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32789

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32790-0200

Tel: 407-740-8575
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tmi@tminc.com

October 18, 2004
Overnight Delivery

Ms. Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington
Statehouse
Boise, ID 83720-0074

RECEIVED
FILED
2004 OCT 19 AM 9:55
IDAHO PUBLIC
UTILITIES COMMISSION

CVD-T-04-01

RE: Application of Covad Communications Company for a Certificate of Public Convenience and Necessity to Provide Resold and Facilities-Based Local Exchange Telecommunications Services within the State of Idaho

Dear Ms. Jewell:

Enclosed are the original and three (3) copies of the application, including proposed Local Exchange tariff, of Covad Communications Company for a Certificate of Public Convenience and Necessity to Provide Resold and Facilities-based Local Exchange Telecommunications Services within the State of Idaho.

Please acknowledge receipt of this filing by returning a date-stamped copy of this letter in the return envelope provided for this purpose.

If you or your staff have any questions regarding this application, please contact me at (407) 740-8575 or via email at mbyrnes@tminc.com. Thank you for your assistance in this matter.

Sincerely,

Monique Byrnes
Consultant to
Covad Communications Company

MB/sp

cc: Gregg Hyde - Covad
file: Covad - ID Local
tms: idf0400

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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2004 OCT 19 AM 9:55



IDAHO PUBLIC UTILITIES COMMISSION

Application of)
Covad Communications Company) Case No. CVD-T-04-01
Provide Resold and Facilities-based Local)
Exchange Service Throughout Idaho)

**APPLICATION FOR CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY TO PROVIDE
RESOLD AND FACILITIES-BASED LOCAL TELECOMMUNICATIONS SERVICES**

Pursuant to Procedural Order No. 26665 in Case No. GNR-T-96-4¹ and Section 253 of the Federal Telecommunications Act of 1996² ("Act"), Covad Communications Company ("Covad") respectfully requests that the Public Utilities Commission ("Commission") grant Covad a Certificate of Public Convenience and Necessity to include authority to provide local exchange telecommunications services within the State of Idaho.

In support of its Application, Covad submits the following:

1. Introduction

Covad is requesting authority to provide basic resold and facilities-based local exchange services to both residence and business customers throughout Idaho in all exchanges which are not exempt from competition. The services that Covad intends to offer will be an adjunct to the long distance services that the Company has filed and requested authority to provide statewide. Should its Application be granted, Covad plans to commence offering service immediately upon the establishment of the appropriate and necessary network arrangements.

¹ Title 61 of the Idaho Code §§61-256 through -528 and IDAPA 31.01.111 (Rule 111).
² Telecommunications Act of 1996, 46 U.S.C. §253 (1996).

II. Description of the Applicant

- (a) Covad Communications Company is incorporated in the State of California. The main address of the corporation is:

Covad Communications Company
110 Rio Robles
San Jose, California 95134-1813
Telephone: (408) 952-6400
Facsimile: (408) 952-7539
Toll Free: (888) 642-6823
Website: www.covad.com

- (b) All correspondence, notices, inquiries and other communications regarding this Application should be addressed to:

Monique Byrnes
Consultant to Covad Communications Company
Technologies Management, Inc.
P.O. Box 200
Winter Park, Florida 32789
Telephone: (407) 740-8575
Facsimile: (407) 740-0613

- (c) The Applicant is authorized by the Idaho Secretary of State to transact business within the State of Idaho. Please see Exhibit A.
- (d) Covad Communications Company is a wholly-owned subsidiary of its parent corporation, Covad Communications Group, Inc., a telecommunications services business. Covad Communications Company's sister company, DIECA Communications, Inc. is also a certificated telecommunications service provider authorized to operate in several states. Covad Communications Group, Inc. owns other subsidiaries as well, but with the exception of Covad Communications Company and DIECA Communications, Inc. they do not provide telecommunications services.

III. Exhibits

In support of this Application, the following exhibits are attached hereto:

- Exhibit A - Certificate of Incorporation;
- Exhibit B - Certificate of Authority to Transact Business in the State of Idaho;
- Exhibit C - Financial Statements
- Exhibit D - Profiles of Senior Management Key Personnel
- Exhibit E - Proposed service area map (Rule 112(c))
- Exhibit F - Proposed Tariff

IV. Financial, Technical and Managerial Qualifications

Covad possesses the managerial, technical and financial ability to provide local telecommunications service in the State of Idaho. Covad has strong financial resources to enable the Company to successfully provide local telecommunications service in the State of Idaho and the management team in place to manage this operations.

IV.A. Financial Qualifications

- (a) By utilizing its current customer service, operations and management workforce and infrastructure supporting its existing operations, Covad is financially and otherwise capable and qualified to offer and maintain all of its tariffed services in its territories.
- (b) Initially Covad operations in Idaho will be limited to resale arrangements with facilities-based Idaho Competitive Local Exchange Carriers ("CLECs"). No new funds or capital will be required to expand the Company's services in Idaho.
- (c) COVAD provides the financial statements of its parent company, Covad Communications Group, Inc. as proof of its financial stability to provide the required services within the State of Idaho as Exhibit B.

IV.B. Managerial Qualifications

- (a) Covad possesses managerial qualifications to operate a Competitive Local Exchange Carrier within the State of Idaho. Biographical summaries of the managerial experience of Covad are found in Exhibit C.

IV.C. Technical Qualifications

- (a) Covad's services will satisfy the minimum standards established by the Commission. The Company will file and maintain tariffs in the same manner and form as required of incumbent local exchange telecommunications companies with which Covad seeks to compete.

- (b) Covad Communications Company is a leading national broadband service provider of high-speed Internet and network access utilizing Digital subscriber line ("DSL") technology. It offers DSL services, T-1 services, managed security, hosting IP, dial-up services and bundled data and local & long distance voice services directly through Covad's network and through Internet Service Providers, resellers, and to small and medium-sized business and residential users. Covad operates the largest national DSL network with services currently available in 96 of the top MSAs and is one of the largest facilities-based providers in the country. Covad's network currently covers more than 45 million homes and businesses throughout the contiguous United States and reaches approximately 45 percent of all US homes and businesses.

- (c) Covad Communications Company entered into an Interconnection Agreement with Qwest communications Corporation on January 15, 1999 and this Agreement continues in effect.

V. Customer Service

Covad understands the importance of effective customer service for local service consumers. Covad provides a toll free customer service telephone number that is available with live operator response 24 hours per day, 7 days per week. Covad's toll free telephone number for customer inquiries, complaints and repair is 1-800-462-6823. In addition, customers may contact the company in writing at the headquarters address.

The name, number and electronic mailing address of the person designated as a contact for the Commission Staff for complaint resolution, inquiries and matters concerning rates and price lists or tariffs:

Karen S. Frame, Senior Counsel
7901 Lowry Boulevard
Denver, Co 80230
720-670-1069
kframe@covad.com

VI. Service Description and Anticipated Service Date

Covad Communications Company plans to provide telecommunication services to residential and business consumers in rural and urban areas throughout the State of Idaho.

Covad intends to initially offer resold service throughout the entire State of Idaho, to small businesses with five (5) service lines or less, through marketing via television, internet and radio advertisements. At a later point in time, Covad intends to install network transmission equipment and provide facilities-based services. Covad has not previously provided service in the State of Idaho.

VI. Public Interest Standard

Grant of Covad's Application to provide facilities-based local exchange services is in the public interest and serves the public convenience and necessity. In enacting the Federal Telecommunications Act of 1996, the United States Congress determined that it is in the public interest to promote competition in the provision of telecommunications services, including local exchange services. Experience with competition in other telecommunications markets, such as long distance, competitive access, and customer premises equipment, demonstrates the benefits that competition can bring to consumers. Consumers are enjoying increased services, lower prices, higher quality, and greater reliability. This is true not only with respect to the service offerings of the new entrants, but also as a result of the response of incumbent monopoly providers to the introduction of competition.

Covad plans to bring the benefits of competition to Idaho consumers. Covad's proposed services will provide multiple public benefits by increasing the competitive choices available to users in Idaho. Enhanced competition in telecommunications services likely will further stimulate economic development in Idaho. In addition, increased competition will create incentives for all carriers to offer lower prices, more innovative services, and more responsive customer service.

IX. Conclusion

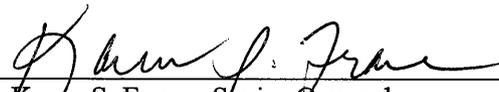
This Application demonstrates that Covad possesses the technical, financial and managerial resources to provide local exchange service in Idaho. Covad Communications Company has reviewed the Commission rules and agrees to comply with them.

Wherefore, Covad respectfully requests that the Commission:

1. grant Covad authority to operate as a provider of resold and facilities-based basic local exchange telecommunications services in the State of Idaho;

Respectfully submitted,

Covad Communications Company



Karen S. Frame, Senior Counsel
7901 Lowry Boulevard
Denver, Colorado 80230

COVAD COMMUNICATIONS COMPANY

Exhibit A

Certificate of Incorporation

State of California



SECRETARY OF STATE

CORPORATION DIVISION

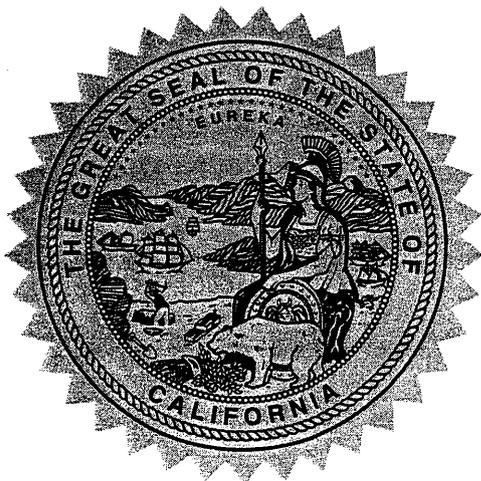
COVAD COMMUNICATIONS COMPANY

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

That the annexed transcript was prepared by and in this office from the record on file, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this

JAN 29 1997



Bill Jones

Secretary of State

1390925

FILED *ly*
In the office of the Secretary of State
of the State of California

OCT - 7 1996

ARTICLES OF INCORPORATION
OF
COVAD COMMUNICATIONS COMPANY

Bill Jones
BILL JONES, Secretary of State

I

The name of this corporation is Covad Communications Company.

II

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

III

The name and address in the State of California of this corporation's initial agent for service of process is Mark R. Ostler, Cohen & Ostler, 525 University Avenue, Ste. 410, Palo Alto, California 94301.

IV

This corporation is authorized to issue only one class of shares of stock; and the total number of shares which this corporation is authorized to issue is Ten Million (10,000,000).

V

Section 1. Limitation of Directors' Liability. The liability of the Directors of this corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

Section 2. Indemnification of Corporate Agents. This corporation is authorized to provide indemnification of its agents (as defined in Section 317 of the California General Corporation Law) for breach of their duty to this corporation and its shareholders through bylaw provisions or through agreements with the agents, or both, in excess of the indemnification otherwise permitted by such Section 317, subject to the limits on such excess indemnification set forth in Section 204 of the California General Corporation Law.

Section 3. Repeal or Modification. Any repeal or modification of the foregoing provisions of this Article V by the shareholders of this corporation shall not adversely affect any right or protection of an agent of this corporation existing at the time of such repeal or modification.



Mark R. Ostler, Incorporator

COVAD COMMUNICATIONS COMPANY

Exhibit B

Certificate of Authority to Transact Business in the State of Idaho

State of Idaho

Office of the Secretary of State

**CERTIFICATE OF AUTHORITY
OF
COVAD COMMUNICATIONS COMPANY**

File Number C 155464

I, BEN YSURSA, Secretary of State of the State of Idaho, hereby certify that an Application for Certificate of Authority, duly executed pursuant to the provisions of the Idaho Business Corporation Act, has been received in this office and is found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I issue this Certificate of Authority to transact business in this State and attach hereto a duplicate of the application for such certificate.

Dated: 12 July 2004



Ben Yursa
SECRETARY OF STATE

By *Cynthia [Signature]*



APPLICATION FOR CERTIFICATE OF AUTHORITY (For Profit)
 (Instructions on Back of Application)

FILE EFFECTIVE

2004 JUL 12 P 11: 36

The undersigned Corporation applies for a Certificate of Authority and states as follows: SECRETARY OF STATE
 STATE OF IDAHO

1. The name of the corporation is: Covad Communications Company
2. The name which it shall use in Idaho is: Covad Communications Company
3. It is incorporated under the laws of: California
4. Its date of incorporation is: October 7, 1996
5. The address of its principal office is:
110 Rio Robles, San Jose, CA 95134
6. The address to which correspondence should be addressed, if different from item 5, is:
110 Rio Robles, San Jose, CA 95134, Attn: Debra J. McManaman
7. The street address of its registered office in Idaho is: National Registered Agents, Inc.
 and its registered agent in Idaho at that address is: 1423 Tyrell Lane, Boise, ID 83706

8. The names and respective business addresses of its directors and officers are:

Name	Office	Address
<u>Charles E. Hoffman</u>	<u>Director/President</u>	<u>110 Rio Robles, San Jose, CA 95134</u>
<u>Mark A. Richman</u>	<u>Director/EVP & CFO</u>	<u>110 Rio Robles, San Jose, CA 95134</u>
<u>Mark L. Brandt</u>	<u>Director/Treasurer</u>	<u>110 Rio Robles, San Jose, CA 95134</u>
<u>Douglas Carlen</u>	<u>Assistant Secretary</u>	<u>110 Rio Robles, San Jose, CA 95134</u>

Dated: July 2, 2004

Signature: *[Handwritten Signature]*

Typed Name: Douglas Carlen

Capacity: Assistant Secretary

Customer Acct # : _____
 (if using pre-paid account)
 Secretary of State use only

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 Revised 07/2002

IDAHO SECRETARY OF STATE
 07/12/2004 05:00
 CR: 32065 CT: 19577 NH: 754929
 1 @ 100.00 = 100.00 AUTH PRO # 4
 1 @ 20.00 = 20.00 EXPEDITE C # 5

C155464

State of California

SECRETARY OF STATE

CERTIFICATE OF STATUS DOMESTIC CORPORATION

I, KEVIN SHELLEY, Secretary of State of the State of California, hereby certify:

That on the **7th day of October, 1996**, **COVAD COMMUNICATIONS COMPANY** became incorporated under the laws of the State of California by filing its Articles of Incorporation in this office; and

That said corporation's corporate powers, rights and privileges are not suspended on the records of this office; and

That according to the records of this office, the said corporation is authorized to exercise all its corporate powers, rights and privileges and is in good legal standing in the State of California; and

That no information is available in this office on the financial condition, business activity or practices of this corporation.



IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of July 7, 2004.

Kevin Shelley
KEVIN SHELLEY
Secretary of State

State of Idaho

Office of the Secretary of State

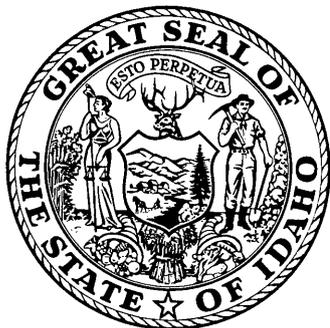
CERTIFICATE

I, BEN YSURSA, Secretary of State of the State of Idaho, hereby certify that I am the custodian of the assumed business name records of this State.

I FURTHER CERTIFY That the records of this office show that a certificate of assumed business name for COVAD COMMUNICATIONS COMPANY was filed by DIECA COMMUNICATIONS INC, as owner(s).

I FURTHER CERTIFY That the certificate of assumed business name was filed in this office on 7 January 2000, under the file number D 31914 , and that the certificate of assumed business name has not been canceled.

Dated: 29 June 2004



Ben Yursa
SECRETARY OF STATE

By *[Signature]*

COVAD COMMUNICATIONS COMPANY

Exhibit C

Financial Statements

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-K/A

**AMENDMENT NO. 1
TO**

(Mark
One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003
- TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____
Commission file number 000-25271

COVAD COMMUNICATIONS GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

77-0461529
(I.R.S. Employer
Identification No.)

110 Rio Robles, San Jose, California 95134

Registrant's telephone number, including area code:
(408) 952-6400

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value \$0.001 Per Share
(Title of Class)

Stock Purchase Rights Pursuant To Rights Agreement
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Table of Contents**REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

The Board of Directors and Stockholders
Covad Communications Group, Inc.

We have audited the accompanying consolidated balance sheets of Covad Communications Group, Inc. as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2003. 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. 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 Covad Communications Group, Inc. at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 15, the consolidated financial statements for the year ended December 31, 2003 have been restated.

/s/ Ernst & Young LLP

Walnut Creek, California
February 12, 2004,
except for Note 15,
as to which the date is May 11, 2004

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COVAD COMMUNICATIONS GROUP, INC.

CONSOLIDATED BALANCE SHEETS
 (Amounts in thousands, except share and per share amounts)

	December 31,	
	2003	2002
	(Restated, see Note 15)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 65,376	\$ 94,416
Short-term investments	48,969	108,076
Restricted cash and cash equivalents	2,892	2,576
Accounts receivable, net of allowances of \$4,951 at December 31, 2003 (\$5,388 at December 31, 2002)	28,528	21,746
Unbilled revenues	5,127	3,921
Other receivables	637	1,385
Inventories	5,335	5,096
Prepaid expenses and other current assets	3,761	5,524
	160,625	242,740
Property and equipment, net	94,279	108,737
Collocation fees and other intangible assets, net of accumulated amortization of \$49,698 at December 31, 2003 (\$32,372 at December 31, 2002)	40,848	43,284
Investments in unconsolidated affiliates	—	1,026
Deferred costs of service activation	31,486	40,286
Deferred customer incentives	4,431	3,540
Other long-term assets	3,042	2,548
	\$ 334,711	\$ 442,161
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 12,982	\$ 10,915
Accrued compensation	21,661	12,774
Current portion of capital lease obligations	—	165
Accrued collocation and network service fees	18,714	16,537
Accrued transaction-based taxes	35,268	45,426
Accrued interest	5,683	5,683
Accrued market development funds and customer incentives	7,024	6,422
Unresolved claims related to bankruptcy proceedings	7,378	7,381
Other accrued liabilities	5,607	8,581
	114,317	113,884
Long-term debt	50,000	50,000
Collateralized customer deposit	60,258	68,191
Deferred gain resulting from deconsolidation of subsidiary	53,963	53,972
Unearned revenues	61,726	73,815
	340,264	359,862
Total liabilities		
Commitments and contingencies		
Stockholders' Equity (Deficit):		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding at December 31, 2003 and 2002	—	—
Common stock, \$0.001 par value; 590,000,000 shares authorized; 230,163,012 shares issued and outstanding at December 31, 2003 (223,182,511 shares issued and outstanding at December 31, 2002)	230	223

Common stock — Class B, \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2003 and 2002	—	—
Additional paid-in capital	1,651,267	1,612,319
Deferred stock-based compensation	(14,459)	(160)
Accumulated other comprehensive loss	(953)	(747)
Accumulated deficit	(1,641,638)	(1,529,336)
	<hr/>	<hr/>
Total stockholders' equity (deficit)	(5,553)	82,299
	<hr/>	<hr/>
Total liabilities and stockholders' equity (deficit)	\$ 334,711	\$ 442,161
	<hr/>	<hr/>

See accompanying notes.

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COVAD COMMUNICATIONS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share amounts)

	Year ended December 31,		
	2003	2002	2001
Revenues, net	(Restated, see Note 15) \$ 388,851	\$ 383,496	\$ 332,596
Operating expenses:			
Network and product costs	288,122	298,336	461,875
Sales, marketing, general and administrative	140,081	150,373	199,908
Provision for bad debts (bad debt recoveries)	99	319	(658)
Depreciation and amortization of property and equipment	56,559	112,438	137,920
Amortization of intangible assets	17,325	14,650	12,919
Provision for restructuring expenses	1,235	—	14,364
Provision for long-lived asset impairment	—	—	11,988
Litigation-related expenses, net	—	(11,628)	31,160
Total operating expenses	503,421	564,488	869,476
Loss from operations	(114,570)	(180,992)	(536,880)
Other income (expense):			
Interest income	2,105	5,122	24,593
Realized gain (loss) on short-term investments	—	(17)	5,909
Other than temporary losses on short-term investments	—	—	(1,311)
Provision for impairment of investments in unconsolidated affiliates	(747)	(388)	(10,069)
Equity in losses of unconsolidated affiliates	(279)	(806)	(13,769)
Gain (loss) on disposal of investments in unconsolidated affiliate	—	(636)	178
Interest expense (contractual interest expense was \$142,356 during the year ended December 31, 2001)	(5,526)	(5,581)	(92,782)
Miscellaneous income (expense), net	6,715	(1,530)	(2,218)
Reorganization expenses, net	—	—	(62,620)
Gain on extinguishment of debt	—	—	1,033,727
Other income (expense), net	2,268	(3,836)	881,638
Net income (loss)	\$ (112,302)	\$ (184,828)	\$ 344,758
Basic and diluted per share amounts:			
Net income (loss)	\$ (0.50)	\$ (0.84)	\$ 1.94
Weighted average common shares used in computing basic and diluted per share amounts	224,949,891	219,743,662	177,347,193

See accompanying notes.

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COVAD COMMUNICATIONS GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
 (Amounts in thousands, except share amounts)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Notes Receivable From Stockholders	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	To Stockh Equ (Def
	Shares	Amount	Shares	Amount						
Balances at December 31, 2000	—	—	171,937,452	\$ 172	\$ 1,509,365	\$ (3,067)	\$ (423)	\$ 556	\$ (1,689,266)	\$ (182)
Issuance of common stock	—	—	1,010,000	1	579	—	—	—	—	—
Issuance of common stock upon exercise of options	—	—	4,100,979	4	2,109	—	—	—	—	2
Repurchase of common stock	—	—	(67,500)	—	(172)	—	—	—	—	—
Issuance of common stock upon emergence from Chapter 11 bankruptcy	—	—	37,292,800	37	93,568	—	—	—	—	93
Deconsolidation of subsidiary	—	—	—	—	—	—	423	—	—	—
Stock-based compensation	—	—	—	—	439	—	—	—	—	—
Issuance of common stock for business acquisition	—	—	2,268,481	2	2,062	—	—	—	—	2
Reversal of deferred stock-based compensation	—	—	—	—	(1,213)	1,213	—	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	1,597	—	—	—	1
Unrealized losses on available-for- sale securities	—	—	—	—	—	—	—	(2,327)	—	(2)
Foreign currency translation	—	—	—	—	—	—	—	(588)	—	—
Net income	—	—	—	—	—	—	—	—	344,758	344

See accompanying notes.

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COVAD COMMUNICATIONS GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) — (Continued)
 (Amounts in thousands, except share amounts)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Notes Receivable From Stockholders	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockhol- Equit (Defic
	Shares	Amount	Shares	Amount						
Balances at December 31, 2001	—	—	216,542,212	216	1,606,737	(257)	—	(2,359)	(1,344,508)	259,8
Issuance of common stock	—	—	5,417,251	6	4,303	—	—	—	—	4,3
Issuance of common stock upon exercise of options	—	—	1,005,937	1	398	—	—	—	—	3
Issuance of common stock following emergence from Chapter 11 bankruptcy	—	—	217,111	—	261	—	—	—	—	2
Issuance of warrants	—	—	—	—	3,790	—	—	—	—	3,7
Stock-based compensation	—	—	—	—	285	—	—	—	—	2
Deferred stock-based compensation	—	—	—	—	290	(290)	—	—	—	—
Amortization (reversal) of deferred stock-based compensation	—	—	—	—	(3,745)	387	—	—	—	(3,3
Unrealized losses on available- for-sale securities	—	—	—	—	—	—	—	270	—	2
Foreign currency translation	—	—	—	—	—	—	—	1,342	—	1,3
Net loss	—	—	—	—	—	—	—	—	(184,828)	(184,8
Balances at December 31, 2002	—	—	223,182,511	223	1,612,319	(160)	—	(747)	(1,529,336)	82,2
Issuance of common stock	—	—	1,996,222	2	1,721	—	—	—	—	1,7
Issuance of common	—	—	—	—	—	—	—	—	—	—

stock upon exercise of options	—	—	4,984,279	5	6,453	—	—	—	—	6,4						
Issuance of warrants			—	—	2,640	—	—	—	—	2,6						
Stock-based compensation	—	—	—	—	1,356	—	—	—	—	1,3						
Deferred variable stock-based compensation (restated, see Note 15)	—	—	—	—	26,778	(26,778)	—	—	—							
Amortization of deferred variable stock-based compensation (restated, see Note 15)	—	—	—	—	—	12,371	—	—	—	12,3						
Amortization of deferred stock-based compensation	—	—	—	—	—	108	—	—	—	1						
Unrealized losses on available-for-sale securities	—	—	—	—	—	—	—	(206)	—	(2						
Net loss	—	—	—	—	—	—	—	—	(112,302)	(112,3						
Balances at December 31, 2003 (restated, see Note 15)	—	\$	—	230,163,012	\$	230	\$1,651,267	\$	(14,459)	\$	—	\$	(953)	\$(1,641,638)	\$	(5,4

See accompanying notes.

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COVAD COMMUNICATIONS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year ended December 31,		
	2003	2002	2001
	(Restated, see Note 15)		
Operating Activities:			
Net income (loss)	\$ (112,302)	\$ (184,828)	\$ 344,758
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Provision for bad debts (bad debt recoveries)	99	319	(658)
Depreciation and amortization	73,884	127,088	150,839
Loss on disposition of property and equipment	112	1,712	2,679
Non-cash reorganization expenses	—	—	42,856
Non-cash litigation-related expenses	—	(11,628)	25,801
Provision for long-lived asset impairment	—	—	11,988
Amortization (reversal) of deferred stock-based compensation, net	12,479	(3,358)	1,597
Other stock-based compensation	1,367	305	439
Other non-cash charges	1,749	803	—
Accretion of interest on investments	(1,090)	(209)	(7,136)
Accretion of debt discount and amortization of deferred debt issuance costs	—	—	20,845
Other than temporary losses on short-term investments	—	—	1,311
Provision for impairment of investments in unconsolidated affiliates	747	388	10,069
Equity in losses of unconsolidated affiliates	279	806	13,769
Miscellaneous income from internal-use software license royalties	(5,606)	—	—
(Gain) loss on disposal of investment in unconsolidated affiliates.	—	636	(178)
Gain on extinguishment of debt	—	—	(1,033,727)
Net changes in operating assets and liabilities:			
Restricted cash and cash equivalents	(316)	6,627	(9,103)
Accounts receivable	(6,881)	1,180	532
Unbilled revenues	(1,206)	1,043	2,282
Inventories	(239)	2,153	6,748
Prepaid expenses and other assets	1,995	4,159	3,163
Deferred costs of service activation	8,800	17,676	(5,131)
Accounts payable	2,067	(4,927)	(53,652)
Unresolved claims related to bankruptcy proceedings	(3)	(2,930)	22,200
Collateralized customer deposit	(7,933)	(6,809)	—
Accrued restructuring expenses	—	—	2,024
Other current liabilities	(1,466)	(1,366)	(22,291)
Unearned revenues	(12,089)	(24,882)	12,777
Net cash used in operating activities	(45,553)	(76,042)	(455,199)

See accompanying notes.

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COVAD COMMUNICATIONS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(Amounts in thousands)

	Year ended December 31,		
	2003	2002	2001
	<u>(Restated, see Note 15)</u>		
Investing Activities:			
Cash relinquished as a result of deconsolidating a subsidiary	—	—	(1,599)
Purchase of short-term investments	(131,903)	(237,088)	(638,096)
Maturities of short-term investments	191,894	165,526	547,477
Sale of short-term investments	—	40,017	329,458
Redemption of restricted investments	—	—	26,875
Purchase of restricted investments in connection with bankruptcy proceedings	—	—	(257,202)
Redemption of restricted investments in connection with bankruptcy proceedings	—	—	270,698
Purchase of property and equipment	(44,142)	(22,782)	(15,732)
Proceeds from sale of property and equipment	181	13,451	1,280
Recovery of internal-use software costs	7,345	814	2,000
Payment of collocation fees and purchase of other intangible assets	(14,889)	(3,782)	(7,940)
Proceeds from sale of investments in unconsolidated affiliates	—	3,360	1,225
Decrease (increase) in other long-term assets	22	371	(206)
	<u>8,508</u>	<u>(40,113)</u>	<u>258,238</u>
Net cash provided by (used in) investing activities			
Financing Activities:			
Proceeds from collateralized customer deposit	—	—	75,000
Proceeds from issuance of long-term debt	—	—	50,000
Principal payments of long-term debt in connection with bankruptcy proceedings	—	—	(271,708)
Other principal payments of long-term debt	—	—	(8,393)
Principal payments under capital lease obligations	(165)	(328)	(1,089)
Proceeds from common stock issuance, net of repurchase	8,170	3,089	2,521
	<u>8,005</u>	<u>2,761</u>	<u>(153,669)</u>
Net cash provided by (used in) financing activities			
Net decrease in cash and cash equivalents	(29,040)	(113,394)	(350,630)
Cash and cash equivalents at beginning of year	94,416	207,810	558,440
	<u>\$ 65,376</u>	<u>\$ 94,416</u>	<u>\$ 207,810</u>
Cash and cash equivalents at end of year			
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for interest	\$ 5,510	\$ 80	\$ 68,051
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Equipment purchased through capital leases	\$ —	\$ 482	\$ —

See accompanying notes.

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COVAD COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003, 2002 and 2001

(Amounts in thousands, except share and per share amounts)

1. Nature of Operations and Summary of Significant Accounting Policies**Organization, Business and Basis of Presentation***Organization and Business*

Covad Communications Group, Inc. ("Covad") is a provider of high-speed connectivity services. These services include a range of high-speed, high-capacity Internet and network access services utilizing digital subscriber line ("DSL") technology and related value-added services. Covad's high-speed connectivity services are sold to businesses and consumers directly and indirectly through Internet service providers ("ISPs"), enterprises, telecommunications carriers and other customers. These services are sold directly to business and consumer end-users through Covad's field sales force, telephone sales, third party referrals and Covad's Web site. ISPs purchase Covad's services in order to provide high-speed Internet access to their business and consumer end-users. Enterprise customers purchase services directly or indirectly from Covad to provide their employees with high-speed remote access to the enterprise's local area network. Other telecommunications carriers purchase Covad's services for resale to their ISP affiliates, Internet users and enterprise customers.

Basis of Presentation

The consolidated financial statements include the accounts of Covad and its wholly owned subsidiaries (collectively, the "Company"), except for the accounts of BlueStar Communications Group, Inc. and its wholly owned subsidiaries (collectively, "BlueStar"), which have been excluded from the Company's consolidated financial statements effective June 25, 2001 (Note 4). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company's 2004 business plan includes certain discretionary spending that is based on several assumptions, including growth of the Company's subscriber base with a reasonable per subscriber profit margin and improvements in productivity. If necessary, the Company will curtail this discretionary spending so that it can continue as a going concern at least through December 31, 2004 using only the Company's unrestricted cash, cash equivalent and short-term investment balances in existence as of December 31, 2003. Additionally, on August 21, 2003, the Federal Communications Commission ("FCC") issued its order in the Triennial Review of its rules for network unbundling obligations of Incumbent Local Exchange Carriers ("ILECs"). Among other things, that order will phase-out the FCC rule requiring line-sharing over a three-year period. The ultimate impact of the Triennial Review order on the Company's business, which currently relies to a large extent on line-sharing to serve the Company's consumer end-users, will depend on the Company's ability to negotiate fair and reasonable prices substantially lower than the whole loop cost that will ultimately be permitted under the FCC's rules. The Company does not believe the FCC's revised unbundling rules will have a material adverse effect on the Company's ability to continue as a going concern at least through December 31, 2004, but the Company's operating results and financial condition may be adversely affected over time if the new rules result in substantially higher prices for access to the ILECs' telephone lines.

During the year ended December 31, 2003, a matter was identified related to prior financial reporting periods that necessitated the recording of additional expense. Such matter was related to the modification of stock options granted to certain employees in prior years. These modifications occurred upon the separation of such employees from the Company, principally during 2000. Accordingly, for the year ended December 31, 2003, the Company recorded additional stock-based compensation expense in the amount of \$1,236 (\$0.01 per share). Such amount is reflected in the Company's sales, marketing, general and administrative expenses for the year ended December 31, 2003. The Company does not believe this amount is material to the periods in which it should have been recorded,

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nor does it believe it is material to its consolidated operating results for the year ended December 31, 2003. This adjustment is principally related to 2000, the impact of which would have been to increase sales, marketing, general and administrative expenses and net loss by \$1,236 (\$0.01 per share) for such year. As explained below, certain other adjustments were recorded during 2002 that related to prior periods. \$1,139 of such amounts pertained to 2000, the effect of which would have been to decrease the Company's 2000 net loss by \$0.01 per share. The aggregate effect of the adjustments recorded during the year ended December 31, 2003 and 2002 to the previously reported results of operations for the year ended December 31, 2000 would be to increase net loss by \$97, or \$0.00 per share, for such year if these adjustments had been recorded in 2000.

As part of the Company's continuing evaluation of its network assets during the year ended December 31, 2002, certain matters were identified related to prior financial reporting periods that necessitated the recording of adjustments to certain expenses. Such matters were related principally to (i) changes in the Company's network configuration, which necessitated reductions of the remaining estimated useful lives of certain network equipment, (ii) the capitalization of certain network and product costs that should have been charged to operating expenses when they were incurred and (iii) various restructuring activities that resulted in the abandonment of certain network equipment and leasehold improvements. Accordingly, for the year ended December 31, 2002, the Company recorded additional (i) depreciation expense of \$6,989 (\$1,306 of which was recorded during the fourth quarter of 2002), (ii) network and product costs of \$2,635 (\$1,930 of which was recorded during the fourth quarter of 2002), (iii) loss on the disposition of property and equipment of \$635 (all of which was recorded during the fourth quarter of 2002), and (iv) interest expense of \$51 (all of which was recorded during the fourth quarter of 2002). In addition, as part of the Company's financial statement close process for the year ended December 31, 2002, the Company discovered that it had overstated its amortization expense relating to non-cash deferred stock-based compensation in prior periods by \$3,213. Therefore, for the year ended December 31, 2002, the Company recorded reductions of (i) network and products costs of \$320 (all of which was recorded during the fourth quarter of 2002) and (ii) sales, marketing, general and administrative expense of \$2,893 (all of which was recorded during the fourth quarter of 2002). Furthermore, as part of the Company's review of its December 31, 2002 tax accruals, it determined that it had overstated its transaction-based tax and other tax accruals in prior periods by \$4,804, which the Company adjusted during the year ended December 31, 2002 (all of which was recorded during the fourth quarter of 2002). The adjustment was primarily driven by various complex rules surrounding the Company's estimated liability to the Federal Universal Service Fund ("FUSF"). The Company does not believe any of the aforementioned amounts are material to the periods in which they should have been recorded, nor does it believe the prospective correction of such amounts during the year ended December 31, 2002 is material to its consolidated operating results for such year (the prospective correction of the aforementioned amounts relating to prior periods increased the Company's 2002 consolidated net loss by \$2,294, or \$0.01 per share, and decreased the Company's 2001 net loss by \$3,433 or \$0.02 per share).

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from those estimates. The Company's critical accounting estimates include (i) revenue recognition and the establishment of accounts receivable allowances (Notes 1 and 2), (ii) inventory valuation (Note 1), (iii) reorganization and restructuring liabilities (Notes 3 and 4), (iv) useful life assignments and impairment evaluations associated with property and equipment and intangible assets (Notes 1 and 5), (v) anticipated outcomes of legal proceedings and other disputes (Notes 3, 4 and 10), (vi) transaction-based tax and employment-related tax liabilities (Note 10) and (vii) valuation allowances associated with deferred tax assets (Note 12).

Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments with a maturity of three months or less from the date of original issuance to be cash equivalents. As of December 31, 2003 and 2002, cash equivalents consisted principally of money market mutual funds. All of the Company's investments are classified as available-for-sale and stated at

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their fair market values, which are determined based on quoted market prices. The Company's short-term investments had original maturities greater than three months, but less than one year, from the balance sheet dates. The Company determines the appropriate classification of investments at the time of purchase and reevaluates such designation at the end of each period. Unrealized gains and losses on available-for-sale securities are included as a separate component of stockholders' equity. Realized gains and losses on available-for-sale securities are determined based on the specific identification of the cost of securities sold.

Short-term investments consisted of the following:

	December 31, 2003			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government agency securities	\$ 38,961	\$ 7	\$ —	\$ 38,968
Certificates of deposit	10,000	1	—	10,001
Total available-for-sale securities	\$ 48,961	\$ 8	\$ —	\$ 48,969

	December 31, 2002			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government agency securities	\$ 107,867	\$ 209	\$ —	\$ 108,076
Total available-for-sale securities	\$ 107,867	\$ 209	\$ —	\$ 108,076

As of December 31, 2003, the contractual maturities of all available-for-sale securities are between January 2004 and September 2004.

Realized gains and losses resulting from the sale of available-for-sale securities were as follows:

	Year ended December 31,		
	2003	2002	2001
Gains	\$ —	\$ —	\$ 6,373
Losses	—	(17)	(464)
	\$ —	\$ (17)	\$ 5,909

Restricted Cash and Cash Equivalents

As of December 31, 2003 and 2002, the Company held \$2,892 and \$2,576, respectively, in money market mutual funds, which (i) collateralize irrevocable letters of credit pertaining to certain operating lease commitments (Note 7) or (ii) are restricted for the payment of unresolved bankruptcy claims (Note 2).

Other Investments

Other investments consist primarily of strategic investments in privately held entities. These investments in privately held companies are accounted for under either the cost or equity methods of accounting, depending on the Company's ability to significantly influence these entities.

The Company performs periodic reviews of its investments for impairment. Impairment write-downs create a new carrying value for the investment and the Company does not record subsequent increases in fair value in excess of the new carrying value for these types of privately held investments accounted for under the cost or equity methods. The Company recorded write-downs of \$747, \$388 and \$10,069 during the years ended December 31, 2003, 2002 and 2001, respectively, related to impairments of its privately held investments.

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Concentrations of Credit Risk, Significant Customers, Key Suppliers and Related Parties

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and restricted cash and cash equivalents. The Company's cash and investment policies limit cash equivalents, short-term investments and restricted cash and cash equivalents to short-term, investment grade instruments. Cash and cash equivalents, short-term investments and restricted cash and cash equivalents are held primarily with various domestic and Canadian financial institutions with high credit standings. The Company has not experienced any significant losses on its cash, cash equivalents or restricted cash and cash equivalents. However, during the year ended December 31, 2001, the Company recognized other than temporary losses on certain available-for-sale securities aggregating \$1,311. No similar losses were recognized during the years ended December 31, 2003 and 2002.

The Company conducts business primarily with ISPs, enterprise customers and telecommunications carrier customers in the United States. As more fully described in Note 2, the Company has concentrations of credit risk with a small number of customers, and certain of the Company's customers were experiencing financial difficulties as of December 31, 2003, 2002 and 2001 and were not current in their payments for the Company's services at those dates. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. An allowance is maintained for estimated credit losses. During the years ended December 31, 2003, 2002 and 2001, the Company wrote-off certain accounts receivable balances aggregating \$385, \$2,652 and \$10,371, respectively, against the allowance for credit losses. During the years ended December 31, 2003, 2002 and 2001, the Company recovered \$374, \$684 and \$2,037, respectively, of accounts receivable balances previously written-off against such allowance.

The Company is dependent on a limited number of suppliers for certain equipment used to provide its services. The Company has generally been able to obtain an adequate supply of such equipment. However, an extended interruption in the supply of equipment currently obtained from its suppliers could adversely affect the Company's business and results of operations.

The Company's former vice-chairman and former interim chief executive officer, Frank Marshall, who was also a member of the Company's board of directors from October 1997 to December 2002, was a minority stockholder and former member of the board of directors of one of the Company's former ISP customers, InternetConnect, which filed for bankruptcy protection in 2001 (Note 6).

The Company acquired an equity interest in a supplier during 1999 and disposed of this interest in 2001. Purchases from this supplier totaled \$8,346, \$5,774 and \$13,928 for the years ended December 31, 2003, 2002 and 2001, respectively. The Company also purchased certain products from a company in which Mr. Marshall serves as a director. Purchases from this vendor totaled \$269, \$258 and \$140 during the years ended December 31, 2003, 2002 and 2001, respectively.

A member of the Company's Board of Directors, Richard Jalkut, is the President and CEO of TelePacific, one of the Company's resellers. The Company recognized revenues from TelePacific of \$611, \$1,311 and \$1,822 for the years ended December 31, 2003, 2002 and 2001, respectively. Another member of the Company's Board of Directors, L. Dale Crandall, is also a director of BEA Systems, one of the Company's vendors. The Company paid \$2,232, \$121 and \$214 to BEA Systems during the years ended December 31, 2003, 2002 and 2001, respectively.

The Company believes the terms of these transactions are comparable to transactions that would likely be negotiated with clearly independent parties.

Inventories

Inventories, consisting primarily of customer premises equipment, are stated at the lower of cost, determined using the "first-in, first-out" method, or market.

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Property and equipment are recorded at cost, subject to adjustments for impairment, and depreciated or amortized using the straight-line method over the following estimated useful lives:

Leasehold improvements	5 years or the term of the lease, whichever is less
Computer equipment	2 to 5 years
Computer software	3 to 5 years
Furniture and fixtures	2 to 5 years
Networks and communication equipment	2 to 5 years

The Company incurs significant costs associated with internal-use software, which consists principally of the Company's operational support systems ("OSS") software and Web site. The Company charges the costs of research to expense as they are incurred, including pre-development efforts related to determining technological or product alternatives, and costs incurred for training and maintenance. Software and Web site development costs, which include direct costs such as labor and contractors, are capitalized when they can be segregated from other non-capitalizable labor activities and when it is probable that the project will be completed and the software or Web site will be used as intended. Costs incurred for upgrades and enhancements to the Company's software or Web site are capitalized when it is probable that such efforts will result in additional and significant functionality. Capitalized software and Web site costs are amortized to expense over the estimated useful life of the software or Web site. Amortization of internal-use software costs was \$3,336, \$6,030 and \$9,433 during the years ended December 31, 2003, 2002 and 2001, respectively. The Company accounts for incidental sales of licenses to its OSS software on a cost recovery basis (Note 6).

The Company leased certain equipment under capital lease agreements. Assets and liabilities under capital leases are recorded at the lesser of the present value of the aggregate future minimum lease payments, including estimated bargain purchase options, or the fair value of the assets under lease. Assets under capital leases are amortized over the lesser of the lease term or useful life of the assets. Amortization of assets under capital leases is included in depreciation and amortization expense.

Collocation Fees and Other Intangible Assets

Collocation fees represent nonrecurring fees paid to other telecommunications carriers for the right to use central office space to house equipment owned or leased by the Company. Such nonrecurring fees are capitalized as intangible assets and amortized over five years using the straight-line method. The Company's collocation agreements also require periodic recurring payments, which are charged to expense as incurred. All such collocation agreements are cancelable by the Company at any time.

Other intangible assets consist of a customer list acquired from a third party (Note 6). Such customer list is being amortized over twenty-four months using the straight-line method.

As of December 31, 2003, the Company's estimated annual amortization expenses associated with collocation fees and other intangible assets for the next five years were as follows:

2004	\$ 17,236
2005	\$ 14,769
2006	\$ 5,067
2007	\$ 2,332
2008	\$ 1,444

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Change in Accounting Estimate

In addition to the changes in accounting estimate described above under "Basis of Presentation," effective January 1, 2001, the Company reduced the remaining estimated useful lives of all long-lived assets, excluding a building and leasehold improvements, that previously had estimated useful lives in excess of five years such that the residual balances and any subsequent additions are now depreciated or amortized over five years using the straight-line method. This change in accounting estimate decreased the company's net income by \$14,006 (\$0.08 per share) for the year ended December 31, 2001.

Impairment of Long-lived Assets

The Company periodically evaluates potential impairments of its long-lived assets, including intangibles. When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more indicators of impairment, the Company evaluates the projected undiscounted cash flows related to the assets. If these cash flows are less than the carrying value of the assets, the Company measures the impairment using discounted cash flows or other methods of determining fair value.

Long-lived assets to be disposed of are carried at the lower of cost or fair value less estimated costs of disposal.

Stock-Based Compensation

The Company accounts for stock-based awards to (i) employees (including non-employee directors) using the intrinsic value method and (ii) non-employees using the fair value method.

Under the intrinsic value method, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The following table illustrates the pro forma effect on net income (loss) and earnings (loss) per share for the years ended December 31, 2003, 2002 and 2001 had the Company applied the fair value method to account for stock-based awards to employees:

	2003	2002	2001
	(Restated, see Note 15)		
Net income (loss), as reported	\$ (112,302)	\$ (184,828)	\$ 344,758
Stock-based employee compensation expense (reversal) included in the determination of net income (loss), as reported	13,715	(3,112)	1,849
Stock-based employee compensation expense that would have been included in the determination of net income (loss) if the fair value method had been applied to all awards	(20,507)	(28,471)	(66,751)
Pro forma net income (loss)	\$ (119,094)	\$ (216,411)	\$ 279,856
Basic and diluted net income (loss) per common share:			
As reported	\$ (0.50)	\$ (0.84)	\$ 1.94
Pro forma	\$ (0.53)	\$ (0.98)	\$ 1.58

The weighted-average grant date fair value of stock-based awards to employees was \$1.76, \$0.83 and \$1.38 per share during the years ended December 31, 2003, 2002 and 2001, respectively. Such weighted-average grant date fair values were estimated using the Black-Scholes option valuation model and the assumptions listed in Note 13 under the caption "Pro Forma Stock-Based Compensation Information."

Advertising Costs

The Company charges the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2003, 2002 and 2001 was \$7,650, \$27,083 and \$16,467, respectively.

The Company makes market development funds ("MDF") available to certain customers for the reimbursement of co-branded advertising expenses and other purposes. To the extent that MDF is used by the Company's customers for co-branded advertising, and (i) the customers provide the Company with third-party evidence of such co-branded

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advertising as required by Company policy and (ii) the Company can reasonably estimate the fair value of its portion of the advertising, such amounts are charged to advertising expense as incurred. Other amounts payable to customers relating to rebates, customer incentives and nonqualified MDF activities are recorded as reductions of revenues as incurred.

Income Taxes

The Company uses the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair values of the Company's financial instruments:

Cash, Cash Equivalents, Short Term Investments and Restricted Cash and Cash Equivalents. The carrying amounts of these assets approximate their respective fair values, which were determined based on quoted market prices.

Borrowings. The fair values of borrowings, including long-term debt and capital lease obligations, are estimated based on quoted market prices, where available, or by discounting the future cash flows using estimated borrowing rates at which similar types of borrowing arrangements with the same remaining maturities could be obtained by the Company. The aggregate fair value of the Company's long-term debt was \$58,646 as of December 31, 2003, as compared to the aggregate carrying amount of \$50,000 as of such date. The aggregate fair value of the Company's long-term debt and capital lease obligations was \$59,140 as of December 31, 2002, as compared to the aggregate carrying amount of \$50,165 as of such date.

Foreign Currency

The functional currency of the Company's unconsolidated affiliates is the local currency. The investments in these unconsolidated affiliates are translated into U.S. dollars at year-end exchange rates, and the Company's equity in the income or losses of these affiliates is translated at average exchange rates prevailing during the year. Translation adjustments are included in "Accumulated other comprehensive loss," a separate component of stockholders' equity (deficit).

Per Share Amounts

Basic per share amounts are computed by using the weighted average number of shares of the Company's common stock, less the weighted average number of common shares subject to repurchase, outstanding during the period.

Diluted per share amounts are determined in the same manner as basic per share amounts, except that the number of weighted average common shares used in the computations includes dilutive common shares subject to repurchase and is increased assuming the (i) exercise of dilutive stock options and warrants using the treasury stock method and (ii) conversion of dilutive convertible debt instruments. However, diluted net income (loss) per share is the same as basic net income (loss) per share in the periods presented in the accompanying consolidated statements of operations because loss from operations is the "control number" in determining whether potential common shares are included in the calculation. Consequently, the impact of (i) including common shares subject to repurchase, (ii) the assumed exercise of outstanding stock options and warrants and (iii) the assumed conversion of convertible debt instruments was not dilutive to loss from operations.

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The following table presents the calculation of weighted average common shares used in the computations of basic and diluted per share amounts presented in the accompanying consolidated statements of operations:

	Year ended December 31,		
	2003	2002	2001
Weighted average shares of common stock outstanding	224,949,891	219,750,287	177,489,090
Less weighted average shares of common stock subject to repurchase	—	6,625	141,897
Weighted average common shares used in computing basic per share amounts	224,949,891	219,743,662	177,347,193

Comprehensive Income (Loss)

Significant components of the Company's comprehensive income (loss) are as follows:

	Cumulative Amounts	Year ended December 31,		
		2003	2002	2001
	(Restated, see Note 15)	(Restated, see Note 15)		
Net income (loss)	\$ (1,641,638)	\$ (112,302)	\$ (184,828)	\$ 344,758
Unrealized gains (losses) on available-for-sale securities	9	(206)	270	(2,327)
Foreign currency translation adjustment	(962)	—	1,342	(588)
Comprehensive income (loss)	\$ (1,642,591)	\$ (112,508)	\$ (183,216)	\$ 341,843

Recent Accounting Pronouncements

On May 15, 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity, such as mandatorily redeemable equity instruments. SFAS No. 150 must be applied immediately to instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003, except for mandatorily redeemable instruments of non-public companies, to which the provisions of SFAS No. 150 must be applied in fiscal periods beginning after December 15, 2003. The application of SFAS No. 150 to pre-existing instruments should be recognized as the cumulative effect of a change in accounting principle. The adoption of SFAS No. 150 had no effect on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 applies to any business enterprise that has a controlling interest, contractual relationship or other business relationship with a variable interest entity ("VIE") and establishes guidance for the consolidation of VIEs that function to support the activities of the primary beneficiary. FIN 46 was effective March 31, 2004 for enterprises with VIEs created after January 31, 2003, and will be effective March 31, 2004 for enterprises with VIEs created before February 1, 2003. The Company does not expect the adoption of FIN 46 will have an effect on its consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure provisions of SFAS No. 123 to require prominent disclosure

of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported operating results, including per share amounts, in annual and interim financial statements. The disclosure provisions of SFAS No. 148 were effective immediately upon issuance in 2002. As of December 31, 2003, the Company has no immediate plans to adopt the fair value method of accounting for stock-based employee compensation.

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In November 2002, the FASB's Emerging Issues Task Force ("EITF") reached a final consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," which is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Under EITF Issue No. 00-21, revenue arrangements with multiple deliverables are required to be divided into separate units of accounting under certain circumstances. The Company adopted EITF Issue No. 00-21 on July 1, 2003, and such adoption did not have a material effect on its consolidated financial statements.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires certain guarantees to be recorded at fair value, which is different from current practice, which is generally to record a liability only when a loss is probable and reasonably estimable. FIN No. 45 also requires a guarantor to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote. The disclosure provisions of FIN No. 45 were effective immediately in 2002. The Company adopted the recognition and measurement provisions of FIN No. 45 on a prospective basis with respect to guarantees issued or modified after December 31, 2002. The adoption of the recognition and measurement provisions of FIN No. 45 had no effect on the Company's consolidated financial statements. However, some of the Company's contracts with customers have provisions that would require the Company to indemnify them in the event that the Company's services infringe upon a third party's intellectual property rights (Note 10).

On January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with an Exit or Disposal Activity." SFAS No. 146 revised the accounting for exit and disposal activities under EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," by extending the period in which expenses related to restructuring activities are reported. A commitment to a plan to exit an activity or dispose of long-lived assets is no longer sufficient to record a one-time charge for most restructuring activities. Instead, companies record exit or disposal costs when they are incurred and can be measured at fair value. In addition, the resultant liabilities are subsequently adjusted for changes in estimated cash flows. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002. Companies may not restate previously issued financial statements for the effect of the provisions of SFAS No. 146, and liabilities that a company previously recorded under EITF Issue No. 94-3 are grandfathered. The adoption of SFAS No. 146 had no effect on the Company's consolidated financial statements.

On January 1, 2003, the Company adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145 requires that gains or losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria of APB Opinion No. 30. Upon adoption of SFAS No. 145 in 2003, the Company reclassified the gain on extinguishment of debt that it recognized in 2001, which was previously classified as an extraordinary item, as an element of other income (expense) in the accompanying 2001 consolidated statement of operations.

On January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The adoption of SFAS No. 143 had no effect on the Company's consolidated financial statements.

Reclassifications

Certain balances in the Company's 2002 and 2001 consolidated financial statements have been reclassified to conform to the presentation in 2003.

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2. Revenue Recognition

Revenues from recurring service are recognized when (i) persuasive evidence of an arrangement between the Company and the customer exists, (ii) service has been provided to the customer, (iii) the price to the customer is fixed or determinable and (iv) collectibility of the sales prices is reasonably assured. Revenues earned for which the customer has not been billed are recorded as "Unbilled revenues" in the consolidated balance sheets. Amounts billed in advance of providing service are deferred and recorded as an element of the consolidated balance sheets caption "Unearned revenues." Included in revenues are FUSF charges billed to customers aggregating \$4,993, \$8,233 and \$13,277 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company recognizes up-front fees associated with service activation over the expected term of the customer relationship, which is presently estimated to be 24 months, using the straight-line method. The Company treats the incremental direct costs of service activation (which consist principally of customer premises equipment, service activation fees paid to other telecommunications companies and sales commissions) as deferred charges in amounts that are no greater than the up-front fees that are deferred, and such deferred incremental direct costs are amortized to expense using the straight-line method over 24 months.

The Company had over 300 wholesale customers as of December 31, 2003. However, for the years ended December 31, 2003, 2002 and 2001, the Company's 30 largest wholesale customers in each such year collectively comprised 93.3%, 93.3% and 88.5% of the Company's total wholesale net revenues, respectively, and 71.6%, 79.5% and 76.0% of the Company's total net revenues, respectively. As of December 31, 2003 and 2002, receivables from these customers collectively comprised 70.3% and 75.3%, respectively, of the Company's gross accounts receivable balance.

For the year ended December 31, 2003, EarthLink, Inc. and AT&T, two of the Company's wholesale customers that are included in the Company's Covad Strategic Partnerships ("CSP", business segment (Note 14), accounted for 21.5% and 12.5%, respectively, of the Company's total net revenues. For the years ended December 31, 2002 and 2001, EarthLink, Inc. accounted for 20.0% and 17.5%, respectively, of the Company's total net revenues. As of December 31, 2003 and 2002, receivables from these customers comprised 20.9% and 17.1%, and 25.9% and 11.7%, respectively, of the Company's gross accounts receivable balance. No other individual customer accounted for more than 10% of the Company's total net revenues in 2003, 2002 and 2001.

Some of the Company's ISP and telecommunications carrier customers are experiencing financial difficulties. During the years ended December 31, 2003, 2002 and 2001, certain of these customers either (i) were not current in their payments for the Company's services or (ii) were essentially current in their payments but, subsequent to the end of the reporting period, the financial condition of such customers deteriorated significantly and certain of them have filed for bankruptcy protection. Based on this information, the Company determined that the collectibility of revenues from these customers was not reasonably assured or its ability to retain some or all of the payments received from certain of these customers that have filed for bankruptcy protection was not reasonably assured. Accordingly, the Company classified this group of customers as "financially distressed" for revenue recognition purposes. Revenues from financially distressed customers that have not filed for bankruptcy protection are recognized when cash for those services is collected, assuming all other criteria for revenue recognition have been met, but only after the collection of all previous outstanding accounts receivable balances. Payments received from financially distressed customers during a defined period prior to their filing of petitions for bankruptcy protection are recorded in the consolidated balance sheet caption "Unearned revenues" if the Company's ability to retain these payments is not reasonably assured.

A number of the Company's customers are currently in bankruptcy proceedings. Revenues from these customers accounted for approximately 1.3%, 5.6% and 7.1% of the Company's total net revenues for the years ended December 31, 2003, 2002 and 2001, respectively. Although MCI filed for bankruptcy protection on July 21, 2002, the Company continued to recognize revenues from MCI on an accrual basis during 2002 and 2003 based on its specific facts and circumstances in relation to the revenue recognition criteria described above. Consequently, the disclosures in the following paragraph related to financially distressed customers exclude amounts pertaining to MCI because the Company has not presently classified it as a financially distressed customer for revenue recognition purposes. The Company continues to attempt to migrate end-users from some of its financially distressed customers to the extent it is legally and operationally feasible.

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During the years ended December 31, 2003, 2002 and 2001, the Company issued billings to its financially distressed customers aggregating \$5,139, \$42,881 and \$74,928, respectively, that were not recognized as revenues or accounts receivable in the accompanying consolidated financial statements at the time of such billings. However, in accordance with the revenue recognition policy described above, the Company recognized revenues from certain of these customers when cash was collected aggregating \$4,367, \$47,609 and \$29,003 during the years ended December 31, 2003, 2002 and 2001, respectively, some of which relates to services provided in prior periods. In addition, revenues and the provision for bad debts (bad debt recoveries) recognized during the year ended December 31, 2003 and 2002 include cash collected totaling \$827 and \$4,427, respectively, from certain bankrupt customers that the Company received prior to the periods in which they were ultimately recognized. The Company recorded these payments as unearned revenues in the accompanying consolidated balance sheet as of those dates because its ability to retain the payments was not reasonably assured at such dates. However, as a result of subsequent developments in the bankruptcy proceedings of such customers, the Company determined that its ability to retain these payments was reasonably assured prior to December 31, 2003. Consequently, the Company recognized these payments as revenues and bad debt recoveries, respectively, during 2003 and 2002. No such payments were recognized as revenues or bad debt recoveries during the year ended December 31, 2001. The Company had contractual receivables from its financially distressed customers totaling \$1,093 and \$6,031 as of December 31, 2003 and 2002, respectively, that are not reflected in the accompanying consolidated balance sheet as of such date.

The Company has obtained information indicating that some of its customers, including MCI, who (i) were essentially current in their payments for the Company's services prior to December 31, 2003, or (ii) have subsequently paid all or significant portions of the respective amounts recorded as accounts receivable as of December 31, 2003, may become financially distressed. Revenues from these customers accounted for approximately 11.6%, 34.6% and 14.2% of the Company's total net revenues for the years ended December 31, 2003, 2002 and 2001, respectively. As of December 31, 2003 and 2002, receivables from these customers comprised 14.7% and 31.8% of the Company's gross accounts receivable balance, respectively. If these customers are unable to demonstrate their ability to pay for the Company's services in a timely manner in periods ending subsequent to December 31, 2003, the Company, based on its revenue recognition policy described above, will recognize revenue when cash is collected.

The Company has obtained persuasive evidence indicating that the financial condition of one of its customers, which was designated as financially distressed in 2000, improved significantly during the year ended December 31, 2002, principally as a result of a capital infusion during this period. Consequently, the Company concluded that collection of its billings to this customer was now reasonably assured. Therefore, the Company resumed the recognition of revenues from this customer on an accrual basis during 2002, which resulted in the recognition of revenues in the amount of approximately \$1,542 that relate to services rendered in periods ended prior to January 1, 2002. Similarly, the Company resumed the recognition of revenue on an accrual basis for another wholesale customer during 2002. The Company did not, however, recognize additional revenue from services rendered in prior periods because this customer was current in its payments. No similar amounts were recognized during the other periods reported in the accompanying consolidated financial statements.

The Company has billing disputes with some of its customers. These disputes arise in the ordinary course of business in the telecommunications industry and their impact on the Company's accounts receivable and revenues can be reasonably estimated based on historical experience. In addition, certain revenues are subject to refund if the end-user terminates service within thirty days of service activation. Accordingly, the Company maintains allowances, through charges to revenues, based on the Company's estimates of (i) the ultimate resolution of the disputes (ii) future service cancellations. These charges to revenues amounted to \$2,886, \$2,322 and \$11,178 during the years ended December 31, 2003, 2002 and 2001, respectively. During the years ended December 31, 2003, 2002 and 2001, the Company wrote-off certain accounts receivable balances aggregating \$1,557, \$3,748 and \$6,701, respectively, against the allowance for customer disputes and service cancellations. During the years ended December 31, 2003 and 2002, the Company recovered \$1,282 and \$2,145, respectively, of accounts receivable balances previously written-off against such allowance. There were no similar recoveries of accounts receivable balances for the year ended December 31, 2001.

During the year ended December 31, 2001, the Company recognized \$11,661 in revenue that was included in the cumulative effect adjustment as of January 1, 2000, which resulted from the Company's adoption of Securities and

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Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (no similar revenues were recognized during the years ended December 31, 2003 and 2002). The effect of that revenue during 2001 was to increase net income by \$3,067.

3. Reorganization Under Bankruptcy Proceedings

On August 15, 2001 (the "Petition Date"), Covad, excluding its operating subsidiaries, filed a voluntary petition (the "Petition") under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") for the purpose of confirming its pre-negotiated First Amended Plan of Reorganization, as modified, on November 26, 2001 (the "Plan") with the majority holders (the "Noteholders") of its senior notes. The Petition was filed with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") and was assigned Case No. 01-10167 (JJF). On December 13, 2001, the Bankruptcy Court entered an order confirming the Plan and, on December 20, 2001 (the "Effective Date"), the Plan was consummated and Covad emerged from bankruptcy. However, the Bankruptcy Court still maintains jurisdiction over certain administrative matters related to the implementation of the Plan, including the unresolved claims described below.

On the Effective Date, the Company made the following distributions of cash and shares of its common stock to certain claimants:

Claimant	Common Stock			Total Consideration
	Cash	Shares	Aggregate Fair Market Value	
Noteholders	\$271,708	35,292,800	\$88,585	\$360,293
Plaintiffs in litigation (Note 10)	5,793	2,000,000	5,020	10,813
Other claimants	1,900	—	—	1,900
	<u>\$279,401</u>	<u>37,292,800</u>	<u>\$93,605</u>	<u>\$373,006</u>

The aforementioned distributions of cash and shares of the Company's common stock resulted in the extinguishment of certain liabilities of Covad as of the Effective Date and the recognition of a gain on extinguishment of debt and certain litigation-related and other general and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2001, as follows:

Extinguishment of senior notes:	
Senior notes	\$1,351,488
Accrued interest	42,532
	<u>1,394,020</u>
Less consideration distributed to the Noteholders	360,293
	<u>\$1,033,727</u>
Settlement of litigation (Note 10):	
Consideration distributed to the plaintiffs	\$ 10,813
Less amounts accrued prior to the Effective Date	6,820
	<u>3,993</u>
Additional litigation-related expenses recognized	\$ 3,993
Other:	
Consideration distributed to the claimants	\$ 1,900
Less amounts accrued prior to the Effective Date	—
	<u>1,900</u>
Additional general and administrative expenses recognized	\$ 1,900

There were unresolved claims related to Covad's Chapter 11 bankruptcy proceedings aggregating \$8,341 and \$8,344 as of December 31, 2003 and 2002, respectively. As of December 31, 2003 and 2002, the Company recorded these unresolved claims in its consolidated balance sheets based on the amount of such claims allowed by the Bankruptcy Court (adjusted for changes in the value of the Company's common stock after December 20, 2001), unless the Company has persuasive evidence indicating that a claim is duplicative with another allowed claim that was settled previously or is otherwise in error. In these cases, the unresolved claim does not meet the criteria for recognition in the Company's consolidated financial statements. However, it is reasonably possible that the Company's unresolved Chapter 11 bankruptcy claims could ultimately be settled for amounts that differ from the aggregate liability for "Unresolved claims related to bankruptcy proceedings" reflected in the accompanying consolidated balance sheets as of December 31, 2003 and 2002.

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As of December 31, 2003 and 2002, the Company had (i) placed \$309 and \$501, respectively, of cash in a reserve fund (this balance is classified as "Restricted Cash and Cash Equivalents" in the accompanying consolidated balance sheets) and (ii) reserved 7,078,733 and 7,078,733 shares, respectively, of common stock pending the resolution of the aforementioned disputed claims.

The holders of the Company's common stock issued prior to the Effective Date of the Plan retained their existing equity interests, but were diluted through the issuance of common stock to the claimants described above. As of the Effective Date, and after the issuance of 37,292,800 shares of the Company's common stock pursuant to the Plan as described above, there were 216,445,276 shares of the Company's common stock issued and outstanding. The holders of the Company's common stock immediately before the Effective Date of the Plan held more than 50% of the Company's voting shares (including shares reserved for future issuance under the Plan) immediately after the Effective Date of the Plan. Therefore, under AICPA Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," the Company did not qualify for fresh-start reporting.

In accordance with SOP 90-7, expenses resulting from the restructuring are reported separately as reorganization items. For the year ended December 31, 2001, the Company recognized expenses directly associated with Covad's Chapter 11 bankruptcy proceedings in the amount of \$63,229 (none for the years ended December 31, 2003 and 2002). These reorganization expenses consisted of (i) non-cash adjustments to unamortized debt issuance costs and discounts and (ii) professional fees for legal and financial advisory services. For the year ended December 31, 2001, the Company recognized interest income in the amount of \$609 on accumulated cash that Covad did not disburse as a result of its Chapter 11 bankruptcy proceedings (none for the years ended December 31, 2003 and 2002). Such interest income has been offset against the aforementioned reorganization expenses in the Company's 2001 consolidated statement of operations.

Operating cash receipts and payments made by Covad resulting from the Plan were as follows for the period from August 15, 2001 through December 20, 2001:

Cash receipts:	
Interest received	\$ 2,650
	<hr/>
Total cash receipts	\$ 2,650
	<hr/>
Cash disbursements:	
Interest paid	\$ 1,509
Professional fees paid	16,003
Claims paid	277,892
	<hr/>
Total cash disbursements	\$295,404
	<hr/>

4. Other Restructuring Activities

BlueStar, which was acquired by the Company on September 22, 2000 in a transaction accounted for as a purchase (Note 6), provided broadband communications and Internet services to small and medium sized businesses in smaller cities using a direct sales model. Continued losses at BlueStar, with no near term possibility of improvement, caused the Company's board of directors to decide, on June 22, 2001, to cease the Company's funding of BlueStar's operations. Subsequently, on June 25, 2001, BlueStar terminated all of its 365 employees. However, 59 of BlueStar's former employees were temporarily retained by the Company for varying periods through July 31, 2001 to assist with the migration of certain BlueStar end-user lines to the Company's network, as described below. In addition, the Company hired 69 of BlueStar's former employees subsequent to June 25, 2001.

On June 24, 2001, the Company and BlueStar entered into a Purchase Agreement ("PA") under which the Company purchased the right to offer service to BlueStar's customers, subject to BlueStar's right to seek higher offers. The Company paid approximately \$2,000 in 2001 (none in 2003 and 2002) under the PA and had no additional liabilities under the PA as of December 31, 2003 and 2002. To facilitate this migration, the Company and BlueStar entered into a Migration Agreement on July 12, 2001 that required the Company to pay certain amounts contemplated in the PA directly to certain former employees of BlueStar and certain BlueStar vendors, including the Assignee, as defined below. The Company made payments aggregating \$5,100 in connection with BlueStar's cessation of operations during the year ended December 31, 2001 (none in

2003 and 2002). Of this amount, \$1,300

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represents employee severance benefits, \$2,000 represents customer acquisition costs under the PA and \$1,800 represents legal and other professional fees. Such (i) severance benefits and professional fees and (ii) customer acquisition costs have been charged to restructuring expenses and network and product costs, respectively, in the Company's consolidated statement of operations for the year ended December 31, 2001.

On June 25, 2001, BlueStar made an irrevocable assignment for the benefit of creditors ("ABC") of all its assets to an independent trustee (the "Assignee") in the State of Tennessee. Immediately thereafter, the Assignee began an orderly liquidation of BlueStar that was initially expected to be completed in the fourth quarter of 2002. However, the Assignee has informed the Company that it is still in the process of resolving some matters among BlueStar's creditors and that the process may extend into the second half of 2004. An ABC under Tennessee law is a non-judicial alternative to a plan of liquidation under Chapter 7 of the Bankruptcy Code. As a result of the ABC, BlueStar's former assets are no longer controlled by BlueStar or the Company and cannot be used by either BlueStar's or the Company's boards of directors to satisfy the liabilities of BlueStar. Consequently, the liquidation of BlueStar's assets and the settlement of its liabilities are currently under the sole control of the Assignee and the control of BlueStar's assets no longer rests with the Company. Therefore, the Company deconsolidated BlueStar effective June 25, 2001, which resulted in the recognition of a deferred gain in the amount of \$55,200 in the Company's consolidated balance sheet as of December 31, 2001. Such deferred gain represented the difference between the carrying values of BlueStar's assets (aggregating \$7,900) and liabilities (aggregating \$63,100) as of June 25, 2001. During 2003 and 2002, the deferred gain was reduced by \$9 and \$1,228, respectively, because certain BlueStar assets were inadvertently not deconsolidated on June 25, 2001. Therefore, the deconsolidation of BlueStar, resulted in a deferred gain balance of \$53,963 and \$53,972 in the Company's consolidated balance sheets as of December 31, 2003 and 2002, respectively. The Company will recognize such deferred gain as an element of other income (expense) when the liquidation of BlueStar is complete and its liabilities have been discharged.

The following unaudited pro forma financial information presents the consolidated results of operations of the Company as if the deconsolidation of BlueStar had occurred on January 1, 2001 and does not purport to be indicative of the results of operations that would have occurred had the deconsolidation occurred on January 1, 2001, or the results that may occur in the future:

Year ending December 31, 2001	
Revenues	\$ 320,619
Loss before gain on extinguishment of debt and cumulative effect of accounting charge	\$(646,647)
Net income (loss)	\$ 387,080
Basic and diluted net income (loss) per share	\$ 2.18

During the fourth quarter of 2000, the Company announced a comprehensive restructuring plan that involved the following steps:

- raising revenue by reducing rebates and other incentives that the Company provides to customers and reducing new line addition plans for 2001 to improve margins and reduce subscriber payback times;
- closing approximately 200 under-performing or not fully built-out central offices and reducing the size of the Company's network to approximately 1,700 central offices;
- reducing the Company's workforce by 638 employees, which represented approximately 21% of the Company's workforce;
- closing a facility in Alpharetta, Georgia and consolidating offices in Manassas, Virginia, Santa Clara, California and Denver, Colorado;
- continued downsizing of the Company's international operations and discontinuing plans to fund additional international expansion while continuing to manage existing investments;
- enhancing productivity in the Company's operations to increase customer satisfaction while reducing costs;

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- restructuring the Company's direct sales and marketing channel; and
- evaluating and implementing other cost reduction strategies, including salary freezes and reductions in travel, facilities and advertising expenses.

In connection with this restructuring plan, the Company recorded a charge to operations of \$4,988 in the fourth quarter of 2000 relating to employee severance benefits that met the requirements for accrual as of December 31, 2000. During the year ended December 31, 2001, the total workforce was reduced by 638 employees and the Company paid \$3,849 in severance benefits, which were charged against the restructuring liability recorded as of December 31, 2000.

The Company recorded additional restructuring expenses aggregating \$14,364 during the year ended December 31, 2001, of which \$2,140 related to the BlueStar shutdown. These expenses consist principally of collocation and building lease termination costs that met the requirements for accrual in 2001. During the year ended December 31, 2001, the Company paid collocation and building lease termination costs of \$12,355, which were charged against the restructuring liabilities recorded during 2001. During the year ended December 31, 2001, the restructuring liability was also reduced by \$131 based on revised estimates of the Company's restructuring expenses. No restructuring expenses were recorded during the year ended December 31, 2002.

During the year ended December 31, 2003, the Company reduced its workforce by approximately 113 employees, which represented approximately 10.2% of the Company's workforce. The reductions covered employees in the areas of sales and marketing, operations and corporate functions. In connection with the reductions in force, the Company recorded a charge to operations for the year ended December 31, 2003 of \$1,235 relating to employee severance benefits, all of which was paid during the year ended December 31, 2003. The expenses associated with these reductions in force were \$103 related to the Company's CSP business segment (Note 14), and \$349 related to the Company's Covad Broadband Solutions ("or CBS") business segment (Note 14). The remaining \$783 in expenses associated with these reductions in force were related to the Company's Corporate Operations (Note 14).

Management continues to consider whether additional restructuring is necessary, and the Company may incur additional charges to operations related to any further restructuring activities in future periods.

5. Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2003	2002
Leasehold improvements	\$ 10,339	\$ 9,276
Computer equipment	48,801	47,206
Computer software	33,912	30,486
Furniture and fixtures	17,515	17,785
Networks and communication equipment	362,910	334,001
	<hr/>	<hr/>
	473,477	438,754
Less accumulated depreciation and amortization	379,198	330,017
	<hr/>	<hr/>
Property and equipment, net	\$ 94,279	\$108,737
	<hr/>	<hr/>

During the fourth quarter of 2001, the Company determined that (i) certain of its communication equipment was obsolete based on its discontinued use in the Company's network and (ii) it would sell (subject to the approval of the Company's board of directors) its land, building and certain furniture and fixtures located in Manassas, Virginia. In March 2002, the Company entered into a non-binding letter of intent with a third party to sell the aforementioned Manassas, Virginia property for \$14,000. Accordingly, the Company recognized a write-down of this property and equipment in the amount of \$9,999 during the fourth quarter of 2001. In April 2002, the Company received the necessary approval from its board of directors to proceed with the sale of this property (at which time the Company suspended depreciation of the building and related

improvements when such assets had an aggregate carrying value of \$13,201). In June 2002, the Company completed the sale of this property and recognized a gain of \$133, which

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represents the net proceeds of \$13,334 less the aggregate carrying value of the property, as described above, in the accompanying consolidated statement of operations for the year ended December 31, 2002. The Company recorded no impairment write-downs of long-lived assets during 2003 and 2002.

6. Business Acquisition, Asset Acquisitions and Equity Investments**Acquisition of BlueStar**

On September 22, 2000, the Company acquired BlueStar by issuing approximately 6,100,000 shares of common stock (including 800,000 shares to be held in escrow for a one year period pending the Company's verification of certain representations and warranties made to it by BlueStar at the date of the acquisition) in exchange for all of the outstanding preferred and common shares of BlueStar. Two of the Company's stockholders and members of its board of directors when the acquisition occurred were also stockholders of BlueStar, and one was a member of the board of directors of BlueStar.

This transaction was accounted for as a purchase. Accordingly, the Company's consolidated financial statements include the results of operations of BlueStar for periods ending after the date of acquisition. However, as described in Note 3, the Company deconsolidated BlueStar effective June 25, 2001.

Up to 5,000,000 additional common shares of the Company's common stock were to be issued if BlueStar achieved certain specified levels of revenues and earnings before interest, taxes, depreciation and amortization in 2001. However, during April, 2001, the Company reached an agreement with the BlueStar stockholders' representative to resolve this matter, as well as the matters that caused 800,000 of the Company's common shares to be held in escrow as of December 31, 2000, by providing the BlueStar stockholders with 2,532,850 (which include 264,369 options and warrants which are held by the Company in the event such options and warrants are exercised after the distribution date) of the 5,000,000 shares, in exchange for a release of all claims against the Company. The 800,000 common shares held in escrow were ultimately returned to the Company under this agreement. BlueStar's former stockholders received the additional shares of the Company's common stock during 2001. Consequently, the Company recorded additional goodwill of \$1,989 in 2001. However, the Company determined that such goodwill was impaired based on BlueStar's continued operating losses, as described in Note 3. Therefore, such goodwill balance was written-off through a charge to the provision for long-lived asset impairment during the year ended December 31, 2001.

Acquisition of InternetConnect Assets

On January 3, 2002, the Company purchased substantially all of the assets of InternetConnect, a related party (Note 1), in an auction supervised by the United States Bankruptcy Court for the Central District of California. The purchase price for these assets was \$5,470 in cash, \$235 of which had been deposited with InternetConnect's agent prior to January 1, 2002. Under the terms of the asset purchase agreement, the Company may be required to pay additional cash of up to \$1,880, depending upon the outcome of a previous post-petition bankruptcy claim filed against InternetConnect by the Company, which is still pending before the court. The Company did not assume any liabilities or obligations of InternetConnect or hire any of InternetConnect's employees. In addition, the Company does not believe the assets acquired from InternetConnect constitute a self-sustaining, integrated set of activities and assets that would constitute a business.

The tangible assets of InternetConnect purchased by the Company consisted of accounts receivable, refundable deposits and property and equipment. The Company also purchased the right, but not the obligation, to assume InternetConnect's customer contracts. However, the Company did not exercise this right. Instead, the Company solicited the approximately 9,250 DSL, T-1, virtual private network ("VPN") and dial-up customers of InternetConnect, and approximately 6,200 of such customers executed new contracts with the Company or its resellers subsequent to January 3, 2002.

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The Company has allocated the aforementioned purchase price based on the estimated fair values of the elements of this transaction as of January 3, 2002, as follows:

Accounts receivable	\$1,386
Refundable deposits	349
Property and equipment	61
Customer acquisition costs	3,674
	<u> </u>
	\$5,470
	<u> </u>

The customer acquisition costs of \$3,674 described above were charged to network and product costs for the year ended December 31, 2002 based on the Company's accounting policy for costs of this nature that are not accompanied by up-front fees (Note 2).

Acquisition of Qwest Customer List

On June 5, 2003, the Company purchased a customer list from Qwest Communications Corporation and Qwest Interprise America, Inc. (collectively, "Qwest") pertaining to approximately 23,000 DSL subscribers who were not located in the states where Qwest provides local telephone services (substantially all of whom were not, indirectly, end-user customers of the Company as of June 5, 2003 under the then-existing wholesale DSL services agreement with Qwest). In exchange for the customer list, the Company paid \$3,750 in cash and released Qwest from its obligations under the wholesale DSL services agreement. In addition, the Company agreed to pay Qwest an additional amount of up to \$1,250 if certain numbers of these customers migrate to the Company's network within a defined period, which has now elapsed. The additional level of successful migrations was not achieved and, consequently, the Company was not required to pay such additional amount to Qwest. The Company did not assume any liabilities or obligations of Qwest or hire any of Qwest's employees. In addition, the Company does not believe the customer list acquired from Qwest constitutes a self-sustaining, integrated set of activities and assets that would constitute a business. Approximately 13,000 of these customers were migrated to the Company's network as of December 31, 2003.

The Company recorded the \$3,750 cash payment to Qwest for the customer list as an intangible asset, and such intangible asset is being amortized on a straight-line basis to operations over a twenty-four month period, which is the Company's estimate of the aggregate expected term of its customer relationships.

Unconsolidated Investments in Affiliates

The following table lists the Company's unconsolidated investments in affiliates as of December 31, 2003 and 2002:

Entity Name	Date of Investment(s)	Ownership Percentage		Method of Accounting	Investment Carrying Value	
		2003	2002		2003	2002
DishnetDSL Limited	February 2000	—%	—%	Equity	\$ —	\$ —
ACCA Networks Co., Ltd.	August 2000	10%	10%	Equity	—	—
Certive Corporation	November 1999; May 2000	5%	5%	Equity	—	1,026
Sequoia Capital X	May-November 2000	—%	—%	Equity	—	—
Loop Holdings Europe ApS	September 2000	—%	—%	Equity	—	—
					<u> </u>	<u> </u>
					\$ —	\$ 1,026
					<u> </u>	<u> </u>

DishnetDSL Limited

In February 2000, the Company acquired a 6% American Depository Receipt ("ADR") equity interest in DishnetDSL Limited ("Dishnet"), a privately held, Indian telecommunications company, in exchange for cash payments totaling approximately \$23,000, which the Company believed was representative of the fair value of such investment based on significant concurrent investments in Dishnet made by new, non-strategic investors. The difference between the cost of the Company's equity investment in Dishnet and its proportional share of Dishnet's net assets (\$11,963 as of December 31, 2001) was being amortized using the straight-line method over a period of five years. Concurrent with its purchase of the Dishnet ADRs, the Company also acquired, without further consideration, (i) contingent warrants for the purchase of up to 3,700,000 Dishnet ADRs at a price that is presently

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indeterminate and (ii) a put option (the "Put Option") from a Dishnet shareholder and another entity that entitles the Company to require these entities to purchase the Dishnet ADRs owned by the Company at their original purchase price for a specified period beginning in February 2002. Because of the contingent nature of the Dishnet warrants and uncertainties concerning the financial capacity of the makers of the Put Option, the Company ascribed no separate value to these elements of the transaction. As a result of this strategic investment, one employee of the Company became a member of the board of directors of Dishnet. (The Company's chairman holds options to purchase shares of Dishnet and is a member of the board of directors of Dishnet).

In February 2002, the Company's board of directors approved an offer involving (i) the sale of the Company's 6% ADR interest in Dishnet for \$3,000 in cash, (ii) settlement of a claim alleging breach of contract by the Company relating to the OSS license described below and (iii) relinquishment of the Put Option by the Company. Consequently, during 2001, the Company wrote-down the carrying value of its Dishnet equity investment to its estimated net realizable value through a charge to the provision for impairment of unconsolidated equity investments in the amount of \$10,069. This transaction was completed in May 2002, which resulted in the recognition of an additional loss in the amount of \$996. Such loss included a cumulative foreign currency translation loss in the amount of \$1,342, which was included in (i) the carrying value of the Company's Dishnet equity investment and (ii) the Company's accumulated other comprehensive income (loss) balance as of the date of sale of such investment.

In February 2000, the Company also licensed its OSS software to Dishnet and another entity for \$28,000, \$24,000 of which was received in cash on such date. The Company also agreed to provide certain software support, customization and training services to Dishnet and another entity relating to the OSS license up to an aggregate cost of \$2,500. Accordingly, the Company recorded \$2,500 of the OSS license proceeds received from Dishnet as a liability in February 2000, all of which has been offset by expenses incurred in 2000 and 2001 by the Company to customize the OSS for Dishnet. The remaining proceeds of \$21,500 have been offset against the Company's capitalized internal-use software costs.

ACCA Networks Co., Ltd.

In August 2000, the Company acquired a 42% preferred equity interest in ACCA Networks Co., Ltd. ("ACCA"), a privately held, Japanese telecommunications company, in exchange for cash payments aggregating approximately \$11,700, which the Company believes is representative of the fair value of such investment based on significant concurrent investments in ACCA made by new, non-strategic investors. The difference between the cost of the Company's equity investment in ACCA and its proportional share of ACCA's net assets had been fully amortized as of December 31, 2001. As of December 31, 2003, the Company's equity interest in ACCA was diluted to 10% due to ACCA's financings in 2002 and 2001. As a result of this strategic investment, one employee of the Company is a member of the board of directors of ACCA.

In addition, in August 2000, the Company also licensed its OSS software to ACCA for \$9,000, of which \$2,000 and \$2,000 was received in cash during 2001 and 2000, respectively. The remainder of \$5,000, which was scheduled to be received in 2005, was received in December 2003 in accordance with an amendment to the August 2000 OSS software license agreement. The Company recorded the \$5,000 payment received in December 2003 as miscellaneous income, because the carrying value of the OSS software licensed to ACCA was fully recovered at that time. The Company may also receive certain on-going royalty payments from ACCA under terms of the amended OSS license agreement. Such payments amounted to \$2,345 and \$814 during the years ended December 31, 2003 and 2002 (none during the year ended December 31, 2001). As stated above, the OSS software licensed to ACCA had a net book value of zero at December 31, 2003. Consequently, any additional royalty payments will be recorded as miscellaneous income in future periods. The Company also agreed to provide certain software support, customization and training services to ACCA relating to the OSS license up to an aggregate cost of \$2,000. Accordingly, the Company recorded \$2,000 of the OSS license proceeds received from ACCA as a liability in August 2000, all of which has been offset by expenses incurred in 2000 and 2001 by the Company to customize the OSS software for ACCA.

Certive Corporation

As of December 31, 2003 and 2002, the Company held a 5% preferred equity interest in Certive Corporation ("Certive"), a privately held, development stage application service provider. The Company's chairman is also the

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chairman and a principal stockholder of Certive. During 2003, the Company determined that its investment in Certive may be impaired due to Certive's financial condition and market prospects. Accordingly, the Company wrote-off the remaining carrying value of its investment through a charge to operations of \$747 in 2003.

Sequoia Capital X

As of December 31, 2000, the Company held a 2% limited partnership interest in Sequoia Capital X, a privately held venture capital partnership. The Company sold its investment in Sequoia Capital X during 2001 for \$1,225 in cash, which resulted in the recognition of a gain in the amount of \$178.

Loop Holdings Europe ApS

In September 2000, the Company acquired 100% of the capital stock of Loop Holdings Europe ApS ("Loop Holdings"), which owns 70% (a 43% voting interest) of the preferred stock of Loop Telecom, S.A. ("Loop Telecom"), a privately held, Spanish telecommunications company. Consideration for the Company's acquisition of the capital stock of Loop Holdings consisted of \$15,000 in cash and non-recourse notes payable aggregating \$35,000. In March 2001, the Company declined to make the first scheduled payment of \$15,000 under the terms of the non-recourse notes payable. As a result, the Company's indirect preferred equity interest in Loop Telecom was diluted to 21% (a 21% voting interest) and its obligations under the non-recourse notes payable were released. Accordingly, in the Company's consolidated balance sheet as of December 31, 2000, the Company netted the non-recourse notes payable aggregating \$35,000 against the equity investment balance and wrote-off its initial \$15,000 investment balance in Loop Holdings through a charge to operations in 2000 due to uncertainties concerning the recoverability of such investment.

On February 5, 2002, the Company, via Loop Holdings, sold its equity interest in Loop Telecom to certain other shareholders of Loop Telecom for \$360 in cash, which resulted in the recognition of a gain in the amount of \$360.

7. Credit Arrangements

As of December 31, 2003 and 2002, the Company's long-term debt consisted of a \$50,000 term note payable to SBC (Note 11), as described below.

Immediately prior to Covad's emergence from Chapter 11 bankruptcy on December 20, 2001 (Note 3), the Company's new agreements with SBC became effective (Note 11). One such agreement (the "Credit Agreement") involves a term note payable that is collateralized by substantially all of the Company's domestic assets. This note bears interest at 11%, which is payable quarterly beginning in December 2003. The entire unpaid principal balance is payable in December 2005. However, the Company has the right to prepay the principal amount of the note, in whole or in part, at any time without penalty. In addition, upon a "Change of Control" of the Company, as defined in the Credit Agreement, SBC has the option to require all amounts due under the terms of the Credit Agreement to be paid by the Company within 30 days of the Change of Control. The Credit Agreement contains various restrictive covenants, which, among other things, restrict the Company's ability to incur additional indebtedness or permit liens to be placed on its assets.

As of December 31, 2003, the Company had a \$3,000 revolving line of credit with a bank that is available through April 2004. At the Company's option, borrowings under this credit facility bear interest at certain fixed or variable rates. As of December 31, 2003 and 2002, the Company had issued irrevocable letters of credit aggregating \$2,583 and \$2,075, respectively, under this line of credit in favor of lessors of equipment and facilities.

8. Capital Leases

The capitalized costs and accumulated amortization related to assets under capital leases were \$165 and \$165, respectively, as of December 31, 2003 (the corresponding amounts were \$482 and \$344, respectively, as of December 31, 2002). All of the Company's capital leases were retired at maturity in 2003.

Table of Contents**9. Operating Leases and Purchase Obligations****Operating Leases**

The Company leases vehicles, equipment and office space under various noncancelable operating leases. The facility leases generally require the Company to pay operating costs, including property taxes, insurance and maintenance, and contain scheduled rent increases and certain other rent escalation clauses. The Company recognizes rent expense on a straight-line basis over the terms of the respective leases. Future minimum lease payments by year under operating leases with noncancelable terms in excess of one year, along with future minimum payments to be received under noncancelable subleases, are as follows:

	<u>Gross Lease Payments</u>	<u>Less Sublease Payments</u>	<u>Net Lease Payments</u>
Year ending December 31,			
2004	\$ 4,999	\$544	\$ 4,455
2005	3,482	—	3,482
2006	2,814	—	2,814
2007	1,926	—	1,926
2008	1,429	—	1,429
Thereafter	269	—	269
	<u> </u>	<u> </u>	<u> </u>
Total	\$14,919	\$544	\$14,375
	<u> </u>	<u> </u>	<u> </u>

Rent expense, which is net of sublease income of \$533, \$402 and \$152 in 2003, 2002 and 2001, respectively, totaled \$7,874, \$8,710 and \$15,421 for the years ended December 31, 2003, 2002 and 2001, respectively.

Purchase Obligations

In 2002, the Company entered into a three-year, non-exclusive agreement with MCI, for the right to provide certain network services to the Company. The Company has a monthly minimum usage requirement which began in June 2002. The agreement expires in May 2005 and the Company has a minimum remaining aggregate purchase obligation of approximately \$11,390 as of December 31, 2003. Similarly, in 2002, the Company entered into a three-year, non-exclusive agreement with AT&T for the right to provide certain data services to the Company. The Company has an annual minimum usage requirement which began in January 2002. The agreement expires in December 2004 and the Company has a minimum remaining aggregate purchase obligation of approximately \$11,500 as of December 31, 2003. In addition, in 2002, the Company entered into a four-year, non-exclusive agreement with AT&T for the right to provide long distance services to the Company. The Company has an annual minimum usage requirement which began in April 2002. The agreement expires in March 2006 and the Company has a minimum remaining aggregate usage commitment of approximately \$2,250 as of December 31, 2003.

Aggregate payments by year for the Company's purchase obligations are as follows:

Year ending December 31,	
2004	\$20,665
2005	4,475
	<u> </u>
Total	\$25,140
	<u> </u>

Network and product costs, recognized pursuant to the aforementioned purchase obligations totaled \$1,292 for the year ended December 31, 2003. No similar amounts for these purchase obligations were recorded during 2002 and 2001.

COVAD COMMUNICATIONS COMPANY

Exhibit D

Profiles of Senior Management Key Personnel

Management - Covad Executive Staff



Charles E. Hoffman, *President and Chief Executive Officer*

A 25-year telecommunications veteran, Hoffman brings a wealth of telecom and broadband experience to Covad from the wireless, cable, local and long-distance sectors. He joined Covad in June 2001, ushering the company through a pre-negotiated Chapter 11, which effectively eliminated \$1.4 billion in debt. Hoffman also led Covad in securing a \$150 million investment in the company from SBC Communications and dramatically reducing expenses leading to an expectation of cash flow positive operations in the second half of 2003.

Prior to joining Covad, Hoffman was President and Chief Executive Officer of Rogers AT&T, Canada's largest, national wireless service provider, with over three million wireless subscribers. Under his leadership, the company grew from fourth to first place in a market of four national wireless providers. He also successfully negotiated the sale of one-third interest in this publicly traded company (NYSE and TSE) to a partnership of AT&T and British Telecom. While at Rogers, Hoffman also served as a Senior Vice President of Rogers Communications, gaining extensive experience with Rogers Cable, Canada's largest cable company, and the aggressive roll-out of their high speed Internet service.

Prior to his years at Rogers, Hoffman served as President, Northeast region for Sprint PCS, a start-up company owned by Sprint, TCI, Comcast, and Cox Communications. He was responsible for operations in the largest region in the U.S., and, with offices in New York City, Philadelphia, Boston, Pittsburgh, Hartford, Albany, and Washington D.C., he successfully launched PCS wireless service in nine markets.

Before joining Sprint PCS, Hoffman spent 16 years at SBC Communications in various senior management positions, including regional manager, general manager, vice president, and president & general manager. While leading SBC's Cellular One operations, he turned around the second and fourth largest SBC markets, Washington/Baltimore and Boston, from underperformers to market leaders in record time. Hoffman also spent two years leading SBC's wireless operations in the country of Mexico. In addition to running Radiomovil DIPSA, S.A. de C.V. (Telcel), the national wireless carrier, as Director General, he was also Managing Director-Wireless for SBC International. During this period, Hoffman increased market share from 49 percent to 65 percent.

Hoffman began his career at IBM in 1976 in marketing. Prior to beginning his career in wireless, he also spent two years at Southwestern Bell Telephone Co. and two years as a national account manager for AT&T.

Hoffman received a Masters of Business Administration degree from University of Missouri, St. Louis. He and his wife Maureen have four children and one grandson.

Patrick (Pat) Bennett, *Executive Vice President & General Manager, Covad Direct*

Patrick (Pat) Bennett is responsible for driving Covad's direct sales and retail channel development. This position compliments our existing wholesale sales and enables us to further leverage our direct sales efforts and strengthen our existing sales channels. In this role, Mr. Bennett also manages all Covad.net direct channel sales and support, telesales and retail channel sales and development. Mr. Bennett brings to Covad 19 years of successful sales development and management expertise, including the development of effective customer care, sales and marketing organizations, channel development and strategic planning. He most recently joined Covad from TESSCO Technologies, Inc., a leading provider of wireless communication solutions, where he was senior vice president of marketing and product development. Prior to TESSCO, Mr. Bennett was executive vice president and chief operating officer of Rogers Wireless, Inc., Canada's largest wireless communications service provider. As a member of the senior management team, Mr. Bennett was instrumental in driving significant improvements in all operating metrics of the business. Preceding Rogers Wireless, Mr. Bennett joined the start-up organization of Sprint PCS as area vice president. In this role, he was responsible for launching service in Sprint PCS's third largest market, Philadelphia, and later managing the Washington/Baltimore area. He was also vice president of Sales and Marketing for Cellular One in Washington/Baltimore and president and general manager of Communications Electronics, Inc., along with being vice president and general manager for American Beeper Associates in Columbia, Maryland. Mr. Bennett began his career as a regional sales manager for Metromedia, the predecessor to Cellular One.

P. Michael Hanley, *Senior Vice President, Organizational Transformation*

Mr. Hanley functions as chief of staff to the CEO. He has overall responsibility for the Human Resource and Real Estate/Procurement functions and oversight of strategy and organizational communications. He is responsible for driving organizational change and ensuring the organization is optimized to achieve corporate objectives. A proven and successful leader in high-volume, customer-focused businesses, Mr. Hanley brings 18 years of experience including a strong ability to instill a strategic business focus within the management team and an ability to identify key business issues while driving necessary change. Mr. Hanley most recently joins Covad from Rogers Wireless, Inc. Canada's largest wireless communications service provider. As a member of the senior management team, Mr. Hanley led a cultural shift across the organization that provided a firm foundation of personal accountability and a clear understanding of strategic corporate goals. Prior to Rogers Wireless, Mr. Hanley held increasingly senior roles within the Toronto-Dominion Bank, Bank of Nova Scotia and Canadian Imperial Bank of Commerce.

Anjali Joshi, *Executive Vice President Engineering*

Anjali Joshi directs all Covad engineering activities including the architecture, implementation and capacity management of Covad's national network. She also leads the development of Covad's network and business operations support systems as well as the corporate information technology infrastructure. Ms. Joshi joined Covad in early 1998 bringing extensive experience in the design of carrier class networking solutions for voice and data. She was instrumental in architecting Covad's network that has proven to be the most cost effective and reliable in the industry. She is recognized as an expert in the area of DSL networks and has influenced FCC and State PUC policies in the areas of DSL deployment, line-sharing and spectrum management. Ms Joshi was invited by the FCC to serve on the Network Reliability and Interoperability Council, which advises the Commission on matters related to the deployment of DSL networks. Prior to joining Covad, she was at AT&T Bell Laboratories, where she managed the planning, design and implementation of several services including AT&T's InterSpan ATM service. Ms. Joshi holds a Bachelors Degree in Electrical Engineering from the Indian Institute of Technology, a Masters Degree in Computer Engineering from SUNY, and a Masters Degree in Engineering Management from Stanford University.



Carol Karney, *Senior Vice President, Strategic Partnerships*

Mrs. Karney, leads a team that is accountable for driving the top line of the business for Covad. She manages Covad's wholesale sales growth by developing and managing business relationships with Covad's key strategic partners as well as driving high-volume consumer and large business partnerships. Mrs. Karney joined Covad in 1999, as sales vice president to the Midwest. She brings a diverse background in sales, sales management, marketing and finance. Prior to her employment at Covad, she was the global communications manager of the Mobil Oil Corporation, where she lead and developed national and regional promotions through the planning, development and execution of integrated promotion strategies and tactics to drive consumer demand and profitability.

Beth A. Lackey, *Senior Vice President, Customer Operations*

Ms. Lackey is responsible for managing Service Delivery, Dispatch, Technical Assistance Center (TAC) Repair, and Operations Support. A proven leader in all areas of Covad operations, Ms. Lackey joined Covad in 1999 as Director of Service Delivery where she established the Denver Service Delivery center for provisioning. Shortly thereafter, Ms. Lackey was appointed Vice President of Network Services during which time she was responsible for the TAC and Network Operations Center (NOC) as well as Business Continuity and Disaster Recover. Additionally, Ms. Lackey held positions as Vice President of Western Operations and Vice President, Denver Center of Excellence. With over twenty years of experience in the telecommunications industry, Ms. Lackey initially began her career with U.S. West, where she held increasingly senior positions in sales, customer service, strategic and competitive analysis and network operations. Ms. Lackey holds a Bachelor of Arts degree in business administration with a marketing emphasis from Colorado State University and a Master of Business Administration degree in international business from Regis University.

Andrew S. Lockwood, *Senior Vice President of Marketing*

Mr. Lockwood is responsible for driving demand for Covad's consumer and business class services. He leads Covad's branding efforts, advertising, and overall marketing direction for the company. Additionally, Mr. Lockwood manages core marketing responsibilities, such as product marketing and development, marketing communications and strategic planning. Mr. Lockwood brings to Covad 21 years of experience in telecommunications, sales and marketing. His last position was senior vice president and general manager of Inktomi's Wireless Division where he was responsible for software engineering, product management, marketing, sales, finance, human resources, and strategy. Prior to his position at Inktomi, Lockwood spent eight years at British Telecommunications (BT) in a variety of senior management positions. Most recently he was vice president of the Advance Alliance where he led the relationship between BT and AT&T Wireless, identifying and implementing joint global product developments and other business initiatives. He was also deputy COO at Telfort Mobil Netherlands, general manager of the Retail and Logistics Sector and held senior positions in Cable Television Services, BT Mobile and BT Cellular. Prior to his time at BT, Lockwood worked for Millicom, Hutchison Telecom, and ICI. Mr. Lockwood was educated at University College of North Wales and Seale-Hayne College in Devon, England.



Morgan McChesney, *Senior Vice President, Network Operations*

Morgan McChesney is responsible for the management of Covad's network and field operations. Mr. McChesney brings 20 years of telecommunications, broadband operations, and general management experience. Mr. McChesney joined Covad in 1999 and, over the years, has held several different Vice President positions within operations. Prior to joining Covad, Mr. McChesney was a Vice President at AT&T, where he was responsible for building AT&T's local network after their acquisition of Teleport Communications Group (TCG). Mr. McChesney initially joined TCG as the Vice President and General Manager for Atlanta and was with TCG at the time AT&T acquired the company serving as Regional Vice President for the southeast region. He also spent a large portion of his career at Tele-Communications, Inc. (TCI), one of the nation's largest cable television companies. During his time at TCI, Mr. McChesney helped build the company's entry into the local telephone and high speed data business as the Vice President of Operations for the company's newly created telephony business unit. He also served as a Regional Vice President responsible for overall management of one of (TCI)'s largest cable regions and its largest cable market at the time and was directly responsible for turning around the Chicago market and leading the highest revenue producing unit in the company.

David McMorrow, *Senior Vice President, Strategic Development*

Mr. McMorrow leads a team responsible for strategic business planning and development, focused on Covad's long-term revenue and brand objectives. With over ten years of experience in the telecommunications industry, Mr. McMorrow's experience and knowledge of sales, marketing and industry trends make him well suited to lead Covad's strategic development. Mr. McMorrow joined Covad in 1998 and served as Vice President of Sales for the Eastern Region, managing half of Covad's wholesale revenue. Prior to joining Covad, Mr. McMorrow spent six years at AT&T and WorldCom in various progressively senior managerial positions. Mr. McMorrow holds a Bachelor of Science degree in Marketing from Syracuse University.



Mark Richman, *Executive Vice President and Chief Financial Officer*

Mr. Richman brings over 18 years of financial management experience to Covad. He joins the company from MainStreet Networks where he was vice president and CFO, and built the finance, accounting and IT functions into departments. Prior to MainStreet, Richman held senior management positions at Adecco S.A. where he was vice president of finance and administration for Adecco U.S., a \$3 billion operating division. He was also vice president and corporate treasurer at the parent company where he raised over \$3 billion in funding through various debt and equity transactions. He also worked for Merisel, Inc., a global computer hardware and software distributor, and was primarily based in London as European finance director. Prior to Merisel, Richman had held various banking positions with ING Capital, Manufacturers Hanover Trust Company and Wells Fargo Bank. Richman holds a Bachelor of Science degree in managerial economics from the University of California at Davis and a Master of Business Administration degree from the Anderson School at UCLA.

Martha Sessums, Vice President, Corporate Communications

With over 20 years of experience in managing technology public relations and corporate communications, Ms. Sessums is responsible for overseeing all external and internal communications at Covad. Ms. Sessums joined Covad in 1999 and during that time has developed a strong public relations and communications program that has moved the company from a small start-up to an industry leader. Prior to Covad, Ms. Sessums was the Senior Managing Director at Hill and Knowlton, Inc., where she managed the high technology practice of their San Francisco office. She was also with Avalanche PR for Hill and Knowlton and managed the corporate and alliance public relations activities for Oracle Corporation. In addition, she has held extensive senior corporate communications, public relations, and consulting roles for companies like Brodeur & Partners Public Relations, Network Equipment Technologies, Western Digital Corporation, Apple Computer, and Regis McKenna Public Relations. Ms. Sessums holds a Bachelor of Arts in Communications from California State University, Fullerton. She has a Masters of Business Administration from Santa Clara University. Ms. Sessums also serves as the president and secretary of the Association for Continuing Education, a distance education network provider.

James Kirkland, General Counsel and Senior vice President

James Kirkland is responsible for overseeing all of Covad's legal issues related to regulatory and legislative affairs, corporate governance, employment and finance. Kirkland brings a wealth of knowledge of both the business and regulatory environment in which Covad operators.

COVAD COMMUNICATIONS COMPANY

Exhibit E

Proposed Service Area Map

Covad seeks statewide authority to offer its services.

COVAD COMMUNICATIONS COMPANY

Exhibit F

Proposed Tariff

LOCAL EXCHANGE SERVICES TARIFF

IDAHO
LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES TARIFF
OF
Covad Communications Company

This tariff contains the descriptions, regulations, and rates applicable to the provision of local exchange telecommunications services provided by Covad Communications Company with principal offices at 110 Rio Robles, San Jose, CA 95134 for services furnished within the State of Idaho. This tariff is on file with the Idaho Public Utilities Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business.

Issued:

Effective:

Issued by:

Karen S. Frame, Counsel
7901 Lowry Boulevard
Denver, CO 80230

idf0400

LOCAL EXCHANGE SERVICES TARIFF

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SECTION 4 - SERVICE CHARGES AND SURCHARGES	
SECTION 5 - LOCAL EXCHANGE SERVICE	
SECTION 6 SUPPLEMENTAL SERVICES	
SECTION 7 - LONG DISTANCE SERVICES	

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Denver, CO 80230

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LOCAL EXCHANGE SERVICES TARIFF

CHECK SHEET

The Title Page and pages listed below are inclusive and effective as of the date shown. Original and revised pages as named below contain all changes from the original rate sheet that are in effect on the date shown on each page.

SECTION	PAGE	REVISION	SECTION	PAGE	REVISION
	Title	Original *	2	19	Original *
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Preface	2	Original *	2	21	Original *
Preface	3	Original *	2	22	Original *
Preface	4	Original *	2	23	Original *
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1	1	Original *	2	25	Original *
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1	3	Original *	2	27	Original *
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1	5	Original *	2	29	Original *
2	1	Original *	2	30	Original *
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2	3	Original *	2	32	Original *
2	4	Original *	2	33	Original *
2	5	Original *	2	34	Original *
2	6	Original *	2	35	Original *
2	7	Original *	2	36	Original *
2	8	Original *	3	1	Original *
2	9	Original *	4	1	Original *
2	10	Original *	4	2	Original *
2	11	Original *	4	3	Original *
2	12	Original *	4	4	Original *
2	13	Original *	4	5	Original *
2	14	Original *			
2	15	Original *			
2	16	Original *			
2	17	Original *			
2	18	Original *			

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LOCAL EXCHANGE SERVICES TARIFF

CHECK SHEET, CONT'D.

SECTION	PAGE	REVISION	
5	1	Original	*
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5	6	Original	*
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6	2	Original	*
6	3	Original	*
6	4	Original	*
6	5	Original	*
6	6	Original	*
6	7	Original	*
7	1	Original	*

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LOCAL EXCHANGE SERVICES TARIFF

EXPLANATION OF SYMBOLS

When changes are made in any tariff sheet, a revised sheet will be issued canceling the tariff sheet affected. Changes will be identified on the revised sheet(s) through the use of the following symbols:

- (C) - To signify changed rate, regulation or condition.
- (D) - To signify discontinued rate, regulation or condition.
- (I) - To signify increase.
- (N) - To signify new material, including a listing, rate, regulation, rule or condition.
- (R) - To signify reduction.
- (T) - To signify a change in the word of text, but no change in the rate, rule or condition.
- (M) - Moved from another tariff location.

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7901 Lowry Boulevard
Denver, CO 80230

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LOCAL EXCHANGE SERVICES TARIFF

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate end-user local exchange communications services by Covad Communications Company, hereinafter referred to as the Company, to Customers within the state of Idaho. Covad's services are furnished subject to the availability of facilities and subject to the terms and conditions set forth herein.

This tariff is on file with the Idaho Public Utilities Commission. In addition, this tariff is available for review at the main office of Covad Communications Company at 110 Rio Robles, San Jose, CA 95134.

Issued:

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 1.0 - DEFINITIONS

For the purpose of this tariff, the following definitions will apply:

Access Line - An arrangement from a local exchange telephone company or other common carrier, using either dedicated or switched access, which connects a Customer's location to Carrier's location or switching center.

Covad - Covad Communications Company, issuer of this tariff.

Advance Payment - Part or all of a payment required before the start of service.

Authorization Code - A numerical code, one or more of which may be assigned to a Customer, to enable Carrier to identify the origin of service of the Customer so it may rate and bill the call. All authorization codes shall be the sole property of Carrier and no Customer shall have any property or other right or interest in the use of any particular authorization code. Automatic numbering identification (ANI) may be used as or in connection with the authorization code.

Authorized User - A person, firm or corporation authorized by the Customer to be an end-user of the service of the Customer.

Automatic Numbering Identification (ANI) - A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

Commission - The Idaho Public Utilities Commission.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 1.0 - DEFINITIONS, CONT'D.

Common Carrier - An authorized company or entity providing telecommunications services to the public

Company - Covad Communications Company, the issuer of this tariff.

Customer - The person, firm or corporation that orders service and is responsible for the payment of charges and compliance with the terms and conditions of this tariff.

Customer Premises - A location designated by the Customer for the purposes of connecting to the Company's services.

Customer Terminal Equipment - Terminal equipment provided by the Customer.

Deposit - Refers to a cash or equivalent of cash security held as a guarantee for payment of the charges.

End Office - The LEC switching system office or serving wire center where Customer station loops are terminated for purposes of interconnection to each other and/or to trunks.

End-User Premises - A location designated by the Customer for the purposes of connecting to the Company's services.

Equal Access - A form of dialed access provided by local exchange companies whereby interexchange calls dialed by the Customer are automatically routed to the Company's network. Presubscribed Customers may also route interexchange calls to the Company's network by dialing an access code supplied by the Company.

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SECTION 1.0 - DEFINITIONS, CONT'D.

Exchange Telephone Company or Telephone Company - Denotes any individual, partnership, association, joint-stock company, trust, or corporation authorized by the appropriate regulatory bodies to engage in providing public switched communication service throughout an exchange area, and between exchange areas within the LATA.

ICB - Individual Case Basis.

IXC or Interexchange Carrier - A long distance telecommunications services provider.

Interruption - The inability to complete calls due to equipment malfunctions or human errors. Interruption shall not include, and no allowance shall be given for service difficulties such as slow dial tone, circuits busy or other network and/or switching capability shortages. Nor shall Interruption include the failure of any service or facilities provided by a common carrier or other entity other than the Carrier. Any Interruption allowance provided within this Tariff by Carrier shall not apply where service is interrupted by the negligence or willful act of the Customer, or where the Carrier, pursuant to the terms of this Tariff, terminates service because of non-payment of bills, unlawful or improper use of the Carrier's facilities or service, or any other reason covered by this Tariff or by applicable law.

LATA - A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4, or its successor tariff(s).

LEC - Local Exchange Company refers to the dominant, monopoly local telephone company in the area also served by the Company.

Monthly Recurring Charges - The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

MOU - Minutes of Use.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 1.0 - DEFINITIONS, CONT'D.

Serving Wire Center - A specified geographic point from which the vertical and horizontal coordinate is used in calculation of airline mileage.

Shared Inbound Calls - Refers to calls that are terminated via the Customer's Company-provided local exchange line.

Shared Outbound Calls - Refers to calls in Feature Group (FGD) exchanges whereby the Customer's local telephone lines are presubscribed by the Company to the Company's outbound service such that "1 + 10-digit number" calls are automatically routed to the Company's or an IXC's network. Calls to stations within the Customer's LATA may be placed by dialing "10XXX" or "101XXXX" with 1 + 10-digit number."

Station - The network control signaling unit and any other equipment provided at the Customer's premises which enables the Customer to establish communications connections and to effect communications through such connections.

Subscriber - The person, firm, partnership, corporation, or other entity who orders telecommunications service from COVAD. Service may be ordered by, or on behalf of, those who own, lease or otherwise manage the pay telephone, PBX, or other switch vehicle from which an End User places a call utilizing the services of the Company.

NECA - National Exchange Carriers Association.

Non-Recurring Charge ("NRC") - The initial charge, usually assessed on a one-time basis, to initiate and establish service.

PIN - Personal Identification Number. See Authorization Code.

Point of Presence ("POP") - Point of Presence

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 1.0 - DEFINITIONS, CONT'D.

Recurring Charges - Monthly charges to the Customer for services, and equipment, which continues for the agreed upon duration of the service.

Service - Any means of service offered herein or any combination thereof.

Service Order - The written or verbal request for Company services by the Customer and the Company in the format devised by the Company. A Service Order initiates the respective obligations of the parties as set forth therein and pursuant to this tariff.

Switched Access Origination/Termination - Where access between the Customer and the interexchange carrier is provided on local exchange company Feature Group circuits and the connection to the Customer is a LED-provided business or residential access line. The cost of switched Feature Group access is billed to the interexchange carrier.

Terminal Equipment - Any telecommunications equipment other than the transmission or receiving equipment installed at a Company location.

Usage Charges - Charges for minutes or messages traversing over local exchange facilities.

User or End User - A Customer, Joint User, or any other person authorized by a Customer to use service provided under this tariff.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission originating from points within the State of Idaho, and terminating within a local calling area as defined herein.

The Company is responsible under this tariff only for the services and facilities provided hereunder, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own Customers.

2.1.2 Shortage of Equipment or Facilities

- A.** The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.
- B.** The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.3 Terms and Conditions

- A. Service is provided on the basis of a minimum period of at least thirty (30) days, 24-hours per day. For the purpose of computing charges in this tariff, a month is considered to have thirty (30) days.
- B. Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.
- C. Except as otherwise stated in the tariff, at the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party upon notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.
- D. Service may be terminated upon written notice to the Customer if:
 - .1 the Customer is using the service in violation of this tariff; or
 - .2 the Customer is using the service in violation of the law.
- E. This tariff shall be interpreted and governed by the laws of the State of Idaho without regard for its choice of laws provision.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.3 Terms and Conditions, Cont'd.

- F.** Any other Telephone Company may not interfere with the right of any person or entity to obtain service directly from the Company. No person or entity shall be required to make any payment, incur any penalty, monetary or otherwise, or purchase any services in order to have the right to obtain service directly from the Company.
- G.** To the extent that either the Company or any other Telephone Company exercises control over available cable pairs, conduit, duct space, raceways, or other facilities needed by the other to reach a person or entity, the party exercising such control shall make them available to the other on terms equivalent to those under which the Company makes similar facilities under its control available to its Customers. At the reasonable request of either party, the Company and the Other Telephone Company shall jointly attempt to obtain from the owner of the property access for the other party to serve a person or entity.
- H.** The Company hereby reserves its rights to establish service packages specific to a particular Customer. These contracts may or may not be associated with volume and/or term discounts. All service packages established by the Company will be filed with the Commission prior to the furnishing of service.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.4 Limitations on Liability

- A. Except as otherwise stated in this section, the liability of the Company for damages arising out of either: (1) the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or (2) the failure to furnish its service, whether caused by acts or omission, shall be limited to the extension of allowances to the Customer for interruptions in service as set forth in Section 2.7.
- B. Except for the extension of allowances to the Customer for interruptions in service as set forth in Section 2.7, the Company shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.
- C. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.4 Limitations on Liability, Cont'd.

- D. The Company shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, including reasonable counsel fees, due to:
 - .1 Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company; or (c) common carriers or warehousemen, except as contracted by the Company;
 - .2 Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;
 - .3 Any unlawful or unauthorized use of the Company's facilities and services;
 - .4 Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided facilities or services; or by means of the combination of Company-provided facilities or services;
 - .5 Breach in the privacy or security of communications transmitted over the Company's facilities;

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.4 Limitations on Liability, Cont'd.

D. Cont'd.

- .6 Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth above in Section 2.1.1.A.
- .7 Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof;
- .8 Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to the Company's facilities;
- .9 Any noncompletion of calls due to network busy conditions;
- .10 Any calls not actually attempted to be completed during any period that service is unavailable;
- .11 And any other claim resulting from any act or omission of the Customer or patron(s) of the Customer relating to the use of the Company's services or facilities.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.4 Limitations on Liability, Cont'd.

- E.** The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere.
- F.** The Company makes no warranties or representations, EXPRESS OR IMPLIED, either in fact or by operation of law, statutory or otherwise, including warranties of merchantability or fitness for a particular use, except those expressly set forth herein.
- G.** Failure by the Company to assert its rights pursuant to one provision of this tariff does not preclude the Company from asserting its rights under other provisions.
- H. Directory Errors** - In the absence of gross negligence or willful misconduct, no liability for damages arising from errors or mistakes in or omissions of directory listings, or errors or mistakes in or omissions of listing obtainable from the directory assistance operator, including errors in the reporting thereof, shall attach to the Company. An allowance for errors or mistakes in or omissions of published directory listings or for errors or mistakes in or omissions of listing obtainable from the directory assistance operator shall be at the monthly tariff rate for each listing, or in the case of a free or no-charge directory listing, credit shall equal two times the monthly tariff rate for an additional listing, for the life of the directory or the charge period during which the error, mistake or omission occurs.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.4 Limitations on Liability, Cont'd.

I. With respect to Emergency Number 911 Service:

- .1 This service is offered solely as an aid in handling assistance calls in connection with fire, police and other emergencies. The company is not responsible for any losses, claims, demands, suits or any liability whatsoever, whether suffered, made instituted or asserted by the Customer or by any other party or person for any personal injury or death of any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused by: (1) mistakes, omissions, interruptions, delays, errors or other defects in the provision of service, or (2) installation, operation, failure to operate, maintenance, removal, presence, condition, local or use of any equipment and facilities furnishing this service.

- .2 Neither is the Company responsible for any infringement, nor invasion of the right of privacy of any person or persons, caused or claimed to have been caused directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of emergency 911 service features and the equipment associated therewith, or by any services furnished by the Company, including, but not limited to the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing emergency 911 service, and which arise out of the negligence or other wrongful act of the Company, the Customer, its users, agencies or municipalities, or the employees or agents of any one of them.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.4 Limitations on Liability, Cont'd.

I. With respect to Emergency Number 911 Service, Cont'd.

.3 When a Customer with a nonpublished telephone number, as defined herein, places a call to the emergency 911 service, the Company will release the name and address of the calling party, where such information can be determined, to the appropriate local governmental authority responsible for emergency 911 service upon request of such governmental authority. By subscribing to service under this tariff, the Customer acknowledges and agrees with the release of information as described above.

J. The included tariff language does not constitute a determination by the Commission that a limitation of liability imposed by the Company should be upheld in a court of law. Acceptance for filing by the Commission recognizes that it is a court's responsibility to adjudicate negligence and consequential damage claims. It is also the court's responsibility to determine the validity of the exculpatory clause.

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.6 Provision of Equipment and Facilities

- A. The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not nor may the Customer permit others to rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- B. The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the service provided the Customer.
- C. Equipment the Company provides or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the equipment is provided.
- D. Except as otherwise indicated, Customer provided station equipment at the Customer's premises for use in connection with this service shall be so constructed, maintained and operated as to work satisfactorily with the facilities of the Company.
- E. The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:
 - .1 the through transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
 - .2 the reception of signals by Customer-provided equipment; or
 - .3 network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.**2.1 Undertaking of the Company, Cont'd.****2.1.7 Non-Routine Installation**

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours, but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.8 Special Construction

Subject to the agreement of the Company and to all of the regulations contained in this tariff, special construction of facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is construction undertaken:

- A. where facilities are not presently available, and there is no other requirement for the facilities so constructed;
- B. of a type other than that which the Company would normally utilize in the furnishing of its services;
- C. over a route other than that which the Company would normally utilize in the furnishing of its services;
- D. in a quantity greater than that which the Company would normally construct;
- E. on an expedited basis;
- F. on a temporary basis until permanent facilities are available;
- G. involving abnormal costs; or
- H. in advance of its normal construction.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.1 Undertaking of the Company, Cont'd.

2.1.9 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its partners, agents, contractors or suppliers.

2.2 Prohibited Uses

2.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

2.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and the Public Utilities Commission of Idaho's regulations, policies, orders, and decisions.

2.2.3 The Company may block any signals being transmitted over its Network by Customers which cause interference to the Company or other users. Customer shall be relieved of all obligations to make payments for charges relating to any blocked Service and shall indemnify the Company for any claim, judgment or liability resulting from such blockage.

2.2.4 A Customer, joint user, or authorized user may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

- A.** the payment of all applicable charges pursuant to this tariff;
- B.** damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- C.** providing at no charge, as specified from time to time by the Company, any needed equipment, space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;
- D.** obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of fiber optic cable and associated equipment used to provide Communications Services to the Customer from the cable building entrance or property line to the location of the equipment space described above in Section 2.3.1.C. Any and all costs associated with the obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company provided facilities, shall be borne entirely by, or may be charged by the Company, to the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.3 Obligations of the Customer, Cont'd.

2.3.1 General, Cont'd.

- E.** providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g., friable asbestos) prior to any construction or installation work;
- F.** complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1.D; and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;
- G.** not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and
- H.** making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.3 Obligations of the Customer, Cont'd.

2.3.2 Liability of the Customer

- A.** The Customer will be liable for damages to the facilities of the Company and for all incidental and consequential damages caused by the negligent or intentional acts or omissions of the Customer, its officers, employees, agents, invites, or contractors where such acts or omissions are not the direct result of the Company's negligence or intentional misconduct.
- B.** To the extent caused by any negligent or intentional act of the Customer as described in (A), preceding, the Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees, for (1) any loss, destruction or damage to property of any third party, and (2) any liability incurred by the Company to any third party pursuant to this or any other tariff of the Company, or otherwise, for any interruption of, interference to, or other defect in any service provided by the Company to such third party.
- C.** The Customer shall not assert any claim against any other Customer or user of the Company's services for damages resulting in whole or in part from or arising in connection with the furnishing of service under this tariff including but not limited to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other Customer or user contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other Customer or user and not by any act or omission of the Company. Nothing in this tariff is intended either to limit or to expand Customer's right to assert any claims against third parties for damages of any nature other than those described in the preceding sentence.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.4 Customer Equipment and Channels

2.4.1 General

A user may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in this tariff. A user may transmit any form of signal that is compatible with the Company's equipment, but the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication except as specifically stated in this tariff.

2.4.2 Station Equipment

- A.** Terminal equipment on the user's premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the user. The user is responsible for the provision of wiring or cable to connect its terminal equipment to the Company MPOP.
- B.** The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense, subject to prior Customer approval of the equipment expense.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.4 Customer Equipment and Channels, Cont'd.

2.4.3 Interconnection of Facilities

- A.** Local Traffic Exchange provides the ability for another local exchange provider to terminate local traffic on the Company's network. In order to qualify for Local Traffic Exchange the call must: (a) be originated by an end user of a company that is authorized by the Public Utilities Commission of Idaho to provide local exchange service; (b) originate and terminate within a local calling area of the Company.
- B.** Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communications Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.
- C.** Communications Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.
- D.** Facilities furnished under this tariff may be connected to Customer provided terminal equipment in accordance with the provisions of this tariff. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all user-provided wiring shall be installed and maintained in compliance with those regulations.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.4 Customer Equipment and Channels, Cont'd.

2.4.4 Inspections

- A. Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section 2.4.2.B of this tariff for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.
- B. If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.
- C. If harm to the Company's network, personnel or services is imminent, the Company reserves the right to shut down Customer's service immediately, with no prior notice required.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.5 Customer Deposits and Advance Payments

2.5.1 Advance Payments

To safeguard its interests, the Company may require a Customer to make an advance payment before services and facilities are furnished. The advance payment will not exceed an amount equal to the non-recurring charge(s) and one month's charges for the service or facility. The advance payment will be credited to the Customer's initial bill. An advance payment may be required in addition to a deposit.

2.5.2 Deposits

The Company does not require deposits from Customers.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.6 Payment Arrangements, Cont'd.

2.6.1 Payment for Service

A. General

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Authorized Users by the Customer, regardless of whether those services are used by the Customer itself or are resold to or shared with other persons.

The Customer is responsible for payment of any sales, use, gross receipts, excise, access or other local, state, federal and 911 taxes, charges or surcharges (however designated) (excluding taxes on Company's net income) imposed on or based upon the provision, sale or use of Network Services.

The security of the Customer's PIN is the responsibility of the Customer. All calls placed using a PIN shall be billed to and shall be the obligation of the Customer. The Customer shall not be responsible for charges in connection with the unauthorized use of PINs arising after the Customer notifies the Company of the loss, theft, or other breach of security of such PINs.

Customers will only be charged once, on either an interstate or intrastate basis, for any nonrecurring or usage based charges.

B. Taxes, Fees and Surcharges

The Company reserves the right to bill any and all applicable taxes, fees and surcharges in addition to normal rates and charges for services provided to the Customer, where permitted by law. Taxes and fees include, but are not limited to: Federal Excise Tax, State Sales Tax, Municipal Tax, Gross Receipts Tax, Idaho Telecommunications Service Assistance Program, and Universal Service. Unless otherwise specified in this tariff, such taxes, fees and surcharges are in addition to rates as quoted in this tariff and will be itemized separately on Customer invoices.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.6 Payment Arrangements, Cont'd.

2.6.2 Billing and Collection of Charges

The Customer is responsible for payment of all charges incurred by the Customer or other Authorized Users for services and facilities furnished to the Customer by the Company.

- A. Nonrecurring charges are due and payable within thirty (30) days after the invoice date, unless otherwise agreed to in advance.
- B. The Company shall present invoices for recurring charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within thirty (30) days after the invoice date. When billing is based on customer usage, charges will be billed monthly for the preceding billing periods.
- C. When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have thirty (30) days.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.6 Payment Arrangements, Cont'd.

2.6.2 Billing and Collection of Charges, Cont'd.

- D.** Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.
- E.** Late Payment Fees - The Company does not bill Customers late payment penalties.
- F.** The Customer will be assessed a charge of twenty dollars (\$25.00) for each check or other payment type submitted by the Customer to the Company that a bank or other financial institution refuses to honor.
- G.** If service is disconnected by the Company in accordance with Section 2.7 following and later restored, restoration of service will be subject to all applicable installation charges.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.**2.6 Payment Arrangements, Cont'd.****2.6.3 Disputed Bills**

- A.** In the event that a billing dispute occurs concerning any charges billed to the Customer by the Company, the Company may require the Customer to pay the undisputed portion of the bill to avoid discontinuance of service for non-payment. The Customer must submit a documented claim for the disputed amount. The Customer will submit all documentation as may reasonably be required to support the claim. All claims must be submitted to the Company within a reasonable period of time after receipt of billing for those services and in accordance with Idaho law. If the Customer does not submit a claim as stated above, the Customer waives all rights to filing a claim thereafter.
- B.** Unless disputed the invoice shall be deemed to be correct and payable in full by the Customer. If the Customer is unable to resolve any dispute with the Company, then the Customer may file a complaint with the Idaho Public Utilities Commission, 472 West Washington, P.O. Box 83720, Boise ID 83720-0074; 208-334-0300 or 1-800-432-0369.
- C.** If the dispute is resolved in favor of the Customer and the Customer has withheld the disputed amount, no interest, credits or penalties will apply.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.7 Discontinuance of Service

2.7.1 Service may be disconnected after seven (7) days written notice for any of the following reasons:

- A.** The Customer did not pay undisputed delinquent bills for local exchange services or paid a delinquent bill for local exchange services with any dishonored check.
- B.** The Customer failed to make a security deposit or obtain a guarantee when one is required.
- C.** The Customer failed to abide by the terms of a payment arrangement.
- D.** The Customer misrepresented the Customer's identity for the purpose of obtaining telephone service.
- E.** The Company determines as prescribed by relevant state or other applicable standards that the Customer is willfully wasting or interfering with service through improper equipment or otherwise.
- F.** The Customer is using service(s) for which the Customer did not apply.

2.7.2 At least 24 hours before actual termination, the Company will attempt to contact the Customer affected to apprise the Customer of the proposed termination action and steps to take to avoid or delay termination. Service will not be terminated in the event that a formal or informal complaint concerning termination is filed with the Commission.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.7 Discontinuance of Service

2.7.3 Service may be disconnected without notice and without incurring any liability for any of the following reasons:

- A.** A condition immediately dangerous or hazardous to life, physical safety or property exists, or it is necessary to prevent a violation of federal, state or local safety or health codes.
- B.** The company is ordered to terminate service by any court, the Commission, or any other duly authorized public authority.
- C.** In the event of fraudulent use of the Company's network, where the service(s) was (were) obtained, diverted or used without the authorization or knowledge of the Company, the Company will discontinue service without notice and/or seek legal recourse to recover all costs involved in enforcement of this provision.
- D.** The Company has tried diligently to meet the notice requirements but has been unsuccessful in its attempt to contact the Customer affected.
- E.** The Customer has misrepresented the Customer's identify for purposes of obtaining telephone service and has no or an inadequate security deposit on file with the Company and has an outstanding bill exceeding \$100.
- F.** Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law.
- G.** Upon the Company's discontinuance of service to the Customer under Section 2.7.1 or 2.7.2., the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges that would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.**2.8 Cancellation of Application for Service**

- 2.8.1** Applications for service cannot be canceled without the Company's agreement. Where the Company permits a Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.
- 2.8.2** Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs incurred by the Company, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service commenced (all discounted to present value at six percent).
- 2.8.3** Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred by the Company, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.
- 2.8.4** The special charges described in 2.8.1 through 2.8.3 will be calculated and applied on a case-by-case basis.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.9 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.**2.10 Allowances for Interruptions in Service**

Interruptions in service that are not due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth in 2.6.1 for the part of the service that the interruption affects.

2.10.1 General**A. Service Outage**

A credit allowance will be given when service is interrupted, except as specified below. A service is interrupted when it becomes inoperative to the Customer, e.g., the Customer is unable to transmit or receive, because of a cross-talk, static or other transmission problem, the Company will respond to a Customer's report of such a "service outage" in accordance with IDAPA 31.41.01 Rule 503. Customer's bills will be appropriately and automatically credited pursuant to the terms of Rule 503.

B. Receipt and Recording of Reports

The Company will provide for the receipt of Customer trouble reports at all hours and make a full and prompt investigation of and response to all reports. The Company will maintain an accurate record of trouble reports made by its Customers. This record will include accurate identification of the Customer or service affected, the time, date and nature of the report, the action taken to clear the trouble or satisfy the Customer, and the date and time of trouble clearance or other disposition. This record will be available to the Commission or its authorized representatives upon request at any time within two (2) years of the date of the record.

C. Repair Commitments

Commitments to the Customer for repair service will be set in accordance with Rule 503. The Company will make every reasonable attempt to fulfill repair commitments to its Customers. Customers will be timely notified of unavoidable changes. Failure to meet a repair commitment does not relieve the Company of the credited provisions in Rule 503.01, unless the Customer fails to keep an appointment the Customer agreed to when the original commitment was made

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.10 Allowances for Interruptions in Service, (Cont'd.)

2.10.1 General, (Cont'd.)

D. Restoration of Service

When the Company providing local exchange is informed by a Customer of a local exchange service outage, the Company will:

- .1 restore service within sixteen (16) hours after the report of the outage if the Customer notifies the Company that the service outage creates an emergency for the Customer, or
- .2 restore service within twenty-four (24) hours after the report of the outage if no emergency exists, except that outages reported between noon on Saturday and 6:00 p.m. on the following Sunday must be restored within forty-eight (48) hours or by 6:00 p.m. on the following Monday, which ever is sooner. If the Company does not restore service within the times required by this subsection, the Company will credit the Customer's account for an amount equal to the monthly rate for one (1) month of basic local exchange service.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.**2.10 Allowances for Interruptions in Service, (Cont'd.)****2.10.1 General, (Cont'd.)****E. Extenuating Circumstances**

Following disruption of local exchange service caused by natural disaster or other causes not within the Company's control and affecting large groups of Customers, or in conditions where the personal safety on an employee would be jeopardized, the Company is not required to provide the credit referred to in Subsection 503.01 as long as it uses reasonable judgment and diligence to restore service, giving due regard for the needs of various Customers and the requirements of the telecommunications service priority (TSP) program ordered in FCC Docket 88-341. When a Customer causes the Customer's own service outage or does not make a reasonable effort to arrange a repair visit within the service restoration deadline, or when the Company determines that the outage is attributable to the Customer's own equipment or inside wire, the Company is not required to provide to that Customer the credit referred to in Subsection 503.01.

F. Compliance Standard

Each month at least ninety percent (90%) of out-of-service trouble reports will be cleared in accordance with Subsection 503.01 and 503.02. The Company will keep a monthly service record as described in Subsection 502.01 and will notify the Commission whenever the record indicates the ninety percent (90%) level has not been met for a period of three (3) consecutive months.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.**2.11 Cancellation of Service/Termination Liability**

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.10.1 above), the Customer agrees to pay to the Company termination liability charges, as defined below. These charges shall become due as of the effective date of the cancellation or termination and be payable within the period, set forth in Section 2.6.2.

2.11.1 Termination Liability

The Customer's termination liability for cancellation of service shall be equal to:

- A. all unpaid Non-Recurring charges reasonably expended by the Company to establish service to the Customer; plus
- B. any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of the Customer; plus
- C. all Recurring Charges specified in the applicable Service Order Tariff for the balance of the then current term discounted at the prime rate announced in the Wall Street Journal on the third business day following the date of cancellation;
- D. minus a reasonable allowance for costs avoided by the Company as a direct result of the Customer's cancellation.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.**2.12 Cancellation of Service by Customer**

Customers may cancel service verbally or in writing. The company shall hold the Customer responsible for payment of all charges, including fixed fees, surcharges, etc., which accrue up to the cancellation date. Customers that cancel the primary local exchange line will have the entire Account disconnected, including any secondary line and all associated features. In the event the Customer executes a term commitment agreement with the Company, the Customer must cancel service and terminate the agreement in accordance with the agreement terms.

2.13 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties:

2.13.1 to any subsidiary, parent company or affiliate of the Company; or

2.13.2 pursuant to any sale or transfer of substantially all the assets of the Company; or

2.13.3 pursuant to any financing, merger or reorganization of the Company.

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SECTION 2.0 - RULES AND REGULATIONS, CONT'D.**2.14 Customer Liability for Unauthorized Use of the Network**

Unauthorized use of the network occurs when a person or entity that does not have actual, apparent, or implied authority to use the network, obtains the Company's services provided under this tariff.

2.14.1 Customer Liability for Fraud and Unauthorized Use of the Network

- A.** The Customer is liable for the unauthorized use of the network obtained through the fraudulent use of a Company calling card, if such a card is offered by the Company, or an accepted credit card, provided that the unauthorized use occurs before the Company has been notified.
- B.** A Company calling card is a telephone calling card issued by the Company at the Customer's request, which enables the Customer or user(s) authorized by the Customer to place calls over the Network and to have the charges for such calls billed to the Customer's account.

An accepted credit card is any credit card that a cardholder has requested or applied for and received, or has signed, used, or authorized another person to use to obtain credit. Any credit card issued as a renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

- C.** The Customer must give the Company written or oral notice that an unauthorized use of a Company calling card or an accepted credit card has occurred or may occur as a result of loss, and/or theft.
- D.** The Customer is responsible for payment of all charges for calling card services furnished to the Customer or to users authorized by the Customer to use service provided under this tariff, unless due to the negligence of the Company. This responsibility is not changed due to any use, misuse, or abuse of the Customer's service or Customer-provided equipment by third parties, the Customer's employees, or the public.

The liability of the Customer for unauthorized use of the Network by credit card fraud will not exceed the lesser of fifty dollars (\$50.00) or the amount of money, property, labor, or services obtained by the unauthorized user before notification to the Company.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.15 Use of Customer's Service by Others

2.15.1 Joint Use Arrangements

Joint use arrangements will be permitted for all services provided under this tariff. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. The Company will accept orders to start, rearrange, relocate, or discontinue service only from the Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each joint user shall be responsible for the payment of the charges billed to it.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.16 Notices and Communications

- 2.16.2** The Customer shall designate on the service order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- 2.16.3** The Company shall designate on the service order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- 2.16.4** Except as otherwise stated in this tariff, all notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.
- 2.16.5** The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 2.0 - RULES AND REGULATIONS, CONT'D.

2.17 Universal Emergency Telephone Number Service (911)

Universal Emergency Telephone Number Service (911 Service) is an arrangement of Company central office and trunking facilities whereby any telephone user who dials the numbers 911 will reach the emergency report center for the telephone from which the number is dialed or will be routed to an operator if all lines to an emergency report center are busy. If no emergency report center Customer exists for a central office entity, a telephone user who dials the number 911 will be routed to an operator. No call-specific charges apply to 911 calls.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 3.0 - SERVICE AREAS

3.1 Exchange Service Areas

Local exchange services are provided, subject to availability of facilities and equipment, in areas currently served by the following Incumbent LECs:

- 1) Qwest.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 4.0 - SERVICE CHARGES AND SURCHARGES

4.1 Service Order and Change Charges

4.1.1 General

Non-recurring charges apply to processing Service Orders for new service and for changes in service.

Primary Line Connection Charge: Applies to requests for initial connection or establishment of telephone service with the Company.

Secondary Line Connection Charge: Applies to installation of a second or additional access line.

Moves: Applies to Customer request for a move or change in the physical location of the access line.

Transfer of Service: Applies to Customer request for a change in the service location.

Telephone Number Change: Applies to Customer request for a change of the Customer telephone number.

Service Order Changes/Adds: Applies to Customer requests for changes in service or additional to services, not including the addition of calling features.

Calling Feature Adds: Applies to Customer requests for addition of calling features.

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 LOCAL EXCHANGE SERVICES TARIFF

SECTION 4.0 - SERVICE CHARGES AND SURCHARGES, CONT'D.**4.1 Service Order and Change Charges, Cont'd.****4.1.2 Rates**

	<u>Residence</u>	<u>Business</u>
Line Connection Charge		
Primary Line	\$45.00	\$75.00
Secondary Line	\$45.00	\$75.00
Moves, per line	\$25.00	\$45.00
Transfer of Service, per order	\$15.00	\$45.00
Telephone Number Change	\$15.00	\$25.00
Service Order Changes/Addds	\$15.00	\$25.00
Call Feature Adds, per feature	\$5.00	\$10.00

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SECTION 4.0 - SERVICE CHARGES AND SURCHARGES, CONT'D.

4.2 Restoral Charge

A restoration charge applies to the restoration of suspended service and facilities because of nonpayment of bills and is payable at the time that the restoration of the suspended service and facilities is arranged. The restoration charge does not apply when, after disconnection of service, service is later re-installed.

	<u>Residence</u>	<u>Business</u>
Restoration after temporary denial, but prior to completion of order to discontinue service	\$15.00	\$25.00

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 4.0 - SERVICE CHARGES AND SURCHARGES, CONT'D.

4.3 Temporary Suspension of Service

Upon the request of the Customer and where equipment arrangements permit, service may be temporarily suspended for a period not to exceed nine months. Suspension of service and restoral may begin or terminate on any day of the month provided notice is given sufficiently in advance for arrangements to be made. Service will be disconnected to the extent necessary to assure that no inward or outward service will be available during the period of suspension. The monthly rate for service during the period of the temporary suspension is dependent upon the service plan to which the Customer is subscribed.

	<u>Residence</u>	<u>Business</u>
Nonrecurring Charge	\$10.00	\$25.00

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SECTION 4.0 - SERVICE CHARGES AND SURCHARGES, CONT'D.**4.4 Public Telephone Surcharge**

In order to recover the Company's expenses to comply with the FCC's pay telephone compensation plan effective on October 7, 1997 (FCC 97-371), an undiscountable per call charge is applicable to all intrastate calls that originate from any pay telephone used to access Company provided services. This surcharge, which is in addition to standard tariffed usage charges and any applicable service charges and surcharges associated with service, applies for the use of the instrument used to access Company provided service and is unrelated to the service accessed from the pay telephone.

Pay telephones include coin-operated and coinless phones owned by local telephone companies, independent companies and interexchange carriers. The Public Pay Telephone Surcharge applies to the initial completed call and any reoriginated call (e.g., using the "#" symbol). The Public Pay Telephone Surcharge does not apply to calls placed from pay telephones at which the Customer pays for service by inserting coins during the progress of the call.

Whenever possible, the Public Pay Telephone Surcharge will appear on the same invoice containing the usage charges for the surcharged call. In cases where proper pay telephone coding digits are not transmitted to the Company prior to completion of a call, the Public Pay Telephone Surcharge may be billed on a subsequent invoice after the Company has obtained information from a carrier that the originating station is an eligible pay telephone.

Rate Per Call: \$0.50

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 5.0 – LOCAL EXCHANGE SERVICE

5.1 General

5.1.1 Call Timing for Usage Sensitive Services

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

- 5.1.1** Calls are measured in durational increments identified for each service. All calls which are fractions of a measurement increment are rounded-up to the next whole unit.
- 5.1.2** Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s).
- 5.1.3** Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.
- 5.1.4** Calls originating in one time period and terminating in another will be billed in proportion to the rates in effect during different segments of the call.
- 5.1.5** All times refer to local time.

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SECTION 5.0 – LOCAL EXCHANGE SERVICE, CONT'D.

5.1 General, Cont'd.

5.1.2 Calculation of Distance

The Company does not rate calls based on mileage or distance.

5.1.3 Rate Periods for Time of Day Sensitive Services

The Company does not rate calls based on time of day.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 5.0 – LOCAL EXCHANGE SERVICE, CONT'D.

5.2 Integrated Voice Services 1

Integrated Voice Services 1 provides four (4) telephone lines and includes the following features at no additional charge: Call Forwarding, Call Waiting, Block Call Waiting, 3-Way Calling, Block Caller ID, Caller ID with Number, Caller ID with Name, Block 900, Block 976, and 1 line hunting group.

Integrated Voice Services 1 also includes, at no additional charge, unlimited local calling and an allowance of 1,500 minutes of use for combined intraLATA toll and intrastate and interstate interLATA toll usage, and one directory listing per service location. Any unused portion of the usage allowances will not carry forward to the following month. For toll usage beyond the 1,500 minute allowance, Customers can choose Covad long distance calling plans described in Section 7.3 of this tariff. Absent the Customer's election of such a plan, Customer interLATA and intraLATA intrastate toll calls are billed in accordance with Section 7.2 of this tariff.

Customers seeking to purchase Integrated Voice Services 1 must also purchase Covad DSL services on the same line and in accordance with Covad's terms and conditions for data services.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 5.0 – LOCAL EXCHANGE SERVICE, CONT'D.

5.2 Integrated Voice Services 1, (Cont'd.)

5.2.1 Rates

Non-Recurring Charges

Customers with existing Covad DSL who are adding Covad Integrated Voice Services shall be charged a \$199.00 Non-Recurring Installation Charge.

Customers ordering new Covad Integrated Voice Services shall be charged a \$275.00 Non-Recurring Installation Charge.

Integrated Voice Services 1 Monthly Rates

One-year term:	\$200.00
Two-year term:	\$190.00

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 5.0 – LOCAL EXCHANGE SERVICE, CONT'D.

5.3 Integrated Voice Services 2

Integrated Voice Services 2 provides eight (8) telephone lines and includes the following features at no additional charge: Call Forwarding, Call Waiting, Block Call Waiting, 3-Way Calling, Block Caller ID, Caller ID with Number, Caller ID with Name, Block 900, Block 976, and 1 line hunting group.

Integrated Voice Services 2 also includes, at no additional charge, unlimited local calling, allowances (as described below and in Section 7 of this tariff) for combined intraLATA toll and intrastate and interstate interLATA toll, and one directory listing per service location. Any unused portion of the usage allowances will not carry forward to the following month.

Integrated Voice Services 2 also includes, at no additional charge, unlimited local calling and an allowance of 3,000 minutes of use for combined intraLATA toll and intrastate and interstate interLATA toll usage, and one directory listing per service location. Any unused portion of the usage allowances will not carry forward to the following month. For toll usage beyond the 3,000 minute allowance, Customers can choose Covad long distance calling plans described in Section 7.3 of this tariff. Absent the Customer's election of such a plan, Customer interLATA and intraLATA toll calls are billed in accordance with Section 7.2 of this tariff.

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 5.0 – LOCAL EXCHANGE SERVICE, CONT'D.

5.3 Integrated Voice Services 2, (Cont'd)

5.3.1 Rates

Customers seeking to purchase Integrated Voices Services 2 must also purchase Covad DSL services on the same line and in accordance with Covad's terms and conditions for data services.

Non-Recurring Charges

Customers with existing Covad DSL who are adding Covad Integrated Voice Services shall be charged a \$199.00 Non-Recurring Installation Charge.

Customers ordering new Covad Integrated Voice Services shall be charged a \$275.00 Non-Recurring Installation Charge.

Integrated Voice Services 2 Monthly Rates

One-year term:	\$400.00
Two-year term:	\$380.00

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 6.0 – SUPPLEMENTAL SERVICES**6.1 Directory Assistance Services****6.1.1 Local Directory Assistance****A. General**

A Customer may obtain assistance, for a charge, in determining a telephone number by dialing Directory Assistance Service. A Customer can also receive assistance by writing the Company with a list of names and addresses for which telephone numbers are desired.

B. Regulations

There are no call allowances for Directory Assistance Services. A Directory Assistance Charge applies for each call to Directory Assistance for telephone number(s), area code(s), and/or general information requested from the Directory Assistance operator except as follows:

- a) Calls from coin telephones, including COCOTS (Customer Owned Coin Operated Telephone Sets).
- b) Requests in which the Directory Assistance operator provides an incorrect number. The Customer must inform the Company of the error in order to receive credit.
- c) Customer experiences poor transmission or is cut-off during the call.
- d) Customers will be provided with a maximum of two (2) telephone numbers for each call to Directory Assistance.

C. Rates

Per Call to Directory Assistance: \$1.25

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 6.0 – SUPPLEMENTAL SERVICES, CONT'D.

6.1 Directory Assistance Services, Cont'd.

6.1.2 Local Call Completion

The charges as shown below apply for each request made to the Directory Assistance Operator in which the operator completes the call to the desired number. Call Completion is only available where facilities permit.

Local, Per Call: \$0.35

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 6.0 – SUPPLEMENTAL SERVICES, CONT'D.

6.1 Directory Assistance Services, Cont'd.

6.1.3 Nationwide Directory Assistance

Nationwide Directory Assistance is a service whereby Customers may request assistance in determining listing information on a nationwide basis. Requests for local or intraLATA listings are billed under the basic Directory Assistance charges as described in this Section. The regulations and rates set forth below apply to all calls from Customers who request assistance in determining telephone number information of subscribers who are located outside their LATA.

The Customer will be charged for each call. Customer may request up to two listings per call. The nationwide listing rate applies per call whether or not a number is provided; this includes requests for numbers which are non-published or non-listed.

There are no billing exemptions or allowances for Nationwide Directory Assistance.

Local, Per Call: \$0.95

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 LOCAL EXCHANGE SERVICES TARIFF

SECTION 6.0 – SUPPLEMENTAL SERVICES, CONT'D.

6.2 Local Operator Service

Local calls may be completed or billed with the live or mechanical assistance by the Company's operator center. Calls may be billed collect to the called party, to an authorized 3rd party number, to the originating line, or to a valid authorized calling card. Local calls may be placed on a station to station basis or to a specified party (see Person to Person), or designated alternate. Usage charges for local operator assisted calls are those usage charges that would normally apply to the calling party's service. In addition to usage charges, an operator assistance charge applies to each call:

6.2.1 RatesUsage Rates

Usage charges will be billed at the rate in effect for the presubscribed service plan purchased by the Customer. See Section 5 of this tariff.

Per Call Service Charges

Calling Card - Automated	\$0.56
Calling Card - Operator Dialed	\$0.95
Billed to Third Number	\$1.30
Collect	\$1.30
Person-to-Person	\$3.50

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 6.0 – SUPPLEMENTAL SERVICES, CONT'D.

6.3 Busy Line Verification and Emergency Interrupt Service

Upon request of a calling party the Company will verify a busy condition on a designated local service line. The operator will determine if the line is clear or in use and report to the calling party. At the request of the Customer, the operator will interrupt the call on the busy line. Emergency Interruption is only permitted in cases where the calling party indicates an emergency exists and requests interruption.

If the Customer has the operator interrupt a call, both the Busy Line Verification and the Emergency Interrupt charge will apply.

No charge will apply when the calling party advises that the call is to or from an official public emergency agency. Busy Verification and Emergency Interrupt Service is furnished where and to the extent that facilities permit.

The Customer shall identify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

Busy Line Verification:	\$1.50
Busy Line Interrupt	\$3.00

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 6.0 – SUPPLEMENTAL SERVICES, CONT'D.

6.4 Directory Listing Service

6.4.1 Directory Listing Definitions

Primary Listing - One listing, termed the primary listing, is included with each Customer's service with the primary line of a line hunting group and with each Joint User service.

Non-Listed Number (Private Directory Service) - A Non-Listed Number will be furnished at the Customer's request, providing for the omission or deletion of the Customer's listing from the telephone directory. Such listings will be carried in the Company's directory assistance and other records and will be given to any calling party.

Non-Published Number (Semi-Private Directory Service) - A Non-Published Number will be furnished at the Customer's request. A Non-Published Number is not listed in the telephone Company's directories, or on directory assistance records. Listing information (name, address and number) on a Non-Published Number is not available to the general public.

Additional Listings - At a charge, additional listings may be included in the alphabetical directory and on directory assistance records, or appear on directory assistance records only. The monthly rate for additional listings apply when the listings appear in Directory Assistance records in accordance with the date requested by the Customer.

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SECTION 6.0 – SUPPLEMENTAL SERVICES, CONT'D.

6.4 Directory Listing Service, Cont'd.

6.4.2 Rates

	Monthly Recurring Charge	
	<u>Residence</u>	<u>Business</u>
Primary Listing	\$0.00	N/A
Additional Listings	\$1.43	N/A
Non-Listed Number, per line	\$0.71	N/A
Non-Published Number, per account	\$1.20	N/A

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LOCAL EXCHANGE SERVICES TARIFF

SECTION 7.0 - LONG DISTANCE SERVICES

7.1 General

Interexchange Long Distance services offered by the Company are described in the Company's Idaho Tariff No. 1.

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