB Class B stock.

1 1, 2022, and RTB loan in the amount of \$3,377,850 maturing October 1, 2022. All loan proceeds
2 of the "A" loan have been drawn and utilized. Of the \$9,169,850 approved in the "B" loan, only
3 \$163,812 has been drawn to date leaving \$9,006,038 available for draw. The "B" loan was
4 designated for construction of infrastructure to serve the Lake Pleasant Exchange, including
5 several developments as well as the Vistancia master planned development. However, Accipiter
6 has not deployed all available "B" loan funds for construction within the Lake Pleasant Exchange
7 because planned construction on several of the developments has not yet materialized and
8 Accipiter has effectively been precluded from constructing within the Vistancia development due
9 to exclusive marketing and access agreements between the developer of Vistancia and Cox
10 Communications. Recently, Accipiter, the developer and Cox Communications have entered into
11 an agreement which will enable Accipiter to serve within Vistancia. As a result, Accipiter
12 anticipates that it will shortly begin to deploy the balance of the "B" loan proceeds.

13 **V. TERMS OF THE RUS "C" LOAN**

14 Final studies by USDA show that Accipiter qualifies for a C Loan in the amount of
15 \$21,655,600. The C Loan will consist of concurrent loans in the amount of \$12,739,000 made by RUS
16 and \$8,916,600 made by RTB. The C Loan is a direct cost-of-money loan that will bear interest at the
17 rates applicable to each advance of loan funds based on the average yield on outstanding marketable
18 obligations of the United States having a final maturity comparable to the final maturity of the advance.
19 The RUS loan interest rate for an advance will be fixed at the time of the advance. The initial interest
20 rate on each RTB loan advance will be an interim rate, and a permanent interest rate will be fixed on
21 the RTB loan advance at the end of the fiscal year in which the advance is made based upon the cost-
22 of-money rate for that fiscal year. Interest rates of 4.27 and 5.00 percent for the contemplated RUS and
23 RTB loans, respectively, were used in the feasibility study completed by USDA. In order to
24 accommodate possible increases in interest rates between the date of approval of this application and
25 the date that Accipiter draws down loan proceeds, Accipiter requests that the Commission authorize a
26 maximum interest rate of 7.50% for the C Loan proceeds. The maturity period for the C Loan is 21

1 years from the first advance of funds. The principal repayment period will be 19 years.

2 On September 23, 2005, Accipiter was informed by USDA that the studies conducted for
3 the "C" loan application had been completed and the results provided therein. Accipiter was also
4 provided with terms and conditions for the loans, including estimated loan amounts, monthly
5 payments, interest rates, maturity date, and anticipated expenditures based upon the information
6 provided in Accipiter's loan application. (A copy of the letter is attached hereto as Exhibit A.)

7 On September 27, 2005, Accipiter was advised by USDA that the RUS and RTB loans had been
8 approved by USDA. (A copy of the letter is attached hereto as Exhibit B.)

9 **VI. ACCIPITER'S FINANCIAL STRENGTH**

10 Accipiter has the financial wherewithal to undertake the obligations associated with the
11 proposed C Loan. Accipiter has current cash and working funds of \$1,107,194, which represents
12 approximately 7.3 months of operating expenses. Accipiter cannot complete the necessary plant
13 construction without accessing the additional C Loan proceeds. (A copy of Accipiter's Financial
14 Statements and Balance Sheets for the years 2002-2003 and 2003-2004 is attached hereto as
15 Exhibit C)(A copy of Accipiter's Pro forma Financial Statement and Balance Sheet for the year
16 2005 is attached hereto as Exhibit D).

17 **VII. PUBLICATION OF NOTICE**

18 Accipiter will publish such notice of this Application as the Commission may require
19 pursuant to A.R.S. § 40-302(A).

20 **VIII. NOTICE TO ACCIPITER**

21 All communications and correspondence regarding this Application, as well as
22 communications and pleadings with respect hereto filed by other parties, should be served on the
23 following:

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- 25 ...
- 26 ...

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Charles Gowder, President / CEO
ACCIPITER COMMUNICATIONS INC
2238 Lone Cactus Drive
Phoenix, AZ 85027
Phone: (928) 501-5000
Fax: (928) 501-5050
E-mail: cgowder@accipitercom.com

Jeffrey W. Crockett, Esq.
Robert J. Metli, Esq.
SNELL & WILMER L.L.P.
One Arizona Center
Phoenix, Arizona 85004-2202
Direct Line: (602) 382-6234
Fax: (602) 382-6070
E-mail: jcrockett@swlaw.com

IX. CONCLUSION

WHEREFORE, Accipiter Communications, Inc., respectfully requests that the Arizona Corporation Commission issue its order in accordance with A.R.S. §§ 40-285 and 40-301 *et seq.* as follows:

A. Authorizing Accipiter to borrow up to \$12,739,000 from RUS and up to \$8,916,600 from RTB upon terms and conditions to be set by RUS and RTB, and acceptable to Accipiter, with a maximum interest rate not to exceed 7.50% and a maximum maturity period not to exceed 21 years from the date of the first advance of loan funds;

B. Authorizing Accipiter to use the loan proceeds for all purposes described in this Application;

C. Authorizing the pledge, mortgage, lien and/or encumbrance of Accipiter's utility plant and assets as security for the C Loan as required by RUS and RTB; and

D. Finding that the C Loan is reasonably necessary and appropriate for the purposes stated in this Application, and that such purposes are not wholly, or in part, reasonably chargeable to Accipiter's operative expenses or to income.

Accipiter further requests that the Commission expedite its review and approval of this Application, and that the Application be approved without a hearing.

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RESPECTFULLY SUBMITTED this 18th day of November, 2005.

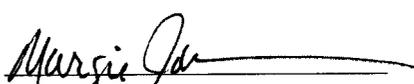
SNELL & WILMER

By 

Jeffrey W. Crockett
Robert Metli
One Arizona Center
Phoenix, Arizona 85004-2202
Attorneys for Accipiter Communications, LLC

ORIGINAL AND THIRTEEN (13)
copies filed this 18th day of November,
2005, with:

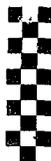
Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007


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Snell & Wilmer

LLP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

EXHIBIT A



United States Department of Agriculture
Rural Development

SEP 23 2005

Mr. Charles Gowder
President
Accipiter Communications, Inc.
2238 West Lone Cactus Drive
Phoenix, Arizona 85027

Dear Mr. Gowder:

We have completed the preliminary studies of your organization's "C" loan application and are submitting the results of these studies for your consideration. They show that concurrent loans in the amount of \$12,739,000 made by the Rural Utilities Service (RUS) and \$8,916,600 made by the Rural Telephone Bank (RTB) will be required. Both loans will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States having a final maturity comparable to the final maturity of the advance. The RUS loan interest rate will be fixed at the time of each advance. The interest rate on the RTB loan advance will be an interim rate. A permanent interest rate will be determined on the RTB loan advance at the end of the fiscal year in which the advance is made based on the RTB's cost-of-money rate for that fiscal year. Interest rates of 4.27 and 5.00 percent for the contemplated RUS Cost-of-Money and RTB loans, respectively, were used in our feasibility study. It should be understood that this letter is not a commitment that a loan will be approved.

Our studies show that \$21,231,000 of the above funds will be needed to: 1) connect 5,050 new subscribers; 2) implement Fiber To The Premise (FTTP) in three developed areas within the Sun Valley exchange and install a remote switch and two DLCs, 3) construct fiber optic cable and provide intra/inter exchange ring protection on transport facilities; and 4) provide for other system improvements. In addition to funds required for construction, the enclosed preliminary Telephone Loan Budget, RUS Form 493, includes \$424,600 for investment in RTB Class B stock. The stock will be issued at the time of each RTB loan fund advance in an amount equal to 5 percent of such advance for all other purposes.

Also enclosed is a copy of the "Forecast of Revenues and Expenses" for the proposed system. It is based on the number of subscribers proposed to be served, existing local service rates without mileage or zone charges, and other revenues and expenses outlined on the form.

If a loan is approved, no "C" loan funds will be released until your organization has furnished to RUS, among other things, all of the documents, opinions, and other evidence listed in the loan contract applicable to this loan, including, evidence that your organization has duly authorized, executed, recorded, and filed a security instrument, in form and substance satisfactory to the Administrator.

1400 Independence Avenue, SW, Washington, DC 20250
Web: <http://www.rurdev.usda.gov>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."

To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

Mr. Charles Gowder

2

No "C" loan funds will be advanced for any construction outside of existing subdivisions and towns unless site specific environmental reports have been submitted and approved by RUS.

Debt service payments are to be made on a monthly basis. This requirement will be included in the mortgage note.

The mortgage will contain a provision requiring your organization to maintain a TIER of at least 1.0 throughout the forecast period ending December 31, 2009. After this date your organization will be required to maintain a TIER of at least 1.50.

The maturity period for your "C" loan is 21 years as you requested with the information submitted as a part of the loan application package. The principal repayment period will be 19 years. The approximate amounts to be repaid will be \$18,618,000 at a monthly payment of \$81,700 for the RUS portion and \$13,824,000 at a monthly payment of \$60,600 for the RTB portion, assuming the interest rates used in the feasibility study. The actual repayment of the loans will depend on the interest rate applicable to each advance and the schedule of those advances. A savings in interest costs over the life of the loan would result if a shorter amortization period were selected.

We would appreciate any suggestions you may have with respect to the matters discussed in this letter. If you concur in the above requirements, please let us know by facsimile 202-205-2921 with a follow-up letter from an officer of your organization and indicate the maturity period desired for the loan, if shorter than the period stated above. We then will proceed with our studies. Our office should, however, be advised of your decision immediately upon receipt of this letter.

Sincerely,



KEN B. CHANDLER, Director
Southern Division
Telecommunications Program
Rural Development, Utilities Programs

Enclosures

USDA-RUS TELEPHONE LOAN BUDGET Preliminary		NAME OF BORROWER Acceptor Communications, Inc.			
		BORROWER and LOAN DESIGNATION AZ 513-C			
BUDGET ITEM	PRIOR LOAN		RESERVES AS OF: August 3, 2005		
			RESERVE BALANCES	AVAILABLE FOR NEW PROJECTS	
			A.	B.	
				NEW PROJECT BUDGET C.	
1. CONSTRUCTION	a. CENTRAL OFFICE	\$2,889,528	\$0	\$5,852,000	
	b. OUTSIDE PLANT	4,173,669	0	12,435,000	
	c. LAND and BUILDINGS	202,315	0	625,000	
	d. SPECIAL PROJECTS	0	0		
2. ENGINEERING	a. PRELOAN			50,000	
	b. CONSTRUCTION	279,820	0	2,249,000	
3. OPERATING EQUIPMENT	a. OFFICE EQUIPMENT				
	b. VEHICLES and WORK EQUIPMENT			20,000	
4. a. OVERHEAD EXPENDITURES					
	b. CLASS B STOCK - RURAL TELEPHONE BANK			424,600	
5. OPERATING FUNDS					
6. REFINANCING WITH LOAN FUNDS					
7. ACQUISITIONS					
8. OTHER - G & C					
9. TOTALS		\$7,545,332	\$0	\$21,655,600	
10. LESS AVAILABLE FROM PRIOR LOANS (COL. B, ITEM 9)				0	
11. LESS NONLOAN FUNDS					
12. TOTAL NEW LOAN FUNDS				\$21,655,600	
13. HARDSHIP LOAN					
14. CONCURRENT - COST OF MONEY				12,739,000	
15. CONCURRENT - RURAL TELEPHONE BANK				8,916,000	
16. GUARANTEED LOAN					
17. OTHER LOAN					
REQUIRED ADDITIONAL BUDGET DATA					
18. PRIOR LOANS		19. NONLOAN FUNDS, AS ADJUSTED		20. CUMULATIVE ADVANCES AS OF FRS #14	
PRIOR LOAN TOTALS	\$16,309,300	NONLOAN FUNDS, PRIOR LOAN	\$0	RUS	\$7,751,936
RUS LOANS	12,880,000	SALE OF PROPERTY	0	RTB	0
RTB LOANS	3,429,300	OTHER: Interest Income	11,942	FFB	0
GUARANTEED LOANS	0	TOTAL, NONLOAN FUNDS	\$11,942		
				21. ENCUMBERED BUT UNADVANCED FUNDS	
				1,012,032	
22. RETIRED PLANT		NEW & ACQUIRED AREAS		EXISTING AREAS	
ESTIMATED ORIGINAL COST OF RETIRED PLANT (this loan)		\$0		\$0	
ESTIMATED SALVAGE VALUE OF RETIRED PLANT (this loan)		\$0		\$0	
NOTES					

FORECAST OF REVENUES AND EXPENSES		CORPORATE NAME AND ADDRESS																					
		Accipiter Communications, Incorporated Glendale, Arizona																					
		LOAN DESIGNATION	SUBSCRIBER FORECAST																				
		Arizona 513-C12 Accipiter	6,190																				
1. Local Network Service Revenues*	\$1,732,391																						
2. Access, Long Distance Network, and Carrier Billing & Collection Revenues	16,609,766																						
3. Miscellaneous Revenues	70,628																						
4. Less Uncollectible Revenues	0																						
5. Net Operating Revenues	\$18,412,785																						
6. Plant Specific Operations Expense	\$6,996,371																						
7. Plant Nonspecific Operations Expense	1,776,468																						
8. Depreciation Expense	2,017,851																						
9. Amortization Expense	0																						
10. Customer Operations Expense	1,302,933																						
11. Corporate Operations Expense	1,355,610																						
12. Other Operating Income and Expense	0																						
13. Taxes Excluding F.I.T.	2,134,374																						
14. Total Fixed Charges (Interest)	1,648,571																						
15. Nonoperating Net Income (expressed with the opposite arithmetic sign)	(64,547)																						
16. Extraordinary Items	0																						
17.	0																						
18. Nonregulated Net Income	0																						
19. Total Expenses, Excluding Federal Income Taxes	\$17,167,631																						
20. Net Income Before Federal Income Taxes	\$1,245,154																						
21. Federal Income Taxes	0																						
22. Net Income After Federal Income Taxes	\$1,245,154																						
23. Add Interest	1,648,571																						
24. Net Operating Income	\$2,893,725																						
25. Add: Depreciation And Amortization	2,017,851																						
26. Available For Interest And Principal Payments	\$4,911,576																						
27. Scheduled Interest And Principal Payments	3,070,939																						
28. Available For Plant Additions, Replacements, Etc.	\$1,840,637																						
29. Times Interest Earned Ratio (Line 24 / Line 23)	1.75																						
<table border="0" style="width: 100%;"> <tr> <td colspan="4">Item 14 (interest)</td> </tr> <tr> <td style="width: 40%;">Outstanding Loan Balance(s).....@</td> <td style="width: 10%;">4.86%</td> <td style="width: 20%;">\$13,568,813.00 =</td> <td style="width: 30%;">\$658,786</td> </tr> <tr> <td>Current Loan(s).....@</td> <td>4.57%</td> <td>\$21,655,600.00 =</td> <td>\$989,785</td> </tr> <tr> <td>Total Outside Financing.....@</td> <td></td> <td>=</td> <td></td> </tr> <tr> <td colspan="3">Total Interest.....</td> <td>\$1,648,571</td> </tr> </table>				Item 14 (interest)				Outstanding Loan Balance(s).....@	4.86%	\$13,568,813.00 =	\$658,786	Current Loan(s).....@	4.57%	\$21,655,600.00 =	\$989,785	Total Outside Financing.....@		=		Total Interest.....			\$1,648,571
Item 14 (interest)																							
Outstanding Loan Balance(s).....@	4.86%	\$13,568,813.00 =	\$658,786																				
Current Loan(s).....@	4.57%	\$21,655,600.00 =	\$989,785																				
Total Outside Financing.....@		=																					
Total Interest.....			\$1,648,571																				
<p>*Local Service Revenues Based On Approved Rates</p>																							

EXHIBIT B



**United States Department of Agriculture
Rural Development**

SEP 27 2005

Mr. Charles Gowder
President
Accipiter Communications, Inc.
2238 West Lone Cactus Drive
Phoenix, Arizona 85027

Dear Mr. Gowder:

We are pleased to advise that a loan in the amount of \$12,739,000 from the Rural Utilities Service and a loan in the amount of \$8,916,000 from the Rural Telephone Bank have been approved for your organization. The interest rate for each advance will be determined in accordance with our letter of September 23, 2005. The loan contract and other documents will be forwarded in the near future for execution. The loans are approved with the understanding that the loan contract will be authorized and executed by your organization and returned to us by the date which will be set forth in the letter transmitting the loan contract.

Sincerely,

A handwritten signature in black ink that reads "Jonathan P. Claffey". The signature is written in a cursive style.

JONATHAN P. CLAFFEY
Acting Assistant Administrator
Telecommunications Program
and
Acting Assistant Governor
Rural Telephone Bank
Rural Development, Utilities Programs

1400 Independence Ave, SW - Washington, DC 20250-0700
Web: <http://www.rurdev.usda.gov>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-6964 (voice or TDD).

EXHIBIT C

ACCIPITER COMMUNICATIONS, INCORPORATED

Exhibit A

BALANCE SHEET
DECEMBER 31, 2003 AND 2002

ASSETS

	December 31,	
	2003	2002
CURRENT ASSETS		
Cash and Working Funds	\$ 128,195	\$ 407,505
Cash - RUS Construction Funds	500	48,511
Accounts Receivable - Telecommunications (Less allowance for uncollectible accounts of \$1,738 in 2003 and \$8,394 in 2002)	20,197	12,311
Accounts Receivable - Other (Less allowance for uncollectible accounts of \$0)	119,065	113,202
Prepayments	37,768	27,845
Materials	189,095	199,591
	<u>\$ 494,820</u>	<u>\$ 808,965</u>
NONCURRENT ASSETS		
Investment in Non-Affiliated Organization	\$ 10,077	\$ 10,077
Deferred Charges	133,148	128,617
Unamortized Intangible Assets - Software	7,701	8,940
Other Noncurrent Assets	550	750
	<u>\$ 151,476</u>	<u>\$ 148,384</u>
PLANT, PROPERTY, AND EQUIPMENT		
Telecommunications Plant in Service	\$ 6,738,639	\$ 5,683,845
Plant Under Construction	156,361	521,310
	<u>\$ 6,895,000</u>	<u>\$ 6,205,155</u>
Accumulated Provision for Depreciation and Amortization	1,525,759	1,195,084
	<u>\$ 5,369,241</u>	<u>\$ 5,010,071</u>
	<u>\$ 6,015,537</u>	<u>\$ 5,967,420</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 302,000	\$ 262,000
Accounts Payable - Trade	36,708	66,960
Accounts Payable - Toll Settlements	23,359	33,651
Accounts Payable - Construction Contracts		262,911
Advanced Billing and Payments	10,244	9,525
Accrued Operating Taxes	44,285	65,727
Other Current and Accrued Liabilities	14,320	10,248
	<u>\$ 430,916</u>	<u>\$ 711,022</u>
LONG-TERM DEBT		
RUS Mortgage Notes (Less current maturities)	\$ 5,511,265	\$ 5,276,232
OTHER LONG-TERM LIABILITIES		
Accounts Payable - Related Party	\$ 50,000	\$ 50,000
STOCKHOLDERS' EQUITY		
Common Stock (\$.001 par; 10,000,000 shares authorized; 750 shares issued and outstanding)	\$ 1	\$ 1
Additional Paid-in Capital	631,997	631,997
Retained Earnings (Deficit)	(608,642)	(701,832)
	<u>\$ 23,356</u>	<u>\$ (69,834)</u>
	<u>\$ 6,015,537</u>	<u>\$ 5,967,420</u>

See accompanying notes to financial statements.

ACCIPITER COMMUNICATIONS, INCORPORATED

Exhibit B

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	December 31,	
	2003	2002
OPERATING REVENUE		
Local Network Services	\$ 86,376	\$ 64,918
Network Access Services	1,416,573	1,397,029
Billing and Collection	3	
Miscellaneous	3,107	2,534
Uncollectible Revenue	(8,742)	(1,705)
	<u>\$ 1,497,317</u>	<u>\$ 1,462,776</u>
OPERATING EXPENSES		
Plant Specific Operations	\$ 169,557	\$ 155,543
Plant Nonspecific Operations	21,512	56,101
Depreciation Expense	330,676	308,029
Amortization Expense	6,638	3,777
Customer Operations	61,117	26,616
Corporate Operations	468,858	388,776
	<u>\$ 1,058,358</u>	<u>\$ 938,842</u>
OPERATING INCOME	\$ 438,959	\$ 523,934
OPERATING TAXES	<u>84,092</u>	<u>98,351</u>
NET OPERATING INCOME BEFORE FIXED CHARGES	<u>\$ 354,867</u>	<u>\$ 425,583</u>
FIXED CHARGES		
Interest on Long-Term Debt	\$ 286,008	\$ 281,825
Other Interest	3,260	(150)
Allowance for Funds Used During Construction	(17,266)	
	<u>\$ 272,002</u>	<u>\$ 281,675</u>
NET OPERATING INCOME	<u>\$ 82,865</u>	<u>\$ 143,908</u>
NONOPERATING INCOME (EXPENSE)		
Interest and Dividend Income	\$ 856	\$ 5,678
Nonoperating Income	31,826	17,892
Special Charges	(22,357)	(2,101)
	<u>\$ 10,325</u>	<u>\$ 21,469</u>
NET INCOME	<u>\$ 93,190</u>	<u>\$ 165,377</u>

See accompanying notes to financial statements.

ACCIPITER COMMUNICATIONS, INCORPORATED

Exhibit C

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance - December 31, 2001	\$ 1	\$ 631,997	\$ (867,209)	\$ (235,211)
Net Income - 2002			<u>165,377</u>	<u>165,377</u>
Balance - December 31, 2002	\$ 1	\$ 631,997	\$ (701,832)	\$ (69,834)
Net Income - 2003			<u>93,190</u>	<u>93,190</u>
Balance - December 31, 2003	<u>\$ 1</u>	<u>\$ 631,997</u>	<u>\$ (608,642)</u>	<u>\$ 23,356</u>

See accompanying notes to financial statements.

ACCIPITER COMMUNICATIONS, INCORPORATED

Exhibit D

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	December 31,	
	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Exhibit B)	\$ 93,190	\$ 165,377
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Amortization	6,638	3,777
Depreciation	330,676	308,029
Deferred Charges	(4,531)	(37,587)
Accounts Receivable	(13,749)	3,393
Prepaid Expenses	(9,723)	(15,845)
Inventory	10,496	
Accounts Payable	(303,455)	221,331
Advanced Billing and Payments	719	(1,765)
Accrued Taxes	(21,442)	(4,853)
Other Current and Accrued Liabilities	4,072	4,097
Net Cash Provided by Operating Activities	<u>\$ 92,891</u>	<u>\$ 645,954</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant in Service	\$ (695,245)	\$ (564,249)
Additions to Intangible Assets		(5,072)
Net Cash Used in Investing Activities	<u>\$ (695,245)</u>	<u>\$ (569,321)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from RUS	\$ 550,088	\$ 155,000
Payments on Long-Term Debt to RUS	(275,055)	(247,278)
Net Cash Provided by (Used in) Financing Activities	<u>\$ 275,033</u>	<u>\$ (92,278)</u>
INCREASE (DECREASE) IN CASH	\$ (327,321)	\$ (15,645)
CASH - BEGINNING OF PERIOD	456,016	471,661
CASH - END OF PERIOD	<u>\$ 128,695</u>	<u>\$ 456,016</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 286,088	\$ 281,825
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

ACCIPITER COMMUNICATIONS, INCORPORATED

Exhibit A

BALANCE SHEET
DECEMBER 31, 2004 AND 2003

ASSETS

	December 31,	
	2004	2003
CURRENT ASSETS		
Cash and Working Funds	\$ 347,084	\$ 128,195
Cash - RUS Construction Funds	500	500
Accounts Receivable - Telecommunications (Less allowance for uncollectible accounts of \$1,732 in 2004 and \$1,738 in 2003)	24,585	20,197
Accounts Receivable - Other (Less allowance for uncollectible accounts of \$0)	129,583	119,065
Prepayments	19,057	37,768
Materials	<u>186,588</u>	<u>189,095</u>
	<u>\$ 707,377</u>	<u>\$ 494,820</u>
NONCURRENT ASSETS		
Investment in Non-Affiliated Organization	\$ 8,190	\$ 10,077
Deferred Charges	297,881	133,148
Unamortized Intangible Assets - Software	1,339	7,701
Other Noncurrent Assets	<u>560</u>	<u>550</u>
	<u>\$ 307,960</u>	<u>\$ 151,476</u>
PLANT, PROPERTY, AND EQUIPMENT		
Telecommunications Plant in Service	\$ 6,951,603	\$ 6,738,639
Plant Under Construction	<u>151,371</u>	<u>156,361</u>
	<u>\$ 7,102,974</u>	<u>\$ 6,895,000</u>
Accumulated Provision for Depreciation and Amortization	<u>1,885,784</u>	<u>1,525,759</u>
	<u>\$ 5,217,190</u>	<u>\$ 5,369,241</u>
	<u>\$ 6,232,527</u>	<u>\$ 6,015,537</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 340,000	\$ 302,000
Accounts Payable - Trade	91,262	36,708
Accounts Payable - Toll Settlements	35,360	23,359
Advanced Billing and Payments	14,587	10,244
Accrued Operating Taxes	29,147	44,285
Other Current and Accrued Liabilities	<u>10,350</u>	<u>14,320</u>
	<u>\$ 520,706</u>	<u>\$ 430,916</u>
LONG-TERM DEBT		
RUS Mortgage Notes (Less current maturities)	<u>\$ 5,534,883</u>	<u>\$ 5,511,265</u>
OTHER LONG-TERM LIABILITIES		
Accounts Payable - Related Party	<u>\$ 0</u>	<u>\$ 50,000</u>
STOCKHOLDERS' EQUITY		
Common Stock (\$.001 par; 10,000,000 shares authorized; 750 shares issued and outstanding)	\$ 1	\$ 1
Additional Paid-in Capital	681,997	631,997
Retained Earnings (Deficit)	<u>(505,060)</u>	<u>(608,642)</u>
	<u>\$ 176,938</u>	<u>\$ 23,356</u>
	<u>\$ 6,232,527</u>	<u>\$ 6,015,537</u>

See accompanying notes to financial statements.

ACCIPITER COMMUNICATIONS, INCORPORATED

Exhibit B

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	December 31,	
	2004	2003
OPERATING REVENUE		
Local Network Services	\$ 85,505	\$ 86,376
Network Access Services	1,476,717	1,416,573
Billing and Collection	49	3
Miscellaneous	2,340	3,107
Uncollectible Revenue		(8,742)
	<u>\$ 1,564,611</u>	<u>\$ 1,497,317</u>
OPERATING EXPENSES		
Plant Specific Operations	\$ 231,706	\$ 169,557
Plant Nonspecific Operations	58,831	21,512
Depreciation Expense	365,711	330,676
Amortization Expense	7,519	6,638
Customer Operations	43,151	61,117
Corporate Operations	448,242	468,858
	<u>\$ 1,155,160</u>	<u>\$ 1,058,358</u>
OPERATING INCOME	\$ 409,451	\$ 438,959
OPERATING TAXES	<u>70,686</u>	<u>84,092</u>
NET OPERATING INCOME BEFORE FIXED CHARGES	<u>\$ 338,765</u>	<u>\$ 354,867</u>
FIXED CHARGES		
Interest on Long-Term Debt	\$ 299,109	\$ 286,008
Other Interest	440	3,260
Allowance for Funds Used During Construction	180	(17,266)
	<u>\$ 299,729</u>	<u>\$ 272,002</u>
NET OPERATING INCOME	<u>\$ 39,036</u>	<u>\$ 82,865</u>
NONOPERATING INCOME (EXPENSE)		
Interest and Dividend Income	\$ 2,986	\$ 856
Rent Income	63,060	31,826
Special Charges	(1,500)	(22,357)
	<u>\$ 64,546</u>	<u>\$ 10,325</u>
NET INCOME	<u>\$ 103,582</u>	<u>\$ 93,190</u>

See accompanying notes to financial statements.

ACCIPITER COMMUNICATIONS, INCORPORATED

Exhibit C

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance - December 31, 2002	\$ 1	\$ 631,997	\$ (701,832)	\$ (69,834)
Net Income - 2003			93,190	93,190
Balance - December 31, 2003	\$ 1	\$ 631,997	\$ (608,642)	\$ 23,356
Additional Paid in Capital		50,000		50,000
Net Income - 2004			103,582	103,582
Balance - December 31, 2004	<u>\$ 1</u>	<u>\$ 681,997</u>	<u>\$ (505,060)</u>	<u>\$ 176,938</u>

See accompanying notes to financial statements.

ACCIPITER COMMUNICATIONS, INCORPORATED

Exhibit D

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Exhibit B)	\$ 103,582	\$ 93,190
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Amortization	7,519	6,638
Depreciation	365,711	330,676
Deferred Charges	(164,733)	(4,531)
Accounts Receivable	(14,886)	(13,749)
Prepaid Expenses	18,711	(9,723)
Inventory	2,507	10,496
Accounts Payable	66,555	(303,455)
Advanced Billing and Payments	4,343	719
Accrued Taxes	(15,138)	(21,442)
Other Current and Accrued Liabilities	(3,970)	4,072
Net Cash Provided by Operating Activities	\$ 370,201	\$ 92,891
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant in Service	\$ (215,777)	\$ (695,245)
Salvage Value of Plant Retirements	960	
Investment in Non-Affiliated Organization	1,887	
Net Cash Used in Investing Activities	\$ (212,930)	\$ (695,245)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from RUS	\$ 378,724	\$ 550,088
Payments on Long-Term Debt to RUS	(317,106)	(275,055)
Net Cash Provided by Financing Activities	\$ 61,618	\$ 275,033
INCREASE (DECREASE) IN CASH	\$ 218,889	\$ (327,321)
CASH - BEGINNING OF PERIOD	128,695	456,016
CASH - END OF PERIOD	\$ 347,584	\$ 128,695
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 299,109	\$ 286,088
Income Taxes	\$ 0	\$ 0
NONCASH INVESTING AND FINANCING ACTIVITIES		
During 2004, the company converted a long-term liability to equity. As a result of this transaction, Notes Payable- Related Parties were decreased by \$50,000 and Stockholders Equity was increased by \$50,000.		

See accompanying notes to financial statements.

EXHIBIT D

ACCIPITER COMMUNICATIONS, INC.

PRO FORMA BALANCE SHEET
December 31, 2005

ASSETS

CURRENT ASSETS

CASH AND WORKING FUNDS	1,107,194
CASH - REA CONSTRUCTION FUNDS	500
SAVINGS ACCOUNT	25,568
SPECIAL CASH DEPOSIT	50,000
TELECOMM. ACCTS REC LESS UNCOLL	24,397
OTHER ACCOUNTS RECEIVABLE	133,789
PREPAID ASSETS	17,056
OTHER CURRENT ASSETS	186,588
TOTAL CURRENT ASSETS	<u>\$ 1,545,093</u>

NONCURRENT ASSETS

INVEST IN NONAFFILIATED CO	3,780
OTHER NONCURRENT ASSETS	550
DEFERRED CHARGES	288,617
TOTAL NONCURRENT ASSETS	<u>\$ 292,947</u>

PROPERTY, PLANT AND EQUIPMENT

PLANT IN SERVICE	7,203,984
PLANT UNDER CONSTRUCTION	500,633
TELECOMMUN PLANT ADJUSTMENT	-
LESS ACCUM DEPR / AMORT	(2,163,700)
TOTAL PROPERTY, PLANT &	<u>\$ 5,540,917</u>

TOTAL ASSETS

\$ 7,378,957

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

ACCOUNTS PAYABLE	70,256
ACCOUNTS PAYABLE - TOLL	35,731
ACCOUNTS PAYABLE - AFFILIATE	-
ADVANCE BILLING & PAYMENTS	14,587
CUSTOMER DEPOSITS	-
ACCRUED OPERATING TAXES	52,253
OTHER CURRENT AND ACCRUED	7,145
TOTAL CURRENT LIABILITIES	<u>\$ 179,972</u>

LONG TERM DEBT

REA MORT. NOTES - LESS CURR	6,233,341
RTB MORT NOTES LESS CURR	-
CO-BANK NOTES	-
TOTAL LONG TERM DEBT	<u>\$ 6,233,341</u>

OTHER LIABILITIES & DEFERRED CREDITS

ACCOUNTS PAYABLE - RELATED	-
TOTAL OTHER LIAB & CREDITS	<u>\$ -</u>

EQUITIES

CAPITAL STOCK	1
ADDITIONAL PAID-IN CAPITAL	681,997
RETAINED EARNINGS	283,646
TOTAL EQUITIES	<u>\$ 965,644</u>

TOTAL LIABILITIES & EQUITY

\$ 7,378,957

ACCIPITER COMMUNICATIONS, INC.
2005 PRO FORMA INCOME STATEMENT

OPERATING REVENUES	
LOCAL NETWORK SERVICES	\$86,196
NETWORK ACCESS SERVICES	\$1,711,626
BILLING AND COLLECTION REVEUE	\$52
MISCELLANEOUS	\$2,304
TOTAL OPERATING REVENUE	<u>\$1,650,178</u>
OPERATING EXPENSES	
PLANT SPECIFIC OPERATIONS	\$295,812
PLANT NONSPECIFIC OPERATION EXPENSE	\$72,945
DEPRECIATION EXPENSE	\$369,163
AMORTIZATION EXPENSE	\$12,568
CUSTOMER OPERATIONS	\$90,524
CORPORATE OPERATIONS	\$958,161
TOTAL OPERATING EXPENSES	<u>\$1,799,174</u>
OPERATING MARGINS	(\$148,996)
OPERATING TAXES	<u>\$70,685</u>
NET OP MARGINS BEFORE FIXED CHARGES	<u>(\$219,681)</u>
FIXED CHARGES	
INTEREST ON FUNDED DEBT	\$301,263
OTHER INTEREST EXPENSE	\$0
TOTAL FIXED CHARGES	<u>\$301,263</u>
NET OPERATING MARGINS	<u>(\$520,944)</u>
NONOPERATING MARGINS	
INTEREST & DIVIDENDS	\$2,632
OTHER NONOPERATING GAINS/LOSSES	\$0
OTHER NONOPERATING GAIN/LOSS-RENT	\$29,641
ALLOW - FUNDS USED DURING CONSTRUCTION	\$8,477
SPECIAL CHARGES	\$1,150,000
TOTAL NONOPERATING INC/EXP	<u>\$1,190,751</u>
NET PROFIT / LOSS	<u><u>\$669,806</u></u>