



ORIGINAL

050593-TX

ANDREW M. GANZ

TELECOM/INTERNET LAW • REGULATORY CONSULTING

September 6, 2005

Via Fedex
Florida Public Service Commission
Division of the Commission Clerk and Administrative Services
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
850-413-6770

RECEIVED - FPSC
SEP - 7 PM 4:03
COMMISSION
CLERK

Re: Application for Authority to Provide Alternative Local Exchange Service within the State of Florida.

Dear Sir or Madam:

Aero Communications, LLC ("Aero") hereby submits the enclosed Application, seeking authority to operate as a provider of alternative local exchange service within the State of Florida. An original and six (6) copies are provided, as well as the \$250.00 filing fee.

Should there be any questions or additional information required, please do not hesitate to contact me at (510) 903-1304. Thank you.

Sincerely,

Andrew Ganz
Counsel to Aero Communications, LLC

Enclosures

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward deposit information to Records.

Initials of person who forwarded check:

W.S.

LoKT Consulting
1519 E. 14th Street, Suite A
San Leandro, CA 94577
Phone: 510 903-1304
Fax: 510 868-8418
Email: kris@lokt.net

Law Office of Kristopher E. Twomey, P.C.
1725 I Street, NW, Suite 300
Washington, DC 20006
Phone: 202 250-3413
Fax: 202 517-9175
www.lokt.net

DOCUMENT NUMBER - DATE
08465 SEP-7 05

FPSC-COMMISSION CLERK

**** FLORIDA PUBLIC SERVICE COMMISSION ****

**DIVISION OF COMPETITIVE MARKETS AND ENFORCEMENT
CERTIFICATION**

**APPLICATION FORM
for
AUTHORITY TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA**

050593-TX

Instructions

- ◆ This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Page 12).
- ◆ Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.
- ◆ Use a separate sheet for each answer which will not fit the allotted space.
- ◆ Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **\$250.00** to:

**Florida Public Service Commission
Division of the Commission Clerk and Administrative Services
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6770**

- ◆ If you have questions about completing the form, contact:

**Florida Public Service Commission
Division of Competitive Markets and Enforcement
Certification
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6600**

APPLICATION

1. This is an application for (check one):

Original certificate (new company).

Approval of transfer of existing certificate: Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

Approval of assignment of existing certificate: Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

Approval of transfer of control: Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

Aero Communications, LLC

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

Aero Communications, LLC

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

1301 Broadway
Suite 126
Paducah, KY 42001

5. Florida address (including street name & number, post office box, city, state, zip code): Aero does not maintain an office in Florida, however, its registered agent in Florida is:

Mike Sowards
8855 Grissom Parkway
Titusville, FL 32786

6. Structure of organization:

- Individual
- Foreign Corporation
- General Partnership
- Other Foreign LLC
- Corporation
- Foreign Partnership
- Limited Partnership

7. If individual, provide: N/A (foreign LLC)

Name: _____

Title: _____

Address: _____

City/State/Zip: _____

Telephone No.: _____ Fax No.: _____

Internet E-Mail Address: _____

Internet Website Address: _____

8. If incorporated in Florida, provide proof of authority to operate in Florida:

(a) The Florida Secretary of State corporate registration number:

N/A (organized under laws of Nevada)

9. **If foreign corporation, provide proof of authority to operate in Florida:**

(a) The Florida Secretary of State corporate registration number:

N/A (foreign LLC)

10. **If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:**

(a) The Florida Secretary of State fictitious name registration number:

N/A

11. **If a limited liability partnership, provide proof of registration to operate in Florida:**

(a) The Florida Secretary of State registration number:

(LLC) MO4000003329 ; Proof of registration attached as Exhibit A.

12. **If a partnership, provide name, title and address of all partners and a copy of the partnership agreement.**

Name: N/A (foreign LLC)

Title: _____

Address: _____

City/State/Zip: _____

Telephone No.: _____ Fax No.: _____

Internet E-Mail Address: _____

Internet Website Address: _____

13. **If a foreign limited partnership, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.**

(a) The Florida registration number: N/A (foreign LLC)

14. **Provide F.E.I. Number(if applicable):** 36-4308411

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.

(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.

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

(a) The application:

Name: Andrew Ganz

Title: Counsel to Acro Communications, LLC

Address: Law Office of Kristopher E. Twomey, P.C., 1519 E. 14th St., Ste. A

City/State/Zip: San Leandro, CA 94577

Telephone No.: 510-903-1304 Fax No.: 510-868-8418

Internet E-Mail Address: andrew@lokt.net

Internet Website Address: www.lokt.net

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

Name: Brian Waid
Title: Operations Manager
Address: 1301 Broadway, Suite 126
City/State/Zip: Paducah, KY 42001
Telephone No.: 270-448-2376 Fax No.: 270-575-0672
Internet E-Mail Address: bwaid@hcis.net
Internet Website Address: www.callaero.com

(c) Complaints/Inquiries from customers:

Name: Brian Waid
Title: Operations Manager
Address: 1301 Broadway, Suite 126
City/State/Zip: Paducah, KY 42001
Telephone No.: 270-448-2376 Fax No.: 270-575-0672
Internet E-Mail Address: bwaid@hcis.net
Internet Website Address: www.callaero.com

17. List the states in which the applicant:

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

Kentucky, Illinois.

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

Texas, Louisiana, Missouri, Indiana, Colorado, West Virginia, Nebraska, Arkansas.

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

Kentucky, Illinois, Kansas.

(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.

None.

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

None.

18. Submit the following:

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

Please see Exhibit B.

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.

Please see Exhibit B.

C. Financial capability. Please see Exhibit C.

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.*

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

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.
3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

THIS PAGE MUST BE COMPLETED AND SIGNED

APPLICANT ACKNOWLEDGMENT 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. APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

UTILITY OFFICIAL:

Todd Heinrich
Print Name
COO
Title
270-448-2376
Telephone No.

Todd Heinrich
Signature
9/1/05
Date
270-575-0672
Fax No.

Address: 301 Broadway
Ste. 126
Paducah, Ky 42001

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, Florida Statutes, "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:

Todd Heinrich

Print Name

Todd Heinrich

Signature

COO

Title

9/1/05

Date

270-448-2376

Telephone No.

270-575-0672

Fax No.

Address:

1301 Broadway

Ste. 126

Paducah, Ky 42001

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

1) _____	2) _____
_____	_____
3) _____	4) _____
_____	_____

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

1) _____	2) _____
_____	_____
3) _____	4) _____
_____	_____

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

<u>POP-to-POP</u>	<u>OWNERSHIP</u>
1) _____	_____
2) _____	_____
3) _____	_____
4) _____	_____

This information is not yet available.

**APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE AND
NECESSITY**

EXHIBIT	DESCRIPTION
A	Proof of authority to do business in Florida as a foreign LLC
B	Materials demonstrating Aero's managerial and technical experience
C	Financial Statements

EXHIBIT A

Proof of authority to do business in Florida as a foreign LLC



FLORIDA DEPARTMENT OF STATE
Glenda E. Hood
Secretary of State

August 17, 2004

KRISTOPHER E. TWOMEY
2501 NINTH STREET, STE. 102
BERKELEY, CA 94710

Qualification documents for AERO COMMUNICATIONS, LLC were filed on August 16, 2004, and assigned document number M04000003329. Please refer to this number whenever corresponding with this office.

Your limited liability company is now qualified and authorized to transact business in Florida as of the file date. In accordance with section 608.406(2), F.S., the name of this limited liability company is filed with the Department of State for public notice only and is granted without regard to any other name recorded with the Division of Corporations.

A limited liability company annual report/uniform business report will be due this office between January 1 and May 1 of the year following the calendar year of the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the limited liability company address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please contact this office at the address given below.

Jason Merrick
Document Specialist
Registration/Foreign Qualification
Division of Corporations

Letter Number: 804A00050567

EXHIBIT B

Materials demonstrating Aero's managerial and technical experience

Aero Communications, LLC
Background and Summary of Key Personnel
August 18, 2005

Aero Communications, LLC (Aero) is a CLEC currently doing business in LATA's 362 and 360 in the state of Illinois and LATA 464 in the Commonwealth of Kentucky. Aero was organized in 1998 by a partnering of Heartland Communications Internet Services, Inc. and The Aero Group, Inc., both of which are Internet Service Providers incorporated in the state of Illinois. Aero was established initially to provide cost reductions to the two companies by taking advantage of industry deregulation. This was the basis of Aero – that of a cost center bringing lower contract rates for transport to and from the Internet. Through this licensing, Aero soon began selling traditional phone services to existing and proposed Internet customers through UNE platforms offered by ILEC's in Illinois and Kentucky. Most recently, Aero has added VoIP telephony to its product portfolio. Currently, the company is rolling out services to 14 additional states in a partnering with affiliated companies. Collocations are underway to align Aero with the aggregate marketing goals of these business partners utilizing a partnering of supply chain entities and affiliates. As such, Aero is a small company with fewer than 10 employees and Heartland with 45 employees. The companies, utilizing the resources of parent companies and affiliates, are expanding what is currently a \$ 3 million/year operation.

The following is a background and experience reference for key personnel of Aero:

Todd Heinrich – President and Founder

Todd holds a B.S. in Electrical Engineering from Southern Illinois University with a background in system automation, networking, telecommunications and software engineering. He has been with Aero since its inception in 1998. Over 15 years experience in telecommunications. Todd Built Heartland/Aero from the ground up with expertise in all areas of switching, routing, Internet Protocol, software/hardware design, marketing, and customer development. Heartland began in Todd's basement and has grown to near 50 employees with combined revenues in excess of \$ 3 million/year. Currently, Heartland/Aero has over 5,000 subscribers ranging from dial-up internet to Fiber-to-the-Business subscribers and standard POTS line customers to businesses using custom designed solutions such as a hosted PBX over VoIP. Responsible for the day to day operations of the company, he has designed and provided oversight for expansion into all growth areas of the business including:

- A 45 Mbps wireless backbone covering most of Western Kentucky and Southern Illinois;
- A successful partnering with a local utility to build out a Gigabit Ethernet Loop, providing next generation connectivity to businesses and residential customers in Western Kentucky;
- Successful VoIP and custom PBX solutions;
- Strategic Operations with AT&T for multi-state network platforms;
- Six years of Class 4 / Class 5 Switch Experience;
- Four Years experience in Fiber Optic Network and WDM technology.

Aero Communications, LLC

Background and Summary of Key Personnel (continued)

Brian Waid – CLEC Manager

- Business manager and owner for over 15 years;
- Working with counsel, supervised all interconnection agreements with ILECs in multiple LATAs leading to successful operation of telephony sales effort;
- Supervised all tariff filings, and miscellaneous licensing requirements for FCC, and state Public Service Commission requirements;
- Responsible for all POPs, POIs, CLLI codes, obtaining NPA/NXXs, OCNs and ACNA;
- Staffed and provided training for staff in all areas of ordering and customer support including but not limited to UNEs , LSR and ASR Processes;
- Worked with ILECs to get proper trunking established for call routing, including but not limited to SS7 A-Links, Inter-Machine Trunks from multiple ILEC end offices, as well as Voice Gateway Integration and Knowledge.
- Responsible for vendor negotiation and design of E-911 solution for all phones services, inclusive of VoIP, and complete with a National Intrado PSAP network Integration.

Grant Copley – Software Development Manager

- Responsible for co-design, programming and implementation of an in-house, web based, enterprise software solution used for all areas of Heartland/Aero business including Order Entry, Billing and Accounts Receivable, Accounts Payable, General Ledger, Purchasing, Sales and Quotes, Quality and Service Orders, and Contact Management;
- Designed interface and functionality for the enterprise software to sell to resellers to facilitate implementation of a wholesale business model;
- Working with Operations, created all interfaces to the enterprise software automating data collection from telephony hardware switches, VoIP soft switch, Wireless maintenance system, and various other databases used for e-mail, voice mail and Internet access;
- Designed and implemented numerous databases used for collection and interface of external data to the enterprise software including CABS billing to other CLECs and carriers, MSAG and 911, long distance billing information and call detail records;
- Staffed and trained the Software Development group which provides internal support for projects and expansion as well as web design and hosting for Heartland/Aero customers.

Aero Communications, LLC

Background and Summary of Key Personnel (continued)

Brad Housewright – General Manager

- B.S. in Business Administration, Southern Illinois University
- Owned and operated a Internet Service Provider in Southern Illinois acquired by Heartland;
- Responsible for business development;
- Works with local and regional political and business leaders to find synergies and drive business growth
- Responsible for Customer Service function and Marketing and Advertising.
- Assisted in coordination of Southern Illinois Rural Enterprise (S.I.R.E.), a non-profit group of academic, government, and private enterprise leaders responsible for the Southern Illinois broadband effort working through RUS and the Illinois Commerce Commission. Currently in grant approval stage;
- Actively involved in the Illinois GIO (Get Illinois Online), an initiative pushed by the Lt. Governor and the Connect Kentucky project, which is pushed by the Governor's office.

Robert Stivers, CPA – Chief Financial Officer

- B.S. in Business with emphasis in Accounting, Murray State University;
- Attained designation of C.P.A. and specialty designation by the AICPA as a Certified Information Technology Professional (CITP);
- Over 15 years experience as a business analyst, manager and director in Corporate Development, Planning and Analysis, Information System Design and Implementation, as well as Controllership functions in Accounting for both small companies and Fortune 500 companies;
- Responsible for Accounting and Finance of Heartland/Aero including Budgeting, Forecasting, Financial Reporting and Regulatory Compliance;
- Working with Software Development and Accounting, managed the design and implementation of the financial, purchasing and sales functions within the company's enterprise software;
- Responsible for all business modeling used in management and capital acquisition including business plans and forecasts for venture capital and bank financing;
- Managed the due diligence process of a proposed investment resulting in the successful sale of 49% of company stock and a significant cash infusion for expansion.

EXHIBIT C

Financial Statements

**Heartland Communications Internet Services, Inc.
Consolidated Balance Sheet – Aero/HCIS**

April 30, 2005

Heartland Communications Internet Services, Inc.
Consolidated Balance Sheet - Aero/H CIS
30-Apr-05

ASSETS*Current Assets*

Cash on Hand		\$	979,609
Investment in Money Market			1,000,000
Investment in CD			278,000
Accounts Receivable - Trade	\$	173,848	
Account Receivable - My Choice		27,316	
Bad Debt Allowance		(20,116)	181,048
Accounts Receivable - Switch Termination		182,000	
Bad Debt Allowance		-	182,000
Inventory (Resale and PC Repair)			11,472
Total Current Assets			\$ 2,632,129

Plant & Equipment

Active Assets	1,674,871		
Wireless Equipment	442,765		
Stores Equipment	34,735		
Inactive Assets	79,831	2,232,201	
Accumulated Depreciation		(618,975)	
Net Fixed Assets			1,613,226
Shareholder Receivable			-

TOTAL ASSETS **\$ 4,245,356**

LIABILITIES AND CAPITAL*Short Term Liabilities*

Accounts Payable	\$	148,035
Accounts Payable - RyBrand		42,362
Equipment Lease Payable - Wireless CPE		46,111
Note Payable - Ford Van		2,455
Total Short Term Liabilities		\$ 238,963

Long Term Liabilities

Equipment Lease Payable - Wireless CPE	68,208
Note Payable - Ford Van	18,477
Long Term Trade Accounts	-
Total Long Term Debt	86,685
Total Liabilities	325,648

Shareholders' Equity

Capital Stock	57,500
Additional Paid in Capital	3,485,000
Current Earnings	(153,141)
Retained Earnings	291,385
Total Shareholder' Equity	3,680,745
TOTAL LIABILITIES AND CAPITAL	\$ 4,245,356

**HEARTLAND COMMUNICATIONS
INTERNET SERVICES, INC.**

FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2004

L. A. MILLER

CPA • PSC

To the Board of Directors
Heartland Communications Internet Services, Inc.
1301 Broadway
Paducah, Kentucky 42001

I have compiled the accompanying balance sheet of Heartland Communications Internet Services, Inc. as of March 31, 2004, and the related statements of income, retained earnings and statement of changes in cash for the year then ended, and supplementary data, in accordance with Statements on Standards for Accounting and Review Services established by the American Institute of Certified Public Accountants.

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

The company has not recorded accounts payable balances currently, in accordance with generally accepted accounting principles. The effects of these departures from generally accepted accounting principles has not been determined.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, retained earnings, cash flows and supplementary data. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The shareholders have elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under these provisions, the Company does not pay corporate income taxes on its taxable income. Instead, the stockholders are liable for the individual income taxes on their respective shares of the Company's profit in their individual income tax returns.



October 4, 2004

Aero South
Income Statement
Year Ended December 31, 2004 - Unaudited

REVENUE

Internet Services - Dialup	\$	-
Internet Services - Dialup Sondata		-
Internet Services - DSL		-
Internet Services - Wireless		-
Terminating Switch Revenue - Current Year		-
Terminating Switch Revenue - Prior Periods		-
Phone Service - Landline		118,532
Phone Service - VOIP		-
Lease Revenue - Rybrand		-
3rd Party Access		-
Web Services		-
Product Resale		-
Misc.		-
Returns & Allowances and Discounts		-
		<u> </u>
GROSS REVENUE	\$	118,532

OPERATING COST OF SALES

Phone Circuits	\$	-
Depreciation		-
Cost of Resale		-
Long Distance on Phone Svc.		-
EUM and User Prem Cost		-
Credit Card Fees		-
Local Exchange Competitors		-
Other COGS		-
		<u> </u>
Total Cost of Sales		-
		<u> </u>
Income From Operations	\$	118,532

GENERAL AND ADMINISTRATIVE EXPENSE

Administration	\$	-
Advertising		-
Contributions		-
Outside Services		-
Gifts/Incentives		-
Insurance		-
Maintenance & Repairs		-
Miscellaneous		-
Telephone		-
Rent		-
Salaries & Wages		-
Travel		-
License and Fees		-
Utilities		-
		<u> </u>
Total General and Administrative Expense	\$	-
		<u> </u>
Income Before Tax and Interest	\$	118,532

OTHER INCOME/(EXPENSE)

Taxes	\$	-
Interest Expense		-
		<u> </u>
Total Miscellaneous Expense	\$	-
		<u> </u>
NET INCOME	\$	118,532

Heartland Internet, Inc.
Income Statement
Year Ended December 31, 2004 - Unaudited

REVENUE

Internet Services - Dialup	\$ 674,247
Internet Services - Dialup Sondata	17,202
Internet Services - DSL	146,558
Internet Services - Wireless	-
Terminating Switch Revenue - Current Year	442,800
Terminating Switch Revenue - Prior Periods	773,164
Phone Service - Landline	-
Phone Service - VOIP	-
Lease Revenue - Rybrand	-
3rd Party Access	393,692
Web Services	25,036
Product Resale	50,710
Misc.	32,720
Returns & Allowances and Discounts	<u>(5,296)</u>
GROSS REVENUE	\$ 2,550,833

OPERATING COST OF SALES

Phone Circuits	\$ 524,216
Depreciation	160,018
Cost of Resale	47,601
Long Distance on Phone Svc.	-
EUM and User Prem Cost	-
Credit Card Fees	19,371
Local Exchange Competitors	7,250
Other COGS	<u>10,473</u>
Total Cost of Sales	<u>768,929</u>
Income From Operations	\$ 1,781,904

GENERAL AND ADMINISTRATIVE EXPENSE

Administration	\$ 57,269
Advertising	21,770
Contributions	45,455
Outside Services	-
Gifts/Incentives	9,021
Insurance	38,939
Maintenance & Repairs	43,229
Miscellaneous	7,828
Telephone	39,581
Rent	104,000
Salaries & Wages	655,874
Travel	31,352
License and Fees	7,130
Utilities	<u>30,160</u>
Total General and Administrative Expense	\$ 1,091,608
Income Before Tax and Interest	\$ 690,296

OTHER INCOME/(EXPENSE)

Taxes	\$ (5,596)
Interest Expense	<u>(14,314)</u>
Total Miscellaneous Expense	\$ (19,910)
NET INCOME	\$ 670,386

Heartland Communications Internet Services, Inc.
Balance Sheet - CONSOLIDATED
December 31, 2004 - Unaudited

ASSETS*Current Assets*

Cash on Hand		\$ 298,290	
Accounts Receivable - Internet	\$ 177,400		
Bad Debt Allowance	<u>(17,740)</u>	159,680	
Accounts Receivable - Switch Termination	182,000		
Bad Debt Allowance	<u>-</u>	182,000	
Inventory (Resale and PC Repair)		<u>11,472</u>	
Total Current Assets			\$ 651,422

Intercompany Receivable 179,394

Plant & Equipment

Land and Building	950,000		
Active Assets	1,429,547		
Wireless Equipment	195,792		
Stores Equipment	30,502		
Inactive Assets	<u>79,831</u>	2,685,672	
Accumulated Depreciation		<u>(618,975)</u>	
Net Fixed Assets			2,066,697
Shareholder Receivable			<u>75,000</u>

TOTAL ASSETS **\$ 2,972,513**

LIABILITIES AND CAPITAL*Short Term Liabilities*

Accounts Payable	\$ 22,760		
Line of Credit	250,000		
Notes Payable - Current	144,570		
Lease Payable - Current	<u>31,438</u>		
Total Short Term Liabilities			\$ 448,768

Long Term Liabilities

Note Payable - Paducah Bank	436,915		
Note Payable - Banterra	-		
Lease Payable - Elan	72,262		
Note Payable - SBA	263,397		
Long Term Trade Accounts	<u>-</u>		
Total Long Term Debt			<u>772,574</u>

Total Liabilities 1,221,342

*Intercompany Payable/Receivable***Shareholders' Equity**

Capital Stock	57,500		
Additional Paid In Capital	512,875		
Current Earnings	849,780		
Retained Earnings	<u>331,216</u>		

Total Shareholder' Equity **1,751,171**

TOTAL LIABILITIES AND CAPITAL **\$ 2,972,513**

Heartland Communications Internet Services, Inc.
Balance Sheet
December 31, 2004 - Unaudited

ASSETS*Current Assets*

Cash on Hand		\$ 298,290	
Accounts Receivable - Internet	\$ 177,400		
Bad Debt Allowance	<u>(17,740)</u>	159,660	
Accounts Receivable - Switch Termination	182,000		
Bad Debt Allowance	<u>-</u>	182,000	
Inventory (Resale and PC Repair)		<u>11,472</u>	
Total Current Assets			\$ 651,422

Intercompany Receivable

-

Plant & Equipment

Land and Building	-		
Active Assets	1,429,547		
Wireless Equipment	-		
Stores Equipment	-		
Inactive Assets	<u>79,831</u>	1,509,378	
Accumulated Depreciation		<u>(605,506)</u>	
Net Fixed Assets			903,872
Shareholder Receivable			<u>75,000</u>
TOTAL ASSETS			\$ <u>1,630,294</u>

LIABILITIES AND CAPITAL*Short Term Liabilities*

Accounts Payable	\$ 22,760		
Line of Credit	250,000		
Notes Payable - Current	27,358		
Lease Payable - Current			
Total Short Term Liabilities			\$ 300,118

Long Term Liabilities

Note Payable - Paducah Bank	41,074		
Note Payable - Banterra	-		
Lease Payable - Elan	-		
Note Payable - SBA	-		
Long Term Trade Accounts	<u>-</u>		
Total Long Term Debt			<u>41,074</u>
Total Liabilities			341,192

*Intercompany Payable/Receivable***Shareholders' Equity**

Capital Stock	57,500		
Additional Paid In Capital	500,000		
Current Earnings	670,366		
Retained Earnings	<u>61,216</u>		
Total Shareholder' Equity			<u>1,289,102</u>
TOTAL LIABILITIES AND CAPITAL			\$ <u>1,630,294</u>

**Aero South
Balance Sheet
December 31, 2004 - Unaudited**

ASSETS**Current Assets**

Cash on Hand	\$	-	
Accounts Receivable - Internet	\$	-	
Bad Debt Allowance		-	
Accounts Receivable - Switch Termination		-	
Bad Debt Allowance		-	
Inventory (Resale and PC Repair)		-	
Total Current Assets		\$	-
Intercompany Receivable			118,532
Plant & Equipment			
Land and Building			
Active Assets		-	
Wireless Equipment		-	
Stores Equipment		-	
Inactive Assets		-	
Accumulated Depreciation		-	
Net Fixed Assets			-
Shareholder Receivable			-
TOTAL ASSETS		\$	118,532

LIABILITIES AND CAPITAL**Short Term Liabilities**

Accounts Payable	\$	-	
Line of Credit		-	
Notes Payable - Current		-	
Lease Payable - Current		-	
Total Short Term Liabilities		\$	-

Long Term Liabilities

Note Payable - Paducah Bank		-	
Note Payable - Banterra		-	
Lease Payable - Elan		-	
Note Payable - SBA		-	
Long Term Trade Accounts		-	
Total Long Term Debt		-	
Total Liabilities			-

Intercompany Payable/Receivable

-

Shareholders' Equity

Capital Stock		-	
Additional Paid in Capital		-	
Current Earnings		118,532	
Retained Earnings		-	
Total Shareholder' Equity			118,532
TOTAL LIABILITIES AND CAPITAL		\$	118,532

Heartland Communications Internet Services, Inc.
Income Statement - CONSOLIDATED
Year Ended December 31, 2004 - Unaudited

REVENUE

Internet Services - Dialup	\$	674,247	
Internet Services - Dialup Sondata		17,202	
Internet Services - DSL		146,558	
Internet Services - Wireless		9,237	
Terminating Switch Revenue - Current Year		442,800	
Terminating Switch Revenue - Prior Periods		773,164	
Phone Service - Landline		118,532	
Phone Service - VOIP		21,134	
Lease Revenue - Rybrand		100,000	
3rd Party Access		393,692	
Web Services		56,261	
Product Resale		50,710	
Misc.		32,720	
Returns & Allowances and Discounts		<u>(5,296)</u>	
GROSS REVENUE	\$		2,830,981

OPERATING COST OF SALES

Phone Circuits	\$	524,216	
Depreciation		173,487	
Cost of Resale		47,601	
Long Distance on Phone Svc.		-	
EUM and User Prem Cost		-	
Credit Card Fees		20,122	
Local Exchange Competitors		7,250	
Other COGS		<u>10,473</u>	
Total Cost of Sales			<u>763,149</u>
Income From Operations	\$		2,047,832

GENERAL AND ADMINISTRATIVE EXPENSE

Administration	\$	58,614	
Advertising		21,770	
Contributions		45,455	
Outside Services		-	
Gifts/Incentives		9,021	
Insurance		38,939	
Maintenance & Repairs		44,103	
Miscellaneous		7,828	
Telephone		39,883	
Rent		104,000	
Salaries & Wages		655,874	
Travel		31,352	
License and Fees		7,130	
Utilities		<u>75,811</u>	
Total General and Administrative Expense	\$		<u>1,139,780</u>
Income Before Tax and Interest	\$		906,052

OTHER INCOME/(EXPENSE)

Taxes	\$	(5,596)	
Interest Expense		<u>(52,676)</u>	
Total Miscellaneous Expense	\$		<u>(58,272)</u>
NET INCOME	\$		<u>849,780</u>

Heartland Communications Internet Services, Inc.
BALANCE SHEET
As of March 31, 2004

LIABILITIES AND EQUITY

CURRENT LIABILITIES

Accounts Payable	\$ 28,658.64
Short Term Note Payable	143,363.88
FICA And Federal W/H	6,453.86
State Withholding - Kentucky	1,026.19
State Withholding - Illinois	307.47
Local Withholding	1,152.74
401(k) Withholding & Employer Match	<u>904.03</u>

Total Current Liabilities 181,866.81

LONG-TERM LIABILITIES

Note Payable - Shareholder Adjustments	32,292.44
Current Portion Long Term Debt	(143,363.88)
Note Payable - Banterra	180,075.28
Note Payable - Irwin Business	9,713.42
Note Payable - Manifest Group #2	6,477.10
Note Payable - FNF Capital	5,905.78
Note Payable - Blaine Mohler	3,639.63
Note Payable - Banterra 2	31,805.77
Note Payable - Rybrand - Paducah Bank	382,693.20
Note Payable - Rybrand - SBA	316,598.85
Note Payable - Shareholder - Wolfe	15,300.00
Note Payable - Shareholder - Heinrich	<u>11,960.00</u>

Total Long-Term Liabilities 833,097.59

Total Liabilities 1,014,964.40

STOCKHOLDERS' EQUITY

Capital Stock	57,500.00
Paid in Excess	139,621.00
Retained Earnings	<u>358,120.41</u>

Total Stockholders' Equity 555,241.41

**TOTAL LIABILITIES AND
STOCKHOLDERS' EQUITY** \$ 1,570,205.81

Heartland Communications Internet Services, Inc.
STATEMENT OF RETAINED EARNINGS

3 Months Ended March 31, 2004	
Beginning of Period	\$ 427,693.07
Plus: Net Income	\$ (64,622.66)
Less: Dividends Paid	<u>4,950.00</u>
RETAINED EARNINGS END OF PERIOD	<u>\$ 358,120.41</u>

See Accountants' Compilation Report
3

Heartland Communications Internet Services, Inc.
Income Statement

	One Month Ended January 31, 2004	One Month Ended February 29, 2004	One Month Ended March 31, 2004	Three Months Ended March 31, 2004
Sales				
Sales - Internet Services	\$81,494.21	\$115,251.45	\$116,988.24	\$313,733.90
Services	1,562.05	13,630.59	95,216.43	110,409.07
Less Returns & Allowances	0.00	0.00	0.00	0.00
Total Sales	<u>83,056.26</u>	<u>128,882.04</u>	<u>212,204.67</u>	<u>424,142.97</u>
Cost of Goods Sold				
Resale Items	7,821.82	0.00	3,400.91	11,222.73
CLEC / Circuits	42,662.23	122,239.98	53,744.47	218,646.68
Total Cost of Goods Sold	<u>50,484.05</u>	<u>122,239.98</u>	<u>57,145.38</u>	<u>229,869.41</u>
Gross Profit	<u>32,572.21</u>	<u>6,642.06</u>	<u>155,059.29</u>	<u>194,273.56</u>
Operating Expenses				
Advertising	1,421.08	3,243.03	498.44	5,162.55
Bank Service Charges	251.74	111.63	154.87	518.24
Credit Card Fees	180.29	199.86	174.81	554.76
Contributions	250.00	900.00	1,190.00	2,340.00
Depreciation Expense	15,279.42	15,279.42	15,279.42	45,838.26
Dues and Subscriptions	195.00	20.00	0.00	215.00
Insurance	0.00	0.00	2,923.65	2,923.65
Insurance - Employee Benefit	1,847.37	1,601.68	1,161.69	4,610.74
Interest Expense	3,512.35	2,514.95	1,657.81	7,685.11
Miscellaneous	2,663.14	3,076.47	4,246.12	9,985.73
Postage and Delivery	500.00	1,010.99	1,290.20	2,801.19
Professional Fees - Accounting	1,683.60	2,153.20	3,302.47	7,139.27
Rent	3,230.00	10,462.11	8,457.80	22,149.91
Building Repairs	3,600.00	4,125.00	5,000.00	12,725.00
Equipment Repairs	110.00	0.00	0.00	110.00
Telephone	2,762.83	2,499.00	2,802.32	8,064.15
Meals	330.30	0.00	0.00	330.30
Travel	1,076.85	1,100.85	1,052.92	3,230.62
Utilities	946.64	2,260.74	857.77	4,065.15
Office Supplies	934.30	632.39	952.90	2,519.59
Operating Supplies	5,030.00	4,468.77	3,532.26	13,031.05
Outside Services	2,629.63	0.00	0.00	2,629.63
Payroll - Salaries & Wages	31,017.76	29,544.81	29,263.03	89,825.60
Retirement Expense	388.25	352.54	296.69	1,037.48
Taxes & Licenses	128.89	100.00	15.00	243.89
Payroll Taxes	2,367.45	2,253.88	2,195.43	6,816.76
Property Taxes	0.00	2,345.67	0.00	2,345.67
Total Operating Expenses	<u>82,336.89</u>	<u>90,256.99</u>	<u>86,305.42</u>	<u>258,899.30</u>
Operating Income (Loss)	<u>(49,764.68)</u>	<u>(83,614.93)</u>	<u>68,753.87</u>	<u>(64,625.74)</u>
Other Income				
Interest Income	0.00	0.00	3.08	3.08
Total Other Income (Loss)	<u>0.00</u>	<u>0.00</u>	<u>3.08</u>	<u>3.08</u>
Net Income (Loss)	<u>(49,764.68)</u>	<u>(83,614.93)</u>	<u>68,756.95</u>	<u>(64,622.66)</u>

See Accountants' Compilation Report
4

Heartland Communications Internet Services, Inc.
Statement of Cash Flows
For the 3 months Ended March 31, 2004

	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	\$ (64,622.66)
Adjustments to reconcile Net Income (Loss) to net Cash provided by (used in) operating activities:	
Depreciation and Amortization	45,838.26
Losses (Gains) on sales of Fixed Assets	0.00
Decrease (Increase) in Operating Assets:	
Accounts Receivable	33,217.37
Increase (Decrease) in Operating Liabilities:	
Accrued Liabilities	<u>(139.65)</u>
Total Adjustments	<u>78,915.98</u>
Net Cash Provided By (Used in) Operating Activities	14,293.32
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital Expenditures	(11,665.39)
Proceeds From Sale of Fixed Assets	<u>0.00</u>
Net Cash Provided By (Used In) Investing Activities	(11,665.39)
CASH FLOWS FROM FINANCING ACTIVITIES	
Notes Payable Repayments	(41,081.81)
Shareholder Investments	100,000.00
Shareholder Distributions	<u>(4,950.00)</u>
Net Cash Provided By (Used In) Financing Activities	<u>53,968.19</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	56,596.12
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>80,246.16</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 136,842.28</u>

HEARTLAND INTERNET, INC.

FINANCIAL STATEMENTS

FORECASTED AND HISTORICAL

YEARS ENDING DECEMBER 31, 2006, 2005, 2004, AND 2003 (FORECAST)

AND

PERIODS ENDED SEPTEMBER 30, 2003, DECEMBER 31, 2002 AND 2001 (HISTORICAL)

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To the Board of Directors
Heartland Internet, Inc.
Paducah, Kentucky

We have compiled the accompanying forecasted balance sheets of Heartland Internet, Inc. (an S corporation) as of December 31, 2006, 2005, 2004, and 2003, and the related statements of income and retained earnings, statements of cash flows and supplementary data for the years then ending, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of a forecast, information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

We have also compiled the accompanying historical balance sheets of Heartland Internet, Inc. as of September 30, 2003, December 31, 2002 and 2001, and the related statements of income and retained earnings, statements of cash flows and supplementary data for the periods then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

Miller, Slivers & Company, Inc.

October 03, 2003

HEARTLAND INTERNET, INC
 BALANCE SHEETS
 Years Ending December 31, 2006, 2005, 2004, and 2003 (Forecast), and
 Nine Months Ended September 30, 2003, and Years Ended December 31, 2002 and 2001 (Historical)

	Forecast				Historical	Historical	
	2006	2005	2004	2003	Sep YTD 2003	2002	2001
ASSETS							
CURRENT ASSETS							
Cash	\$ 4,381,536	\$ 1,284,352	\$ 829,033	\$ 165,794	\$ 74,212	\$ 34,512	\$ 41,855
Trade accounts receivable, less Allowance for doubtful accounts	2,596,270 (259,627)	1,634,931 (163,493)	571,654 (57,165)	319,896 (31,990)	183,765 (18,377)	95,041 (14,873)	60,500 (6,050)
TOTAL CURRENT ASSETS	6,718,179	2,755,790	1,343,522	453,700	239,601	114,680	96,305
PROPERTY AND EQUIPMENT							
Equipment	2,500,152	2,250,152	1,300,152	1,269,852	949,852	949,852	763,785
Furniture and fixtures	62,501	52,500	52,500	32,500	32,500	32,500	21,000
	2,562,653	2,302,652	1,352,652	1,302,352	982,352	982,352	784,785
Less accumulated depreciation	(1,423,915)	(1,103,681)	(774,326)	(530,681)	(488,789)	(363,113)	(233,205)
	1,138,738	1,198,971	578,326	771,671	493,563	619,240	551,580
	<u>\$ 7,856,918</u>	<u>\$ 3,954,761</u>	<u>\$ 1,921,848</u>	<u>\$ 1,225,371</u>	<u>\$ 733,164</u>	<u>\$ 733,920</u>	<u>\$ 647,885</u>

See accompanying notes and accountants' report

	Forecast					Historical	
	2006	2005	2004	2003	Sep YTD 2003	2002	2001
LIABILITIES AND STOCKHOLDERS' EQUITY							
CURRENT LIABILITIES							
Notes payable - shareholder				\$ 30,000	\$ 30,000	\$ 30,000	\$ 25,710
Current maturities of long-term debt				14,700	160,000	152,701	145,089
Trade accounts payable	498,054	286,753	369,332	110,426	47,630	45,418	6,401
Accrued payroll liabilities	23,556	22,223	20,965	16,789	13,578	6,667	5,061
TOTAL CURRENT LIABILITIES	521,610	308,976	390,297	171,915	251,208	234,786	182,261
LONG-TERM DEBT							
Notes payable, non-current portion					159,050	282,980	365,018
STOCKHOLDERS' EQUITY							
Common Stock - 4000 voting shares; 2,780 issued	627,500	627,500	627,500	627,500	57,500	57,500	57,500
Retained earnings	6,707,907	3,018,286	904,051	425,956	265,406	158,654	43,106
	7,335,307	3,645,786	1,531,551	1,053,456	322,906	216,154	100,606
	\$ 7,856,918	\$ 3,954,761	\$ 1,921,848	\$ 1,225,371	\$ 733,164	\$ 733,920	\$ 647,885

See accompanying notes and accountants' report

HEARTLAND INTERNET, INC.
 INCOME STATEMENTS
 Years Ending December 31, 2006, 2005, 2004, and 2003 (Forecast), and
 Nine Months Ended September 30, 2003, and Years Ended December 31, 2002 and 2001 (Historical)

	Forecast				Historical	Historical	
	2006	2005	2004	2003	Sep YTD 2003	2002	2001
NET SALES	\$ 11,567,851	\$ 7,284,626	\$ 2,547,331	\$ 1,425,110	\$ 1,039,472	\$ 1,168,328	\$ 989,953
COST OF GOODS SOLD	5,329,047	3,232,604	909,505	424,638	383,802	396,258	428,534
GROSS PROFIT	6,238,804	4,052,022	1,637,826	1,000,472	655,670	772,070	561,419
OTHER OPERATING REVENUE	-	-	-	-	-	2,459	-
	6,238,804	4,052,022	1,637,826	1,000,472	655,670	774,529	561,419
GENERAL AND ADMINISTRATIVE EXPENSES	1,319,442	1,233,043	1,048,721	785,439	506,061	607,640	581,107
INCOME FROM OPERATIONS	4,919,362	2,818,979	589,105	215,033	149,609	166,889	(19,688)
OTHER INCOME AND (EXPENSE)							
Interest expense	-	-	(3,246)	(28,483)	(16,857)	(37,399)	(53,265)
NET INCOME	\$ 4,919,362	\$ 2,818,979	\$ 585,859	\$ 186,550	\$ 132,752	\$ 129,490	\$ (72,953)

See accompanying notes and accountants' report

HEARTLAND INTERNET, INC
 STATEMENTS OF RETAINED EARNINGS
 Years Ending December 31, 2006, 2005, 2004, and 2003 (Forecast), and
 Nine Months Ended September 30, 2003, and Years Ended December 31, 2002 and 2001 (Historical)

	Forecast				Historical	Historical	
	2006	2005	2004	2003	Sep YTD 2003	2002	2001
RETAINED EARNINGS, BEGINNING OF YEAR	\$ 3,018,286	\$ 904,051	\$ 425,956	\$ 265,406	\$ 158,654	\$ 43,106	\$ 127,500
Net income (loss)	4,919,362	2,818,979	585,859	186,550	132,752	129,490	(72,953)
Shareholder distributions	(1,229,841)	(704,745)	(107,764)	(26,000)	(26,000)	(13,942)	(11,441)
RETAINED EARNINGS, END OF YEAR	<u>\$ 6,707,807</u>	<u>\$ 3,018,286</u>	<u>\$ 904,051</u>	<u>\$ 425,956</u>	<u>\$ 265,406</u>	<u>\$ 158,654</u>	<u>\$ 43,106</u>

See accompanying notes and accountants' report

HEARTLAND INTERNET, INC
 STATEMENTS OF CASH FLOWS
 Years Ending December 31, 2006, 2005, 2004, and 2003 (Forecast), and
 Nine Months Ended September 30, 2003, and Years Ended December 31, 2002 and 2001 (Historical)

	Forecast				Historical	Historical	
	2006	2005	2004	2003	Sep YTD 2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES							
Net income (loss)	\$ 4,919,362	\$ 2,818,979	\$ 585,859	\$ 186,550	\$ 132,752	\$ 129,490	\$ (72,953)
Adjustments to reconcile net income to net cash provided by operating activities:							
Depreciation and amortization	320,234	329,355	198,945	143,987	95,264	105,412	101,201
(Gain) loss on sale of assets	-	-	-	-	-	-	-
Changes in operating assets and liabilities:							
Accounts receivable and prepaid expenses	(865,205)	(956,949)	(226,582)	(122,518)	(12,343)	(9,151)	(43,114)
Accounts payable and accrued expenses	212,634	(81,321)	263,082	(81,321)	55,302	7,740	(1,405)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	4,587,025	2,110,064	821,303	126,698	270,975	233,491	(16,271)
CASH FLOW FROM INVESTING ACTIVITIES							
Purchase of property and equipment	(260,000)	(950,000)	(50,300)	(320,000)	(92,000)	(113,010)	(139,477)
NET CASH (USED IN) INVESTING ACTIVITIES	(260,000)	(950,000)	(50,300)	(320,000)	(92,000)	(113,010)	(139,477)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds (repayment) of note payable	-	-	-	570,000	-	8,647	(20,890)
Proceeds from long-term debt	-	-	-	-	-	59,000	404,970
Repayment of long-term debt	-	-	-	(305,050)	(121,089)	(116,340)	(306,599)
Shareholder distributions	(1,229,841)	(704,745)	(107,764)	(32,000)	(20,000)	(13,942)	(11,441)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,229,841)	(704,745)	(107,764)	232,950	(141,089)	(62,635)	66,040
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,097,184	455,319	663,239	39,648	37,886	57,846	(89,708)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,284,352	829,033	165,794	126,146	88,260	30,414	120,122
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,381,536	\$ 1,284,352	\$ 829,033	\$ 165,794	\$ 126,146	\$ 88,260	\$ 30,414

See accompanying notes and accountants' report

HEARTLAND INTERNET, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

This financial forecast presents, to the best of management's knowledge and belief, the Company's expected financial position, results of operations, and cash flows for the forecast period. Accordingly, the forecast reflects management's judgment as of October 19, 2002, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

The major assumptions inherent in the forecast are based on an incremental increase in sales due to an aggressive product repositioning and early market penetration. The Company is already positioned to be the first internet service provider in the area to offer true high speed internet services, coupled with local and long distance telephony and digital, or high-definition video services. The details follow.

Net Sales

Currently, the Company provides a wide range of Internet services including dial-up and DSL connectivity. The Company is also a 50% owner of a licensed, competitive local exchange carrier (CLEC), which it utilizes for telephony service to its Internet customers as well as providing service to the competition. A local power service provider has approved plans to lay a fiber optic loop around the Paducah area. The Company is well positioned to access this loop in order to enable true fiber-to-the-business (FTTB) and fiber-to-the-home (FTTH) technology. By combining this opportunity with the established internet/CLEC structure, the Company is planning aggressive market expansion into Western Kentucky and Southern Illinois offering high speed Internet, telephone and video services in bundled and unbundled packages.

Historic sales growth has shown a 25% to 40% annual increase since startup. The 2003 forecast assumes the remaining three months of the year continue this trend using growth of 25%. The assumptions over the remaining forecast period are as follows:

- 16% sales growth of existing Internet customers with proportionate product mix.
- Introduction of local telephone services as an alternative to existing providers; the model assumes an average of 2 lines per small business customer at \$ 100 per month per customer with 500 customers in 2004, growing to 2,000 by year 2006. Using this as a test market, residential service begins to roll out in January of 2005.
- Introduction of long distance service to small business at \$0.05 per minute with 500 customers in 2004, growing to 2,000 customers in 2006. Residential market penetration begins in January of 2005.
- Addition of 500 business customers in 2004 due to bundled package and lower rates. Assuming 2 - 3 DSL connections per subscriber at \$150/month up to 2000 by year end 2006. This is accomplished through introduction of high-speed (100mb) data and video conferencing services, at speeds up to 75 times DSL rates. Video sales to this market beginning January 1, 2005 at \$ 40.00 per subscriber for basic service.

HEARTLAND INTERNET, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (Continued)

Net Sales – (continued)

Several factors combine to give the Company such a healthy growth record. Sales of existing services are increasing based on demand for more bandwidth, which is caused by the multimedia explosion and a growing dependency on Internet communication. The addition of product offerings (already beginning with technical service, data storage and retrieval) combined with increased bandwidth, telephony and video, will help solidify long-term growth. The Company is essentially building a locally owned and operated multimedia alternative to what most consumers see as a complacent, sluggish, and unresponsive supplier base. The Company's well focused, customer oriented staff and philosophy has created a brand loyalty which fosters continued growth and a customer base eager to consolidate media services while supporting the local economy.

With the infrastructure nearly in place to create a regional phone service across Southern Illinois and Western Kentucky without long distance charges, and ample capacity for expansion, the Company is on strong footing to quickly gain market share.

Cost of Sales

Circuit charges necessary for connecting with national telephony providers have historically been the single largest cost to the Company. These charges represented 86% of historical cost of goods sold and, prior to the creation of the CLEC, represented a 45% charge against sales. Since the inception of the CLEC, this charge as a percentage of sales has fallen below 35%. For 2004 forward, the actual cost of bandwidth per customer is calculated based on circuit charges and the increased bandwidth required for the high-speed service including loop access charges. The result is a blended bandwidth charge, which further reduces this component of Cost of Goods Sold to 31% of related sales. This is a blend of Fiber-to-the-Business customers and existing DSL, T1 and Dial-up customers.

Other cost of goods sold includes resale cost on modems and other equipment and CLEC charges for telephony, which increase in proportion to sales. The remaining items in cost of goods sold are incremental to the expanded telephony services, which include \$ 10 per line per customer per month charge for local connection and \$0.02 per minute charge for long distance coverage.

General and Administrative Expenses

The significant changes in General and Administrative expense are as follows:

- Staff salaries increase by \$72,000 in 2004 to accommodate hiring managers and staff in the sales and service areas necessary for new product offerings; Salaries continue to increase by 6% per year due to new positions necessary for sales growth and merit increases.
- Payroll taxes increase in proportion to salaries and wages.
- All other fixed overheads are increased by 2% to 3% per year to reflect inflation.
- Insurance and miscellaneous expense increase relative to the purchase of a new building.

HEARTLAND INTERNET, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (Continued)

Interest Expense

Interest expense decreases from \$37,399 in 2003 to \$3,246 in 2004 to reflect the retirement of debt associated with the acquired investment and payoff of existing equipment leases. There will be no remaining amortization of debt as the company will be debt free in early 2004.

Long Term Debt

The remaining debt at year-end 2003 of \$ 20,205 consists of two equipment leases and one note payable to shareholder, which will be retired in early 2004.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Heartland Internet, Inc. was incorporated under the laws of the State of ^{Illinois} ~~Kentucky~~ on February 24, 1997. The Company is in the Internet service provider business offering network and Internet solutions to business and residential customers in Western Kentucky and Southern Illinois. These services include dial-up and DSL Internet connections, web site hosting, and e-mail services. The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. It maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information. Credit losses, when realized, have been within the range of the Company's expectations and, historically, have not been significant.

Property and Equipment

Property and equipment are stated at cost. Depreciation expense is calculated by the straight-line method. The depreciation methods are designed to amortize the cost of the assets over their estimated useful lives.

Maintenance and repairs are charged to expenses as incurred. When assets are retired or otherwise disposed of, the cost is removed from the asset accounts and the related depreciation reserve is adjusted with the difference being charged to income or expense.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

HEARTLAND INTERNET, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

NOTE C - LONG TERM DEBT

As of September 30, 2003 and December 31, 2002, long-term debt consisted of the following:

	2002	2003
Note payable, Banterra Bank, due in monthly installments of \$8,131, including interest at 6.75%	\$ 291,467	\$ 248,949
Note payable, Banterra Bank, due in monthly installments \$1,632, including interest at 7.5%	57,512	41,802
Note payable, Irwin Business, due in monthly installments of \$2,248, including interest at 18.7%.	42,655	-
Note payable, GF Funding, due in monthly installments of \$1,269, including interest at 16.8%	4,286	-
Note payable, Manifest Group, due in monthly installments of \$1,143, including interest at 10.4%	25,541	-
Note payable, FNF Capital, due in monthly installments of \$1,659, including interest at 10.44%	<u>31,306</u>	<u>14,299</u>
	<u>\$ 452,767</u>	<u>\$305,050</u>
Less current portion	<u>(147,052)</u>	<u>(-)</u>
	<u>\$ 305,715</u>	<u>\$ 305,050</u>

Substantially all of the Company's assets are pledged as collateral against its short-term and long-term indebtedness.

HEARTLAND INTERNET, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE D - NOTES PAYABLE - SHAREHOLDER

As of September 30, 2003, the Company carries three shareholder notes payable. Note payable to Todd Heinrich of \$13,000, with interest only paid at 7%; Note payable to Al Wolfe of \$17,000 with interest only paid at 7%.

NOTE E - RELATED PARTY TRANSACTION

Included in Cost of Goods Sold is a recurring charge for CLEC carrier and circuit expense. This is the telephone service charge attributed to telephony for Internet service. Some of this expense is paid to Aero Communications, LLC of which the Company is a 50% member/owner. Aero acts as a cost center and as a result, bills out to the Company at cost. For the nine months ended September 30, 2003, cost of sales included \$31,918 of these charges and for the year ended December 31, 2002, these charges totaled \$39,785. The amount included in accounts payable as of September 30, 2002 and December 31, 2002 were \$2,618 and \$0.00, respectively.

NOTE F - DISCLOSURES REGARDING THE STATEMENTS OF CASH FLOWS

Accounting Policy. For purposes of the statements of cash flows, cash and cash equivalents include all highly liquid debt instruments with maturities of three months or less.

Supplemental Disclosure of Cash Flow Information.

Cash paid during the nine months ended September 30, 2003 and year ended December 31, 2002:

	2002	2003
Interest	\$ 37,399	\$ 16,857
Noncash investing transactions:		
Acquisition of property and equipment:		
Cost of property and equipment, net of trade-in allowances	\$ 113,010	\$ 92,000
Property and equipment loans	59,000	-
Cash down payments for equipment	\$ 54,010	\$ -

HEARTLAND INTERNET, INC.
 SCHEDULE I - NET SALES DETAIL
 Years Ending December 31, 2006, 2005, 2004, and 2003 (Forecast), and
 Nine Months Ended September 30, 2003, and Years Ended December 31, 2002 and 2001 (Historical)

	Forecast				Historical	Historical	
	2006	2005	2004	2003	Sep YTD 2003	2002	2001
Internet sales - existing subscribers	\$ 2,169,151	\$ 1,885,976	\$ 1,648,459	\$ 1,425,110	\$ 1,039,472	\$ 1,168,328	\$ 989,953
Incremental business subscribers							
High speed internet sales	3,150,000	2,025,000	468,000	-	-	-	-
Video	840,000	540,000	-	-	-	-	-
Local telephone service	2,131,500	1,350,000	312,000	-	-	-	-
Long distance telephone service	800,100	514,350	118,872	-	-	-	-
Subtotal business subscribers	6,921,600	4,429,350	898,872	-	-	-	-
Incremental residential subscribers							
High speed internet sales	862,500	337,500	-	-	-	-	-
Video	690,000	270,000	-	-	-	-	-
Local telephone service	862,500	337,500	-	-	-	-	-
Long distance telephone service	62,100	24,300	-	-	-	-	-
Subtotal residential subscribers	2,477,100	969,300	-	-	-	-	-
TOTAL NET SALES	\$ 11,567,851	\$ 7,284,626	\$ 2,547,331	\$ 1,425,110	\$ 1,039,472	\$ 1,168,328	\$ 989,953

See accompanying notes and accountants' report

HEARTLAND INTERNET, INC.
 SCHEDULE 2 - COST OF GOODS SOLD
 Years Ending December 31, 2006, 2005, 2004, and 2003 (Forecast), and
 Nine Months Ended September 30, 2003, and Years Ended December 31, 2002 and 2001 (Historical)

	Forecast				Historical	
	2006	2005	2004	2003	Sept YTD 2003	2002 2001
Circuit charges - existing subscribers	\$ 505,312	\$ 476,985	\$ 450,115	\$ 424,638	\$ 383,802	\$ 396,258
Incremental cost - business subscribers						
Circuit charges	252,000	162,000	37,440	-	-	-
High speed Internet	2,227,890	1,390,500	312,000	-	-	-
Video	432,600	270,000	-	-	-	-
Local telephone service	432,695	274,050	62,400	-	-	-
Long distance telephone service	320,040	205,740	47,549	-	-	-
Subtotal business subscribers	3,665,225	2,302,290	459,389	-	-	-
Incremental cost - residential subscribers						
High speed internet sales	603,750	236,250	-	-	-	-
Video	345,000	135,000	-	-	-	-
Local telephone service	172,500	67,500	-	-	-	-
Long distance telephone service	37,260	14,580	-	-	-	-
Subtotal residential subscribers	1,158,510	453,330	-	-	-	-
TOTAL COST OF GOODS SOLD	\$ 5,329,047	\$ 3,232,605	\$ 909,504	\$ 424,638	\$ 383,802	\$ 396,258
						\$ 428,534

See accompanying notes and accountants' report

Heartland Communications

Financial Statements

Twelve Months Ended December 31, 2003

L.A. MILLER

CPA • PSC

To the Board of Directors
Heartland Communications Internet Services, Inc.
1301 Broadway
Paducah, KY 42001

I have compiled the accompanying balance sheet of Heartland Communications Internet Services, Inc. as of December 31, 2003, and the related statements of income, retained earnings and statement of changes in cash for the year then ended in accordance with Statements on Standards for Accounting and Review Services established by the American Institute of Certified Public Accountants.

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

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, retained earnings and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The shareholders have elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under these provisions, the Company does not pay corporate income taxes on its taxable income. Instead, the stockholders are liable for the individual income taxes on their respective shares of the Company's profit in their individual income tax returns.



June 30, 2004

Heartland Communications Internet Services, Inc.**BALANCE SHEET****As of December 31, 2003****ASSETS****CURRENT ASSETS**

Cash in Bank - Banterra	\$	21,586.92
Cash in Bank - Paducah Bank Operating		33,334.62
Cash in Bank - Paducah Bank Payroll		(599.45)
Cash in Bank - Paducah Bank Savings		3,944.07
Cash in Money Market Account		22,000.00
Accounts Receivable		123,943.16
Receivable - Rybrand		702,283.26
Bad Debt Allowance		<u>(12,394.32)</u>

Total Current Assets 894,078.26

PROPERTY AND EQUIPMENT

Equipment		1,190,914.64
Less: Accumulated Depreciation		<u>(533,766.97)</u>

Net Property and Equipment 657,147.67

OTHER ASSETS

Investment in Aero		<u>29,774.00</u>
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Total Other Assets 29,774.00

TOTAL ASSETS \$ 1,580,999.93

Heartland Communications Internet Services, Inc.**BALANCE SHEET****As of December 31, 2003****LIABILITIES AND EQUITY****CURRENT LIABILITIES**

Accounts Payable	\$	28,658.64
Short Term Note Payable		143,363.88
FICA And Federal W/H		4,495.23
State Withholding - Kentucky		598.40
State Withholding - Illinois		307.47
Local Withholding		1,049.27
401(k) Withholding & Employer Match		2,843.61
FUTA & SUTA Payable		535.09
Sales Tax Payable		<u>154.87</u>

Total Current Liabilities 182,006.46

LONG-TERM LIABILITIES

Note Payable -Shareholder Adjustments	32,292.44
Current Portion Long Term Debt	(143,363.88)
Note Payable - Banterra	181,418.69
Note Payable - Irwin Business	15,834.54
Note Payable - Manifest Group #2	9,690.64
Note Payable - FNF Capital	9,071.80
Note Payable - Blaine Mohler	3,639.63
Note Payable - Banterra 2	36,052.28
Note Payable - Rybrand - Paducah Bank	384,543.89
Note Payable - Rybrand - SBA	317,739.37
Note Payable - Shareholder - Wolfe	15,300.00
Note Payable - Shareholder - Heinrich	<u>11,960.00</u>

Total Long-Term Liabilities 874,179.40

Total Liabilities 1,056,185.86

STOCKHOLDERS' EQUITY

Capital Stock	57,500.00
Paid in Excess	39,621.00
Retained Earnings	<u>427,693.07</u>

Total Stockholders' Equity 524,814.07

**TOTAL LIABILITIES AND
STOCKHOLDERS' EQUITY** \$ 1,580,999.93

Heartland Communications Internet Services, Inc.

INCOME STATEMENT

For the 12 Months
Ended
December 31, 2003

Sales	\$ 1,780,708.21
Cost of Goods Sold	<u>548,332.46</u>
Gross Profit	<u>1,232,375.75</u>
Operating Expenses	
Advertising	20,961.36
Bank Service Charges	2,665.91
Credit Card Fees	1,537.78
Contributions	24,655.00
Depreciation Expense	170,654.01
Dues and Subscriptions	1,455.80
Insurance	9,699.24
Insurance - Employee Benefit	17,937.26
Interest Expense	31,479.75
Licenses	4,074.80
Miscellaneous	2,282.93
Postage and Delivery	7,605.11
Professional Fees - Accounting	21,619.53
Professional Fees - Legal	5,150.78
Rent	112,726.84
Building Repairs	2,820.47
Equipment Repairs	5,126.92
Telephone	28,040.43
Travel	11,168.75
Utilities	44,512.69
Office Supplies	24,115.19
Operating Supplies	40,933.62
Outside Services	8,232.05
Payroll - Officer's	126,554.62
Payroll - Salaries & Wages	165,711.43
Retirement Expense	2,418.62
Payroll Taxes	26,129.03
Property Taxes	5,249.08
State Taxes	<u>2,791.74</u>
Total Operating Expenses	<u>928,310.74</u>
Net Operating Income	304,065.01
Interest Income	<u>23.22</u>
Net Income (Loss)	<u>304,088.23</u>

See Accountants' Compilation Report

Heartland Communications Internet Services, Inc.
STATEMENT OF RETAINED EARNINGS

	12 Months Ended December 31, 2003
Beginning of Period	\$ 151,404.84
Plus: Net Income	\$ 304,088.23
Less: Dividends Paid	<u>-27,800.00</u>
 RETAINED EARNINGS END OF PERIOD	 <u>\$ 427,693.07</u>

Heartland Communications Internet Services, Inc.
Statement of Cash Flows
For the 12 months Ended December 31, 2003

	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	\$ 304,088.23
Adjustments to reconcile Net Income (Loss) to net Cash provided by (used in) operating activities:	
Depreciation and Amortization	170,654.01
Losses (Gains) on sales of Fixed Assets	0.00
Decrease (Increase) in Operating Assets:	
Accounts Receivable	(733,664.10)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	(16,759.36)
Accrued Liabilities	4,371.06
Total Adjustments	<u>(575,398.39)</u>
Net Cash Provided By (Used in) Operating Activities	(271,310.16)
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital Expenditures	(238,336.51)
Proceeds From Sale of Fixed Assets	<u>0.00</u>
Net Cash Provided By (Used in) Investing Activities	(238,336.51)
CASH FLOWS FROM FINANCING ACTIVITIES	
Notes Payable Borrowings	743,912.32
Notes Payable Repayments	(152,713.21)
Shareholder Distributions	<u>(27,800.00)</u>
Net Cash Provided By (Used in) Financing Activities	563,399.11
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	53,752.44
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>35,830.34</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 80,246.16</u>