ATTACHMENT A

USAC **Universal Service Administrative Company**

Administrator's Decision on Remand

June 3, 2005

BY REGISTERED U.S. MAIL

Brad E. Mutschelknaus
Darius B. Withers
Counsel to Alliance Broadband Corporation
Kelley Drye & Warren LLP
1200 19th Street, NW, Suite 500
Washington, DC 20036

Re: Alliance Broadband Corporation (Filer ID # 820411)

Dear Messrs. Mutshelknaus and Withers:

On January 10, 2005 Alliance Broadband Corporation (Alliance) filed certain documentation with the Universal Service Administrative Company (USAC), in connection with the submission of a 2000 annual Telecommunications Reporting Worksheet (Worksheet or Form 499-A), reporting revenue for 1999 and originally due to USAC on April 3, 2000. Pursuant to an order issued on December 9, 2004 by the Wireline Competition Bureau (WCB) of the Federal Communications Commission (FCC),[1] USAC has reviewed Alliance's filing and supporting documentation. For reasons explained in detail below, USAC will not accept Alliance's 2000 Form 499-A due to Alliance's failure to establish good cause for its submission.

The FCC's *Form 499-A Order*, among other things, adopted a one-year deadline for revisions to Worksheets.[2] The *Form 499-A Order* also directed USAC to accept revised Worksheets from prior years, provided USAC received those revisions between the release date of the *Form 499-A Order*, December 9, 2004, and its effective date, January 10, 2005 (the Open Period), or prior to the release date of the *Form 499-A Order* where USAC had not yet acted on the filing. The *Form 499-A Order* also required companies to demonstrate "good cause" for submitting the revision beyond the one-year revision

[1] *See Federal-State Joint Board on Universal Service; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms; Changes to the Board of Directors of the National Exchange Carrier Association, Inc.*, Order, DA 04-3669 (WCB rel. December 9, 2004) (*Form 499-A Order*).

[2] FCC Forms 499-A and 457.

window and permitted companies with pending revisions to supplement the record during the Open Period.

To establish good cause, for each Worksheet revision submitted, a company must provide:

- A satisfactory explanation of the cause for any changes; and
- Supporting documentation reasonably sufficient to establish accuracy by showing how the revised information derives from corporate financial records.[3]

With respect to cases pending at the FCC that presented the Worksheet filing deadline issue, the FCC remanded those cases to USAC for limited re-consideration. As the FCC explained:

> To the extent that a request for review encompasses issues in addition to revised 499-A issues, we remand to USAC only the portion of the request that deals with revised 499-A filings, and retain the remainder of the request for disposition by the Bureau or Commission.[4]

<u>Procedural Background</u>

Alliance filed the 2000 Form 499-A at issue on April 13, 2001, more than one year after the initial due date of April 3, 2000. On June 7, 2001, USAC rejected the form as untimely filed. On July 2, 2001, Alliance sought review of this rejection pursuant to 47 C.F.R. § 54.719(b) (USAC Appeal). On October 1, 2001, USAC affirmed the form rejection (USAC Appeal Decision) due to Alliance's failure to provide "an explanation of the cause for the change along with documentation showing how the revised figures derive from corporate financial records."[5] USAC also concluded that Alliance's filing improperly sought to exclude revenue associated with the customer base of a company that Alliance had purchased prior to the filing date for the form.[6]

On October 29, 2001, Alliance filed with the FCC a Petition for Review of USAC's Appeal Decision pursuant to 47 C.F.R. § 54.719(c) (FCC Appeal) where it remains pending. The *Form 499-A Order* partially remanded Alliance's FCC Appeal to USAC.

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[3] *See Form 499-A Order* at ¶ 13 ("USAC shall only revise contribution obligations to the extent that the carrier has provided accurate and legitimate reasons for filing late and for revising the obligation.").

[4] *See id.*

[5] *See USAC Appeal Decision* at 2 (citing 2000 Form 499-A Instructions at 8). USAC treated Alliance's filing as a "revised" filing due to Alliance's failure to timely file the original 2000 Form 499-A. As required by FCC regulations, USAC estimated Alliance's original 2000 Form 499-A. *See* 47 C.F.R. § 54.709(d) ("If a contributor fails to file a . . . Worksheet by the date on which it is due, [USAC] shall bill that contributor based on whatever relevant data [USAC] has available . . . .").

[6] *See USAC Appeal Decision* at 2.

Explanation of Decision:

USAC rejects Alliance's 2000 Form 499-A for a second time because Alliance again seeks to exclude from its revenue base revenues associated with certain telecommunications assets owned by Alliance during the billing period covered by the 2000 Form 499-A. USAC also rejects Alliance's 2000 Form 499-A because Alliance has failed to provide any documentation "showing how [its] revised [revenue] figures derive from corporate financial records."[7]

The 2000 Form 499-A was used to bill contributors' USF obligations arising from July through December 2000. Alliance does not dispute that it purchased the customer base of another company in December 1999 and thus Alliance owned and was receiving revenue (and possibly collecting USF fees) from those customers during the July through December 2000 billing period. Under the contribution methodology in effect in 2000, Alliance was required to report the historical revenue associated with all of the assets it owned during the billing period in order for USAC to determine the appropriate USF contributions due that period. (In contrast, under the current methodology, contributors are required to *project* the revenue of assets owned during the billing period.)

Alliance questions "whether USAC has authority to hold liable the purchaser of assets of another carrier, when the seller company continues to operate and the asset purchase agreement between the companies does not provide for the assumption of regulatory obligations."[8] This question reflects an inaccurate understanding of when the USF contribution obligation arises. The obligation does not arise with the accrual of the historical revenue but arises during the billing period covered by the Form 499-A. Looking to historical revenue – or looking to projected revenue as is done now – are simply different methods established by the FCC to assess "current" obligations.[9]

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[7] *See Form 499-A Order* at ¶ 13 (citing 2004 Form 499-A Instructions at 11); *see also* 2000 FCC Form 499-A Instructions at 8 ("Revisions . . . must be accompanied by . . . documentation showing how the revisited figures derive from corporate financial records.")

[8] *See* Letter from Brad E. Mutschelknaus and Darius B. Withers, Attorneys for Alliance, to Jeffrey A. Mitchell, USAC Associate General Counsel 5 (January 10, 2005) (Alliance Letter on Remand).

[9] The Commission has described the distinction between the accrual of revenue and the assessment of the USF obligation in the following manner:

> [Under the old methodology] [c]ontributions were based on the reporting of billed end-user telecommunications revenues from the prior year. Therefore, the interval between the accrual of revenues by contributors and the assessment of universal service contributions based on those revenues originally was 12 months.
>
> * * * *
>
> [Under the new methodology], instead of assessing universal service contributions based on revenues accrued as much as six months prior, USAC will assess contributions based on projections provided by contributors of their . . . revenues for the following quarter. Because contributors will be assessed in the period for which revenues are projected, the modified methodology will eliminate the interval between the accrual of revenues and the assessment of universal service contributions based on those revenues.

In conclusion, USAC will not accept and process Alliance's 2000 Form 499-A filing due to Alliance's exclusion of required revenue from its contribution base. In addition, Alliance has again failed to provide documentation that would show how the reported revenue information derives from corporate financial records.[10]

Decision of the Administrator: Alliance's request that USAC accept Alliance's 2000 FCC Form 499-A filing is denied.

If you disagree with USAC's Decision, you may file a further appeal with the FCC. Detailed instructions for filing appeals are available at:

http://www.universalservice.org/serviceprovider/contributorappeals.asp

Sincerely,

USAC

Universal Service Administrative Company

cc: Regina Dorsey, FCC Office of Managing Director
Warren Firschein, FCC Wireline Competition Bureau
Hillary DeNigro, FCC Enforcement Bureau

See Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24952, ¶¶ 11, 29 (2002) (*Interim Contribution Methodology Order*) (citations omitted).

[10] Alliance could, for example, have provided documentation that would have accurately reflected both the revenue from the purchased customer base that Alliance claims should not be reported and revenue from Alliance's previously owned assets. Indeed, because Alliance failed to timely file its 2000 Form 499-A, USAC based Alliance's billings for January through December 2000 solely upon the historic revenue of the purchased customer base (which the previous owners mistakenly reported to USAC). *See* fn. 5, above.

ATTACHMENT B

COPY

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (the "Agreement") is entered into this 23rd day of December, 1999, by and between **U.S.REPUBLIC COMMUNICATIONS, INC.**, a Texas corporation ("USRC"), located at 4800 Sugar Grove Blvd, Suite 500, Stafford, Texas, and **ALLIANCE GROUP SERVICES, INC.**, a Delaware corporation ("AGSI"), located at 1221 Post Road East, Westport, Connecticut 06880.

VARTEC TELECOM HOLDING COMPANY, a Delaware corporation ("VARTEC"), joins herein for the purpose of evidencing majority shareholder approval and joining in certain of the conveyances and representations, as herein applicable.

1. Definitions: In this Agreement, the following terms shall have the following meanings:

1.1 The term "Assets" is defined as including the following items:

a) all of the long distance Customer base and accounts (the "Customers") owned by USRC on the Transfer Date; and
b) the independent agent agreements described on Exhibit "A" attached hereto; and
c) all Letters of Agency, third party verification tapes and records for Customers;
d) the trade name 'U. S. Republic Communications' (Trade Name Registration # 2,003,500, subject to all existing third party rights to use; and
e) the Billing and Collection Agreement dated November 8, 1996 between VarTec and OAN;
f) the Switchless Resale Agreement dated November 1, 1998 between USRC and EqualNet Corporation;
g) all other records relating to said Customer base and accounts; and

1.2 The term "Transfer Date" shall mean the date, not later than December 23, 1999, that the Customer receivables for AT&T billing cycles ending in December, 1999 are transferred from USRC to AGSI for rating, billing, collecting and management purposes in accordance with Article 3 herein.

1.3 The term "Interim Plan" shall refer to the management of the Customers during the period between the Transfer Date and the Closing Date;

1.4 The term "Closing Date" shall mean the date on which the closing of the Asset sale from USRC to AGSI occurs, after all regulatory consents and approvals have been obtained in accordance with Article 10.

2. DUE DILIGENCE.

USRC will provide AGSI access to all of the records relating to the Customers in order for AGSI to conduct a due diligence review of the Assets. AGSI will have until Monday, 5 p.m., December 20 , 1999 to conduct a due diligence review of the Assets, and to notify USRC in writing of its election to accept Customers and to proceed to closing or cancel this agreement. Failure to timely respond in writing to USRC shall be deemed acceptance of the Agreement.

3. PURCHASE AND SALE

On the terms and subject to the conditions hereafter expressed, Seller agrees to sell, transfer, assign and convey to Buyer at the Closing the Assets free and clear of all liens and encumbrances of any kind. After the Transfer Date and prior to the Closing, the parties agree to manage the Assets in accordance with the terms set out in the Interim Plan in Article 5 hereafter.

4. PURCHASE PRICE FOR ASSETS.

AGSI agrees to pay to USRC a total purchase price of $2,500,000.00 for the Assets, payable as follows:

1. AGSI agrees to pay USRC by wire transfer $1,500,000.00 at the Transfer Date.

2. AGSI agrees to pay USRC an additional $1,000,000.00, payable in 4 equal, quarterly installment payments of $250,000.00 each commencing 90 days after the December 23, 1999 and quarterly thereafter. AGSI will not be entitled to reduce or offset any installment payment to USRC herein unless and except for fraud or material breach of representations or warranties by USRC. In the event of dispute as to any reduction by AGSI, the parties shall be entitled to enforce any rights afforded by this Agreement.

5. INTERIM PLAN PENDING REGULATORY APPROVALS.

(a) After payment of the Purchase Price, AGSI will take over responsibility for and shall commence rating, billing collecting and management of all Customer receivables for AT&T billing cycles ending in December, 1999, and thereafter. USRC agrees to transfer to AGSI the AT&T billing tapes for cycles ending in December, 1999.

(b) AGSI agrees to be responsible for, and shall reimburse USRC, all AT&T usage costs and expenses associated with the billing tapes transferred to AGSI, including but not limited to, all associated fees and charges, such as PIC-C and USF incurred for the December, 1999 billing cycles. AGSI agrees to reimburse USRC for the AT&T usage charges within fifteen (15) days of date billed by AT&T. AGSI shall thereafter be solely responsible for all associated AT&T usage costs and expenses thereafter associated with the Customers, including tax compliance and reporting.

(c) The Purchase Price will be payable by AGSI to USRC on December 23, 1999.

(d) AGSI expressly agrees to assume all agent commission obligations and EqualNet contract obligations after the Transfer Date.

(e) AGSI agrees that it will continue to use the 'U.S. Republic Communications' name and the tariffed rates of USRC in effect during the interim management period to bill the end user Customers prior to final Closing. After Closing, ASGI shall have the full right to use of the name 'U.S. Republic Communications' as it deems necessary.

(f) AGSI further agrees to be responsible for all Customer service obligations after December 23, 1999 associated with the Customer base, and agrees to timely supply all Customers an 800# for AGSI Customer service. AGSI will be responsible for issuing credits for any revenues in USRC's name with respect to all AT&T tapes billed by AGSI.

(g) AGSI agrees to accept the Assets pending receipt of all regulatory approvals provided for in Article 7 hereafter.

(h) At the Transfer Date, VarTec agrees to assign and transfer to AGSI 1) that Billing and Collection Agreement between VarTec and OAN Services, Inc. dated November 8, 1996, subject to consent of OAN, and 2) that Switchless Resale Agreement dated November 1, 1998 between EqualNet Corporation and VarTec. AGSI will be solely responsible after the Transfer Date for servicing the Customer base through the OAN agreement and for all rights and obligations arising from the EqualNet agreement. 3) all records related to the Assets, including agent agreements.

6. OBLIGATIONS IN CONNECTION WITH TRANSFER OF ACCOUNTS.

(a) USRC agrees to provide AGSI with available Letters of Agency, third party verification tapes or other such items evidencing verification under 47 CFR 64.1100 and other such applicable state verification statutes, rules and regulations authorizing USRC to select the long distance carrier for each of the Customers. AGSI agrees to allow USRC to use of any verification tapes transferred to it that are needed by USRC after the Transfer Date.

(b) During the Interim Plan period, USRC agrees to fully cooperate and assist AGSI in the timely transfer, transition and assistance of Customers accounts to AGSI, including but not limited to, assisting with the transfer of Customer data records to AGSI in a usable format, and such items as a joint letter from the presidents of USRC and AGSI welcoming USRC Customers to AGSI, notifying them of any changes in their service and pricing structure, or other correspondence agreed to by the parties

(c) AGSI will notify USRC of request for credits for periods prior to the Transfer Date. USRC will pay credit requests for Customer billings for periods prior to the Transfer Date in a manner consistent with USRC's customary service procedures.

7. REGULATORY APPROVALS.

(a) USRC will be responsible for making any applicable state and federal regulatory filings on behalf of itself and AGSI in jurisdictions in which approvals are required, such as state public utility commissions and the Federal Communications Commission, after the Transfer Date and prior to Closing Date. AGSI agrees to fully cooperate with USRC to complete all filings by providing information, signatures, documents, certifications and similar items as needed and/or required by any and all state and federal regulatory agencies responsible for reviewing and approving this transaction. AGSI shall supply the requested information to USRC or perform the requested act (e.g., execution of all applications for regulatory approval, etc.) no later than the next business day after the request is made by telephone, electronic mail, facsimile, overnight delivery or other means of delivery. USRC agrees to initiate said filings within ten (10) business days of the Transfer Date of this Agreement, and all filings shall be made by USRC and awaiting regulatory approval within thirty (30) business days of the Transfer Date of this Agreement, provided AGSI provides USRC with the required information for the filings or unless otherwise agreed to by the parties. USRC agrees that it will not send any correspondence to any end user Customer pursuant to regulatory consents and approvals regarding this transaction without 48 hour advance notice to AGSI for their review, comment and approval, which consent will not be unreasonably withheld. USRC reserves the right to send revised correspondence after 48 hours.

(b) This Agreement cannot be canceled by any party that fails to cooperate to timely make all filings required by law to receive approval from state and regulatory agencies. In the event any approval is not obtained for whatever reason, but approvals are obtained in states representing over 75% of the Customers, then the parties agree to proceed to Closing for all Customers located in states where approvals have been received. The parties agree to mutually pursue the remaining regulatory approvals in order to Close the purchase and sale of the remaining Customers in a timely manner. The purchase price will be proportionately reduced where approvals cannot be obtained.

(c) In the event regulatory approvals cannot be obtained from states representing over 75% of the Customer base, then either party shall have the right to cancel the Agreement and AGSI shall return the Customer information to USRC and/or VarTec. In the event of cancellation, this contract will be dissolved as if this Agreement never occurred, and the parties agree to provide a full accounting of all purchase monies received by USRC and revenues received by AGSI relating to the Customer base discussed herein.

(d) USRC will be responsible for all filing fees charged by the applicable state and federal agencies to obtain regulatory consents to sale of the Assets, provided however AGSI will remain responsible, and shall reimburse USRC, for any required AGSI regulatory filings.

(e) USRC further agrees to complete and furnish to AGSI such other documentation as may be required under either state or federal laws pertaining to the transfer of the Customer base subject to this agreement for the purpose of complying with any bulk sales or other statutes for the transfer of a major asset of a transferor or for complying with any statute and/or regulation.

8. SELLER REPRESENTATIONS AND WARRANTIES.

USRC and VarTec represent and warrant that:

ATTACHMENT C

NECA

NATIONAL EXCHANGE CARRIER ASSOCIATION INC

Form 499-A Data Collection Agent
80 South Jefferson Road
Whippany, NJ 07981
973-884-8094
Fax: 973-560-4434
fnieto@neca.org

FAX TRANSMISSION COVER SHEET

Date:	06/21/01
To:	Larry Breton
Fax:	616-349-8525
Sender	Fabio Nieto

YOU SHOULD RECEIVE 5 PAGE (S), INCLUDING THIS COVER SHEET. IF YOU DO NOT RECEIVE ALL THE PAGES, PLEASE CALL 973-560-4400.

Larry,

Feel free to contact me with any questions.

Thank you,
Fabio Nieto
National Exchange Carrier Association

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Universal Service Administrative Company
Board of Directors Meeting

ACTION ITEM

Approval of Reporting Requirements for Companies Involved in the Transfer and/or Sale of Assets

Issue:

Board approval of reporting requirements for the FCC [illegible] of contribution reports for companies involved in the transfer and/or sale of assets.

Background – Analysis – Justification:

Commission rules require carriers that contribute to the Universal Service Fund to file semi-annual worksheets reporting on their revenue from the [illegible]. The requirement to file a worksheet is determined by whether the carrier is providing interstate telecommunications services to the public on the date of the filing. In order to formalize the policy and procedures to implement the FCC rules, the Board is asked to review and adopt procedures for companies involved in the transfer and/or sale of assets.

Proposed Requirements for Filing Forms:
(Assumes revenue for reporting period is **not** *de minimis*.)

1) If a company is dissolved at the filing date, even though it may have generated revenue during the time period being reported on the filing due date, the company is not required to complete a form, and therefore the company does not incur contribution liabilities in the future.

   Example: a company dissolves on 2/1/99; the filing due date for revenue generated January – December 1998 is due April 1, 1999; therefore, the company is not required to file and will not incur any USF obligations for 3Q99 and 4Q99. This company will also not need to file on September 1, 1999. This procedure reinforces the fact that a current liability exists, regardless of the method by which that liability is calculated.

   Question Presented: If a company is dissolved on 2/1/99 and USAC is currently billing this company, then when does the company's liability end? Is it at the end of the 1Q99, or at the end of invoices utilizing the last form the company filed (*i.e.*, June 1999- 2Q99)?

   Answer: a company facing this situation must complete the entire quarter's invoices that include the dissolution date, which in this example includes January, February, and March 1999. This supports a quarterly funding obligation tied to a quarterly rate.

2) If a company is no longer providing interstate telecommunications services at the filing date, but provides intrastate and/ or international only or provides other non-telecommunications services, the company does not need to report the telecommunications revenue it generated during the time period reported on the filing due date.

   Example: A company no longer provides interstate telecommunications after 2/1/99; the filing due date for revenue generated January – December 1998 is April 1, 1999; therefore, the company does not have to file on April 1, 1999, nor does it need to file on September 1, 1999. This company would be required to continue making payments into the fund for January, February, and March. This procedure is based on the fact that the USF obligation is a current liability borne only by companies that are currently providing interstate telecommunications services.

Companies in Bankruptcy:

1) Determination of what invoices fall under pre- and post-petition: Because an entire quarter's liability is incurred on the first day of the quarter, and because each monthly invoice represents one-third of that quarter's liability, USAC cannot collect any invoices for the entire quarter (even though the last third of a bankrupt company's quarterly contribution may not be sent in the form of an invoice until mid-March).

   Example: A company filed for bankruptcy on 2/1/99. All open invoices prior to and including March 1999 must be taken off current invoicing, and be reported on the Proof of Claim filed with the appropriate bankruptcy court.

   Reporting of revenue that was generated pre-petition: A company filing Chapter 11 on 2/1/99 is still responsible for completing the Form 499 Telecommunications Reporting Worksheet due on April 1, 1999, (reporting January 1 through December 31, 1998, revenue) and September 1, 1999, (reporting January 1 through June 30, 1999, data), even though the revenue was generated prior to the Chapter 11 petition date.

   Question Presented: What if a company insists that because all of the revenue on the April 1 form was revenue generated prior to its bankruptcy petition date, any liabilities incurred because of that revenue is also protected?

   Answer: FCC rules state that in order to calculate current universal service liability, a firm must calculate a rate against prior period revenue. The FCC could have also required a firm to calculate a rate against estimated future revenue, against their number of employees, or against their number of minutes of service, etc. The key is that it is considered a current liability regardless of how the liability is calculated. In addition, in its 10/6/99 Memorandum Opinion & Order & 17th Order on Reconsideration, the FCC reiterated the use of prior period revenues to calculate current obligation.

2) The USF obligation is not a tax; therefore, universal service obligations cannot be treated as a non-dischargeable tax liability in the bankruptcy proceeding.

Sale of Customer Base Asset (does not involve a Bankruptcy):

1) The date of sale listed on the Asset Purchase Agreement or similar document is the key date when completing the following procedures; **not** the date the purchaser starts using the assets or the date the FCC approves the sale.

Example: Company A only sells a portion of its customer [illegible] Base) on 2/15/99 to Company B, and is still in operation. Company A is responsible for reporting Sold Customer Base revenue for the period January 1 – December 31, 1998, on the April 1 worksheet. Company A must also report Sold Customer Base revenue for January 1 through February 15, 1999 on the September 1 worksheet. Company B must report Sold Customer Base [illegible] through June 30, 1999, on the September 1, 1999, worksheet.

It is encouraged that Company A (selling party) review the Asset Purchase Agreement to insure that the agreement reflects the continued universal service obligation (until June 2000) of Company A for assets that Company B (purchasing party) is receiving, and include an estimate [illegible] It is the responsibility of the seller to include this in the sale [illegible] not pro-rate invoices.

Example: Company A sells its entire Customer Base to Company B on 2/15/99. Company A is dissolved on 2/15/99. Company A is responsible for paying contributions through the end of 1Q99 (January, [illegible] Company B must pay April through June 1999 invoices. Company B is [illegible] reporting the customer base revenue for January 1 through December 31, 1998, on its April 1, 1999, worksheet (even though the revenue was generated by the customer base while owned by Company A). For calculating Company B's July through December 1999 invoices, we will take the April 1999 form filed by Company B and subtract the September 1998 filings for both Company A and B.

Sale of Customer Base Asset (Bankruptcy involved):

1) Company A in Bankruptcy (filed prior to 1Q99) sells entire customer base to Company B on 2/15/99. Company A must complete paying post-petition invoices until the end of that quarter (January, [illegible] not have any future obligation, unless it pursues more [illegible] new revenue. They must report the new revenue from the new customers on the next applicable worksheet. Company B does not have to report any revenue, or pay any obligations as a result of the purchased assets, until September 1999. On the September form, Company B will report revenue generated 2/15/99 – 6/30/99.

2) Company A in Bankruptcy (filed prior to 1Q99) sell[illegible] Company B on 2/15/99. Company A must pay post-petiti[illegible] is responsible for reporting January 1 – February 15, 1999, invoices on its September 1999 form. Company B must report February 15 forward revenue on its worksheet. Because Company B will not have an obligation from revenue generated by the customer base purchased by Company A in bankruptcy, there is no need to include a continued obligation in the sale price.

Recommended USAC Executive Committee Action:

APPROVAL OF THE FOLLOWING USAC EXECUTIVE COMMITTEE RESOLUTION:

RESOLVED, That the USAC Executive Committ[illegible]nds to the USAC Board of Directors to direct staff to implement the foregoing Procedures for the Required Filing and Follow-up of Contribution Reports for Companies involved in the Transfer and/or Sale of Assets as presented, and directs staff to apply the stated procedures and provide follow-up on reporting companies as noted.

Recommended USAC Board of Directors Action:

APPROVAL OF THE FOLLOWING USAC BOARD OF DIRECTORS RESOLUTION:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to [illegible] foregoing Procedures for the Required Filing and Follow-up of Contribution Reports for Companies involved in the Transfer and/or Sale of Assets as presented, and directs staff to apply the stated procedures and provide follow-up on reporting companies as noted.

Bellucci, Vicky – *by telephone*	MCIWorldCom
Blackwell, Mel	USAC
Flannery, Irene	FCC
Harrison, Gina	NECA
Howard, Cathy	USAC
Moore, Kate	USAC
Ricker, John	NECA
Snegireff, Petre	PricewaterhouseCoopers

Action Items

a1. Approval of the Minutes. On a motion duly made and seconded, the Board approved the minutes, as distributed, of the quarterly meeting of Tuesday, **October 26, 1999.**

On a motion duly made and seconded, the Board unanimously agreed at 9:03 a.m. Eastern Time to go into *Executive Session* for the purpose of discussing USAC financial and corporate issues, and to discuss current procurement issues. On a motion duly made and seconded, the Board unanimously agreed at 9:32 a.m. Eastern Time to adjourn from *Executive Session* and reconvene in Open Session to report out the discussion and the action of the Board.

Executive Session

i13. Corporate and Financial Issues. USAC has been notified informally by FCC staff that the FCC is considering categorizing the Universal Service Fund as "federal funds" for accounting and financial reporting purposes. The FCC and USAC staff are working together to determine the ramifications of such a change. USAC has communicated its need to the FCC for formal written direction from the FCC prior to making significant operational changes. Ms. Parrino will keep the Board members informed as developments warrant.

Contract and Request for Proposals (RFP) Review. Mr. Barash reported that the RFP process for programmatic support services for the Schools and Libraries and the Rural Health Care Programs is on schedule and going well. USAC anticipates receiving bids from several firms and has established an internal evaluation team to consider the proposals.

Action Items (Continued)

a2. Annual Election of Officers, Officers' Terms, Election of Committee Chairs and Vice-Chairs, and Restructuring of the Executive Committee. Ms. Parrino summarized the resolutions as recommended by the Nominating Committee.

On a motion duly made and seconded, the Board unanimously *(except as noted)* adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee that: (1) in addition to the annual election of officers, all Committee chairs and vice- chairs shall also be elected annually; (2) the first election for Committee chairs and vice-chairs shall occur at the election of officers at the January 2001 Board of Directors meeting; (3) there shall be no term limits imposed on officer and Committee chair and vice-chair positions; and (4) there shall be no automatic succession of positions; and,

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee to elect Mr. Frank Gumper as Chair of the Board of Directors; Dr. Henry Marockie as Vice-chair, Mr. Ed Eichler as Secretary, and Mr. Wayne Rehberger as Treasurer for the term of one year that shall begin at the conclusion of the January 2000 Board meeting and that shall conclude at the close of the January 2001 Board meeting; and,

RESOLVED FURTHER, That the USAC Board of Directors elects Ms. Cheryl L. Parrino as CEO of the Universal Service Administrative Company for the term of one year that shall begin at the conclusion of January 2000 Board meeting and that shall conclude at the close of the January 2001 Board meeting *(Ms. Parrino abstained.)*; and,

RESOLVED FURTHER, That the USAC Board of Directors elects Mr. D. Scott Barash as Assistant Secretary and Mr. Robert Haga as Assistant Treasurer of USAC for the term of one year that shall begin at the conclusion of the January 2000 Board meeting and that shall conclude at the close of the January 2001 Board meeting; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Nominating Committee to restructure the Executive Committee, and that, effective at the conclusion of the January 2000 Board meeting, the Executive Committee of the USAC Board of Directors shall consist of the following nine members: the Chair of the High Cost and Low Income Committee, the Chair of the Rural Health Care Committee, the Chair of the Schools and Libraries Committee, the Chair of the USAC Board, the Vice-Chair of the USAC Board, the Secretary of the USAC Board, the Treasurer of the USAC Board, the most recent past Chair of the USAC Board, and the Chief Executive Officer of USAC; and,

RESOLVED FURTHER, That the USAC Board of Directors appoints to the Executive Committee, effective at the conclusion of the January 2000 Board meeting, the following members of the USAC Board of Directors: the Chair of the High Cost and Low Income Committee, the Chair of the Rural

Health Care Committee, the Chair of the Schools and Libraries Committee, the Chair of the USAC Board, the Vice-Chair of the USAC Board, the Secretary of the USAC Board, the Treasurer of the USAC Board, the most recent past Chair of the USAC Board, and the Chief Executive Officer of USAC.

The Board expressed concern that nine members on the Executive Committee is more than is customary for such a committee and DIRECTED the members to monitor the meetings throughout the upcoming year for any problems due to such a large group and to recommend any changes in membership to the Board if the Committee feels such an action is warranted.

Ms. Parrino clarified for the Board that Committee Chairs and Vice-Chairs are elected by the full Board but at the recommendation of each respective Committee. In the past, the Board has not rejected any recommendations from the Committees for Committee Chairs and Vice-Chairs.

On behalf of the whole Board, Mr. Gumper thanked Ms. Rosenblum for her service as Chair on the Board. He announced that since he will be taking over the Chair of the Board position, he intends to step down as a member of the Schools and Libraries Committee. Ms. Rosenblum stated that the appointment of a new member to the Schools and Libraries Committee to replace Mr. Gumper would take place under the Miscellaneous Action Item of the meeting. Ms. Parrino informed the Board that Mr. Gumper represented service providers on the Schools and Libraries Committee.

a3. Approval of an Uncollectible Write-off Policy. Ms. Parrino reported that the Executive Committee is recommending to the Board to adopt a policy establishing how to handle uncollectible contributions. USAC staff cannot and does not recommend writing off uncollectible amounts; only the FCC has the authority to waive or otherwise modify a carrier's contribution requirement.

On a motion duly made and seconded, the Board unanimously adopted the following resolution: RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to direct staff to establish an accounting reserve against uncollectible accounts receivable in conformity with generally accepted accounting principles and to direct staff to continue the current practice of stating accounts receivable balances from all companies regardless of collectibility in the accounts receivable aging analysis.

a4. Approval of Reporting Requirements for Companies Involved in the Transfer and/or Sale of Assets. Mr. Haga explained that USAC has followed the policies set forth in the issue paper; staff is now requesting formal Board approval of the procedures. The Board DIRECTED staff to clearly state in the procedures that parties to a sale of assets may negotiate arrangements to handle the reporting of revenue with respect to those assets and that USAC would honor specific obligations when provided with documentation which obligates one party

to report the revenues associated with the assets for Universal Service purposes.
On a motion duly made and seconded, the Board unanimously adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to direct staff to implement the foregoing Procedures for the Required Filing and Follow-up of Contribution Reports for Companies involved in the Transfer and/or Sale of Assets as presented, *and* directs staff to apply the stated procedures and provide follow-up on reporting companies as noted.

a5. Modification of USAC Investment Strategy. Ms. Parrino informed the Board that the FCC has requested USAC to move its investments into federal government-issued securities. Board members questioned the authority of the FCC to make such a request in light of the fact that such a change could potentially decrease the returns on the investments. The following resolution was duly made and seconded, but no action was taken on the motion: Resolved, that the USAC Board of Directors accepts the recommendation of the Executive Committee to retain the existing USAC investment guidelines and adopt the investment strategy presented by the staff herein until such time as circumstances require or allow a change in this investment approach.

The Board discussed the actions staff had taken, consistent with current investment guidelines, and determined additional information should be provided to the Board and that the Executive Committee should take action soon to adopt or reject the revised investment strategy. On a motion duly made and seconded, the Board unanimously adopted the following resolution:

RESOLVED, That the USAC Board of Directors directs staff to retain the USAC investment guidelines that have been in place since January 3, 2000, until such time as the CEO is able to clarify with the FCC which entity has the proper authority to make changes to USAC's investment strategy, and directs the CEO to report the findings to the Executive Committee for further review.

The Board DIRECTED staff to produce a document detailing the pros and cons of the current strategy versus the strategy proposed by the FCC and to send a copy to each member.

a6. Approval of a Statement of Ethical Conduct for Members of the USAC Board of Directors. Mr. Barash explained to the Board that the Executive Committee, upon review of the Statement as presented to them by the Nominating Committee at its recent quarterly meeting, noted that the document did not indicate to whom a Board member should report to if a conflict should occur or for advice on whether a known upcoming situation may constitute an ethical conflict. Therefore, the Executive Committee passed a resolution adding this information to the document. Mr. Barash distributed a copy of the revised document to the Board and indicated that the General Counsel of USAC was added as the contact person.

On a motion duly made and seconded, the Board unanimously adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendation made by the Nominating Committee and the Executive Committee to approve the proposed revised *Statement of Ethical Conduct for Members of the USAC Board of Directors*.

a7. **Approval of Annual 2000 and 2nd Quarter 2000 USAC Common and Consolidated Budget.** Ms. Parrino noted a change to Attachment C with respect to one of the explanations provided. Ms. Parrino also pointed out that two contingencies have been factored into the budget. First, $900,000 has been added to cover the estimated cost of re-coding the data of the High Cost forward-looking model—if USAC is indeed asked to do so by the FCC. Second, $3.8 million has been added for transition costs in the event that USAC selects a vendor other than the current vendor for the programmatic support services for the Schools and Libraries Program. No contingency has been factored in for possible transition costs if a new vendor is chosen for the programmatic support services for the Rural Health Care Program because staff believes that the expected cost savings in combining the administration of the two Programs will offset any transition costs. With the contingencies, the budget is 10.6 percent lower than the pre-merger budget; without the contingencies, it would be 21 percent below the pre-merger budget. Overall, the budget has decreased in comparison to budgeted 1999 expenses.

Ms. Parrino further explained that the increase in "Salaries and Benefits" is driven by three factors: (1) For the year 2000, the cost of USAC's benefits increased 23 percent due to an increase in rates by USAC's benefits administrator. Staff has been directed to review other providers in an effort to determine if reasonable benefits can be offered to the employees at a lower cost; (2) Additional positions in the USAC organization are necessary in order to provide quality service to the stakeholders and to run the new High Cost Model. Bringing more work in-house then reduces the costs of outside contracts; and (3) USAC is requesting an increase of up to 4.5 percent in salaries for all USAC employees with the company on or before October 1, 1999, in an effort to keep the wages inline with the local labor workforce. The 4.5 percent figure is based on comparing USAC salaries to other current salary surveys for the local labor workforce and the federal government's increase of 4.9 percent in salaries for the year 2000.

On a motion duly made and seconded, the Board unanimously adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the Executive Committee to approve a 2nd

Quarter 2000 USAC common budget of $834,900; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the Executive Committee to approve a 2nd Quarter 2000 USAC consolidated budget of $9,835,600; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the Executive Committee to approve a 2000 annual USAC common budget of $2,913,900; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the Executive Committee to approve a 2000 annual USAC consolidated budget of $41,221,700.

a8. **Approval of 2nd Quarter 2000 Revenue Projections and Resolutions for the February 2000 FCC Filing**. Mr. Haga reported that the revenue base has increased as expected.

On a motion duly made and seconded, the Board unanimously adopted the following resolution:

RESOLVED, that the USAC Board of Directors, having reviewed a summary of the current status of telecommunications service provider revenues for January through June 1999, authorizes staff to proceed with the required February 2, 2000, filing to the FCC on behalf of USAC. If the revenue estimate in the filing varies from the revenue estimate included in Board materials by an amount greater than $2.5 billion, the staff will seek the approval of the Board to file the revised revenue estimate.

a9. **Approval of the Outline for the Annual Report to the FCC and Congress**. Mr. Blackwell informed the Board that the outline for the Annual Report has not changed since the last time it was presented to the Board at the quarterly October 1999 Board meeting. Staff has met with the FCC on several occasions to verify the information that the FCC expects to find in the final report and staff continues to do so in an effort to conform to FCC directives. He reminded the Board members that a draft version of the report has been sent to each member via email and welcomes their comments. He noted that in order to stay on schedule and have the report ready by March 31, he requests the comments by February 14. Board members suggested adding pictures of Universal Service in action, but only if the cost is not prohibitive.

On a motion duly made and seconded, the Board unanimously adopted the following resolutions:

RESOLVED, That the USAC Board of Directors approves the Outline for the Annual Report as reviewed; and

RESOLVED FURTHER, That the USAC Board of Directors delegates the final review and approval of the Annual Report to the Executive Committee and directs staff to provide each

Board member with a copy of the final Annual Report.

On a motion duly made and seconded, the Board unanimously agreed to recess at 10:30 a.m., subject to the call of the Chair.

At 10:53 a.m., the Board reconvened. Ms. Rosenblum called the meeting to order and asked that the roll be taken. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll for Mr. Robert Haga, Acting Secretary.

Thirteen of the nineteen elected members were present, representing a quorum:	
Bryant, Anne – *by telephone*	Eichler, Ed – *by telephone*
Gold, Heather	Gumper, Frank
Hess, Kevin	Jackson, Jimmy
Marockie, Dr. Hank	Ouye, Kathleen
Parrino, Cheryl	Rehberger, Wayne – *by telephone*
Rosenblum, Lisa	Sanders, Dr. Jay
Talbott, Brian	

a10. Miscellaneous.

- Election of a Board Member to the USAC Schools and Libraries Committee Due to the Resignation of Committee Member Mr. Frank Gumper. Ms. Ouye reported to the Board that during the aforementioned recess, the members of the Schools and Libraries Committee met to determine nominations for the position vacated by Mr. Gumper on that Committee. The Committee submitted to the Board the nomination of Ms. Lisa Rosenblum, who represents service providers.

  On a motion duly made and seconded, the Board unanimously adopted the following resolution:

  RESOLVED, That the USAC Board of Directors elects Ms. Lisa Rosenblum to the USAC Schools and Libraries Committee.

Information Items

i1. **Report of Legislative and Media Activity**. For information only. No discussion held.

i2. **Treasurer's Report**. For information only. No discussion held.

i3. **Regulatory Report**. For information only. No discussion held.

i4. **Report on Accounts Receivable and Collection Efforts.**

For information only. No discussion held.

i5. **Status of Form 457 Audit**. For information only. No discussion held.

i6. **Bankruptcy Report**. For information only. No discussion held.

i7. **Status of Financial and Operational Audits of USAC**. For information only. No discussion held.

i8. **Status of the Consolidation of Data Collection**. For information only. No discussion held.

i9. **Status of USAC Clarification Requests at the FCC**. For information only. No discussion held.

i10. **USAC Timeline and Key Dates**. For information only. No discussion held.

i11. **Report of USAC Program Enforcement Issues**. For information only. No discussion held.

i12. **Status Report on the Readiness of USAC Operations for the Year 2000**. For information only. No discussion held.

i13. **Contract and RFP Review. See *Executive Session* Corporate and Financial Issues. See *Executive Session***

i14. **Miscellaneous**. None.

Rural Health Care Program

i15. **Rural Health Care Program Status Report. For information only**. No discussion held.

i16. **Status of the Implementation of Program Changes. For information only**. No discussion held.

i17. **Review of Annual 2000 and 2nd Quarter 2000 Rural Health Care Programmatic Budget. For information only**. No discussion held.

i18. **Review of 2nd Quarter 2000 Rural Health Care Projections and Resolution on the February 2000 FCC Filing**. For information only. No discussion held.

i19. **Miscellaneous**. None.

Schools & Libraries Program

i20. **Schools and Libraries Program Update. For information only**. No discussion held.

i21. **Review of Annual 2000 and 2nd Quarter 2000 Schools and Libraries Programmatic Budget**. For information only. No discussion held.

i22. **Review of 2nd Quarter 2000 Schools and Libraries Projections and Resolution on the February 2000 FCC Filing**. For information only. No discussion held.

i23. **Miscellaneous**. None.

High Cost and Low Income Programs

i24. **High Cost Program Status Report.** For information only. No discussion held.

i25. **Low Income Program Status Report.** For information only. No discussion held.

i26. **Report on the Implementation of the New High Cost Program for Non-Rural Companies.** For information only. No discussion held.

i27. **Review of Annual 2000 and 2nd Quarter 2000 High Cost and Low Income Programmatic Budget.** For information only. No discussion held.

i28. **Review of 2nd Quarter 2000 High Cost and Low Income Projections and Resolution on the February 2000 FCC Filing.** For information only. No discussion held.

i29. **Miscellaneous.** None.

There being no further business to attend to, Ms. Rosenblum adjourned the meeting at 10:56 a.m. Eastern Time.

____

Robert W. Haga
Acting Secretary/Treasurer

____

Date

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ATTACHMENT D

ALLIANCE GROUP SERVICES, INC.

FINANCIAL REPORT

JUNE 30, 2000

ALLLIANCE GROUP SERVICES, INC.

CONTENTS

GRASSI & CO.

Internationally TAG Grassi
Offices in Principal Cities Worldwide

Certified Public Accountants, P.C.

To the Board of Directors
Alliance Group Services, Inc.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of Alliance Group Services, Inc. (the "Company"), a wholly-owned subsidiary of Alliance Group Services, LLC as of June 30, 2000, and the related statements of operations and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alliance Group Services, Inc. as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, NY
November 28, 2000
(Except for Note 9 dated November 30, 2000 and December 18, 2000)

200 Madison Avenue Suite 2200, New York, NY 10016 (212) 683-8222 Fax (212) 725-5785

ALLIANCE GROUP SERVICES, INC.
BALANCE SHEET
AT JUNE 30, 2000

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 853,791
Accounts receivable, less allowance for doubtful accounts of $1,451,930	6,541,790
Deposits	250,000
Prepaid expenses and other current assets	207,286
TOTAL CURRENT ASSETS	7,852,867
PROPERTY AND EQUIPMENT, NET	177,409
OTHER ASSETS:	
Intangible assets, net of accumulated amortization of $605,931	2,006,469
Deferred income taxes	1,841,500
Security deposits	18,900
TOTAL OTHER ASSETS	3,866,869
TOTAL ASSETS	$11,897,145

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES	
Notes payable	$ 862,500
Accounts payable and accrued liabilities	12,022,212
Current maturities of capital lease obligations	52,430
TOTAL CURRENT LIABILITIES	12,937,142
CAPITAL LEASE OBLIGATIONS	149,939
TOTAL LIABILITIES	13,087,081
COMMITMENTS AND CONTINGENCIES (Notes 2, 5, 6, 7, 8 and 9)	
STOCKHOLDERS' DEFICIENCY	
Common stock, no par value; authorized 1,500 shares; 1,000 issued and outstanding	2,000,000
Accumulated deficit	(3,189,936)
TOTAL STOCKHOLDERS' DEFICIENCY	(1,189,936)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$11,897,145

The accompanying notes are an integral part of this financial statement.

ALLIANCE GROUP SERVICES, INC.
STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2000

REVENUES - NET	$ 23,253,235
COST AND EXPENSES:	
Telecommunication costs	21,117,648
Provision for bad debts	1,671,435
Selling, general and administrative	3,370,690
Depreciation and amortization	476,627
TOTAL	26,636,400
OPERATING LOSS	(3,383,165)
OTHER INCOME (EXPENSE):	
Interest income	11,506
Interest expense	(113,949)
TOTAL OTHER EXPENSE	(102,443)
LOSS BEFORE INCOME TAXES	(3,485,608)
INCOME TAX BENEFIT	1,338,000
NET LOSS	(2,147,608)
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(1,042,328)
ACCUMULATED DEFICIT - END OF YEAR	$(3,189,936)

The accompanying notes are an integral part of this financial statement.

ALLIANCE GROUP SERVICES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2000

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (2,147,608)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	476,627
Income tax benefit	(1,338,000)
Changes in assets and liabilities:	
Increase in accounts receivable - net	(6,219,859)
Increase in prepaid expenses and other assets	(173,518)
Increase in deposits	(250,000)
Increase in accounts payable and accrued liabilities	11,653,518
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,001,160
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of customer lists	(154,411)
Purchases of property and equipment	(8,799)
Payments for security deposits	(2,388)
NET CASH USED IN INVESTING ACTIVITIES	(165,598)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments for financing costs	(13,193)
Repayment of notes payable	(1,212,500)
Principal payments under capital lease obligations	8,126
NET CASH USED IN FINANCING ACTIVITIES	(1,217,567)
INCREASE IN CASH AND CASH EQUIVALENTS	617,995
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	235,796
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 853,791
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Interest paid	$ 113,949
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Purchase of property and equipment under capital leases	$ 139,835
Acquisition of customer list financed from notes payable	$ 2,075,000

The accompanying notes are an integral part of this financial statement.

ALLIANCE GROUP SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Alliance Group Services, Inc. (the "Company") was organized in July 1997 as a Delaware corporation. The Company is a wholly-owned subsidiary of Alliance Group Services, LLC. The Company provides voice and data communication network services to wholesale and retail customers throughout the United States. In addition to network services, the Company provides its customers with provisioning, back office support, billing/customer service and exit strategies.

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for additions, renewals and betterments are capitalized; expenditures for maintenance and repairs are charged to expenses as incurred. Upon retirement or other disposition of items of property and equipment, the cost of the item and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from two to five years.

ALLIANCE GROUP SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

The costs of intangible assets are being amortized on the straight-line method over their estimated useful lives, as follows:

	Years
Customer list	5
Deferred financing costs	3

Impairment of Long-Lived Assets

The Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets, including intangible assets, may not be recoverable. An impairment loss is recognized when expected cash flows are less than the assets' carrying value. Accordingly, when indicators or impairment are present, the Company evaluates the carrying value of such assets in relation to the operating performance and future undiscounted cash flows of the underlying business. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset may not be recoverable.

Revenue Recognition

The Company recognizes revenue at the time services are provided.

Advertising

Advertising cost are expensed as incurred and amounted to $23,816 in 2000.

Income Taxes

Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

ALLIANCE GROUP SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 ACQUISITIONS

Citizens Telecommunications Company

On April 26, 1999, the Company acquired a certain base of long distance customers from Citizens Telecommunications Company ("Citizens"). Effective on that date, the Company became responsible for the management of the accounts receivable for this customer base and was obligated to pay Citizens 55% of amounts subsequently collected. Additionally, under the terms of the agreement, the Company is obligated to pay Citizens 8% of collected revenues from billings for the first four months following the transfer date and 8% of usage amounts billed thereafter through April 2004.

U.S. Republic Communications, Inc.

On December 23, 1999, the Company entered into an agreement with U.S. Republic Communications, Inc. ("USRC") to acquire, amongst other things, the long distance customer base and accounts owned by USRC and the trade name U.S. Republic Communications for $2,500,000. Under the terms of the agreement, $1,500,000 was paid on the transfer date, with the balance payable in four equal quarterly installments of $250,000 that began in March 2000. On October 17, 2000, the parties amended this agreement in order to settle the Company's claims for credit to the purchase price. Under the terms of the amendment, the third and fourth quarterly installments of $250,000 were each reduced to $75,000. The effect of this amendment is reflected in the current year's financial statements. The purchase price, as adjusted, of $2,150,000 was entirely allocated to an intangible asset entitled "Customer List".

Pursuant to a settlement agreement with AT&T on December 18, 2000, the USRC customer base was transferred to AT&T (Note 9).

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and equipment under lease	$205,429
Furniture, computers and office equipment	41,167
	246,596
Less: Accumulated depreciation	69,187
	$177,409

Depreciation of property and equipment for the year ended June 30, 2000 was $44,496.

Equipment under lease has a net book value of $169,026 at June 30, 2000.

ALLIANCE GROUP SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 INTANGIBLE ASSETS

Intangible assets consist of the following:

Customer list	$2,229,411
Deferred financing costs	382,989
	2,612,400
Less: Accumulated amortization	605,931
	$2,006,469

NOTE 5 NOTES PAYABLE

In connection with the purchase of USRC's customers and certain of their assets, the Company obtained financing with related parties. The terms of the notes require the Company to make monthly principal payments of $118,750, plus interest at 17% per annum, maturing December 22, 2000. The notes are secured by substantially all of the assets of the Company and are subject to the maintenance of certain covenants determined by the lenders. At June 30, 2000, the outstanding balance was $712,500.

In addition, the Company financed the purchase of customers from an unrelated party. The note requires quarterly principal payments of $75,000, without interest, maturing December 23, 2000. At June 30, 2000, the outstanding balance was $150,000.

NOTE 6 INCOME TAXES

The Company was not required to establish a provision for income taxes for the year ended June 30, 2000, as a result of net operating losses incurred during those periods.

At June 30, 2000, the Company had approximately $3,100,000 of net operating loss carryforwards for federal income tax purposes, which expire between 2018 and 2020.

At June 30, 2000, the Company had a deferred tax asset of $1,841,500, representing the benefits of its net operating loss carryforwards and certain expenses not currently deductible. No valuation allowance has been provided for this asset because it is anticipated that the Company will have sufficient taxable income in the next fiscal year to realize the benefits of the net operating loss carryforward (see Note 9).

ALLIANCE GROUP SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company has a non-cancellable operating lease for office facilities located in Westport, Connecticut that expires in October 2004. The lease provides for minimum annual rentals, plus real estate tax, and operating expense differentials.

The Company is also obligated under various capital leases for certain equipment through the year 2005. Future minimum lease payments for capital leases and non-cancellable operating leases as of June 30, 2000 are as follows:

	Capital	Operating
2001	$ 86,238	$ 113,400
2002	85,175	117,600
2003	63,802	123,900
2004	21,535	126,000
2005	64,019	42,000
Total minimum lease payments	320,769	$ 522,900
Less: Amount representing interest	118,400	
Capital lease obligations	202,369	
Less: Current maturities	52,430	
Capital Leases - Long-Term	$ 149,939	

Amortization expense under the capital leases is included in depreciation expense. Rental expense under operating leases was $163,792 for the year ended June 30, 2000.

ALLIANCE GROUP SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 COMMITMENTS AND CONTINGENCIES (Continued)

Telecommunications Services Agreement

AT&T Corp.

The Company entered into a Master Carrier agreement dated September 1, 1998 and subsequently amended with AT&T Corp. ("AT&T"), whereby AT&T provides network telecommunications services at specified rates. The agreement calls for a "full service" period of 36 months commencing January 1, 2000. The Company is required to pay annual eligible charges for service of $11,000,000 for the first year and $15,000,000 annually for the second and third years. The agreement expires December 31, 2002. As more fully discussed in Note 9, a settlement was reached with AT&T concerning non-payment of certain charges under the agreement.

Global Crossing Bandwidth, Inc.

The Company entered into a carrier service agreement with Global Crossing Bandwidth, Inc. ("Global Crossing") dated April 28, 2000, whereby Global Crossing will provide network telecommunications services at a specified rate for a three-year period. The Company is liable for minimum monthly charges of $250,000, or 75% of the previous month's usage, whichever is greater.

NOTE 8 CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily trade accounts receivable. Ongoing credit evaluation of customers' financial condition is performed and generally no collateral is required.

For the year ended June 30, 2000, the Company derived 13% of its net revenues from one unrelated customer.

In addition, the Company maintains cash balances in various financial institutions located in the United States. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. Uninsured balances at June 30, 2000 totalled $826,055. The Company believes it mitigates its risks by investing with major financial institutions.

Substantially, all of the Company's network telecommunications services are provided by AT&T.

ALLIANCE GROUP SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SUBSEQUENT EVENTS

Redemption Agreement

On November 30, 2000, the Company's parent company, Alliance Group Services, LLC ("LLC") agreed to redeem its Class C unit holders representing approximately 59% ownership interest in the LLC for $1,840,857. The redemption agreement requires $340,857 to be paid on the closing date, with the balance payable in 3 monthly installments of $50,000, plus interest, commencing on December 31, 2000, and one installment of $1,350,000, plus interest, due on March 31, 2001. Interest is payable on the outstanding balance at a rate of 10% per annum. The Company will provide the funds to the LLC to effectuate the redemption. Subsequent events, including the termination of the C.E.O., have altered the manner in which the LLC is fulfilling the agreement. Though the LLC is technically in default of the agreement, the LLC is currently negotiating an extended payment plan with its investors.

Settlement Agreement

On December 18, 2000, the Company entered into an agreement with AT&T to resolve and settle disputes between them. Under the agreement, AT&T agreed to issue credits for network telecommunications services incurred by the Company on certain accounts through October 31, 2000 and on certain other accounts through November 30, 2000. The total amount of credits to be issued is approximately $12,800,000. As part of the agreement, the Company transferred the USRC retail customer base to AT&T. Revenue from the USRC retail business approximated $9.7 million for the period from December 23, 1999 through June 30, 2000.

ATTACHMENT E

2000 FCC Form 499A Telecommunications Reporting Worksheet

Approval by OMB 3060-0855

>>> Please read instructions before completing. <<<

Annual Filing – due April 1.

Block 1: Contributor Identification Information

101 Filer 499 ID [If you don't know your number, contact the administrator at (973)-560-4400. If you are a new filer, leave blank and a Filer 499 ID will be assigned to you.]	820411
102 Legal name of reporting entity	Alliance Group Services, Inc.
103 IRS employer identification number	06-1502829
104 Name telecommunications service provider is doing business as	Alliance Group Services, Inc.

105 Principal communications business [Check the one that best describes the reporting entity – see directions. Check one box only.]

- [ ] CAP/CLEC
- [ ] Cellular/PCS/SMR (wireless telephony incl. by resale)
- [ ] Incumbent LEC
- [ ] Interexchange Carrier (IXC)
- [ ] Local Reseller
- [ ] Operator Service Provider (OSP)
- [ ] Paging & Messaging
- [ ] Payphone Service Provider
- [ ] Pre-paid Card
- [ ] Private Service Provider
- [ ] Satellite
- [ ] Shared Tenant Service Provider
- [ ] SMR (dispatch)
- [x] Toll Reseller
- [ ] Wireless Data
- [ ] Other Local
- [ ] Other Mobile
- [ ] Other Toll

If Other Local, Other Mobile or Other Toll is checked, describe carrier type / services provided:

106 Holding company (All affiliated companies should show same name here)	Alliance Group Services LLC
107 FCC Registration Number (FRN) [not required for April 2000 filing]	
108 Management company [if carrier is managed by another entity]	
109 Complete mailing address of reporting entity corporate headquarters	Alliance Group Services, Inc. 1221 Post Rd Westport CT 06880
110 Complete business address for customer inquiries and complaints [If different from address entered on Line 109]	
111 Telephone number for customer inquiries and complaints	(203) - 845-9600

112 All trade names that you use in providing telecommunications services. This should include all names by which you are identified on customer bills.

a	Alliance Platinum	g	
b	USRC	h	
c	Telquest Advantage Plus	i	
d	Alliance Group Services, Inc.	j	
e		k	
f		l	
		m	

Use an additional sheet if necessary. Each reporting entity must provide all names used for carrier activities.

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THE WORKSHEET CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER TITLE 18 OF THE UNITED STATES CODE, 18 U.S.C. §1001

2000 FCC Form 499A Telecommunications Reporting Worksheet

Block 2-A: [illegible] Contact Information	
201 Filer 499 ID [from Line 101]	820411
202 Legal name of reporting entity [from Line 102]	Alliance Group Services, Inc.
203 Person who completed this worksheet	Patrick D. Crocker, Attorney
204 Telephone number of this person	(616) - 381-8844
205 Fax number of this person	(616) - 349-8525
206 E-mail of this person	telecomgroup@earlylennon.com
207 Corporate office, attn. name, and mailing address to which future Telecommunications Reporting Worksheets should be sent	Patrick D. Crocker, Attorney 900 Comerica Bldg Kalamazoo MI 49007
208 Billing address and billing contact person: [Plan administrators will send bills for contributions to this address. Please attach a written request for alternative billing arrangements.]	Patrick D. Crocker, Attorney 900 Comerica Bldg Kalamazoo MI 49007

Block 2-B: Agent for Service of Process	All carriers must complete Lines 209 through 213
209 D.C. Agent for Service of Process per 47 U.S.C 413	Corporation Guarantee & Trust Company
210 Telephone number of D.C. agent	(202) - 296-2222
211 Fax number of D.C. agent	(301) - 229-2783
212 E-mail of D.C. agent	
213 Complete business address of D.C. agent for hand service of documents	1155 15th St NW Ste 502 Washington DC 20005
214 Alternate Agent for Service of Process (optional)	Patrick D. Crocker, Attorney
215 Telephone number of alternate agent	(616) - 381-8844
216 Fax number of alternate agent	(616) - 349-8525
217 E-mail of alternate agent	telecomgroup@earlylennon.com
218 Complete business address of alternate agent for hand service of documents	900 Comerica Bldg Kalamazoo MI 49007

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2000 FCC Form 499A Telecommunications Reporting Worksheet

[illegible]

301 Filer 499 ID [from Line 101] 820411

302 Legal name of reporting entity [from Line 102] Alliance Group Services, Inc.

Report Billed Revenue for January 1 through December 31, 1999. Do not report any negative numbers. Dollar amounts may be rounded to the nearest thousand dollars. However, report all amounts as whole dollars. See instructions regarding percent interstate & international.	Total Revenue (a)	If breakouts are not book amounts, enter whole percentage estimates: Interstate (b)	International (c)	Breakouts: Interstate Revenue (d)	International Revenue (e)
Revenue from Service Provided for Resale by Other Contributers to Federal Universal Service Support Mechanisms					
Fixed local service					
303 Monthly service, local calling, connection charges, vertical features, and other local exchange service including subscriber line and PICC charges to IXCs					
a Provided as unbundled network elements	0				
b Provided under other arrangements	0				
304 Per minute charges for originating or terminating calls					
a Provided under state or federal access tariff	0				
b Provided as unbundled network elements or other contract arrangement	0				
305 Local private line & special access	0				
306 Payphone compensation from toll carriers	0				
307 Other local telecommunications service revenues	0				
308 Universal service support revenue received from Federal or State Sources	0				
Mobile service (including wireless telephony, paging & messaging, and other mobile services)					
309 Monthly, activation, and message charges except toll	0				
Toll service					
310 Operator and toll calls with alternative billing arrangements (credit card, collect, international call-back, etc.)	0				
311 Ordinary Long Distance (MTS, customer toll free 800/888 service, associated monthly account maintenance, PICC pass-through, and switched services not reported above)	3,555,715			931,597	1,326,282
312 Long distance private line services	0				
313 Satellite services	0				
314 All other long distance services	0				

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2000 FCC Form 499A Telecommunications Reporting Worksheet

Block 4: End-User and Non-Telecommunications Revenue Information

401 Filer 499 ID [from Line 101] 820411

402 Legal name of reporting entity [from Line 102] Alliance Group Services, Inc.

Line	Report Billed Revenue for January 1 through December 31, 1999. Do not report any negative numbers. Dollar amounts may be rounded to the nearest thousand dollars. However, report all amounts as whole dollars. See instructions regarding percent interstate & international.	Total Revenue (a)	If breakouts are not book amounts, enter whole percentage estimates: Interstate (b)	International (c)	Breakouts: Interstate Revenue (d)	International Revenue (e)
	Revenue From All Other Sources (end-user telcom. & non-telcom.)					
403	Surcharges or other amounts on bills identified as recovering State or Federal universal service contributions	0				
	Fixed local service					
404	Monthly service, local calling, connection charges, vertical features, and other local exchange service charges except for federally tariffed subscriber line charges and PICC charges	0				
405	Tariffed subscriber line charges and PICC charges levied by a local exchange carrier on a no-PIC customer	0				
406	Local private line and special access service	0				
407	Payphone coin revenues	0				
408	Other local telecommunications service revenues	0				
	Mobile service (including wireless telephony, paging & messaging, and other mobile services)					
409	Monthly and activation charges	0				
410	Message charges including roaming but excluding toll charges	0				
	Toll service					
411	Pre-paid calling card (including card sales to customers and non-carrier distributors) reported at face value of cards	0				
412	International calls that both originate and terminate in foreign points	0	0%	100%		
413	Operator and toll calls with alternative billing arrangements (credit card, collect, international call-back, etc.) other than revenue reported on Line 412	0				
414	Ordinary Long Distance (MTS, customer toll free 800/888 service, associated monthly account maintenance, PICC pass-through, and other switched services not reported above)	989,268			352,081	75,382
415	Long distance private line services	0				
416	Satellite services	0				
417	All other long distance services	0				
418	Enhanced services, inside wiring maintenance, billing and collection, customer premises equipment, published directory, dark fiber, Internet and non-telecommunications service revenue	0				
419	Gross billed revenue from all sources [incl. reseller & non-telcom.] [Lines 303 through 314 plus Lines 403 through 418]	4,544,983			1,283,678	1,401,664
420	Universal service contribution bases [Lines 403 through 411 & Lines 413 through 417]	989,268			352,081	75,382

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[illegible]

501 Filer 499 ID [from Line 101]	820411
502 Legal name of reporting entity [from Line 102]	Alliance Group Services, Inc.

Most filers must contribute to LNP administration and must provide the percentages requested in Lines 503 through 510. Filing entities that use Line 603 to certify that they are exempt from this requirement need not provide this information.

	Percentage of revenue reported in Block 3 and Block 4 billed in each region of the country. Round or estimate to nearest whole percentage. Enter 0 of no service was provided in the region.		Block 3 Carrier's Carrier (a)	Block 4 End-User Telecom. (b)
503	Southeast:	Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee and U.S. Virgin Islands	%	24 %
504	Western:	Alaska, Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	%	14 %
505	West Coast:	California, Hawaii, Nevada, American Samoa, Guam, Northern Mariana Islands, and Wake Island.	%	22 %
506	Mid-Atlantic:	Delaware, District of Columbia, Maryland, New Jersey. Pennsylvania, Virginia, West Virginia	%	11 %
507	Mid-West:	Illinois, Indiana, Michigan, Ohio, Wisconsin	%	14 %
508	Northeast:	Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont	%	5 %
509	Southwest:	Arkansas, Kansas, Missouri, Oklahoma, & Texas	%	10 %
510	Total	[Percentages must add to 0 or 100]	%	100 %

511 Revenues from resellers that do not contribute to Universal Service support mechanisms are included in Block 4, Line 420 but may be excluded from a filer's TRS, NANPA and LNP contribution bases. To have these amounts excluded, the filer has the option of identifying such revenues below.

	(a) Total Revenue	(b) Interstate and International
Revenues from resellers that do not contribute to Universal Service	$	$

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Block 6: CERTIFICATION: to be signed by an officer of the filer

601 Filer 499 ID [from Line 101]	820411
602 Legal name of reporting entity [from Line 102]	Alliance Group Services, Inc.

Section IV of the instructions provides information on which types of reporting entities are required to file for which purposes. Any entity claiming to be exempt from one or more contribution requirements should so certify below and attach an explanation. [The Universal Service administrator will determine which entities meet the de minimis threshold based on information provided in Block 4, even if you fail to so certify, below.]

603 I certify that the reporting entity is exempt from contributing to:

Universal Service ☐ TRS ☐ NANPA ☐ LNP Administration ☐

Provide explanation below:

604 I certify that the revenue data contained herein is privileged and confidential and that public disclosure of such information would likely cause substantial harm to the competitive position of the company. I request nondisclosure of the revenue information contained herein pursuant to Sections 0.459, 52.17, 54.711 and 64.604 of the Commission's Rules. ☒

I certify that I am an officer of the above-named reporting entity, that I have examined the foregoing report and to the best of my knowledge, information and belief, all statements of fact contained in this Worksheet are true and that said Worksheet is an accurate statement of the affairs of the above-named company for the previous calendar year.

605 Signature	Mark J. Thomas
606 Printed name of officer	Mark J. Thomas
607 Position with reporting entity	President
608 Date	4/11/01
609 This filing is:	☐ Original filing ☒ Revised filing

Do not mail checks with this form. Send this form to: Form 499 c/o NECA, 80 South Jefferson Road, Whippany New Jersey, 07981

For additional information regarding this worksheet contact: Telecommunications Reporting Worksheet information: (973) 560-4400 or via e-mail: Form499@neca.org

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THE WORKSHEET CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER TITLE 18 OF THE UNITED STATES CODE, 18 U.S.C. §1001

ATTACHMENT F

DECLARATION OF LAWRENCE M. BRENTON

I, Lawrence M. Brenton, declare as follows:

1. I am an attorney member of Early, Lennon, Crocker & Bartosiewicz, P.L.C., 900 Comerica Building, Kalamazoo, Michigan 49007.

2. I have acted as attorney for Alliance Group Service, Inc. ("Alliance Group") in connection with Alliance Group's Letter of Appeal to the Administrator ("USAC") attached as Exhibit C to Alliance Group's Petition for Review.

3. In attempting to ascertain the history of Alliance Group's USAC account, I spoke on several occasions with Lori Terraciano of USAC. In one conversation, Ms. Terraciano advised me that the 1999 end user revenues of US Republic Communications, Inc. had been determined by her to be chargeable to Alliance Group based on her review and interpretation of the Purchase and Sale Agreement dated December 23, 1999, attached to the Petition as Exhibit E. Ms. Terraciano indicated she did not have the Purchase and Sale Agreement before her at the moment but she had reviewed the document and determined that the document resulted in attribution of all of US Republic's 1999 end user revenues to Alliance Group for purposes of universal service support mechanism charges. Ms. Terraciano further indicated that different language could have been included in the Agreement leading to a different construction of the contract but it was her conclusion that the contract as written should be construed as she had done. Ms. Terraciano did not recall who provided her a copy of the Agreement and did not state whether any other person or persons had participated with her in interpretation of the Agreement. When asked by what authority she was empowered to so interpret contracts, Mr. Terraciano stated she would have a member of the USAC staff fax a copy of the relevant rules or guideline to me.

4. A copy of the rules or guidelines relied on by staff was faxed to me, a copy of which is attached to the Petition for Review as Exhibit I. A more legible copy of this document was requested but the second facsimile transmission to a different number was also partially illegible.

5. Ms. Terraciano stated to me that the staffs' recommended rules guidelines had been adopted at a meeting of the Board of Directors of USAC on January 25, 2000.

6. I have obtained a copy of the Minutes of the referenced Board meeting. A comparison between the recommendation of the staff and the Board minutes indicates that staffs' recommendation had been for the USAC Executive Committee and USAC Board of Directors to adopt resolutions approving staffs' recommended procedures and directing staff to apply said procedures. A review of the Minutes of the meeting of the Board indicates, however, that the Board referred to what is identified as an "issue paper". The minutes further indicate the Board "directed staff to clearly state in the procedures that parties to a sale of assets may negotiate arrangements to handle the reporting of revenue with respect to those assets and that

USAC would honor specific obligations when provided with documentation which obligates one party to report the revenues associated with the assets for universal service purposes." It is impossible to determine whether the "issue paper" referred to in the minutes of the meeting of the Board is the same documents as the staff recommendations furnished by USAC staff. In any case, however, it appears that the Board did not adopt the "issue paper" as presented, and specifically directed staff to enunciate procedures for parties to a sale of assets to permit allocation and reporting agreements and further instructed staff to follow such agreements as the parties made, if any, regarding reporting of revenues and payment of resulting charges. It is my opinion based on review of the staff recommendations and the Minutes of the Board meeting that, in addition to the fact that the Board action took place <u>after</u> the transaction in question, the Board did <u>not</u> authorize staff to review and construe contractual agreements in private, did <u>not</u> adopt the "issue paper" as requested by staff, did not publish any policy or rule but did direct staff to "state in the procedures" that parties were free to negotiate specific arrangements regarding reporting and contributions or not.

7. Regarding the method by which the USAC account of US Republic became transferred to Alliance Group, Ms. Terraciano was specifically asked by me to furnish a history of the US Republic account, including 499 reports filed by US Republic and payments made by US Republic. Ms. Terraciano declined to furnish such information, stating that all the information requested was confidential.

8. It appears from a review of the information available to Alliance Group that US Republic did, in fact, pay monthly USAC invoices based on its 1999 revenues until June of 2000. It further appears that in June or July of 2000, US Republic persuaded the Administrator to instead direct these charges to Alliance Group. It further appears that in September of 2000, the administrator sent to Alliance Group invoices indicating charges of $376,368.39 and a net credit of $362,701.41 which, as of September, 2000, would have resulted in a net charge to Alliance Group of $13,666.98. The invoices then show that the Administrator billed an additional $387,349.17 during the last three months of the year 2000, for a total of $763,717.56 in billings, reduced by the "credit" of $362,701.41. The Administrator then revoked, without explanation, the credit balance of $362,701.41 (this credit balance has been issued and revoked on repeated occasions without explanation, last being revoked on the July, 2001 billing). The net effect was that the Administrator billed Alliance Group $763,717.56 during the second half of calendar year 2000, all of which amount is apparently attributable solely to US Republic Communications' 1999 revenues as reported by US Republic Communications.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on October 26, 2001.

L. Brenton

Lawrence M. Brenton

ATTACHMENT G

VarTec Telecom, Inc.

August 28, 2000

VIA OVERNIGHT DELIVERY

Mr. John Casey
Alliance Group Services, Inc.
1221 Post Road East
Westport, Connecticut 06880

Re: Invoices and Reports for U.S. Republic Communications, Inc.

Dear Mr. Casey:

Pursuant to your previous conversation with the Company, VarTec Telecom, Inc. ("VarTec") has enclosed herewith an invoice for a USAC payment as well as a report pertaining to U.S. Republic Communications, Inc. ("USRC"). VarTec has included the due date and other applicable information for each of the enclosed documents herein.

VarTec is invoicing Alliance Group Services, Inc. ("Alliance") for the December 1999 USAC assessment that the Company paid on behalf of USRC. Please note that the enclosed copy of the payment remitted by VarTec also includes the November 1999 assessment. VarTec requests that this invoice be paid in a timely manner. Contact information has been provided on said invoice if you have any questions regarding such or if you need additional information. Additionally, please find the enclosed 1999 Gross Intrastate Operating Revenue report to be submitted on behalf of USRC to the Pennsylvania Public Utility Commission ("PUC"). Please note that this report was due to the PUC on July 10, 1999; however, VarTec did not complete and submit the report as PUC staff instructed the Company to retain until further instruction was given. As such, this report is now being sent to Alliance for completion pursuant to instructions provided by PUC staff on August 28, 2000. VarTec has enclosed the original documentation herewith.

Once again, your attention to this matter is greatly appreciated. Please contact the undersigned directly at (214) 424-1512 with any questions regarding this correspondence.

Respectfully,

Maggie Horne

Maggie Horne
Regulatory Project Manager

Enclosures

cc: Becky Gipson
Director
Regulatory Affairs

1600 Viceroy Drive • Dallas, Texas 75235 • (214) 424-1000 • Fax (214) 424-1144

VarTec Telecom Inc.

1600 Viceroy Drive
Dallas, Texas 75235
Phone (214) 424-1000
Fax (214) 424-1344

INVOICE

INVOICE NO: 082300-01
DATE: August 23, 2000

To:

Alliance Group Services, Inc
1221 Post Road East
Westport, Connecticut 06880

DATE	DESCRIPTION	AMOUNT
08/23/00	Invoice for the December 1999 monthly contribution made to the Federal Universal Service Fund. This amount includes applicable late fees. VarTec Telecom remitted payment on behalf of US Republic Communications, Inc. in the amount of $152,516.66 on check number 1034434 dated January 14, 2000. This check included payment for the November 1999 and December 1999 USF assessments. Alliance Group Services is responsible for only the December 1999 portion. A copy of the check is attached.	$ 76,258.33

TOTAL DUE THIS INVOICE	$ 76,258.33
Prior Balance	$ -
TOTAL DUE	$ 76,258.33

Please make check payable and send payment to:

VarTec Telecom, Inc.
P.O. Box 14941
Monroe, LA 71207-4941

If you have any questions concerning this invoice, call: Mark Rhodes @ (214) 424-1256

1034434

532	10784	12/17/1999	152516.66	152516.66	0.00	152516.66

THIS PAPER CONTAINS UV FIBERS. HOLD UNDER BLACK LIGHT TO VIEW. THE BACK OF THIS DOCUMENT CONTAINS AN ARTIFICIAL WATERMARK

VarTec
3200 W. PLEASANT RUN RD. PH. 214-230-7200
LANCASTER, TEXAS 75146

COMPASS BANK
(214) 235-8600
DALLAS, TX (746)

88-744
1119
746

1034434
CHECK NO

DATE	CONTROL NO	AMOUNT
01/14/2000	1034434	$*****152516.66

One Hundred Fifty-Two Thousand Five Hundred Sixteen and 66/100

UNIVERSAL SERVICE ADMIN CO
P.O. BOX 371719
PITTSBURGH, PA 15251-7719

VARTEC

By MP

⑈1034434⑈ ⑆111907445⑆ 71205959⑈

ATTACHMENT H

TEXAS SECRETARY OF STATE, CORPORATE RECORD

Name: U.S. REPUBLIC COMMUNICATIONS, INC.

Principal Place of Business: 3200 W PLEASANT RUN RD STE 100
LANCASTER, TEXAS 75146

Principal Office: 3200 W PLEASANT RUN RD STE 100
LANCASTER, TEXAS 75146

Tax Address: PO BOX 22923
JACKSON, MISSISSIPPI 39225-2923

Type of Corporation: DOMESTIC PROFIT

Status: DEAD

Status Comment: DISSOLUTION

Status Date: 03/22/2001

Filing Date: 06/06/1996

Duration: PERPETUAL

State of Incorporation: TEXAS

Registered Agent: MICHAEL G HOFFMAN

Registered Office: 1600 VICEROY DR
DALLAS, TEXAS 75235-2306

Assumed Names: BIZONTHE.NET
Status: ACTIVE
Counties: ALL
Filed: 02/18/1999
Duration: 10 YEARS
Expiration: 02/18/2009

Parent Company: VARTEC TELECOM, INC
Number: 11054871-00
Type: DOMESTIC PROFIT
State: TEXAS
% Owned: 81

Capital/Stock: 10MIL AT $ .01

Tax Year: 1998

State Tax ID: 017526549393

Incorporators: MICHAEL G HOFFMAN, LANCASTER, TEXAS

Officers, Directors and Management:

REMY, T GARY
PRESIDENT
(BOTH OFFICER AND DIRECTOR)
3200 W PLEASANT RUN RD STE 100
LANCASTER, TEXAS 75146

MITCHELL, A JOE*JR
VICE PRESIDENT
(BOTH OFFICER AND DIRECTOR)
3200 W PLEASANT RUN RD STE 100
LANCASTER, TEXAS 75146

JOHNSON, TOM D
TREASURER
(OFFICER)
3200 W PLEASANT RUN RD STE 100
LANCASTER, TEXAS 75146

HOFFMAN, MICHAEL G
SECRETARY
(BOTH OFFICER AND DIRECTOR)
3200 W PLEASANT RUN RD STE 100
LANCASTER, TEXAS 75146

EGGER, GARY D
ASSISTANT TREASURER
(OFFICER)
3200 W PLEASANT RUN RD STE 100
LANCASTER, TEXAS 75146

HEALEA, ROBERT J
ASSISTANT TREASURER
(OFFICER)
PO BOX 22923
JACKSON, MISSISSIPPI 39225

Number: 01402030-00

Filing History:

Date	Transaction
06/06/1996	ARTICLES OF INCORPORATION
04/17/1998	PUBLIC INFORMATION REPORT FILED
12/07/1998	PUBLIC INFORMATION REPORT FILED
12/07/1998	PUBLIC INFORMATION REPORT FILED
02/18/1999	ASSUMED NAME ADD
02/18/1999	ASSUMED NAME ADD
08/14/2000	CHANGE OF REGISTERED AGENT
03/22/2001	VOLUNTARY DISSOLUTION