

**Before the  
PUBLIC SERVICE COMMISSION  
of the  
STATE OF FLORIDA**

**Application Form for Authority to Provide  
Alternative Local Exchange Service  
Within the State of Florida**

010633-TX

**Application Questions - Verbatim from Florida Form PSC/CMU 8 (11/95)**

1. **This is an application for an original certificate.**

2. **Name of company:**

Pilgrim Telephone, Inc.

3. **Name under which the applicant will do business (fictitious name, etc.):**

Pilgrim Telephone, Inc.

4. **Official mailing address (including street name & number, post office box, city, state, zip code):**

Pilgrim Telephone, Inc.  
One Kendall Square  
Cambridge, MA 02139

5. **Florida address (including street name & number, post office box, city, state, zip code):**

Pilgrim does not currently have any office in Florida. The address of its current registered agent in Florida is:

CT Corporation System  
1200 Pine Island Road  
Plantation, FL 33324

6. **Structure of organization:**

**Foreign Corporation**

7. **If individual, provide:**

N/A, foreign corporation.

8. **If incorporated in Florida, provide proof of authority to operate in Florida:**  
**N/A, incorporated in Delaware.**
9. **If foreign corporation, provide proof of authority to operate in Florida:**  
**(a) The Florida Secretary of State corporate registration number:**  
**F97 00000 3642**
10. **If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:**  
**N/A, no d/b/a.**
11. **If a limited liability partnership, provide proof of registration to operate in Florida:**  
**N/A, foreign corporation.**
12. **If a partnership, provide name title and address of all partners and a copy of the partnership agreement.**  
**N/A, foreign corporation.**
13. **If a foreign limited partnership, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.**  
**N/A, foreign corporation.**
14. **Provide F.E.I. Number (if applicable):**  
**04-3021995**
15. **Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:**  
**(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.**  
**No such instances.**  
**(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.**  
**No, except some officers and directors may hold de minimus shares of either BellSouth or Verizon.**

**16. Who will serve as liaison to the Commission with regard to the following?**

**(a) The application:**

Walter Steimel, Jr., Esq.  
Greenberg Traurig, LLP  
Counsel for Pilgrim Telephone, Inc.  
800 Connecticut Ave., NW, Suite 500  
Washington, D.C. 20006  
(202) 452-4893  
(202) 331-3101 (facsimile)  
steimelw@gtlaw.com  
www.gtlaw.com

**(b) Official point of contact for the ongoing operations of the company.**

Stanley Kugell  
Vice President - Technology  
One Kendall Square, Suite 450  
Cambridge, MA 02139  
(617) 225-7000  
(617) 225-5105 (facsimile)  
sk@pilgrim.com  
www.pilgrim.com

**(c) Complaints/Inquiries from customers:**

Lu-Ann Burns  
Customer Service Representative  
One Kendall Square, Suite 450  
Cambridge, MA 02139  
(800) 382-5500  
(617) 225-5104 (facsimile)  
customerservice @pilgrim.com  
www.pilgrim.com

**17. List the states in which the applicant:**

**(a) has operated as an alternative local exchange company.**

None

**(b) has applications pending to be certificated as an alternative local exchange company.**

Pilgrim currently has a joint application, for interexchange services, and for local exchange competitive services, pending in the state of **Oregon**.

(c) **is certificated to operate as an alternative local exchange company.**

None

(d) **has been denied authority to operate as an alternative local exchange company and the circumstances involved.**

None

(e) **has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.**

Pilgrim has had no such regulatory penalties imposed.

(f) **has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.**

In 1993, Pilgrim filed a suit against Southwestern Bell alleging anti-trust practices and violations of the Modified Final Judgment. The case was subsequently dismissed for lack of personal jurisdiction over Southwestern Bell.

In 1998, Pilgrim was the subject of a suit between itself and New York Telephone Company regarding unpaid charges related to substandard services resulting from a backwards compatibility problem with a switch installation by New York Telephone in Cambridge, Massachusetts. The parties settled that case.

On October 16, 1995, Pilgrim filed suit against U.S. West in the U.S. District Court in Seattle, Washington. The dispute arose from U.S. West's cancellation of a billing and collection agreement with Pilgrim. Pilgrim alleged that U.S. West's actions were a breach of contract and violated antitrust laws. In addition, Pilgrim asked the court to declare that Pilgrim had not breached the contract with U.S. West. The parties attempted to settle the case with the help of a AAA mediator. Although the parties tentatively reached a mutually satisfactory agreement, that agreement was never entered by the court. In addition, U.S. West quickly violated this agreement. The case remains pending in the U.S. District Court in Seattle.

**18. Submit the following:**

**A. Managerial capability:** give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

Pilgrim is well established as a provider of various telecommunications services, and its success is constructed upon a foundation of an experienced and competent management team.

David Silver, the chairman of the board and founder of Pilgrim, began the company in 1987. Mr. Silver, who also founded the PDQ Telephone Company, has twelve years of

experience in the telecommunications industry. Prior to his involvement in the telecommunications industry. Prior to his involvement in the telecommunications business, Mr. Silver worked at the Artificial Intelligence Laboratory at the Massachusetts Institute of Technology (“MIT”), and later founded and served as the president of the Buckminster Corporation.

Russell Noftsker, who serves as President and as a director of Pilgrim, is also the Chairman of Macsyma, Inc., a producer of an advanced mathematics program used by university faculty and students and engineering professionals. He was formerly CEO and President of Symbolics Technology, Inc., and Co-Founder, Chairman, CEO and President of Symbolics, Inc. (which was acquired by Symbolics Technology, Inc.). Further, Mr. Noftsker co-founded the Artificial Intelligence Laboratory at MIT, where he served as General Manager and Chief Engineer (4/65-8/73). Mr. Noftsker graduated from New Mexico State University in 1964 with a Bachelor of Science degree in electrical engineering.

Stanley Kugell, who serves as a vice president of Pilgrim (for technology) and also as a director, has served with Pilgrim since its establishment in 1987. Mr. Kugell has 10 years of experience in long distance telecommunications and the provision of enhanced services. In addition, Mr. Kugell has experience in the computer industry dating from 1973. He worked at the Artificial Intelligence Laboratory at MIT, and at the Palo Alto Research Center at Stanford University. Mr. Kugell also was the co-founder and president of the Javelin Software Company.

Stephen Bonder, the company’s Chief Financial Officer and Treasurer, was a principal of Bonder & Company, a certified public accounting firm in Boston, Massachusetts, before joining Pilgrim. In the former position, Mr. Bonder was a Certified Public Accountant in Massachusetts (CPA 1984, Massachusetts). He is currently pursuing an MBA at MIT (2001). He received an MS in Taxation in 1990 from Bentley College, Waltham, Massachusetts, and a BS in Business Administration in 1980 from Babson College, Wellesley, Massachusetts.

Scott Yacino, vice president (for technical operations) has over twenty years of experience in the telecommunications industry, serving as operations manager and toll fraud manager for First Phone of New England for ten years before assuming his current responsibilities with Pilgrim. (See Section B – Technical Capability for additional information on Mr. Yacino).

**B. Technical capability:** give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

As a reseller of interexchange and local exchange services, Pilgrim will provide local exchange services over the existing services of BellSouth, with whom Pilgrim is currently in the process of negotiating an interconnection agreement. BellSouth conducts its own maintenance of facilities.

Pilgrim's switch is located in Cambridge, Massachusetts. Communications originate when the Customer accesses Pilgrim's switch through the facilities maintained by BellSouth or another carrier via one or more access lines.

Pilgrim has been providing communications services on an interstate basis since 1988 and has consistently met or exceeded all federal quality of service guidelines and benchmarks. As the equipment which will be carrying intrastate calls is the same equipment which Pilgrim uses to process interstate calls, Pilgrim expects its service to parallel or exceed previous records.

Scott Yacino, Vice President, Technical Operations, manages the technical facilities of Pilgrim, including network maintenance (Fiber Optic, DS-3, DS-1, DS-0, and facilities maintenance (Danray CTSS4K, Excel Tandem, Lucent Definity/Audix/CMS/Prologics platform, PASEK security system (proximity card readers, video surveillance system and badging station), and Marconi UPS system). Further, he maintains Multi-Linx conference equipment, and he installed and maintains the Octave Conferencing System.

Mr. Yacino has been with Pilgrim since 1992. From 1982 to 1992, he was Operations Manager with First Phone of New England. Before that he was a Telecommunication Technician with Data General Corporation and a Data Communications Technician with Call Data Systems. His complete resume, evidencing extensive technical experience in the telecommunications field since 1978, is attached hereto as **Exhibit A**.

### **C. Financial capability:**

The application should contain the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;
2. income statement; and
3. statement of retained earnings.

**NOTE:** *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Pilgrim is a closely held corporation that operates on a cash basis, and therefore does not obtain any audited financial statements. Copies of Pilgrim's financial statements, compiled and prepared by an outside accounting firm, for the years 1998 and 1999 are included as **Exhibit B**. Included with this documentation are the following: Statements of Assets, Liabilities and Stockholders' Equity –

Income Tax Basis; Statements of Revenues, Expenses and Retained Earnings – Income Tax Basis; Statements of Cash Flows – Income Tax Basis; and Notes to the Financial Statements by Stone & Company, P.C. Also included is an affidavit signed by Russell Noftsker, President of Pilgrim, and Stephen Bonder, Treasurer of Pilgrim, verifying the aforementioned statements, as well as a cover letter to the statements requesting confidential treatment for the information contained therein. Pilgrim’s financial statements for 2000 should be available by the end of May, 2001, and a copy will be forwarded to the Commission at that time.

Further, the following (which includes supporting documentation) should be provided:

1. **A written explanation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.**

Pilgrim’s financial statements indicate that Pilgrim has sufficient financial capability to provide alternative local exchange service in Florida.

Pilgrim intends to provide alternative local exchange services by reselling services of BellSouth or purchasing unbundled network element combinations. Pilgrim’s costs for providing requested service will be limited to the costs for services actually purchased and provided to customers. Therefore, Pilgrim believes that it has more than sufficient financial capability to provide the requested service.

2. **A written explanation that the applicant has sufficient financial capability to maintain the requested service.**

Pilgrim intends to provide alternative local exchange services by reselling services of BellSouth or purchasing unbundled network element combinations. Pilgrim’s costs for maintaining requested service will be limited to the costs for services actually purchased and provided to customers. Therefore, Pilgrim believes that it has more than sufficient financial capability to maintain the requested service.

3. **A written explanation that the applicant has sufficient financial capability to meet its lease or ownership obligations.**

Pilgrim does not intend to increase its lease or ownership obligations associated with providing alternative local exchange services in Florida. As explained above, Pilgrim intends initially to resell the services of BellSouth, which is responsible for purchasing and maintaining adequate facilities. To the extent that Pilgrim currently has lease and ownership obligations, Pilgrim’s financial statements provide evidence that its resources are more than adequate to meet these obligations. Pilgrim has been in operation for over 12 years and has never had any difficulties in meeting its lease or ownership obligations.

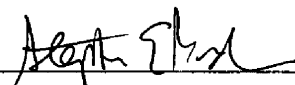
**THIS PAGE MUST BE COMPLETED AND SIGNED**

**APPLICANT ACKNOWLEDGEMENT STATEMENT**

- 1. REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
- 2. GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.
- 3. SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.
- 4. APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

**UTILITY OFFICIAL:**

Stephen Bonder  
Print Name

  
Signature

Treasurer  
Title

27-Apr-01  
Date

(617) 225-7000  
Telephone No.

(617) 225-5104  
Fax No.

Address: **Pilgrim Telephone, Inc.  
One Kendall Square, Suite 450  
Cambridge, MA 02139**



**THIS PAGE MUST BE COMPLETED AND SIGNED**

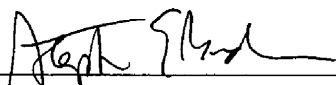
**AFFIDAVIT**

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

**Further, I am aware that, pursuant to Chapter 837.06, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."**

**UTILITY OFFICIAL:**

Stephen Bonder  
Print Name

  
Signature

Treasurer  
Title

27-Apr-01  
Date

(617) 225-7000  
Telephone No.

(617) 225-5104  
Fax No.

Address: Pilgrim Telephone, Inc.  
One Kendall Square, Suite 450  
Cambridge, MA 02139

**Scott A. Yacino**  
**22 Gilboa Court**  
**Douglas, MA 01516**  
**(508) 476-3818**

**Education**

Blackstone Valley Regional Vocational Technical High School  
Upton, MA

Electronics Major  
Graduated 6/78

**Post High School Courses**

Fisher Jr. College  
Credits in Data Processing and Business Math / Accounting

Bunker Hill Community College  
Credits in Business Management

Extensive Vendor and Industry Training in Computer Electronics (Data General Courses), Electronic Switch Theory (Northern Telecom, Stromberg-Carlson, Lucent/ATT, DSC Corporation and Excel Corporation), Network Signaling Systems (DSC ISDN and SS7), Network Peripheral equipment (DSC DACS, modems, etc.), Toll Fraud Detection and Prevention and other related subjects.

**Work History**

- 7/78 to 4/80      Call Data Systems (Subsidiary of Grumman Data Systems)  
                          Newton, MA  
                          Position: Data Communications Technician  
                          Responsible to maintain network and equipment. Call Data was a computer time-share company that served several large businesses' computer needs. The network consisted of over 100 dial-up lines, wide band multiplexers, Codex Network Processors, IBM, DEC and Honeywell Mainframes.
- 4/80 to 12/82      Data General Corporation  
                          Westboro, MA  
                          Position: Telecommunications Technician  
                          Responsible for worldwide support of data and voice communications network. Isolate and repair all types of network problems. Performed routine adds, moves and changes for voice and data terminals. Supervised installation of several Stromberg-Carlson and NTI switches. Worked with corporate security as liaison for telephone or network security issues.
- 12/82 to 6/92      First Phone of New England  
                          Cambridge, MA and Boston, MA  
                          Position: Operations Manager  
                          Installed NTI Danray CTSS4K, DSC 400S and DSC 400 Telephone Switching Systems, along with network interconnection peripheral equipment. Also maintain UPS system. Responsible to monitor and react to toll fraud and physical security for operations centers. Installed and maintained two operator centers (New Britain, CT and Mattoon, IL). Maintained SS7 Network, DS-3 level equipment, DACS and Mitel Office System. Provided Tech Support to Sales and Major Accounts. Supervised 4 Operations Technicians. Also, specified and deployed fraud detection and reporting software.

6/92 to Present Pilgrim Telephone, Inc.  
PDQ Phone, Inc.  
Cambridge, MA  
Position: Vice President Technical Operations  
Oversaw the creation and building of the Customer Service Department.  
Managed Customer Service Department  
Managed Operator Center  
Currently Manage Technical Operations  
Currently Manage Toll Fraud Department  
Responsible for Network Maintenance – Fiber Optic, DS-3, DS-1, DS-0 (FGA and FGD, as well as Private Line)  
Currently Manage Facilities Maintenance, Safety and Security (physical and network).  
Maintain Danray CTSS4K, Excel Tandem, Lucent Definity/Audix/CMS/Prologics platform, PASEK security system (proximity card readers, video surveillance system and badging station), and Marconi UPS system.  
Maintain Multi-Linx conference equipment.  
Installed and currently maintain Octave Conferencing System.

### **Personal**

Married with two children.  
Served on Douglas School Building Needs Committee.  
Current president of Douglas Band Boosters, support group for High School Marching Band and Performance Chorus. The Band Boosters are primarily a fund-raising and hands-on support group. Planned and executed trips to Virginia Beach and Walt Disney World and several concert/recital performances. I also serve as the National Line Advisor to the Marching Band.  
Coach in Douglas Youth Hoop basketball league, grades 3 – 5.  
Committee Member, Troop 134 of Boy Scouts of America.  
2000 recipient of the Mass State Police Distinguished Service Award.

GREENBERG  
ATTORNEYS AT LAW  
TRAURIG

Walter E. Steimel, Jr.  
(202) 452-4893  
steimelw@gtlaw.com

April 27, 2001

**VIA FED EX**

**Florida Public Service Commission  
Division of Records and Reporting  
2540 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850**

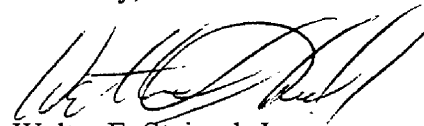
Re: Claim of Confidentiality – Financial Records  
Pilgrim Telephone, Inc.

**To: Florida Public Service Commission, Division of Records and Reporting:**

Please be advised that, pursuant to Rule 25-22.006(5) of the Florida Public Service Commission, and §364.183(1), F.S., Pilgrim is claiming confidentiality for all numerical values on the attached financial records (Statements of Assets, Liabilities and Stockholders' Equity – Income Tax Basis; Statements of Revenues, Expenses and Retained Earnings – Income Tax Basis; Statements of Cash Flows – Income Tax Basis; Notes to the Financial Statements). Attached, in accordance with Rule 25-22.006 (5) are one highlighted copy and two edited copies delineating the material claimed protected. Pilgrim is a closely held corporation that does not make public its financial statements.

I further request that any inquiries or correspondence regarding this claim be directed to me at the address listed below. Thank you.

Sincerely,



Walter E. Steimel, Jr.  
Counsel for Pilgrim Telephone, Inc.

**PILGRIM TELEPHONE, INC.**

Financial Statements  
(Income Tax Basis)

December 31, 1999 and 1998

(With Accountants' Compilation Report Thereon)

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**S**Stone  
& Company, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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**Stone  
& Company, P.C.**

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CERTIFIED PUBLIC ACCOUNTANTS  
57 BEDFORD STREET - SUITE 225  
LEXINGTON, MASSACHUSETTS 02173-4450  
(781) 863-6300 FAX: (781) 862-6736

THE BOARD OF DIRECTORS  
PILGRIM TELEPHONE, INC.:

We have compiled the accompanying statements of assets, liabilities and stockholders' equity - income tax basis of Pilgrim Telephone, Inc. as of December 31, 1999 and 1998, and the related statements of revenue, expenses and retained earnings - income tax basis and cash flows - income tax basis for the years then ended. Our compilation was performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, we do not express an opinion or any other form of assurance on them.

*Stone & Company, P.C.*

LEXINGTON, MASSACHUSETTS  
MAY 3, 2000

**PILGRIM TELEPHONE, INC.**

**Statements of Assets, Liabilities and Stockholders' Equity - Income Tax Basis**

**December 31,**

**1999**

**1998**

(See accompanying accountants' compilation report.)

Assets

**Current assets:**

Cash and cash equivalents

Other current assets

Total current assets

**Property and equipment**

Less accumulated depreciation

Net property and equipment

**Other assets**

	1999	1998
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]

Liabilities and Stockholders' Equity

**Current liabilities:**

Sales taxes payable

Due to affiliate

Accrued retirement plan contribution

Total current liabilities

**Stockholders' equity:**

Common stock, \$.01 par value. Authorized

300,000 shares; issued 73,333 shares

Additional paid-in capital

Retained earnings

Total stockholders' equity

	1999	1998
	\$ [REDACTED]	\$ [REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]

See accompanying notes to the financial statements.



**PILGRIM TELEPHONE, INC.**

**Statements of Revenues, Expenses and Retained Earnings - Income Tax Basis**

**Years ended December 31,**

**1999**

**1998**

**(See accompanying accountants' compilation report.)**

**Net revenues:**

Telecommunications, net

Interest and dividends

**Net revenues**

[REDACTED]

**Operating expenses:**

Commissions

Telephone

Payroll

Billing fees

Other operating expenses

**Total operating expenses**

[REDACTED]

**Excess (deficit) of revenues over expenses**

[REDACTED]

Retained earnings - beginning of year

[REDACTED]

Dividends paid

[REDACTED]

Retained earnings - end of year

[REDACTED]

**See accompanying notes to the financial statements.**



CERTIFIED PUBLIC ACCOUNTANTS



**PILGRIM TELEPHONE, INC.**

**Statements of Cash Flows - Income Tax Basis**

**Years ended December 31,**

**1999**

**1998**

**(See accompanying accountants' compilation report.)**

Cash flows from operating activities:		
Excess (deficit) of revenues over expenses	[REDACTED]	[REDACTED]
Adjustment to reconcile excess (deficit) of revenues over expenses to net cash from operating activities:		
Depreciation	[REDACTED]	[REDACTED]
Changes in operating assets and liabilities:		
Other current assets	[REDACTED]	[REDACTED]
Sales taxes payable	[REDACTED]	[REDACTED]
Due to affiliate	[REDACTED]	[REDACTED]
Accrued retirement plan contribution	[REDACTED]	[REDACTED]
<b>Net cash from operating activities</b>	[REDACTED]	[REDACTED]
Cash flows from investing activities:		
Purchase of property and equipment	[REDACTED]	[REDACTED]
Other assets	[REDACTED]	[REDACTED]
<b>Net cash from investing activities</b>	[REDACTED]	[REDACTED]
Cash flows from financing activities:		
Dividends	[REDACTED]	[REDACTED]
<b>Net increase (decrease) in cash and cash equivalents</b>	[REDACTED]	[REDACTED]
Cash and cash equivalents - beginning of year	[REDACTED]	[REDACTED]
Cash and cash equivalents - end of year	[REDACTED]	[REDACTED]

**See accompanying notes to the financial statements.**



**CERTIFIED PUBLIC ACCOUNTANTS**

**PILGRIM TELEPHONE, INC.**

**Notes to the Financial Statements**

**December 31, 1999 and 1998**

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(See accompanying accountants' compilation report.)

**(1) Nature of Operations**

The Company provides telephone switching and conference services throughout the United States.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of presentation**

These financial statements were prepared on the cash basis of accounting used for federal income tax purposes which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis, revenues and expenses are recognized when they become taxable or deductible for income tax purposes. This results in the recognition of revenues and expenses in different reporting periods than they would be if these financial statements were prepared in conformity with generally accepted accounting principles.

**(b) Property and equipment**

Property and equipment is stated at cost. Depreciation is calculated using accelerated methods over the estimated useful lives of the assets and amounted to [REDACTED] and [REDACTED] in 1999 and 1998, respectively.

**(c) Cash equivalents**

All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

**(d) Use of estimates**

The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(3) Concentrations of Credit Risk**

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents. The Company maintains cash balances in certain bank accounts in excess of federally insured limits. The total amount of cash on deposit at December 31, 1999 in excess of these limits was [REDACTED]. The remainder of the Company's cash and cash equivalents at December 31, 1999 were invested in uninsured money market funds at two highly rated financial institutions.

**PILGRIM TELEPHONE, INC.**

**Notes to the Financial Statements**

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**(4) Income Taxes**

The Company has elected by unanimous consent of its shareholders to be taxed as an S Corporation under the provisions of the Internal Revenue Code. Under those provisions the Company does not pay federal corporate income taxes on its taxable income. Instead, this taxable income flows through to the individual shareholders and they are liable for the tax on their share of the Company's taxable income.

For Massachusetts income tax purposes, S Corporations with total receipts of \$9,000,000 or more are liable for the income measure of the corporate excise at the rate of 4.5% on net income subject to tax. No Massachusetts excise taxes were disbursed during the years ended December 31, 1999 and 1998.

**(5) Leases / Related Party Transactions**

The Company has noncancellable operating leases for office space that expire through 2003 and provide for renewal options. In addition, the Company leases a motor vehicle and various equipment under arrangements which expire in the years 2000 through 2003.

Future minimum lease payments under all noncancellable operating leases as of December 31, 1999 are:

Year ending December 31:

2000  
2001  
2002  
2003  
2004



Total rental expense for operating leases in 1999 and 1998 was \$371,132 and \$326,856, respectively.

The Company rents office space on a month to month basis from a corporation under common control. Rent expense charged to operations in 1999 was \$48,000 and is included in the summaries above.

The Company leases office and parking facilities from a corporation whose majority stockholders own an interest in the Company. The leases expire in 2001 and have renewal options. Rent expense under these leases was approximately \$102,000 and \$122,000 in 1999 and 1998, respectively, and is included in the summaries above.



CERTIFIED PUBLIC ACCOUNTANTS

**PILGRIM TELEPHONE, INC.**

**Notes to the Financial Statements**

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**(6) Retirement Plan**

Effective January 1, 1999 the Company adopted a retirement plan pursuant to Internal Revenue Code Section 401(k). The plan permits eligible employees to make elective contributions. In addition, the Company may make discretionary matching contributions. The Company has accrued [REDACTED] of matching contributions for the year ended December 31, 1999.

The logo for Stone & Company, P.C. features a large, stylized letter 'S' on the left. To the right of the 'S', the word 'Stone' is written in a serif font above the word 'Company, P.C.', which is also in a serif font. A decorative flourish or ampersand-like symbol is positioned between 'Stone' and 'Company, P.C.'.

CERTIFIED PUBLIC ACCOUNTANTS

**PILGRIM TELEPHONE, INC.**

Financial Statements  
(Income Tax Basis)

December 31, 1999 and 1998

(With Accountants' Compilation Report Thereon)

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**S**tone  
&  
Company, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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**Stone & Company, P.C.**

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CERTIFIED PUBLIC ACCOUNTANTS  
57 BEDFORD STREET - SUITE 225  
LEXINGTON, MASSACHUSETTS 02173-4450  
(781) 863-6300 FAX: (781) 862-6736

THE BOARD OF DIRECTORS  
PILGRIM TELEPHONE, INC.:

We have compiled the accompanying statements of assets, liabilities and stockholders' equity - income tax basis of Pilgrim Telephone, Inc. as of December 31, 1999 and 1998, and the related statements of revenue, expenses and retained earnings - income tax basis and cash flows - income tax basis for the years then ended. Our compilation was performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, we do not express an opinion or any other form of assurance on them.

*Stone & Company, P.C.*

LEXINGTON, MASSACHUSETTS  
MAY 3, 2000

**PILGRIM TELEPHONE, INC.**

**Statements of Assets, Liabilities and Stockholders' Equity - Income Tax Basis**

**December 31,**

**1999**

**1998**

(See accompanying accountants' compilation report.)

Assets

**Current assets:**

Cash and cash equivalents

Other current assets

Total current assets

**Property and equipment**

Less accumulated depreciation

Net property and equipment

**Other assets**

Liabilities and Stockholders' Equity

**Current liabilities:**

Sales taxes payable

Due to affiliate

Accrued retirement plan contribution

Total current liabilities

**Stockholders' equity:**

Common stock, \$.01 par value. Authorized  
300,000 shares; issued 73,333 shares

Additional paid-in capital

Retained earnings

Total stockholders' equity

See accompanying notes to the financial statements.



**PILGRIM TELEPHONE, INC.**

**Statements of Revenues, Expenses and Retained Earnings - Income Tax Basis**

**Years ended December 31,**

**1999**

**1998**

**(See accompanying accountants' compilation report.)**

**Net revenues:**

Telecommunications, net

Interest and dividends

**Net revenues**

[REDACTED]

**Operating expenses:**

Commissions

Telephone

Payroll

Billing fees

Other operating expenses

**Total operating expenses**

[REDACTED]

**Excess (deficit) of revenues over expenses**

[REDACTED]

Retained earnings - beginning of year

[REDACTED]

Dividends paid

[REDACTED]

Retained earnings - end of year

[REDACTED]

**See accompanying notes to the financial statements.**



CERTIFIED PUBLIC ACCOUNTANTS



**PILGRIM TELEPHONE, INC.**

**Statements of Cash Flows - Income Tax Basis**

**Years ended December 31,**

**1999**

**1998**

**(See accompanying accountants' compilation report.)**

**Cash flows from operating activities:**

Excess (deficit) of revenues over expenses

Adjustment to reconcile excess (deficit) of revenues over expenses to net cash from operating activities:

Depreciation

Changes in operating assets and liabilities:

Other current assets

Sales taxes payable

Due to affiliate

Accrued retirement plan contribution

**Net cash from operating activities**

**Cash flows from investing activities:**

Purchase of property and equipment

Other assets

**Net cash from investing activities**

**Cash flows from financing activities:**

Dividends

**Net increase (decrease) in cash and cash equivalents**

Cash and cash equivalents - beginning of year

Cash and cash equivalents - end of year

See accompanying notes to the financial statements.



CERTIFIED PUBLIC ACCOUNTANTS

**PILGRIM TELEPHONE, INC.**

**Notes to the Financial Statements**

**December 31, 1999 and 1998**

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(See accompanying accountants' compilation report.)

**(1) Nature of Operations**

The Company provides telephone switching and conference services throughout the United States.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of presentation**

These financial statements were prepared on the cash basis of accounting used for federal income tax purposes which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis, revenues and expenses are recognized when they become taxable or deductible for income tax purposes. This results in the recognition of revenues and expenses in different reporting periods than they would be if these financial statements were prepared in conformity with generally accepted accounting principles.

**(b) Property and equipment**

Property and equipment is stated at cost. Depreciation is calculated using accelerated methods over the estimated useful lives of the assets and amounted to [REDACTED] and [REDACTED] in 1999 and 1998, respectively.

**(c) Cash equivalents**

All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

**(d) Use of estimates**

The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(3) Concentrations of Credit Risk**

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents. The Company maintains cash balances in certain bank accounts in excess of federally insured limits. The total amount of cash on deposit at December 31, 1999 in excess of these limits was [REDACTED]. The remainder of the Company's cash and cash equivalents at December 31, 1999 were invested in uninsured money market funds at two highly rated financial institutions.

**PILGRIM TELEPHONE, INC.**

**Notes to the Financial Statements**

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**(4) Income Taxes**

The Company has elected by unanimous consent of its shareholders to be taxed as an S Corporation under the provisions of the Internal Revenue Code. Under those provisions the Company does not pay federal corporate income taxes on its taxable income. Instead, this taxable income flows through to the individual shareholders and they are liable for the tax on their share of the Company's taxable income.

For Massachusetts income tax purposes, S Corporations with total receipts of \$9,000,000 or more are liable for the income measure of the corporate excise at the rate of 4.5% on net income subject to tax. No Massachusetts excise taxes were disbursed during the years ended December 31, 1999 and 1998.

**(5) Leases / Related Party Transactions**

The Company has noncancellable operating leases for office space that expire through 2003 and provide for renewal options. In addition, the Company leases a motor vehicle and various equipment under arrangements which expire in the years 2000 through 2003.

Future minimum lease payments under all noncancellable operating leases as of December 31, 1999 are:

Year ending December 31:

2000  
2001  
2002  
2003  
2004



Total rental expense for operating leases in 1999 and 1998 was \$371,132 and \$326,856, respectively.

The Company rents office space on a month to month basis from a corporation under common control. Rent expense charged to operations in 1999 was \$48,000 and is included in the summaries above.

The Company leases office and parking facilities from a corporation whose majority stockholders own an interest in the Company. The leases expire in 2001 and have renewal options. Rent expense under these leases was approximately \$102,000 and \$122,000 in 1999 and 1998, respectively, and is included in the summaries above.



CERTIFIED PUBLIC ACCOUNTANTS

**PILGRIM TELEPHONE, INC.**

**Notes to the Financial Statements**

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**(6) Retirement Plan**

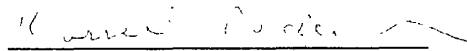
Effective January 1, 1999 the Company adopted a retirement plan pursuant to Internal Revenue Code Section 401(k). The plan permits eligible employees to make elective contributions. In addition, the Company may make discretionary matching contributions. The Company has accrued [REDACTED] of matching contributions for the year ended December 31, 1999.

**VERIFICATION**

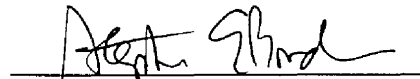
**Financial Statements  
1998, 1999**

- 1) Statements of Assets, Liabilities and Stockholders' Equity**
- 2) Statements of Revenues, Expenses and Retained Earnings**
- 3) Statements of Cash Flows**

We, Russell Noftsker, President and Stephen Bonder, Treasurer of Pilgrim Telephone, Inc. hereby certify that the foregoing financial statements, compiled and prepared by Stone & Company, P.C., are true and correct to the best of my knowledge and belief, and that the accuracy of all numerical information used in the compilation has been verified.



**Russell Noftsker**  
President  
Pilgrim Telephone, Inc.



**Stephen Bonder**  
Treasurer  
Pilgrim Telephone, Inc.