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August 7, 2007

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Florida Public Service Commission  
The Office of Commission Clerk  
2540 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850

**Re:** Petition of RNK Communications Inc. for Transfer of Certificate 8520.

Dear Secretary:

Enclosed please find an original and two (2) copies of the application of RNK Communications Inc., a Massachusetts corporation (RNK, Inc.) with Authority to Do Business in the State of Florida, to transfer Certificate No. 8520 together with the following Exhibits:

- \$400.00 Application Fee
- Exhibit A.1: A copy of RNK Communications' certificate of authority to do business in Florida issued by the Secretary of State
- Exhibit A.2(a) and (b): containing resumes of Management Personnel and Technical Personnel
- Exhibit A.2(c): containing audited financial statements for the most recent 3 years
- RNK Communications' Motion for Protective Order regarding its responses contained in Exhibit A.2(c).

CMP  RNK Communications contemporaneously files a Motion for Protective Order as  
 COM \_\_\_\_\_ provided in Rule 25-22-006(5)(a) of the Commission's rules, requesting confidential  
 CTR \_\_\_\_\_ treatment of the information contained in a sealed manila envelope labeled "Exhibit  
 ECR \_\_\_\_\_ A.2.(c) Confidential." This Exhibit contains sensitive financial information which RNK  
 GCL  Communications considers proprietary and confidential. Disclosure of the confidential  
 OPC \_\_\_\_\_ information contained in Exhibit 4 could adversely effect RNK Communications'  
 RCA \_\_\_\_\_ business affairs and give competitors an unfair advantage. RNK Communications  
 SCR \_\_\_\_\_ respectfully requests that its financial statements be viewed by Commission staff only in  
 SGA \_\_\_\_\_ the discharging of its duties, and not be released to the public, consistent with RNK  
 SEC \_\_\_\_\_ Communications' Motion, if granted.

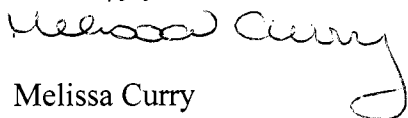
(Confidential  
DNS 06749-07  
# 06889-07)

OTH License records

DOCUMENT NUMBER - DATE  
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FPSC-COMMISSION CLERK

Please stamp and return in the self addressed postage paid envelope included the sheets marked "copy" of this transmittal letter and the Motion for Confidential Treatment of Financial Information. If you need more information, please contact me at your earliest opportunity.

Sincerely yours,



Melissa Curry  
Legal Assistant  
Phone: (781) 613-9151  
Fax: (781) 297-9836  
Email: [Melissa@rnktel.com](mailto:Melissa@rnktel.com)

Enclosures

PUBLIC

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*Consolidated Audited Financial Statements*

*RNK Holding Company and Subsidiary  
d.b.a. RNK Communications*

*Years ended December 31, 2006 and 2005  
with Report of Independent Auditors*

DOCUMENT NUMBER - DATE

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FPSC - COMMISSION CLERK

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Consolidated Audited Financial Statements

Years ended December 31, 2006 and 2005  
with Report of Independent Auditors

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EXPERIENCE THAT COUNTS.

## Report of Independent Auditors

To the Board of Trustees  
RNK Holding Company and Subsidiary  
d.b.a. RNK Communications  
Dedham, Massachusetts

We have audited the accompanying consolidated balance sheets of RNK Holding Company and Subsidiary (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in shareholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated financial position of RNK Holding Company and Subsidiary as of December 31, 2006 and 2005, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Fiondella, Milone & LaSaracina LLP*

Glastonbury, Connecticut  
April 10, 2007

**RNK Holding Company and Subsidiary  
d.b.a. RNK Communications  
Consolidated Balance Sheets**

	December 31,	
	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ [REDACTED]	\$ [REDACTED]
Accounts receivable, net of allowance for doubtful accounts of [REDACTED] and [REDACTED], respectively	[REDACTED]	[REDACTED]
Unbilled revenue	[REDACTED]	[REDACTED]
Inventory	[REDACTED]	[REDACTED]
Prepaid expenses and other current assets	[REDACTED]	[REDACTED]
Deferred income taxes	[REDACTED]	[REDACTED]
Total current assets	[REDACTED]	[REDACTED]
Property, equipment and software, net	[REDACTED]	[REDACTED]
Other assets:		
Restricted cash	[REDACTED]	[REDACTED]
Other assets	[REDACTED]	[REDACTED]
Total other assets	[REDACTED]	[REDACTED]
Total assets	\$ [REDACTED]	\$ [REDACTED]
<b>Liabilities and shareholders' deficit</b>		
Current liabilities:		
Accounts payable	\$ [REDACTED]	\$ [REDACTED]
Deferred revenue and customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Income taxes payable and other taxes	[REDACTED]	[REDACTED]
Current portion of capital lease obligations	[REDACTED]	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]
Total current liabilities	[REDACTED]	[REDACTED]
Other liabilities:		
Capital leases, less current portion	[REDACTED]	[REDACTED]
Long-term debt, less current portion	[REDACTED]	[REDACTED]
Deferred income taxes	[REDACTED]	[REDACTED]
Other long-term liabilities	[REDACTED]	[REDACTED]
Total non-current liabilities	[REDACTED]	[REDACTED]
Total liabilities	[REDACTED]	[REDACTED]
Shareholders' deficit:		
Common stock, \$0.01 par value, [REDACTED] shares authorized, [REDACTED] shares issued and outstanding at December 31, 2006 and 2005	[REDACTED]	[REDACTED]
Treasury shares at cost, [REDACTED] shares at December 31, 2006 and 2005	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]
Total shareholders' deficit	[REDACTED]	[REDACTED]
Total liabilities and shareholders' deficit	\$ [REDACTED]	\$ [REDACTED]

*See accompanying notes*

**RNK Holding Company and Subsidiary  
d.b.a. RNK Communications  
Consolidated Statements of Operations**

	<b>Year Ending December 31,</b>	
	<b>2006</b>	<b>2005</b>
Net sales	\$ [REDACTED]	\$ [REDACTED]
Costs and expenses	[REDACTED]	[REDACTED]
Depreciation and amortization	[REDACTED]	[REDACTED]
Net income from operations	[REDACTED]	[REDACTED]
Other income (expense):		
Interest expense	[REDACTED]	[REDACTED]
Interest income	[REDACTED]	[REDACTED]
Loss on disposal of assets	[REDACTED]	[REDACTED]
Other (expense) income	[REDACTED]	[REDACTED]
Total other expenses	[REDACTED]	[REDACTED]
Income before state income taxes	[REDACTED]	[REDACTED]
Provision for state income taxes	[REDACTED]	[REDACTED]
Net income	\$ [REDACTED]	\$ [REDACTED]

*See accompanying notes*

**RNK Holding Company and Subsidiary  
d.b.a. RNK Communications  
Consolidated Statements of Shareholders' Deficit  
For the years ended December 31, 2006 and 2005**

	Common Stock	Treasury Shares	Retained Earnings	Total Stockholders' Deficit
Balance, December 31, 2004	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Net income	-	-	[REDACTED]	[REDACTED]
Shareholder distribution	-	-	[REDACTED]	[REDACTED]
Balance, December 31, 2005	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income	-	-	[REDACTED]	[REDACTED]
Shareholder distribution	-	-	[REDACTED]	[REDACTED]
<b>Balance, December 31, 2006</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>

*See accompanying notes*



**RNK Holding Company and Subsidiary  
d.b.a. RNK Communications  
Consolidated Statements of Cash Flows**

	Year Ended December 31,	
	2006	2005
<b>Cash flows from operating activities:</b>		
Net income	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided (used) operating activities:		
Depreciation and amortization	[REDACTED]	[REDACTED]
Deferred income tax provision	[REDACTED]	[REDACTED]
Gain on disposal of equipment	[REDACTED]	[REDACTED]
Changes in:		
Accounts receivable	[REDACTED]	[REDACTED]
Unbilled revenue	[REDACTED]	[REDACTED]
Inventory	[REDACTED]	[REDACTED]
Prepaid expenses and other assets	[REDACTED]	[REDACTED]
Restricted cash	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]
Accrued expenses and other long-term liabilities	[REDACTED]	[REDACTED]
Income taxes payable and other taxes	[REDACTED]	[REDACTED]
Deferred revenues and customer deposits	[REDACTED]	[REDACTED]
Net cash provided by operating activities	[REDACTED]	[REDACTED]
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	[REDACTED]	[REDACTED]
Net cash used by investing activities	[REDACTED]	[REDACTED]
<b>Cash flows from financing activities:</b>		
Repayment of capital lease obligations	[REDACTED]	[REDACTED]
Repayment of long-term debt	[REDACTED]	[REDACTED]
Shareholder distributions	[REDACTED]	[REDACTED]
Net cash used by financing activities	[REDACTED]	[REDACTED]
(Decrease) increase in cash and cash equivalents	[REDACTED]	[REDACTED]
Cash and cash equivalents, beginning of year	[REDACTED]	[REDACTED]
Cash and cash equivalents, end of year	\$ [REDACTED]	\$ [REDACTED]
<b>Cash paid during the year for:</b>		
Interest	\$ [REDACTED]	\$ [REDACTED]
State income taxes	[REDACTED]	[REDACTED]

*See accompanying notes*

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

**1. Nature of Operations**

RNK, Inc. is a Massachusetts S corporation that was formed in 1992 and commenced operation in 1997. On December 23, 2002, RNK Holding Company, a Massachusetts Business Trust (the Trust), was formed and the shareholders of RNK, Inc. d.b.a. RNK Communications (the Company) exchanged their shares for those of the Trust. RNK, Inc., wholly owned subsidiary of the Trust, is a telecommunications company that operates in the communications services industry providing voice, data, and Internet services through residential and commercial telephone service, Voice over Internet Protocol (VoIP) enabled services, prepaid and postpaid calling cards, conference calling, and wholesale carrier terminations. RNK markets its services directly and through reseller channels. RNK, Inc. is a registered and certified competitive local exchange carrier (CLEC) providing local exchange services primarily in the New England region, and is also a licensed and registered interexchange carrier (IXC) or "long distance" carrier, providing domestic and international long distance services. The Company is registered to transact business within various states throughout the eastern coast of the United States.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates include reserves for accounts receivable and inventory, useful lives of equipment and leasehold improvements and accrued liabilities. Actual results could differ from those estimates.

**Principles of Consolidation**

The consolidated financial statements of the Company include the results of its wholly-owned subsidiary RNK, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation.

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

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

**Cash and Cash Equivalents**

For purposes of financial statements presentation, the Company considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents. At certain times, the Company has amounts on deposit with financial institutions, of which the FDIC will insure up to \$100,000 per depositor. The portion of the deposits in excess of \$100,000 is not subject to insurance and represents a credit risk to the Company. Management believes that the risk is limited because the deposits are in high quality financial institutions.

**Restricted Cash**

Restricted cash represents letters of credit related to the building leases for the Bedford and Dedham locations and collateral held by a financial institution for accepting credit card payments.

**Allowance for Doubtful Accounts**

The Company routinely assesses the financial strength of its customers, and as a consequence believes that its trade account receivable credit risk exposure is limited. An allowance for doubtful account is reserved for at the time that management determines them to be uncollectible. As of December 31, 2006 and 2005, the Company has reserved [REDACTED] and [REDACTED] for uncollectible accounts, respectively. The Company grants credit to its customers located in the Eastern region of the United States.

**Inventory**

Inventory is stated at the lower of cost or market using the FIFO method. Inventory consists of Voice over Internet Protocol (VoIP) telephones and adapters that are sold in the normal course of business to end-user customers and through reseller channels.

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

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

**Property, Equipment and Software**

Property, equipment, and software are recorded at cost, using the straight-line method over the estimated useful life of the related assets as revealed below.

Telephone equipment	5 - 9.5 years
Equipment	5 - 7 years
Furniture and fixtures	7 years
Vehicles	4 years
Rental equipment	7 years
Leasehold improvements	3 years
Computer software	3 years

**Revenue Recognition**

Revenues from telephone services are recognized as earned. Certain revenues from local and long-distance telephone services billed in advance are recorded as deferred revenue and recognized when services are provided. Revenues derived from other services, principally data services, are recognized as services are provided.

Management makes estimates regarding the recording of certain revenue streams based on historical collection efforts and by using the appropriate legally binding contractual rates. Management believes that the services provided and minutes billed for services rendered to its customers are accurate and it is within their contractual and legal right to record revenue for these services and minutes provided.

For some customers/products, the Company books revenue in the month earned by estimating current month revenue as "Unbilled Revenue". This is done for all customers/products which are billed for in the subsequent month following the month of services provided.

**Marketing Costs**

Marketing costs are expensed as incurred. Marketing expense for the years ended December 31, 2006 and 2005 totaled [REDACTED] and [REDACTED], respectively.

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

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

**Income Taxes**

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of federal corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no liability for federal income taxes has been included in these consolidated financial statements.

For state tax purposes, the Company (not the shareholders) is subject to Massachusetts income taxes as well as income taxes in other states that do not recognize the federal S corporation election. In 2005, it was management's intention to make distributions to the shareholders sufficient to fund required tax payments on S Corporation earnings. Distributions are recorded when declared.

In 2006, management withheld income taxes through bonus payments to the shareholders sufficient to fund required tax payments on S Corporation earnings. As such, costs and expenses as reported in the consolidated statement of operations in 2006 is higher by [REDACTED] when compared to costs and expenses as reported in 2005.

For comparison purposes, the following table shows net income from operations if management paid the [REDACTED] to the shareholders as a distribution, similarly as in 2005, rather than as a bonus:

	<b>Year Ending December 31</b>	
	<b>2006</b>	<b>2005</b>
Net sales	\$ [REDACTED]	\$ [REDACTED]
Costs and expenses	[REDACTED]	[REDACTED]
Add back bonus paid to shareholders for taxes	[REDACTED]	[REDACTED]
Total costs and expenses	[REDACTED]	[REDACTED]
Less: Depreciation and amortization	[REDACTED]	[REDACTED]
Net income from operations	\$ [REDACTED]	\$ [REDACTED]

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

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

**Income Taxes (continued)**

For Massachusetts purposes and other states that do not recognize the federal S election, current income taxes are based on the taxable income for the tax year, as measured by the current year's tax return. Deferred tax provisions are calculated for certain transactions and events because of differing treatments under generally accepted accounting principles and the currently enacted tax laws. The results of these differences on a cumulative basis, known as temporary differences, result in the recognition and measurement of deferred tax assets and liabilities in the accompanying consolidated balance sheets. Valuation allowances are established when necessary to reduce deferred tax assets to the tax amount expected to be realized. The tax provision represents state taxes due at a corporate level and changes to deferred tax assets and liabilities during the year.

**Software Development Costs**

The Company adopted American Institute of Certified Public Accountants (AICPA) Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). Under SOP 98-1, computer software costs incurred in the preliminary project stage are expensed as incurred until the capitalization criteria have been met. The criteria for capitalization is defined as the point the preliminary project stage is complete and management commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization ceases at the point that the computer software project is substantially complete and ready for its intended use. The capitalized costs are depreciated using the straight-line method over the estimated economic life of the product. Capitalized internal use software costs were [REDACTED] at December 31, 2006 and 2005. Depreciation of internal use software totaled [REDACTED] and [REDACTED] for the years ended December 31, 2006 and 2005, respectively.

**Impairment of Long Lived Assets**

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121 as amended by SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of." This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no material charges for impairment of long-lived assets incurred in 2006 and 2005.

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

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

**Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurement" (Statement 157). While this statement does not require new fair value measurements, it provides guidance on applying fair value and expands required disclosures. Statement 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that adopting Statement 157 will have on its statement of financial position at December 31, 2007.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold or measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is currently evaluating the impact this interpretation will have on its financial statements, which would be effective at the beginning of its fiscal 2007.

**3. Property, Equipment and Software**

Property, equipment and software, consist of the following:

	December 31	
	2006	2005
Telephone equipment	\$ [REDACTED]	\$ [REDACTED]
Equipment	[REDACTED]	[REDACTED]
Furniture and fixtures	[REDACTED]	[REDACTED]
Vehicles	[REDACTED]	[REDACTED]
Rental equipment	[REDACTED]	[REDACTED]
Leasehold improvements	[REDACTED]	[REDACTED]
Computer software	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]
Accumulated depreciation and amortization	[REDACTED]	[REDACTED]
Property, equipment and software, net	\$ [REDACTED]	\$ [REDACTED]

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

**3. Property, Equipment and Software (continued)**

Depreciation and amortization was [REDACTED], and [REDACTED] for the years ended December 31, 2006 and 2005, respectively.

**4. Capital Lease Obligations**

Property under capital lease obligations (included in property and equipment) consist of the following:

	December 31	
	2006	2005
Telephone equipment	\$ [REDACTED]	\$ [REDACTED]
Accumulated depreciation and amortization	[REDACTED]	[REDACTED]
Capital lease, property	\$ [REDACTED]	\$ [REDACTED]

Depreciation of leased property under capital lease obligations amounted to [REDACTED] and [REDACTED] for the years ended December 31, 2006 and 2005, respectively.

Future minimum lease obligations under the capital lease consist of the following for the year ending December 31, 2006:

Years	Amount
2007	\$ [REDACTED]
2008	[REDACTED]
Total	[REDACTED]
Less amounts representing interest present	[REDACTED]
Present value of net minimum lease payments	[REDACTED]
Less current portion	[REDACTED]
Net long-term portion	\$ [REDACTED]



RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

**5. Long-Term Debt**

Long-term debt consists of the following:

	December 31	
	2006	2005
Note payable for treasury shares in monthly installments of [REDACTED] including principal and interest at [REDACTED] due in full on August 10, 2009, secured by [REDACTED] common shares of the Company as well as collateralized by substantially all of the Company's assets.	\$ [REDACTED]	\$ [REDACTED]
Less current portion	[REDACTED]	[REDACTED]
Long -term debt	\$ [REDACTED]	\$ [REDACTED]

Long-term debt balances as of December 31, 2006 and 2005 represent their fair value.

The annual requirements of long-term debt as of December 31, 2006 are as follows:

2007	\$ [REDACTED]
2008	[REDACTED]
2009	[REDACTED]
Net principal payments	\$ [REDACTED]

For the years ended December 31, 2006 and 2005, the Company was in compliance with the leverage ratio covenants contained in the treasury shares note agreement. (See note 8).

**6. Accrued Expenses**

Accrued expense consists of the following:

	December 31	
	2006	2005
Accrued telecom	\$ [REDACTED]	\$ [REDACTED]
Accrued vacation	[REDACTED]	[REDACTED]
Accrued bonus	[REDACTED]	[REDACTED]
Other	[REDACTED]	[REDACTED]
Accrued expenses	\$ [REDACTED]	\$ [REDACTED]

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

**7. Operating Lease Commitments**

The Company leases office space in Dedham, Massachusetts under a lease agreement that was amended on November 11, 2004 and November 18, 2005 to extend the lease term and expand the square feet rented for a period of 42 months ending December 31, 2009. On November 8, 2000, the Company executed a five-year lease for space in Bedford, Massachusetts which houses the majority of its telephone switching equipment. The lease agreement commenced March 1, 2001 and called for basic rent to be paid at an annual rate of [REDACTED] for an initial term of 60 months ending February 28, 2006. On November 28, 2005, the Company executed an amendment of the November 8, 2000 space lease in Bedford. The lease agreement extends the lease 48 months until February 28, 2010. The Company has the options to extend the lease further for two 36 month periods until February 29, 2016. The Company entered into an amendment on February 3, 2006 to lease additional space at the Dedham, Massachusetts location. As a result of executing this amendment, the annual base rent for the office space has increased by [REDACTED] per month. This lease amendment was effective as of February 3, 2006 and expires on December 31, 2009. The amendment does not affect any other terms of the original lease.

In addition to the above, the Company leases office equipment and vehicles under operating leases.

Rental expense was approximately [REDACTED] and [REDACTED] for the years ended December 31, 2006 and 2005, respectively.

The following is a schedule by year of future minimum annual lease payments for the non-cancelable lease as of December 31, 2006:

2007	\$ [REDACTED]
2008	[REDACTED]
2009	[REDACTED]
2010	[REDACTED]
	<hr/>
	\$ [REDACTED]

**8. Shareholders' Deficit**

**Common Shares**

At December 31, 2006 and 2005, RNK, Inc. had [REDACTED] of [REDACTED] common shares authorized and [REDACTED] common shares issued and outstanding.

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

**8. Shareholders' Deficit (continued)**

**Treasury Shares**

On August 16, 1999, the Company purchased [REDACTED] of the then [REDACTED] outstanding common shares from a former shareholder for a total purchase price of [REDACTED] plus legal fees totaling [REDACTED] for a total of [REDACTED]. A subordinated promissory note in the amount of [REDACTED] was issued to pay for the shares at fixed rate of 10% per annum payable in 120 monthly installments of principal and interest in the amount of [REDACTED]. The indebtedness under this note is and shall be subordinate and subject in right of payment to the prior payment in full of any and all indebtedness of the Company existing at the time of execution of this note or hereafter arising to any bank, provided however that the amount secured by a bank financing indebtedness to which the indebtedness under this note shall be subordinated pursuant to the terms thereof shall not exceed the sum of (A) [REDACTED] less (B) the principal balance outstanding under this note as of the date the Company executes and delivers the instrument granting such bank a security interest in the collateral to secure the bank financing indebtedness.

The note is secured by [REDACTED] of the Company's shares as well as collateralized by substantially all the Company's assets. In addition, the Company is required to maintain a leverage ratio not greater than 5 to 1. In calculating the leverage ratio, the aggregate balance of the treasury shares created by the redemption of shares from the secured party and the related interest expense shall be excluded. The Security Agreement provides that the Company is to provide the former shareholder with an annual reviewed financial report within 120 days of year end.

On December 31, 2002, the [REDACTED] treasury shares were transferred to RNK Holding Company and [REDACTED] shares of beneficial interest in the Massachusetts Business Trust were issued. A new shares pledge agreement, security agreement and guarantee were executed between RNK Holding Company and the former shareholder. The agreements are essentially identical to the original agreements made between the Company and the former shareholder described above.

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

**8. Shareholders' Deficit (continued)**

**Warrants**

On December 15, 1999, the Company entered into a Warrant Agreement to increase shares of common stock in accordance with the Warrant holder's agreement to lend the Company a committed equipment leasing facility in the amount of approximately [REDACTED]. In exchange, the Company agreed to issue to the Warrant holder warrants to purchase [REDACTED] of the authorized shares of Common Stock, [REDACTED] par value, of RNK, Inc. The price at which shares shall be purchased upon the exercise of the warrants shall be [REDACTED] per share. The Warrants shall not become exercisable or be transferable unless and until the Company completes an Initial Public Offering (IPO) of shares of its common stock pursuant to the Registration Statement filed with the Securities and Exchange Commission under the Securities Act. The Company shall have no obligation whatsoever to undertake an IPO. As such, no value has been assigned to the warrants. The Warrant Agreement and all warrants shall terminate if an IPO is not completed by December 31, 2008 or, if prior to that time, the Company is acquired by means of purchase of substantially all of its assets or stock or by merger or consolidation or in the event the Company is dissolved, liquidated or ceases to do business.

During 2002, the Company finalized another Warrant Agreement to purchase shares of common stock in accordance with the Warrant holder's agreement to lend to the Company a committed equipment leasing facility in the amount of approximately [REDACTED]. There was no balance outstanding or owed as of December 31, 2006. In exchange, the Company agreed to issue to the Warrant holder warrants to purchase [REDACTED] of the authorized common stock, [REDACTED] par value, of the Company. The price at which shares shall be purchasable upon the exercise of the warrants shall be [REDACTED] per share. The warrants shall not become exercisable or be transferable unless and until the Company completes an IPO of its common shares pursuant to a Registration Statement filed with the Securities and Exchange Commission under the Securities Act; provided, however, that subject to the terms hereof; the warrants shall be exercisable and transferable in connection with, and as part of, a sale of the Company. The Company shall have no obligation whatsoever to undertake an IPO or a sale of the Company or any liability whatsoever if it does not undertake and/or a sale of the Company. As such, no value has been assigned to the warrants. The Warrant Agreement and all warrants shall terminate if an IPO or a sale of the Company is not completed by December 31, 2009 or, if prior to that time, the Company is dissolved, liquidated or ceases to do business.

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

**9. Income Taxes**

The provision for state income taxes consists of the following components:

	Years ended December 31	
	2006	2005
Current	\$ [REDACTED]	\$ [REDACTED]
Deferred	[REDACTED]	[REDACTED]
Provision for state income taxes	\$ [REDACTED]	\$ [REDACTED]

Significant components of the Company's deferred tax assets and liabilities were as follows:

	December 31	
	2006	2005
Current deferred tax assets:		
Allowance for doubtful accounts	\$ [REDACTED]	\$ [REDACTED]
Compensation accrual	[REDACTED]	[REDACTED]
Current deferred income tax assets	\$ [REDACTED]	\$ [REDACTED]
Long-term deferred tax liabilities:		
Fixed assets	[REDACTED]	[REDACTED]
Net deferred liability	\$ [REDACTED]	\$ [REDACTED]

**10. Significant Customers**

[REDACTED]

[REDACTED]

[REDACTED]

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

**11. Commitments and Contingencies**

At December 31, 2006 and 2005, the Company had irrevocable standby letters of credit of [REDACTED] and [REDACTED] outstanding with a commercial bank. These letters of credit are secured by cash accounts held with the commercial bank. The letters were issued to guarantee certain future payments to be made to the Company's landlords for rent payments. The Company had no outstanding borrowings associated with these letters of credit at December 31, 2006 and 2005.

The Company remits state excise tax on telecommunication services as it is the Company's position that the telephone service originates in these states where the equipment or customers are located or the services are rendered. State taxing authorities are constantly revising the laws and regulations with regard to telecommunication services and therefore, the Company is subject to potential excise tax in other jurisdictions based upon these constantly changing laws and regulations.

During 2001, the Company entered into a buy/sell agreement with its two shareholders that gives the Company an option to acquire the common shares under certain circumstances. The details of these circumstances and the Company's obligation are included in the agreement. On December 31, 2002, the buy/sell agreement was assigned to and assumed by the Trust as part of the reorganization of the Company. The Company did not record any costs related to the agreement since execution of the agreement and is currently in the process of changing the original agreement.

**12. Litigation**

In March 2005, the Company was served a complaint from the U.S. District Court of the Southern District of New York on a civil action seeking compensatory and punitive damages from RNK. The suit involves the Company's activities as a local exchange carrier providing wholesale telecommunications services to a customer.

As of the date of these financial statements, potential damages deriving from this lawsuit could not be reasonably estimated. However, the Company does not believe that the outcome of this suit will have a material adverse effect upon the Company's financial condition or results of operations. The Company's insurance carrier has agreed to defend the Company and pay charges resulting from the suit including any settlement charges in accordance with the Company's general liability policy. The Company believes the suit is without merit. No assurances can be given, however, that these or similar claims, if successful and taken into aggregate would not have a material adverse effect upon the Company's financial condition or results of operations.

RNK Holding Company and Subsidiary  
d.b.a. RNK Communications

Notes to Consolidated Financial Statements (continued)

**12. Litigation (continued)**

In the normal course of business, there may be various outstanding contingent liabilities such as lawsuits, etc., that are not reflected in the accompanying consolidated financial statements. No such liabilities have been asserted other than those noted above. Therefore, no estimate of loss, if any, is determinable.

**13. Customer Settlements**

The following table summarizes the Company's customer settlements for the periods indicated:


**14. Subsequent Events**

On January 23, 2007 the Company entered into a deferred payment agreement with [REDACTED] for equipment that was received by the Company on March 1, 2006 and was not placed in service until January 2007. Under this agreement the Company has agreed to pay [REDACTED] (with interest imputed), plus applicable tax and shipping expenses for the purchase of new telephone switch equipment and related services. Full payment is due on April 30, 2007 and is secured and collateralized by the switch equipment received from [REDACTED]

***Consolidated Audited Financial Statements***

***RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom***

***Years ended December 31, 2005 and 2004  
with Report of Independent Auditors***



RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Consolidated Audited Financial Statements

Years ended December 31, 2005 and 2004  
with Report of Independent Auditors

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EXPERIENCE THAT COUNTS.

## Report of Independent Auditors

To the Board of Trustees  
RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom  
Dedham, Massachusetts

We have audited the accompanying consolidated balance sheets of RNK Holding Company and Subsidiary (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in shareholders equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 consolidated financial position of RNK Holding Company and Subsidiary as of December 31, 2005 and 2004, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Fiondella, Milone & LaSarcina LLP*

Glastonbury, Connecticut  
March 17, 2006

**RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom  
Consolidated Balance Sheets**

	December 31,	
	2005	2004
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ [REDACTED]	\$ [REDACTED]
Accounts receivable, net of allowance for doubtful accounts of [REDACTED] and [REDACTED], respectively	[REDACTED]	[REDACTED]
Unbilled revenue	[REDACTED]	[REDACTED]
Inventory	[REDACTED]	[REDACTED]
Prepaid expenses and other current assets	[REDACTED]	[REDACTED]
Deferred income taxes	[REDACTED]	[REDACTED]
<b>Total current assets</b>	[REDACTED]	[REDACTED]
 <b>Property and equipment, net</b>	 [REDACTED]	 [REDACTED]
 <b>Other assets:</b>		
Restricted cash	[REDACTED]	[REDACTED]
Other assets	[REDACTED]	[REDACTED]
<b>Total other assets</b>	[REDACTED]	[REDACTED]
<b>Total assets</b>	\$ [REDACTED]	\$ [REDACTED]
 <b>Liabilities and stockholders' equity (deficit)</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ [REDACTED]	\$ [REDACTED]
Deferred revenue and customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Income taxes payable and other taxes	[REDACTED]	[REDACTED]
Current portion of capital lease obligations	[REDACTED]	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]
<b>Total current liabilities</b>	[REDACTED]	[REDACTED]
 <b>Other liabilities:</b>		
Capital leases, less current portion	[REDACTED]	[REDACTED]
Long-term debt, less current portion	[REDACTED]	[REDACTED]
Deferred income taxes	[REDACTED]	[REDACTED]
Other long term liabilities	[REDACTED]	[REDACTED]
<b>Total non-current liabilities</b>	[REDACTED]	[REDACTED]
<b>Total liabilities</b>	[REDACTED]	[REDACTED]
 <b>Stockholders' (deficit) equity</b>		
Common stock	[REDACTED]	[REDACTED]
Treasury shares at cost	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]
<b>Total stockholders' (deficit) equity:</b>	[REDACTED]	[REDACTED]
<b>Total liabilities and stockholders' equity</b>	\$ [REDACTED]	\$ [REDACTED]

See accompanying notes

**RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom  
Consolidated Statements of Operations**

	<b>Year Ending December 31,</b>	
	<b>2005</b>	<b>2004</b>
Net sales	\$ [REDACTED]	\$ [REDACTED]
Costs and expenses	[REDACTED]	[REDACTED]
Depreciation and amortization	[REDACTED]	[REDACTED]
Net income from operations	[REDACTED]	[REDACTED]
Other income (expense):		
Interest expense	[REDACTED]	[REDACTED]
Interest income	[REDACTED]	[REDACTED]
Sub-rental income	[REDACTED]	[REDACTED]
Loss on disposal of assets	[REDACTED]	[REDACTED]
Other income (expense)	[REDACTED]	[REDACTED]
Total other expenses	[REDACTED]	[REDACTED]
Income before state income taxes	[REDACTED]	[REDACTED]
Provision for state income taxes	[REDACTED]	[REDACTED]
Net income	\$ [REDACTED]	\$ [REDACTED]

*See accompanying notes*

**RNK Holding Company and Subsidiary**  
**d.b.a. RNK Telecom**  
**Consolidated Statements of Stockholders' Equity (Deficit)**  
**For the years ended December 31, 2005 and 2004**

	Common Stock	Treasury Shares	Retained Earnings	Total Stockholders' Equity (Deficit)
Balance, December 31, 2003	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Shareholder distribution	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2004	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Shareholder distribution	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2005	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

*See accompanying notes*

**RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom  
Consolidated Statements of Cash Flows**

	<b>Year Ended December 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	[REDACTED]	[REDACTED]
Deferred income tax provision	[REDACTED]	[REDACTED]
Gain on disposal of equipment	[REDACTED]	[REDACTED]
Changes in:		
Accounts receivable	[REDACTED]	[REDACTED]
Unbilled revenue	[REDACTED]	[REDACTED]
Inventory	[REDACTED]	[REDACTED]
Prepaid expenses and other assets	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]
Accrued expenses and other long-term liabilities	[REDACTED]	[REDACTED]
Income taxes payable and other taxes	[REDACTED]	[REDACTED]
Deferred revenues and customer deposits	[REDACTED]	[REDACTED]
Net cash provided by operating activities	[REDACTED]	[REDACTED]
 <b>Cash flows from investing activities:</b>		
Purchases of property and equipment	[REDACTED]	[REDACTED]
Net cash used by investing activities	[REDACTED]	[REDACTED]
 <b>Cash flows from financing activities:</b>		
Repayment of capital lease obligations	[REDACTED]	[REDACTED]
Repayment of long-term debt	[REDACTED]	[REDACTED]
Shareholder distributions	[REDACTED]	[REDACTED]
Net cash used by financing activities	[REDACTED]	[REDACTED]
Increase in cash and cash equivalents	[REDACTED]	[REDACTED]
 Cash and cash equivalents, beginning of year	[REDACTED]	[REDACTED]
Cash and cash equivalents, end of year	\$ [REDACTED]	\$ [REDACTED]
 Cash paid during the year for:		
Interest	[REDACTED]	[REDACTED]
Corporate Income Taxes	[REDACTED]	[REDACTED]

*See accompanying notes*

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements

Years ended December 31, 2005 and 2004

**1. Nature of Operations**

RNK, Inc. is a Massachusetts S corporation that was formed in 1992 and commenced operation in 1997. On December 23, 2002, RNK Holding Company, a Massachusetts Business Trust (the Trust), was formed and the shareholders of RNK, Inc. d.b.a. RNK Telecom (the Company) exchanged their shares for those of the Trust. RNK, Inc., wholly owned subsidiary of the Trust, is a telecommunications company that operates in the communications services industry providing voice, data, and Internet services through residential and commercial telephone service, Voice over Internet Protocol (VoIP) enabled services, prepaid and postpaid calling cards, conference calling, and wholesale carrier terminations. RNK markets its services directly and through reseller channels. RNK, Inc. is a registered and certified competitive local exchange carrier (CLEC) providing local exchange services primarily in the New England region, and is also a licensed and registered interexchange carrier (IXC) or "long distance" carrier, providing domestic and international long distance services. The Company is registered to transact business within various states throughout the eastern coast of the United States.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates include reserves for accounts receivable and inventory, useful lives of equipment and leasehold improvements and accrued liabilities. Actual results could differ from those estimates.

**Principles of Consolidation**

The consolidated financial statements of the Company include the results of its wholly-owned subsidiary RNK, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

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

**Cash and Cash Equivalents**

For purposes of financial statements presentation, the Company considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents. At certain times, the Company has amounts on deposit with financial institutions, of which the FDIC will insure up to \$100,000 per depositor. The portion of the deposits in excess of \$100,000 is not subject to insurance and represents a credit risk to the Company. Management believes that the risk is limited because the deposits are in high quality financial institutions.

**Restricted Cash**

Restricted cash represents letters of credit related to the building leases for the Bedford and Dedham locations and collateral held by a financial institution for accepting credit card payments.

**Allowance for Doubtful Accounts**

The Company routinely assesses the financial strength of its customers, and as a consequence believes that its trade account receivable credit risk exposure is limited. An allowance for doubtful accounts is reserved for at the time that management determines them to be uncollectible. As of December 31, 2005 and 2004, the Company has reserved [REDACTED] and [REDACTED] for uncollectible accounts, respectively. The Company grants credit to its customers located in the Eastern region of the United States.

**Inventory**

Inventory is stated at the lower of cost or market using the FIFO method. Inventory consists of Voice over Internet Protocol (VoIP) telephones and adapters that are sold in the normal course of business to end-user customers and through reseller channels.



RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

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

**Property, Equipment and Software**

Property, equipment, and software are recorded at cost, using the straight-line method over the estimated useful life of the related assets as revealed below.

Telephone equipment	5 - 9.5 years
Equipment	5 - 7 years
Furniture and fixtures	7 years
Vehicles	4 years
Rental equipment	7 years
Leasehold improvements	3 years
Computer software	3 years

**Revenue Recognition**

Revenues from telephone services are recognized as earned. Certain revenues from local and long-distance telephone services billed in advance are recorded as deferred revenue and recognized when services are provided. Revenues derived from other services, principally data services, are recognized as services are provided.

Management makes estimates regarding the recording of certain revenue streams based on historical collection efforts and by using the appropriate legally binding contractual rates. Management believes that the services provided and minutes billed for services rendered to its customers are accurate and it is within their contractual and legal right to record revenue for these services and minutes provided.

For some customers/products, the Company books revenue in the month earned by estimating current month revenue as "Unbilled Revenue". This is done for all customers/products which are billed for in the subsequent month following the month of services provided.

**Marketing Costs**

Marketing costs are expensed as incurred. Marketing expense for the years ended December 31, 2005 and 2004 totaled [REDACTED] and [REDACTED] respectively.

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

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

**Income Taxes**

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of federal corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no liability for federal income taxes has been included in these consolidated financial statements.

For state tax purposes, the Company (not the shareholders) is subject to Massachusetts income taxes as well as income taxes in other states that do not recognize the federal S corporation election. It is management's intention to make distributions to the shareholders sufficient to fund required tax payments on S Corporation earnings. Distributions are recorded when declared.

For Massachusetts purposes and other states that do not recognize the federal S election, current income taxes are based on the taxable income for the tax year, as measured by the current year's tax return. Deferred tax provisions are calculated for certain transactions and events because of differing treatments under generally accepted accounting principles and the currently enacted tax laws. The results of these differences on a cumulative basis, known as temporary differences, result in the recognition and measurement of deferred tax assets and liabilities in the accompanying consolidated balance sheets. Valuation allowances are established when necessary to reduce deferred tax assets to the tax amount expected to be realized. The tax provision represents state taxes due at a corporate level and changes to deferred tax assets and liabilities during the year.

**Software Development Costs**

The Company adopted American Institute of Certified Public Accountants (AICPA) Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). Under SOP 98-1, computer software costs incurred in the preliminary project stage are expensed as incurred until the capitalization criteria have been met. The criteria for capitalization is defined as the point the preliminary project stage is complete and management commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization ceases at the point that the computer software project is substantially complete and ready for its intended use. The capitalized costs are depreciated using the straight-line method over the estimated economic life of the product. Capitalized internal use software costs were ██████████, and ██████████ at December 31, 2005 and 2004, respectively. Depreciation of internal use software totaled ██████████ and ██████████ for the years ended December 31, 2005 and 2004, respectively. Capitalized internal use software is classified as other assets in the balance sheet.

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

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

**Impairment of Long Lived Assets**

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121 as amended by SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of." This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no charges for impairment of long-lived assets incurred for the years ended December 31, 2005 and 2004, respectively.

**3. Property, Equipment and Software**

Property, equipment and software, consist of the following:

	December 31, 2005	December 31, 2004
Telephone equipment	\$ [REDACTED]	\$ [REDACTED]
Equipment	[REDACTED]	[REDACTED]
Furniture and fixtures	[REDACTED]	[REDACTED]
Vehicles	[REDACTED]	[REDACTED]
Rental equipment	[REDACTED]	[REDACTED]
Leasehold improvements	[REDACTED]	[REDACTED]
Computer software	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]
Accumulated depreciation and amortization	[REDACTED]	[REDACTED]
Property, equipment and software	\$ [REDACTED]	\$ [REDACTED]

Depreciation and amortization was [REDACTED], and [REDACTED] for the years ended December 31, 2005 and 2004, respectively.

The Company maintained certain deferred costs as of December 31, 2005 and 2004 which amounted to [REDACTED] and [REDACTED], respectively. Amortization expense related to these assets was [REDACTED] and [REDACTED] for the years ended December 31, 2005 and 2004, respectively.

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**4. Capital Lease Obligations**

Property under capital lease obligations (included in property and equipment) consist of the following:

	December 31, 2005	December 31, 2004
Telephone equipment	\$ [REDACTED]	\$ [REDACTED]
Accumulated depreciation and amortization	[REDACTED]	[REDACTED]
Capital lease, property	\$ [REDACTED]	\$ [REDACTED]

Depreciation of leased property under capital lease obligations amounted to [REDACTED] and [REDACTED] for the years ended December 31, 2005 and 2004, respectively.

Future minimum lease obligations under the capital lease consist of the following for the year ending December 31, 2005:

Years	Amount
2006	[REDACTED]
2007	[REDACTED]
2008	[REDACTED]
Total	[REDACTED]
Less amounts representing interest present	[REDACTED]
Present value of net minimum lease payments	[REDACTED]
Less current portion	[REDACTED]
Net long-term portion	\$ [REDACTED]

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**5. Long-Term Debt**

Long-term debt consists of the following:

	December 31, 2005	December 31, 2004
Note payable for treasury shares in monthly installments of [REDACTED] including principal and interest at 10% per annum, due in full on August 10, 2009, secured by [REDACTED] common shares of the Company as well as collateralized by substantially all of the Company's assets.	\$ [REDACTED]	\$ [REDACTED]
Less current portion	[REDACTED]	[REDACTED]
Long-term debt	\$ [REDACTED]	[REDACTED]

Long-term debt balances as of December 31, 2005 represent their fair value.

The annual requirements of long-term debt as of December 31, 2005 are as follows:

2006	\$ [REDACTED]
2007	[REDACTED]
2008	[REDACTED]
2009	[REDACTED]
Net principal payments	\$ [REDACTED]

For the years ended December 31, 2005 and 2004, the Company was in compliance with the leverage ratio covenants contained in the treasury shares note agreement. (See note 8).

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**6. Accrued Expenses**

Accrued expense consists of the following:

	December 31, 2005	December 31, 2004
Accrued telecom	\$ ██████████	\$ ██████████
Accrued vacation	██████████	██████████
Accrued bonus	██████████	██████████
Accrued payroll taxes	██████████	██████████
Accrued interest & other	██████████	██████████
Other	██████████	██████████
Accrued expenses	\$ ██████████	\$ ██████████

**7. Operating Lease Commitments**

The Company leases office space in Dedham, Massachusetts under a lease agreement that was amended on November 11, 2004 and November 18, 2005 to extend the lease term and expand the square feet rented for a period of 42 months ending December 31, 2009.

On November 8, 2000, the Company executed a five-year lease for space in Bedford, Massachusetts which houses the majority of its telephone switching equipment. The lease agreement commenced March 1, 2001 and called for basic rent to be paid at an annual rate of ██████████ for an initial term of 60 months ending February 28, 2006.

On November 28, 2005, the Company executed an amendment of the November 8, 2000 space lease in Bedford. The lease agreement extends the lease 48 months until February 28, 2010. The Company has the options to extend the lease further for two 36 month periods until February 29, 2016.

In addition to the above, the Company leases office equipment and vehicles under operating leases.

Rental expense was approximately ██████████ and ██████████ for the years ended December 31, 2005 and 2004, respectively.

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**7. Operating Lease Commitments (continued)**

The following is a schedule by year of future minimum annual lease payments for the non-cancelable lease as of December 31, 2005:

2006	\$	██████████
2007		██████████
2008		██████████
2009		██████████
2010		██████████
	\$	██████████

Sub-rental income was \$██████████ for the year ended December 31, 2004. The sub-rental agreement ended on October 29, 2004.

**8. Shareholders' Equity**

**Common Shares**

At December 31, 2005 and 2004, RNK, Inc. had ██████████ of \$████ par common shares authorized and ██████████ common shares issued and outstanding.

**Treasury Shares**

On August 16, 1999, the Company purchased ██████████ of the then ██████████ outstanding common shares from a former shareholder for a total purchase price of ██████████ plus legal fees totaling ██████████ for a total cost of ██████████. A subordinated promissory note in the amount of ██████████ was issued to pay for the shares at fixed rate of 10% per annum payable in 120 monthly installments of principal and interest in the amount of ██████████. The indebtedness under this note is and shall be subordinate and subject in right of payment to the prior payment in full of any and all indebtedness of the Company existing at the time of execution of this note or hereafter arising to any bank, provided however that the amount secured by a bank financing indebtedness to which the indebtedness under this note shall be subordinated pursuant to the terms thereof shall not exceed the sum of (A) ██████████ less (B) the principal balance outstanding under this note as of the date the Company executes and delivers the instrument granting such bank a security interest in the collateral to secure the bank financing indebtedness.

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**8. Shareholders' Equity (continued)**

**Treasury Shares (continued)**

The note is secured by [REDACTED] of the Company's shares as well as collateralized by substantially all the Company's assets. In addition, the Company is required to maintain a leverage ratio not greater than 5 to 1. In calculating the leverage ratio, the aggregate balance of the treasury shares created by the redemption of shares from the secured party and the related interest expense shall be excluded. The Security Agreement provides that the Company is to provide the former shareholder with an annual reviewed financial report within 120 days of year end.

On February 28, 2002, the Company executed a Settlement Agreement and Release with a separate former shareholder. As part of the settlement agreement the Company agreed to pay the former shareholder a total of [REDACTED] for the repurchase of his [REDACTED] shares in the Company. The amounts due to the former shareholder were secured by [REDACTED] of the Company's shares. The note was repaid in full by December 31, 2002 and the security interest related to the shares was released. As of the time of the reorganization, these treasury shares have been retired reducing the outstanding shares to [REDACTED].

On December 31, 2002, the [REDACTED] treasury shares were transferred to RNK Holding Company and 7 [REDACTED] shares of beneficial interest in the Massachusetts Business Trust were issued. A new shares pledge agreement, security agreement and guarantee were executed between RNK Holding Company and the former shareholder. The agreements are essentially identical to the original agreements made between the Company and the former shareholder described above.

**Warrants**

On December 15, 1999, the Company entered into a Warrant Agreement to increase shares of common stock in accordance with the Warrant holder's agreement to lend the Company a committed equipment leasing facility in the amount of approximately [REDACTED]. In exchange, the Company agreed to issue to the Warrant holder warrants to purchase [REDACTED] of the authorized shares of Common Stock, [REDACTED] par value, of RNK, Inc. The price at which shares shall be purchased upon the exercise of the warrants shall be [REDACTED] per share.



RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**8. Shareholders' Equity (continued)**

**Warrants (continued)**

The Warrants shall not become exercisable or be transferable unless and until the Company completes an Initial Public Offering (IPO) of shares of its common stock pursuant to the Registration Statement filed with the Securities and Exchange Commission under the Securities Act. The Company shall have no obligation whatsoever to undertake an IPO. The Warrant Agreement and all warrants shall terminate if an IPO is not completed by December 31, 2008 or, if prior to that time, the Company is acquired by means of purchase of substantially all of its assets or stock or by merger or consolidation or in the event the Company is dissolved, liquidated or ceases to do business. The value of the warrants are not considered material.

During 2002, the Company finalized another Warrant Agreement to purchase shares of common stock in accordance with the Warrant holder's agreement to lend to the Company a committed equipment leasing facility in the amount of approximately [REDACTED]. There was no balance outstanding or owed as of December 31, 2005. In exchange, the Company agreed to issue to the Warrant holder warrants to purchase [REDACTED] of the authorized common stock, [REDACTED] par value, of the Company. The price at which shares shall be purchasable upon the exercise of the warrants shall be [REDACTED] per share. The value of the warrants are not considered material.

The warrants shall not become exercisable or be transferable unless and until the Company completes an IPO of its common shares pursuant to a Registration Statement filed with the Securities and Exchange Commission under the Securities Act; provided, however, that subject to the terms hereof, the warrants shall be exercisable and transferable in connection with, and as part of, a sale of the Company. The Company shall have no obligation whatsoever to undertake an IPO or a sale of the Company or any liability whatsoever if it does not undertake and/or a sale of the Company. The Warrant Agreement and all warrants shall terminate if an IPO or a sale of the Company is not completed by December 31, 2009 or, if prior to that time, the Company is dissolved, liquidated or ceases to do business.

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**9. Income Taxes**

The provision for state income taxes consists of the following components:

	December 31, 2005	December 31, 2004
Current	\$ [REDACTED]	\$ [REDACTED]
Deferred	[REDACTED]	[REDACTED]
Provision for state income taxes	\$ [REDACTED]	\$ [REDACTED]

Significant components of the Company's deferred tax assets and liabilities were as follows:

	December 31, 2005	December 31, 2004
Current deferred tax assets:		
Deferred revenue	\$ [REDACTED]	\$ [REDACTED]
Allowance for doubtful accounts	[REDACTED]	[REDACTED]
Compensated absences	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Current deferred income tax assets	\$ [REDACTED]	\$ [REDACTED]
Long-term deferred tax liabilities:		
Capital lease obligation/depreciation	[REDACTED]	[REDACTED]
Net deferred liability	\$ [REDACTED]	\$ [REDACTED]

**10. Significant Customers**

[REDACTED]

[REDACTED]

[REDACTED]

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**11. Commitments and Contingencies**

At December 31, 2005 and 2004, the Company had irrevocable standby letters of credit of [REDACTED] outstanding with a commercial bank. These letters of credit are secured by cash accounts held with the commercial bank. The letters were issued to guarantee certain future payments to be made to the Company's landlords for rent payments. The Company had no outstanding borrowings associated with these letters of credit at December 31, 2005 and 2004.

The Company remits state excise tax on telecommunication services as it is the Company's position that the telephone service originates in these states where the equipment or customers are located or the services are rendered. State taxing authorities are constantly revising the laws and regulations with regard to telecommunication services and therefore, the Company is subject to potential excise tax in other jurisdictions based upon these constantly changing laws and regulations.

During 2001, the Company entered into a buy/sell agreement with its two shareholders that gives the Company an option to acquire the common shares under certain circumstances. The details of these circumstances and the Company's obligation are included in the agreement. On December 31, 2002, the buy/sell agreement was assigned to and assumed by the Trust as part of the reorganization of the Company. The Company did not record any costs related to the agreement since execution of the agreement and is currently in the process of changing the original agreement.

**12. Litigation**

In March 2005, the Company was served a complaint from the U.S. District Court of the Southern District of New York on a civil action seeking compensatory and punitive damages from RNK. The suit involves the Company's activities as a local exchange carrier providing wholesale telecommunications services to a customer.

As of the date of these financial statements, potential damages deriving from this lawsuit could not be reasonably estimated. However, the Company does not believe that the outcome of this suit will have a material adverse effect upon the Company's financial condition or results of operations. The Company's insurance carrier has agreed to defend the Company and pay charges resulting from the suit including any settlement charges in accordance with the Company's general liability policy. The Company believes the suit is without merit. No assurances can be given, however, that these or similar claims, if successful and taken into aggregate would not have a material adverse effect upon the Company's financial condition or results of operations.

RNK Holding Company and Subsidiary  
d.b.a. RNK Telecom

Notes to Consolidated Financial Statements (continued)

**12. Litigation (continued)**

In the normal course of business, there may be various outstanding contingent liabilities such as lawsuits, etc., that are not reflected in the accompanying consolidated financial statements. No such liabilities have been asserted other than those noted above. Therefore, no estimate of loss, if any, is determinable.

**13. Customer Settlements**

[REDACTED]

**14. Subsequent Events**

The Company entered into an amendment on February 3, 2006 to lease additional space at the Dedham, Massachusetts location. As a result of executing this amendment, the annual base rent for the office space has increased by [REDACTED] per month. This lease amendment was effective as of February 3, 2006 and expires on December 31, 2009. The amendment does not affect any other terms of the original lease.

**CONFIDENTIAL**

STATE OF FLORIDA

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LISA POLAK EDGAR, CHAIRMAN  
MATTHEW M. CARTER II  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP



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# Public Service Commission

## ACKNOWLEDGEMENT

DATE: 8/8/07

TO: Melissa Curry/RNK

FROM: Ruth Nettles, Office of Commission Clerk

RE: Acknowledgement of Receipt of Confidential Filing

This will acknowledge receipt of a **CONFIDENTIAL DOCUMENT** filed in Docket Number 070555-TX or, if filed in an undocketed matter, concerning hard copy of material originally filed on CD, and filed on behalf of RNK. The document will be maintained in locked storage.

If you have any questions regarding this document, please contact Marguerite Lockard, Deputy Clerk, at (850) 413-6770.

DOCUMENT NO. 06889-07 DATE 8/8/07  
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