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IDAHO PUBLIC
UTILITIES COMMISSION



November 17, 2003

Idaho Public Utilities Commission
P.O.Box 83720
Boise, ID 83720-0074

Dear Commission:

Enclosed please find an Application for Certification for Northwest Telephone, Inc. to become a Competitive Local Exchange Carrier (CLEC) and interexchange carrier in the State of Idaho. We believe that we have provided all of the information requested by the Idaho PUC. However, should you find that you need additional information or have any questions, please feel free to contact me at the address or phone number shown below.

We look forward to receiving our approval and beginning to provide telecommunications services in the State of Idaho.

Sincerely,

Robert Howe
Vice President – Finance

Northwest Telephone, Inc.
1630 Wenatchee Avenue, Suite 9
Wenatchee, WA 98801
(509) 661-2000 --- (509) 661-2020 Fax

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APPLICATION FOR CERTIFICATION

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New local telecommunications providers applying for a Certificate of Public Convenience and Necessity to provide basic local exchange service in Idaho must submit the following information:

I. Proposed Services

A narrative description of the telecommunication services provided by the Applicant and the geographic area and market to be served by the company. Other items of interest are whether the company is a facilities-based provider or a reseller, or some combination thereof; what general plans the company has to build facilities in the future; to which markets the provider will appeal; how the provider will market its products; whether the company currently provides or has a history of providing other services in Idaho; how the corporate family is structured.

Northwest Telephone, Inc. (NTI) is a telecommunications company headquartered in Wenatchee, Washington. The Company has been in business for nearly five years and focuses on serving the underserved rural markets of the Western United States. NTI is a facilities based provider that offers private line connectivity to wireless carriers and other business and government agencies. The Company also provides wholesale telecommunications services to Internet Service Providers (ISPs), DSL and high speed wireless services. NTI also offers switched (and possibly resold) inter- and intra-LATA, interstate and international, dialed and operator-assisted telecommunications services procured from interconnection agreements with Verizon, Qwest and Sprint. NTI intends to offer similar services in Idaho within the next 12 months.

Northwest Telephone, Inc. currently has a central office in Wenatchee, Washington and facilities based Points of Presence in 15 other cities in Eastern Washington. The Company intends to expand its operations into Oregon and Idaho in 2004 with future plans to expand into California, Arizona, Utah, Nevada and Montana.

Northwest Telephone, Inc. is requesting authority to serve the entire state of Idaho as both a competitive local exchange carrier and an interexchange carrier.

II. Form of Business

1. Name, Address and Form of Business

a. If the applicant is the sole proprietor,

N/A

- (1) the name and business address of the applicant, and
- (2) the business name of the sole proprietorship.

b. If the applicant is a partnership,

N/A

- (1) a list of the names and business addresses of all the partners,
and

- (2) the business name of the partnership.

c. If the applicant is a corporation,

- (1) a short statement of the character of public service in which it
may engage,

Northwest Telephone, Inc. is a telecommunications company
formed to provide services to the underserved rural markets of the
Western United States.

- (2) the name of the state in which it is incorporated,

Washington

- (3) its principal business address and its principal business address
within Idaho,

Northwest Telephone, Inc., 408 Sherman Avenue, Suite 219,
Coeur d'Alene, ID 83814 (208) 667.5056.

- (4) a certified copy of its articles of incorporation,

***See Attached

- (5) if not incorporated in Idaho, a certificate of good standing
issued by the Idaho Secretary of State of Idaho, and

***See Attached

- (6) name and address of registered agent for service in Idaho.

CT Corporation System
N. Sixth St., Boise, ID 83702

2. If a corporation, the names and addresses of the ten common stockholders of applicant owning the greatest number of shares of common stock and the number of such shares owned by each, as follows:

Name and Address	Shares Owned	Percentage of All Shares Issued and Outstanding	Percentage of Voting Control
Andrew Metcalfe 6870 Flowery Divide, Cashmere Wa, 98801	2,409,481 Common	36.62%	36.62%
CAP Management, Inc. 106 Power Drive, Pikeville, KY 41501	400,000 Common	6.08%	6.08%
Elizabeth Devinney 3028 Western, #213 Seattle, WA 98121	25,000 Common	.38%	.38%
Mark Zamalloa 19119 N. Creek Pkwy N., #102 Bothell, WA 98011	12,500 Common	.19%	.19%
Randy Cooper 4680 Knowles Road Wenatchee, WA 98801	1,110,000 Preferred A	16.87%	16.87%
Starcrest Partners LLC 5721 Corte Libre Pleasanton, CA 94566	1,400,000 Preferred B-1	21.28%	21.28%
Eric Cooper 4101 April Drive Wenatchee, WA 98801	590,000 Preferred A	8.97%	8.97%
Wireless Resources LLC 1139 23 rd Avenue East Seattle, WA 98112	357,273 Preferred B/B-1	5.43%	5.43%
WiLan, Inc. 300,801 Manning Rd NE Calgary, Alberta, Canada	150,000 Preferred B	2.28%	2.28%
Branko S. Kukulja 532 N. 74 th Street Seattle, WA 98103	125,000 Preferred A	1.90%	1.90%

3. Names and addresses of the officers and directors of applicant.

Name	Director	Officer
Andrew Metcalfe 6870 Flowery Divide Cashmere Wa, 98801	Director	President
Stephen A. Kautz 5721 Corte Libre Pleasanton, CA 94566	Director	
Randy Cooper 4680 Knowles Road Wenatchee, WA 98801	Director	
Robert D. Howe 1139 23 rd Avenue East Seattle, WA 98112		Vice President
Jennifer Rickel 1630 Wenatchee Ave, #9 Wenatchee, WA 98801		Secretary

4. Name and address of any corporation, association, or similar organization holding a 5% or greater ownership or a management interest in the applicant. As to ownership, the amount and character of the interest must be indicated. A copy of any management agreement must be attached.

See #3 Above

5. Names and addresses of subsidiaries owned or controlled by applicant.

None.

III. Telecommunication Service

1. The date on which applicant proposes to begin construction or anticipates it will begin to provide service.

January 1, 2004

2. A written description of customer classes and customer service[s] that the applicant proposes to offer to the public.

- Private Line services to wireless and other carriers, businesses and government agencies
- Managed Ports, PRI Offload Circuits and Other Telecommunications Services to ISPs

- Inter- and Intra-LATA, interstate and international, dialed and operator assisted Voice and Data Telephone Services to Non-Residential Customers using Facilities Based Operations
- Wireless Services in Licensed and Unlicensed Frequencies to Non-Residential Customers

IV. Service Territory

1. A description sufficient for determining whether service is to be offered in a particular location; and the names of all incumbent local exchange corporations with whom the proposed utility is likely to compete.

In general terms, the entire State of Idaho consists entirely of underserved rural markets. Therefore, Northwest Telephone, Inc. intends to first expand its current network to include Coeur d'Alene and Boise with the future intent to connect to the smaller markets based on specific customer demand. Northwest Telephone, Inc. will provide services which will compete principally with Verizon, Qwest and Citizens.

2. Written description of the intended manner of service, for example, resold services or facilities based. A general description of the property owned or controlled by applicant.

Northwest Telephone Inc. intends to develop a fiber optic based network on lit and dark fiber using its own optical equipment and facilities based operations with interconnection agreements with the ILECs and other carriers. The Company will use its own wireless equipment, Internet modem banks, telephone routing, multiplexers, cross-connect devices, switching equipment and other telecommunications equipment. NTI does not currently resell any ILEC services.

3. A statement describing with whom the applicant is likely to compete.

Northwest Telephone, Inc. intends to provide a competitive alternative to traditional LEC services.

4. A description of the property owned by the applicant clarifies the applicant's proposed services and operation.

Northwest Telephone, Inc. owns Class V and Class IV telephone switches, routers and multiplexers, fiber optic transport equipment, Internet modem banks, DSL modem banks, wireless equipment and other telecommunications equipment.

V. Financial Information

1. Current detailed balance sheets, including a detailed income and profit and loss statements of applicant reflecting current and prior year balances for the twelve months ended as of the date of the balance sheet, or if not readily available, for the period since the close of the preceding calendar year.

*** See Attached

2. If a balance sheet and income statement are not available, the applicant must submit financial data sufficient to establish that it possesses adequate financial resources to provide the proposed services.

N/A

VI. "Illustrative" Tariff Filings

Proposed initial tariff and price sheets setting forth rates, rules, terms, and regulations applicable to the contemplated service.

*** See Attached

VII. Customer contacts

1. Contact information for the Applicant.

a) The name, address, and telephone number and electronic mailing addresses (if available) of the person(s) responsible for consumer inquiries and complaints from the public.

Jennifer Rickel
Northwest Telephone, Inc.
408 Sherman Avenue, Suite 219
Coeur d'Alene, ID 83814
(208) 667.5056 or jrickel@nw-tel.com

b) A toll-free number for customer inquiries and complaints.

(888) 528-7889

c) The name, number and electronic mailing addresses (if available) of the person(s) designated as a contact for the Commission Staff for resolving complaints, inquiries and matters concerning rates and price lists or tariffs.

Jennifer Rickel
Northwest Telephone, Inc.
408 Sherman Avenue, Suite 219
Coeur d'Alene, ID 83814
(208) 667.5056 or jrickel@nw-tel.com

VIII. Interconnection Agreements

1. Statements of whether the applicant has initiated interconnection negotiations and, if so, when and with whom.

NTI will initiate interconnection negotiations with the LECs and other carriers upon Commission approval of its Application. NTI has interconnection agreements in Washington with a number of LECs and other carriers currently operating in Idaho.

IX. Compliance with Commission Rules

A written statement that the applicant has reviewed all of the Commission rules and agrees to comply with them, or a request for waiver of those rules believed to be inapplicable.

Northwest Telephone, Inc. has reviewed all of the Commission rules and agrees to comply with them.

X. Escrow Account or Security Bond

1. If a company requires advance deposits by its customers, the company must submit a signed copy of an escrow account with a bonded escrow agent or a security bond. The escrow or bond shall be sufficient to meet customer deposit refunds in case of company default.

Agreed.

2. At the Commission's discretion, an additional deposit may be required to keep customers whole in case of company default.

Agreed.

3. The Commission will review the individual requirement of establishing an escrow or security account by the Company upon good showing by the Company for a period of two years.

Agreed.

CERTIFICATE OF OFFICER REGARDING
AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
NORTHWEST TELEPHONE, INC.

FILED
SECRETARY OF STATE
OCT 15 2001
STATE OF WASHINGTON

Northwest Telephone, Inc., a Washington corporation, by Andrew D. Metcalfe, its duly elected and qualified President, hereby delivers to the Secretary of State of the State of Washington for filing Amended and Restated Articles of Incorporation in duplicate, pursuant to RCW 23B.10.

1. The name of the corporation is Northwest Telephone, Inc.
2. The Amended and Restated Articles of Incorporation have been amended and restated in their entirety, to read as set forth on Exhibit A attached hereto.
3. Such amendments and restatement were adopted by the Board of Directors.
4. Such amendments and restatement were duly approved by the shareholders on September 30, 2001 in accordance with the provisions of RCW 23B.10.030, 23B.10.040 and 23B.10.070 of the Washington Business Corporation Act.
5. The Amended and Restated Articles of Incorporation will be effective upon filing

Dated: October 9, 2001.

NORTHWEST TELEPHONE, INC.

By Andrew D. Metcalfe
Andrew D. Metcalfe, President

Exhibit A
AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
NORTHWEST TELEPHONE, INC.

ARTICLE 1
NAME

The name of this corporation is Northwest Telephone, Inc.

ARTICLE 2
DURATION

This corporation is organized under the Washington Business Corporation Act (the "Act") and shall have perpetual existence.

ARTICLE 3
PURPOSE AND POWERS

The purpose and powers of this corporation are as follows:

- 3.1 To engage in any lawful business.
- 3.2 To engage in any and all activities that, in the judgment of the board of directors of this corporation (the "Board"), may at any time be incidental or conducive to the attainment of the foregoing purpose.
- 3.3 To exercise any and all powers that a corporation formed under the Act, or any amendment thereto or substitute therefor, is entitled at the time to exercise.

ARTICLE 4
CAPITAL STOCK

4.1 **Authorized Capital.** The corporation shall have authority to issue forty million (40,000,000) shares of stock in the aggregate. Such shares shall be divided into two classes as follows:

- (a) Thirty million (30,000,000) shares of Common Stock.
- (b) Ten million (10,000,000) shares of Preferred Stock.

4.2 **Common Stock.** Except to the extent rights, preferences, privileges or restrictions are granted to Preferred Stock or any series thereof, or as provided below, Common Stock has unlimited voting rights and is entitled to receive the net assets of this corporation upon dissolution. The relative rights, preferences, privileges and restrictions granted to or imposed upon the Common Stock and the holders thereof are as follows:

(a) Dividend Rights. The holders of record of outstanding shares of Common Stock shall be entitled to receive, when, as and if declared by the Board, out of any funds of this corporation legally available therefor, such cash and other dividends as may be declared from time to time by the Board.

(b) Liquidation Rights. In the event of any liquidation, dissolution or winding up of the affairs of this corporation, whether voluntary or involuntary, the holders of issued and outstanding shares of Common Stock shall be entitled to receive ratably, based on the total number of shares of Common Stock held by each, all the assets and funds of this corporation available for distribution to its shareholders, whether from capital or surplus, subject, however, to any preferential rights granted to any series of Preferred Stock to first receive such assets and funds.

(c) Voting Rights. Each holder of Common Stock shall be entitled to one vote for each share of Common Stock held.

4.3 Issuance of Preferred Stock in Series. The authorized shares of Preferred Stock shall be divided into and issued in series. Certain series of Preferred Stock are presently designated, and their terms are set forth below. Authority is vested in the Board, subject to the limitations and procedures prescribed by law, to divide any part or all of such Preferred Stock into any number of series, to fix and determine relative rights and preferences of the shares of any series to be established, to establish any number of series with relative rights and preferences superior to (except to the extent specifically prohibited by a previously designated and outstanding series) or on parity or subordinate to other series of Preferred Stock, and to amend the rights and preferences of the shares of any series that has been established but is wholly unissued. Within any limits stated in these Articles or in the resolution of the Board establishing a series, the Board, after the issuance of shares of a series, may amend the resolution establishing the series to decrease (but not below the number of shares of such series then outstanding) the number of shares of that series, and the number of shares constituting the decrease shall thereafter constitute authorized but undesignated shares. The authority herein granted to the Board to determine the relative rights and preferences of the Preferred Stock shall be limited to unissued shares, and no power shall exist to alter or change the rights and preferences of any shares that have been issued. Preferred Stock, or any series thereof, may have rights that are identical to those of Common Stock. Unless otherwise expressly provided in the designation of the rights and preferences of a series of preferred stock, a distribution in redemption or cancellation of shares of common stock or rights to acquire common stock held by a former employee or consultant of the corporation or any of its affiliates may, notwithstanding RCW 23B.06.400(2)(b), be made without regard to the preferential rights of holders of shares of that series of preferred stock.

4.4 Issuance of Certificates. The Board shall have the authority to issue shares of the capital stock of this corporation and the certificates therefor subject to such transfer restrictions and other limitations as it may deem necessary to promote compliance with applicable federal and state securities laws, and to regulate the transfer thereof in such manner as may be calculated to promote such compliance or to further any other reasonable purpose.

ARTICLE 5
TERMS OF PREFERRED STOCK

The following series of Preferred Stock are hereby designated: (a) one million eight hundred twenty-five thousand (1,825,000) shares, designated and known as "Series A Preferred Stock" (the "Series A Preferred"), (b) two million five hundred thousand (2,500,000) shares, designated and known as "Series B Preferred Stock" (the "Series B Preferred") and (c) one million eight hundred fourteen thousand five hundred forty-six (1,814,546) shares, designated and known as "Series B1 Preferred Stock" (the "Series B1 Preferred"). The shares of these series are herein referred collectively as the "Designated Preferred". The relative rights, preferences, privileges and restrictions granted to or imposed on the respective shares of each such series of Designated Preferred, and the holders thereof are as follows:

5.1 Dividends. Holders of Designated Preferred shall have the following rights with respect to dividends and distributions:

(a) Dividends are payable on the Designated Preferred when, as and if declared by the Board.

(b) No dividends or other distributions shall be made with respect to the Common Stock, other than dividends payable solely in Common Stock, unless at the same time an equivalent dividend with respect to the Designated Preferred has been paid or set apart or such equivalent dividend has been waived by the affirmative vote or written consent of the holders of not less than Sixty-Six and Two-Thirds Percent (66-2/3%) of the outstanding shares of Designated Preferred. Any declared but unpaid dividends on the shares of Designated Preferred shall be paid upon the conversion of such shares into Common Stock either (at the option of the corporation) by payment of cash or by the issuance of additional shares of Common Stock based upon the fair market value of the Common Stock at the time of conversion, as determined by the Board.

5.2 Liquidation Preference. In the event of any liquidation, dissolution, or winding up of the corporation, whether voluntarily or involuntarily (a "Liquidation Event"), distributions shall be made in the following manner:

(a) The holders of the Designated Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the corporation to the holders of Common Stock or any other series of Preferred Stock with liquidation preferences subordinate to the Designated Preferred, by reason of their ownership thereof, and subject to the rights of any series of Preferred Stock that ranks on liquidation prior to the Designated Preferred, an amount equal to the sum of (i) \$0.20 per share of Series A Preferred, \$1.00 per share of Series B Preferred, and \$0.50 per share of Series B1 Preferred (each, as adjusted for any stock dividends, combinations, consolidations, subdivisions or splits with respect to such shares), plus (ii) the respective amounts of all declared but unpaid dividends on each series of Designated Preferred. If the assets and funds legally available for distribution among the holders of the Designated Preferred (and any other series of Preferred Stock entitled to share in such distributions on a parity with the Designated Preferred) shall be insufficient to permit the

payment to such holders of the full preferential amounts specified in clauses (i) and (ii) of the preceding sentence, then the entire assets and funds of the corporation legally available for distribution shall be distributed ratably among the holders of the Designated Preferred (and any other series of Preferred Stock entitled to share in such distributions on a parity with the Designated Preferred) in proportion to the full preferential amount each such holder is otherwise entitled to receive under clauses (i) and (ii) of the preceding sentence.

(b) After payment of the full preferential amounts specified in Section 5.2(a) above, and of any other distribution that may be required with respect to any other series of Preferred Stock that may from time to time come into existence, the entire remaining assets and funds of the corporation legally available for distribution shall be distributed ratably among the holders of Common Stock.

(c) For purposes of this Section 5.2, (i) a consolidation, merger or statutory share exchange of the corporation with or into any other corporation or corporations pursuant to which the shareholders of the corporation prior to the merger or similar transaction shall own less than fifty percent (50%) of the voting securities of the surviving corporation, (ii) a sale, conveyance or disposition of all or substantially all of the assets of the corporation, or (iii) the effectuation by the corporation of a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the corporation is disposed of (other than the sale of Preferred Stock), shall be deemed to be a Liquidation Event.

(d) In the event of a deemed liquidation as described in Section 5.2(c) above, if the consideration received by the corporation is other than cash, its value will be deemed its fair market value. Any securities shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability:

(1) If traded on a securities exchange or the Nasdaq Stock Market, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the thirty-day period ending three (3) days prior to the closing;

(2) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever is applicable) over the thirty-day period ending three (3) days prior to the closing; and

(3) If there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability (other than restrictions arising solely by virtue of a shareholder's status as an affiliate or former affiliate) shall be to make an appropriate discount from the market value determined as above in Section 5.2(d)(i) to reflect the approximate fair market value thereof, as determined in good faith by the Board.

5.3 **Voting.** Except as otherwise expressly provided herein or as required by law, the holder of each share of Designated Preferred shall be entitled to the number of votes equal to the number of shares of Common Stock into which such share of Designated Preferred could be converted at the record date for determination of the shareholders entitled to vote on corporate matters, or if no such record date is established, at the date such vote is taken or any written consent of shareholders is solicited, and shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock (except as otherwise expressly provided herein or as required by law), voting together with the Common Stock as a single class, and shall be entitled to notice of any shareholders' meeting in accordance with the Bylaws of the corporation. Fractional votes by the holders of Designated Preferred shall not, however, be permitted and any fractional voting right shall (after aggregating all shares into which shares of Designated Preferred held by each holder could be converted) be rounded to the nearest whole number.

5.4 **Conversion.** The holders of Designated Preferred shall have conversion rights as follows:

(a) **Right to Convert.** Each share of Designated Preferred shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the corporation or any transfer agent for the Designated Preferred, into such number of fully paid and nonassessable shares of Common Stock ("Conversion Stock"), as is determined by dividing (i) \$0.20 in the case of Series A Preferred, \$1.00 in the case of Series B Preferred and \$0.50 in the case of Series B1 Preferred, by (ii) the Conversion Price (determined as hereinafter provided) for the respective series of Designated Preferred which is in effect at the time of conversion (the "Conversion Rate"). The price at which shares of Common Stock shall be deliverable upon conversion (the "Conversion Price") shall initially be \$0.20 per share for Series A Preferred, \$1.00 per share for Series B Preferred, and \$0.50 per share for the Series B1 Preferred. Such initial Conversion Price shall be subject to adjustment as hereinafter provided.

(b) **Automatic Conversion.** Each share of any series of Designated Preferred shall automatically be converted into shares of Conversion Stock at the then effective Conversion Price for such series upon the cumulative conversion of two-thirds (2/3) or more of the total issued shares of such series (calculated after subtracting any shares of such series repurchased or redeemed by the corporation). In addition, each share of any series of Designated Preferred shall automatically be converted into shares of Conversion Stock at the then effective Conversion Price for such series upon the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the corporation to the public at a price of at least \$3.00 per share (as adjusted to reflect subsequent combinations, reclassifications, stock dividends, stock splits, reverse stock splits and recapitalizations or similar events (each an "Adjustment Event")) with aggregate proceeds of not less than \$10,000,000 (prior to deduction of underwriting discounts or commissions and offering expenses) (a "Public Offering"). In the event of the automatic conversion of the Designated Preferred upon a Public Offering, the person(s) entitled to receive the Conversion Stock issuable upon such conversion of Designated Preferred shall not be deemed to have converted such Designated Preferred until immediately prior to the closing of such sale of securities.

(c) Mechanics of Conversion No fractional shares of Common Stock shall be issued upon conversion of Designated Preferred. In lieu of any fractional shares to which the holder would otherwise be entitled, the corporation shall pay cash equal to such fraction multiplied by the then effective Conversion Price for the respective series of Designated Preferred. Before any holder of Designated Preferred shall be entitled to convert the same into full shares of Common Stock and to receive certificates therefor, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the corporation or of any transfer agent for the Designated Preferred, and shall give written notice to the corporation at such office that such holder elects to convert the same; provided, however, that in the event of an automatic conversion pursuant to Section 5.4(b), the outstanding shares of Designated Preferred shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the corporation or its transfer agent; and provided further, that the corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such automatic conversion unless the certificates evidencing such shares of Designated Preferred are either delivered to the corporation or its transfer agent as provided above, or the holder notifies the corporation or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the corporation to indemnify the corporation from any loss incurred by it in connection with such certificates. The corporation shall, as soon as practicable after delivery of such certificate, or such agreement of indemnification in the case of a lost certificate, issue and deliver at such office to such holder of Designated Preferred, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid and a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional shares of Common Stock. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Designated Preferred to be converted, or in the case of automatic conversion under Section 5.4(b) on the date of cumulative conversion of the requisite percentage of shares as specified in the first sentence of Section 5.4(b), or on the date of closing of the Public Offering, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(d) Adjustments to Conversion Price for Dilutive Issues.

(i) Special Definitions. For purposes of this Section 5.4(d), the following definitions shall apply:

(1) "Options" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible Securities.

(2) "Original Issue Date" shall mean October 31, 2001.

(3) "Convertible Securities" shall mean any evidence of indebtedness, shares of capital stock (other than Common Stock) or other securities, any of which are convertible into or exchangeable for Common Stock.

(4) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to Section 5.4(d)(ii), deemed to be issued) by the corporation after the Original Issue Date, other than:

(A) shares of Common Stock issued or issuable at any time upon conversion of shares of Designated Preferred and shares of Series B1 Preferred issued after the Original Issue Date;

(B) shares of Designated Preferred issued or issuable at any time upon exercise of warrants for Designated Preferred issued in connection with the sale of Designated Preferred;

(C) shares of Common Stock issued or issuable to officers, directors, employees or sales representatives of, or consultants to, the corporation pursuant to stock option or stock purchase plans, agreements or arrangements approved by the Board;

(D) shares of Common Stock issued or issuable at any time as a dividend or distribution on a pro rata basis to all series of Designated Preferred, or upon any other adjustment of Designated Preferred, including antidilution adjustments pursuant to Section 5.4(d)(iii), adjustments pursuant to Section 5.4(e) or other similar adjustments;

(E) shares of Common Stock issued or issuable to a strategic or joint venture partner, supplier, vendor or customer of the corporation for reasons that, in the good faith judgment of the corporation's Board, are in substantial part other than to raise capital;

(F) shares of Common Stock issued or issuable upon conversion of options, warrants, notes or other rights to acquire securities of the corporation that were outstanding as of the Original Issue Date;

(G) shares of Common Stock issued or issuable upon conversion of warrants issued in connection with those certain 10% Convertible Promissory Notes having an aggregate principal amount of up to \$1,000,000 and a "Maturity Date" of September 30, 2002;

(H) shares of common stock issued or issuable in a transaction as to which the application of this Section 5.4(d) has been waived by written consent of holders of a majority of the outstanding shares of the affected series; or

(I) shares of Common Stock issued or issuable at any time by way of dividend or other distribution on shares of Common Stock excluded from the definition of Additional Shares of Common Stock by the foregoing clauses (A) through (H).

(ii) Deemed Issuance of Additional Shares of Common Stock.

(1) Options and Convertible Securities. In the event the corporation at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall, except as otherwise provided in Section 5.4(d)(i)(4), be deemed to be Additional Shares of Common Stock issued as of the time of such issuance; provided that Additional Shares of Common Stock shall not be deemed to have been issued for purposes of calculations pertaining to any series of Designated Preferred unless the consideration per share (determined pursuant to Section 5.4(d)(iv) hereof) of such Additional Shares of Common Stock would be less than the Conversion Price in effect for such series on the date of and immediately prior to such issuance; and, provided further, that in any such case in which Additional Shares of Common Stock are deemed to be issued (notwithstanding the foregoing):

(A) no further adjustment in the Conversion Price for such series shall be made upon the subsequent issuance of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, except as provided in this Section 5.4(d), for any increase or decrease in the consideration payable to the corporation, or in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof (a "Change Event"), the Conversion Price computed upon the original issuance thereof, and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities; provided, however, that anything herein to the contrary notwithstanding, if the Change Event is triggered or caused by a Dilutive Issue (as defined in Section 5.4(d)(iii)), this Section 5.4(d)(ii)(B) shall be inapplicable and no adjustment shall be made to any Conversion Price as a result of the Change Event;

(C) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Conversion Price computed upon the original issuance thereof, and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if,

(I) in the case of Convertible Securities or Options for Common Stock, only the shares of Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities were issued at the time of the issuance of such Convertible Securities or Options and the consideration received therefor was the consideration actually received by the corporation for the issue of all such Options or Convertible Securities, whether or not exercised, converted, or exchanged, plus the consideration actually received by the corporation upon such exercise, conversion or exchange; and

(II) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the corporation for the issue of all such Options, whether or not exercised, plus the consideration deemed to have been received by the corporation upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

(D) notwithstanding any other provision of this Section 5.4(d), except to the limited extent provided in clauses (B) or (C) above, no adjustment of the Conversion Price pursuant to this Section 5.4(d) shall have the effect of increasing the Conversion Price of any series of Designated Preferred to an amount which exceeds the lower of (i) the Conversion Price for such series on the original adjustment date, or (ii) the Conversion Price that would have resulted from any other issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date; and

(E) in the case of any Options which expire by their terms not more than 90 days after the date of issuance thereof, no adjustment of the Conversion Price shall be made until the expiration or exercise of all such Options.

(2) Stock Dividends. In the event the corporation at any time or from time to time after the Original Issue Date shall declare or pay any dividend on the Common Stock payable in Common Stock, then and in any such event, Additional Shares of Common Stock shall be deemed to have been issued immediately after the close of business on the record date for the determination of holders of any class of securities entitled to receive such dividend; provided, however, that if such record date is fixed and such dividend is not fully paid, the only Additional Shares of Common Stock deemed to have been issued will be the number of shares of Common Stock actually issued in such dividend, and such shares will be deemed to have been issued as of the close of business on such record date, and the Conversion Price shall be recomputed accordingly.

(iii) Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock. If at any time or from time to time after the Original Issue Date this corporation shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 5.4(d)(ii)) without consideration or for a consideration (as determined in Section 5.4(d)(iv)) per share issued (or deemed to have been issued under Section 5.4(d)(ii)) less than the Conversion Price for a particular series of Designated Preferred in effect on the date of and immediately prior to such issuance, then and in such event (a "Dilutive Issue"),

(A) the Conversion Price for such affected series (other than the Series B1 Preferred) shall be reduced, concurrently with such issuance, to a price determined by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance on a fully diluted basis (including for such purpose Options and Convertible Securities which are then vested and exercisable, and Options and Convertible Securities granted or issued, but not yet vested or

exercisable) plus the number of shares of Common Stock which the aggregate consideration received by the corporation for the total number of Additional Shares of Common Stock so issued would purchase at such Conversion Price; and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance on a fully-diluted basis (including for such purpose Options and Convertible Securities which are then vested and exercisable, and Options and Convertible Securities granted or issued, but not yet vested or exercisable) plus the number of such Additional Shares of Common Stock so issued, and

(B) the Conversion Price for the Series B1 Preferred shall be reduced, concurrently with each subsequent Dilutive Issue, to a price (calculated to the nearest tenth of a cent) equal to the price per share of such Dilutive Issue.

(iv) Determination of Consideration. For purposes of this Section 5.4(d), the consideration received by the corporation for the issuance of any Additional Shares of Common Stock shall be computed as follows:

(1) Cash and Property. Such consideration shall:

(A) insofar as it consists of cash, be computed at the aggregate amount of cash received by the corporation excluding amounts paid or payable for accrued interest or accrued dividends;

(B) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issuance, as determined in good faith by the Board; and

(C) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board.

(2) Options and Convertible Securities. The consideration per share received by the corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section 5.4(d)(ii)(1), relating to Options and Convertible Securities, shall be determined by dividing:

(A) the total amount, if any, received or receivable by the corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by

(B) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(3) Stock Dividends. Any Additional Shares of Common Stock relating to stock dividends shall be deemed to have been issued for no consideration.

(e) Additional Adjustments to Conversion Price.

(i) Adjustments for Subdivisions, Combinations or Consolidations of Common Stock. In the event the outstanding shares of Common Stock shall be subdivided, by stock split, or otherwise, into a greater number of shares of Common Stock, the Conversion Price for each series of Designated Preferred then in effect shall, concurrently with the effectiveness of such subdivision, be proportionately decreased. In the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, the Conversion Price for each series of Designated Preferred then in effect shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased. Such adjustments shall be made so that the holders of Designated Preferred shall receive upon conversion thereof, the number of shares of Common Stock that they would have received if their Designated Preferred had been converted into Common Stock on the date of such event, subject to all other subsequent adjustments called for under this Section 5.4 with respect to the rights of the holders of Designated Preferred.

(ii) Adjustments for Other Distributions. In the event the corporation at any time or from time to time makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, any distribution payable in securities of the corporation other than shares of Common Stock and other than as otherwise adjusted in this Section 5.4, then and in each such event provision shall be made so that the holders of Designated Preferred shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the corporation which they would have received if their Designated Preferred had been converted into Common Stock on the date of such event, subject to all other subsequent adjustments called for under this Section 5.4 with respect to the rights of the holders of Designated Preferred.

(iii) Adjustments for Reclassification, Exchange and Substitution. If the Common Stock issuable upon conversion of the Designated Preferred shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for above), the Conversion Price for each series of Designated Preferred then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the shares of such series of Designated Preferred shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, that number of shares of such other class or classes of stock that would have been received by a holder of the number of shares of Common Stock that

were subject to receipt by the holders upon conversion of the shares of such series immediately before that change.

(f) No Impairment. The corporation will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the corporation but will at all times in good faith assist in the carrying out of all the provisions of this Section 5.4 and in the taking of all such actions as may be necessary or appropriate in order to protect the Conversion Rights of the holders of Designated Preferred against impairment.

(g) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price for any series of Designated Preferred pursuant to this Section 5.4, the corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of the series so affected a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The corporation shall, upon the written request at any time of any holder of any series of Designated Preferred, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price in effect at the time for such series, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such series of Preferred Stock.

(h) Notices. In the event that the corporation shall propose at any time:

(i) to declare any dividend or distribution upon its Common Stock or Preferred Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;

(ii) to effect any reclassification or recapitalization of its outstanding Common Stock which results in a change in the Common Stock; or

(iii) to merge, consolidate or exchange shares with or into any other corporation, or sell, lease, license or convey all or substantially all its property or business, or to liquidate, dissolve or wind up; then, in connection with each such event;

this corporation shall send to the holders of Designated Preferred at least twenty (20) days prior written notice of the payment or distribution date for such dividend, distribution or subscription rights, of the date at which the vote on any matter referred to in (ii) and (iii) above will be taken, and of the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event or the record date for the determination of such holders if such record date is earlier. In the case of a transaction described in Section 5.4(h)(iii) above that constitutes a deemed liquidation under Section 5.2(c), if the requirements of this Section 5.4(h) are not complied with, then the corporation shall forthwith either cause the closing of the transaction to be postponed until such time as the requirements of this Section 5.4(h) have been complied with, or cancel such

transaction, in which event the rights, preferences and privileges of the holders of the Designated Preferred shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in Section 5.4(h) hereof. The notice provisions of this Section 5.4(h) may be waived with respect to a series of Designated Preferred by the affirmative vote or written consent of the holders of not less than a majority of the outstanding shares of such series. Each such written notice shall (x) be delivered personally; (y) be given by certified or registered mail, postage prepaid; or (z) to the extent receipt is confirmed, by telecopy, telefax or other electronic transmission method; and shall be addressed to the holders of Designated Preferred at the address for each such holder as shown on the books of this corporation.

(i) Reservation of Shares. The corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of Designated Preferred, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Designated Preferred. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Designated Preferred, in addition to such other remedies as shall be available to the holders of such Designated Preferred, the corporation will take such corporate actions as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite shareholder approval of any necessary amendment to these Articles of Incorporation.

5.5 Protective Provisions. In addition to any other rights provided to the holders of Designated Preferred by law, this corporation shall not, without first obtaining the affirmative vote or written consent of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the outstanding shares of each series of Designated Preferred that is affected in the manner described below (each such affected series voting as a separate class):

(a) amend or repeal any provision of, or add any provision to, the corporation's Articles of Incorporation (other than the designation of additional shares of Preferred Stock), if such action would adversely alter or change the preferences, rights, or privileges of the Designated Preferred;

(b) declare or pay any dividend or make any distribution (whether in cash, shares of capital stock of the corporation, or other property) on shares of its capital stock, except upon termination of employment, consulting or other relationships with the corporation; or

(c) increase the authorized number of shares of such series.

ARTICLE 6 **NO CUMULATIVE VOTING**

Shareholders of this corporation shall not have the right to cumulate votes for the election of directors.

ARTICLE 7
NO PREEMPTIVE RIGHTS

No shareholder of this corporation shall have, solely by reason of being a shareholder, any preemptive or preferential right or subscription right to any stock of this corporation or to any obligations convertible into stock of this corporation, or to any warrant or option for the purchase thereof, except to the extent provided by written agreement with this corporation.

ARTICLE 8
SHAREHOLDERS

8.1 Calling of Special Meeting of Shareholders. Subsequent to the date that the corporation is subject to the reporting requirements of Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), special meetings of the shareholders for any purpose or purposes may be called at any time only by the Board or the Chairman of the Board (if one be appointed) or the President or one or more shareholders holding not less than twenty-five percent (25%) of all the shares entitled to be cast on any issue proposed to be considered at that meeting.

8.2 Shareholder Voting on Extraordinary Actions. Subsequent to the date that the corporation is subject to the reporting requirements of Section 13 of the Exchange Act, pursuant to the authority granted under Sections 23B.10.030, 23B.11.030, 23B.12.020, and 23B.14.020 of the Act, the vote of shareholders of this corporation required in order to approve amendments to the Articles of Incorporation, a plan of merger or share exchange, the sale, lease, exchange, or other disposition of all or substantially all of the property of the corporation not in the usual and regular course of business, or dissolution of the corporation shall be a majority of all of the votes entitled to be cast by each voting group entitled to vote thereon.

8.3 Contracts with Interested Shareholders. Subject to the limitations set forth in RCW 23B.19.040, to the extent applicable:

(a) The corporation may enter into contracts and otherwise transact business as vendor, purchaser, lender, borrower, or otherwise with its shareholders and with corporations, associations, firms, and entities in which they are or may be or become interested as directors, officers, shareholders, members, or otherwise.

(b) Any such contract or transaction shall not be affected or invalidated or give rise to liability by reason of the shareholder's having an interest in the contract or transaction.

8.4 Ratification by Shareholder Vote. Subject to the requirements of RCW 23B.08.730 and 23B.19.040, any contract, transaction, or act of the corporation or of any director or officer of the corporation that shall be authorized, approved, or ratified by the affirmative vote of a majority of shares represented at a meeting at which a quorum is present shall, insofar as permitted by law, be as valid and as binding as though ratified by every shareholder of the corporation.

8.5 **Quorum.** A quorum shall exist at any meeting of shareholders if a majority of the votes entitled to be cast is represented in person or by proxy. In the case of any meeting of shareholders that is adjourned more than once because of the failure of a quorum to attend, those who attend the third convening of such meeting, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors, provided that the percentage of shares represented at the third convening of such meeting shall not be less than one-third of the shares entitled to vote.

8.5 **Less-Than-Unanimous Shareholder Consent.** To the extent permitted by the Act, the taking of action by shareholders without a meeting by less than unanimous written consent of all shareholders entitled to vote on the action shall be permitted. Written notice of the taking of such action shall be given to those shareholders entitled to vote on the action who have not consented in writing (and, if the Act would otherwise require that notice of a meeting of shareholders to consider the action be given to nonvoting shareholders, to all nonvoting shareholders), describing with reasonable clarity the general nature of the action, and accompanied by the same material that, under the Act, would have been required to be sent to nonconsenting (or nonvoting) shareholders in a notice of meeting at which the action would have been submitted for shareholder action. Such notice shall be either (i) by deposit in the U.S. mail before the action becomes effective (or, such longer period as required by law, in the case of a significant business transaction under RCW 23B.19.020 (15)), with first-class postage thereon prepaid, correctly addressed to each shareholder entitled thereto at the shareholder's address as it appears on the current record of shareholders of the Corporation; or (ii) by personal delivery, courier service, wire or wireless equipment, telegraphic or other facsimile transmission, or any other electronic means which transmits a facsimile of such communication correctly addressed to each shareholder entitled thereto at the shareholder's physical address, electronic mail address, or facsimile number, as it appears on the current record of shareholders of the Corporation. Notice under clause (i) shall be given at least seventy-two (72) hours, and notice under clause (ii) shall be given at least twenty-four (24) hours before the action becomes effective (or such longer period as required by law, in the case of a significant business transaction under RCW 23B.19.020 (15)).

ARTICLE 9 **DIRECTORS**

9.1 **Number of Directors.** The number of directors of the corporation shall be fixed as provided in the Bylaws and may be changed from time to time by amending the Bylaws.

9.2 **Authority of Board of Directors to Amend Bylaws.** Subject to the limitation(s) of RCW 23B.10.210, and subject to the power of the shareholders of the corporation to change or repeal the Bylaws, the Board is expressly authorized to make, amend, or repeal the Bylaws of the corporation unless the shareholders in amending or repealing a particular bylaw provide expressly that the Board may not amend or repeal that bylaw.

9.3 **Contracts with Interested Directors.** Subject to the limitations set forth in RCW 23B.08.700 through 23B.08.730:

(a) The corporation may enter into contracts and otherwise transact business as vendor, purchaser, lender, borrower, or otherwise with its directors and with corporations, associations, firms, and entities in which they are or may be or become interested as directors, officers, shareholders, members, or otherwise.

(b) Any such contract or transaction shall not be affected or invalidated or give rise to liability by reason of the director's having an interest in the contract or transaction.

9.4 Indemnification of Directors, Officers, Employees and Agents. The capitalized terms in this Section 9.4 shall have the meanings set forth in RCW 23B.08.500.

(a) The Corporation shall indemnify and hold harmless each individual who is or was serving as a Director or officer of the Corporation or who, while serving as a Director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against any and all Liability incurred with respect to any Proceeding to which the individual is or is threatened to be made a Party because of such service, and shall make advances of reasonable Expenses with respect to such Proceeding, to the fullest extent permitted by law, without regard to the limitations in RCW 23B.08.510 through 23B.08.550; provided that no such indemnity shall indemnify any Director or officer from or on account of (1) acts or omissions of the Director or officer finally adjudged to be intentional misconduct or a knowing violation of law; (2) conduct of the Director or officer finally adjudged to be in violation of RCW 23B.08.310; or (3) any transaction with respect to which it was finally adjudged that such Director or officer personally received a benefit in money, property, or services to which the Director or officer was not legally entitled.

(b) The Corporation may purchase and maintain insurance on behalf of an individual who is or was a director, officer, employee, or agent of the Corporation or, who, while a director, officer, employee, or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise against Liability asserted against or incurred by the individual in that capacity or arising from the individual's status as a director, officer, employee, or agent, whether or not the Corporation would have power to indemnify the individual against such Liability under RCW 23B.08.510 or 23B.08.520.

(c) If, after the effective date of this Section 9.4, the Act is amended to authorize further indemnification of Directors or officers, then Directors and officers of the Corporation shall be indemnified to the fullest extent permitted by the Act.

(d) To the extent permitted by law, the rights to indemnification and advance of reasonable Expenses conferred in this Section 9.4 shall not be exclusive of any other right which any individual may have or hereafter acquire under any statute, provision of the Bylaws, agreement, vote of shareholders or disinterested directors, or otherwise. The right to indemnification conferred in this Section 9.4 shall be a contract right upon which each Director

or officer shall be presumed to have relied in determining to serve or to continue to serve as such. Any amendment to or repeal of this Section 9.4 shall not adversely affect any right or protection of a Director or officer of the Corporation for or with respect to any acts or omissions of such Director or officer occurring prior to such amendment or repeal.

(e) If any provision of this Section 9.4 or any application thereof shall be invalid, unenforceable, or contrary to applicable law, the remainder of this Section 9.4, and the application of such provisions to individuals or circumstances other than those as to which it is held invalid, unenforceable, or contrary to applicable law, shall not be affected thereby.

9.5 Limitation of Directors' Liability. To the fullest extent permitted by the Act, as it exists on the date hereof or may hereafter be amended, a director of this corporation shall not be personally liable to the corporation or its shareholders for monetary damages for conduct as a director. Any amendment to or repeal of this Section 9.5 shall not adversely affect a director of this corporation with respect to any conduct of such director occurring prior to such amendment or repeal.

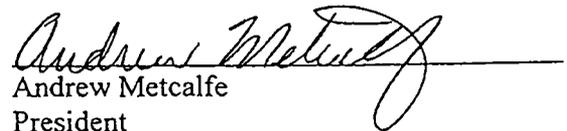
ARTICLE 10 **OTHER MATTERS**

10.1 Amendments to Articles of Incorporation. Except as otherwise provided in these Articles, as amended from time to time, the corporation reserves the right to amend, alter, change, or repeal any provisions contained in these Articles in any manner now or hereafter prescribed or permitted by statute. All rights of shareholders of the corporation are subject to this reservation. A shareholder of the corporation does not have a vested property right resulting from any provision of these Articles of Incorporation.

10.2 Correction of Clerical Errors. The corporation shall have authority to correct clerical errors in any documents filed with the Secretary of State of Washington, including these Articles or any amendments hereto, without the necessity of special shareholder approval of such corrections.

Executed this 9 day of October, 2001.

NORTHWEST TELEPHONE, INC.


Andrew Metcalfe
President

State of Idaho

Office of the Secretary of State

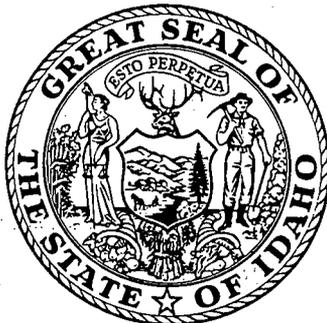
CERTIFICATE OF AUTHORITY
OF
NORTHWEST TELEPHONE, INC.

File Number C 150424

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: 15 August 2003



Ben Yursa

SECRETARY OF STATE

By

Sally Loyal



APPLICATION FOR CERTIFICATE OF AUTHORITY (For Profit)

(Instructions on Back of Application)

FILED EFFECTIVE

2003 AUG 15 AM 8:55

SECRETARY OF STATE
STATE OF IDAHO

The undersigned Corporation applies for a Certificate of Authority and states as follows:

- The name of the corporation is:
Northwest Telephone, Inc.
- The name which it shall use in Idaho is: Northwest Telephone, Inc.
- It is incorporated under the laws of: Washington
- Its date of incorporation is: 1/25/1999
- The address of its principal office is:
1630 N. Wenatchee Avenue, Suite 9, Wenatchee, WA 98801
- The address to which correspondence should be addressed, if different from item 5, is:
(same)
- The street address of its registered office in Idaho is: 300 N. Sixth St., Boise, ID 83702
and its registered agent in Idaho at that address is: CT Corporation System
- The names and respective business addresses of its directors and officers are:

Name	Office	Address
<u>Andrew Metcalfe</u>	<u>President/Chairman</u>	<u>1630 N. Wenatchee, #9, Wenatchee, WA</u>
<u>Jennifer Rickel</u>	<u>Secretary</u>	<u>1630 N. Wenatchee, #9, Wenatchee, WA</u>
<u>Robert Howe</u>	<u>Vice President</u>	<u>1630 N. Wenatchee, #9, Wenatchee, WA</u>
<u>Stephen Kautz</u>	<u>Director</u>	<u>5721 Corte Libre, Pleasanton, CA</u>
<u>Randy Cooper</u>	<u>Director</u>	<u>1630 N. Wenatchee, #9, Wenatchee, WA</u>

Dated: August 12, 2003

Signature: *Robert Howe*

Typed Name: Robert Howe

Capacity: Vice President

Customer Acct # : _____
(if using pre-paid account)

Secretary of State use only

IDAHO SECRETARY OF STATE
08/15/2003 05:00
 CK: 4874 CT: 172289 BH: 696557
 1 @ 100.00 = 100.00 AUTH PRO # 2
 1 @ 20.00 = 20.00 EXPEDITE C # 3

g:\corpforms\corp forms\appforce\authority_profit.pms Revised 07/2002

Web Form

C 150424



IDAHO STATE TAX COMMISSION

800 Park Blvd., Plaza IV * P.O. Box 36 * Boise, Idaho 83722-2210
(Hearing Impaired TDD) 1-800-377-3529 *Equal Opportunity Employer*

September 23, 2003

NORTHWEST TELEPHONE INC
1630 N WENATCHEE AVE STE 9
WENATCHEE WA 98801-1188

Dear Taxpayer,

Your application for an Idaho Seller's Permit has been accepted. You have been approved to file on a monthly basis, and the number assigned to you is shown on the attached permit. Tax reporting forms (returns) are being sent to you in a separate mailing. You must file a return even if no tax is due.

After one year, you may file a written request to change your filing frequency.

If you need help filing your returns or have questions about sales tax, call (208) 334-7660 in Boise or (800) 972-7660 toll free nationwide.

atL16_V14.dot

POST IN A VISIBLE PLACE

THIS PERMIT IS NOT TRANSFERABLE

IDAHO STATE TAX COMMISSION SELLER'S PERMIT

THE BUSINESS NAMED BELOW HAS BEEN GRANTED THIS SELLER'S PERMIT. THIS PERMIT IS VALID UNTIL CANCELLED, REVOKED OR SUSPENDED FOR CAUSE AS PROVIDED BY LAW.

ISSUED TO:

NORTHWEST TELEPHONE INC
NORTHWEST TELEPHONE INC
1630 N WENATCHEE AVE, STE 9
WENATCHEE, WA 98801-1188

Permit Number: 002690822-S
Issue Date: 09/23/2003
Effective Date: 10/01/2003

11/11/03

Northwest Telephone, Inc.
Summary Balance Sheet

As of September 30, 2003

(Unaudited)

	Sep 30, '03	Dec 31, '02
ASSETS		
Current Assets		
Checking/Savings	189,702	52,434
Accounts Receivable	477,622	410,178
Other Current Assets	80,510	0
Total Current Assets	747,834	462,612
Fixed Assets	2,200,874	1,927,753
Other Assets	540,547	703,180
TOTAL ASSETS	3,489,255	3,093,545
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable	452,121	590,039
Other Current Liabilities	231,103	138,024
Total Current Liabilities	683,224	728,063
Long Term Liabilities	1,386,053	1,299,846
Total Liabilities	2,069,276	2,027,909
Equity	1,419,979	1,065,636
TOTAL LIABILITIES & EQUITY	3,489,255	3,093,545

11/11/03

Northwest Telephone, Inc.
Profit & Loss YTD Comparison
 January through September 2003
(Unaudited)

	Jan - Sep '03
Ordinary Income/Expense	
Income	
4000 · Circuits	78,250
4100 · Telephone	95,311
4400 · Broadband Access	1,493,965
4500 · Managed Ports	617,718
4600 · Digital Subscriber Line (DSL)	46,630
4700 · Wireless	63,057
4750 · Fiber	382
4800 · Hardware, Parts and Equipment	51,046
4900 · Miscellaneous	15,662
Total Income	2,462,022
Cost of Goods Sold	
5100 · COGS - Telephone - Verizon	12,674
5400 · COGS - Broadband Access	1,358,000
5600 · Cost of DSL Services	4,437
5800 · Cost of Hardware, P and E	1,466
5900 · COGS - Miscellaneous	6,443
Total COGS	1,383,020
Gross Profit	1,079,002
Expense	
6000 · OSS Expenses	234,890
6800 · OSS Wages	170,217
7000 · Operations Expenses	29,681
7800 · Operations Wages	158,362
8000 · Sales and Marketing Expenses	33,514
8800 · Sales and Marketing Wages	97,450
9999 · Uncategorized Expenses	0
Total Expense	724,114
Net Ordinary Income	354,888
Other Income/Expense	
Other Income	
9410 · Extraordinary Income	729,109
Total Other Income	729,109
Other Expense	
9500 · Interest Expense	140,363
9501 · Convertible Note Interest	55,430
9510 · Depreciation expense	364,000
9520 · Amortization expense	18,000
9900 · Provision For Tax Benefit	151,861
Total Other Expense	729,654
Net Other Income	(545)
Net Income	354,343

NORTHWEST TELEPHONE, INC.

ACCOUNTANTS' REVIEW REPORT
and
FINANCIAL STATEMENTS

December 31, 2002 and 2001



LINDER & GOETZ

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

CONTENTS

	PAGE
ACCOUNTANTS' REVIEW REPORT	1
FINANCIAL STATEMENTS	
Balance sheets	2-3
Statements of operations	4
Statements of retained deficit	5
Statements of cash flows	6
Notes to the financial statements	7-14
SUPPLEMENTARY INFORMATION	
Schedule I - Schedule of revenues, cost of revenues and general and administrative expenses	16



LINDER & GOETZ, P.S.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Northwest Telephone, Inc.
Wenatchee, Washington

We have reviewed the accompanying balance sheets of Northwest Telephone, Inc. (a corporation) as of December 31, 2002 and 2001, and the related statements of operations, retained deficit, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Northwest Telephone, Inc.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying Schedule I is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

LINDER & GOETZ, P.S.

March 8, 2003

Post Office Box 578
Wenatchee, WA 98807-0578

Telephone 509.662.9691

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NORTHWEST TELEPHONE, INC.

Balance Sheets
December 31, 2002 and 2001

ASSETS	<u>2002</u>	<u>2001</u>
CURRENT ASSETS		
Cash	\$ 52,434	\$ 221,697
Trade accounts receivable	410,177	369,246
Convertible note receivable	-	29,000
Total current assets	462,611	619,943
EQUIPMENT, FURNITURE AND LEASEHOLDS		
Equipment, furniture, and leasehold improvements	2,760,375	2,706,477
Less accumulated depreciation and amortization	(832,621)	(390,105)
Equipment, furniture and leasehold improvements, net	1,927,754	2,316,372
OTHER ASSETS		
Deposits	7,214	13,331
Deferred tax asset	582,596	433,849
Start-up, corporate identity, and collocation costs, net	113,370	133,810
Total other assets	703,180	580,990
TOTAL ASSETS	\$ 3,093,545	\$ 3,517,305

See accompanying notes and accountants' report.

NORTHWEST TELEPHONE, INC.
Statements of Retained Deficit
For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
RETAINED DEFICIT - BEGINNING OF YEAR	\$ (881,962)	\$ (347,745)
NET LOSS	<u>(387,325)</u>	<u>(534,217)</u>
RETAINED DEFICIT - END OF YEAR	<u><u>\$ (1,269,287)</u></u>	<u><u>\$ (881,962)</u></u>

See accompanying notes and accountants' report.

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See accompanying notes and accountants' report.

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NORTHWEST TELEPHONE, INC.

Notes to the Financial Statements
December 31, 2002 and 2001

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

Northwest Telephone, Inc. is a business-to-business telecommunications company formed in 1999 to operate as a Competitive Local Exchange Carrier (CLEC), Interexchange Carrier (IXC) and Internet Service Provider (ISP) in the State of Washington, specifically the Eastern Washington Area. Northwest Telephone, Inc. is authorized to provide both voice and high speed data services.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. Accordingly, actual results could differ from estimates used. Significant estimates used in the preparation of these financial statements include the collectibility of trade accounts receivable and the estimated useful lives of fixed assets.

Cash and Cash Equivalents

Cash and cash equivalents consists of all monies in banks and highly liquid investments with maturity dates of less than three months.

Accounts receivable

Accounts receivable represent charges to commercial and residential customers for telecommunications and Internet services. The Company obtains credit checks on all Broadband, Managed Ports, and Telephone customers. No allowance for doubtful accounts is considered necessary at December 31, 2002 or 2001, as all known doubtful accounts have been written-off prior to year end.

Equipment, Furniture, and Leasehold Improvements

Equipment, furniture, and leasehold improvements are stated at cost. Depreciation is determined using the straight-line method over estimated lives ranging from 5 to 10 years for equipment, and furniture, and 39 years for leasehold improvements. Maintenance and repairs are charged against income as incurred, and additions, renewals and improvements are capitalized. In addition, the Company capitalizes wages incurred in connection with the facility set-up and installation of switching and other equipment. Capitalized wages for 2002 and 2001 were \$167,328 and \$202,992, respectively.

Income Taxes

Income taxes are recognized using enacted tax rates, and are composed of taxes on financial accounting income that is adjusted for requirements of current tax law, and deferred taxes. Deferred taxes are the expected future tax consequences of temporary differences between financial statement carrying amounts and tax bases of existing assets and liabilities, and the effects of net operating loss carry forwards.

NORTHWEST TELEPHONE, INC.

Notes to the Financial Statements
December 31, 2002 and 2001

Note 1 - Summary of Significant Accounting Policies (Continued)

Start-up costs, corporate identity and collocation costs

Start-up costs consist of legal and other fees incurred to organize the Company. Collocation costs represent costs incurred to secure placement of Company equipment. Start-up costs are being amortized over a five year period. Collocation costs are being amortized over a fifteen year period.

Note 2 - Long-Term Debt

	<u>2002</u>	<u>2001</u>
Long-term debt at December 31, 2002 and 2001 consists of the following:		
Equipment purchase contract payable in monthly installments of \$6,717, including interest at 10%, collateralized by related equipment, matures November 22, 2004.	\$ 140,040	\$ 197,136
Term loan payable to bank in monthly installments of \$2,128, including interest at the Wall Street Journal Prime Rate plus 1.5%, currently 6.25%, collateralized by personal guarantees from stockholders of the Company, with a maturity date of February 10, 2005. The bank may demand payment in full at its option.	47,084	69,078
Switching equipment purchase contract. Payable in monthly installments of \$10,000 with no terms for interest. The contract is collateralized by the related equipment, and matures in March 2004.	145,904	267,507
Note payable to minority shareholder, payable in monthly payments of \$4,500 representing interest only at 18%, collateralized by equipment, matures October 2004.	300,000	300,000
Billing software purchase contract payable in monthly installments of \$3,552, including interest at 18%, collateralized by related asset. During 2002 the note was removed when use of the software was abandoned.	-	47,432
Two vehicle purchase contracts payable in a combined monthly payment of \$698, including interest at 10.94%, collateralized by two 1997 Dodge Dakota trucks, matures January 2006.	21,830	27,474
Sub-total	<u>654,858</u>	<u>908,627</u>

NORTHWEST TELEPHONE, INC.

Notes to the Financial Statements
December 31, 2002 and 2001

Note 2 - Long-term Debt (Continued)

	<u>2002</u>	<u>2001</u>
Sub-total forward	\$ 654,858	\$ 908,627
Equipment purchase note payable in monthly installments of \$2,942, including interest at 24%, collateralized related equipment, matures May 31, 2005.	<u>64,276</u>	<u>-</u>
Total long-term debt	719,134	908,627
Less current portion	<u>(265,337)</u>	<u>(360,635)</u>
Long-term debt, net of current portion	<u>\$ 453,797</u>	<u>\$ 547,992</u>

The following is a summary of the estimated future principal maturities at December 31, 2002:

Year Ended December 31,	
2003	\$ 265,337
2004	131,411
2005	321,695
2006	<u>691</u>
	<u>\$ 719,134</u>

Note 3 - Major Customers

During the years ended December 31, 2002 and 2001 the Company had major customers that represented approximately 37% and 40% of total revenues, respectively. Accounts receivable outstanding at December 31, 2002 and 2001 related to these customers were \$163,506 and \$115,682, respectively.

Note 4 - Related Party Transactions

During the year ended December 31, 2000 Northwest Telephone, Inc. purchased equipment from a vendor that is also a minority shareholder in the Company. The total purchase price of the equipment was \$323,521. The entire purchase price was financed with the company under terms that are similar to those offered to its other customers.

NORTHWEST TELEPHONE, INC.

Notes to the Financial Statements

December 31, 2002 and 2001

Note 5 - Obligations Under Capital Leases

Certain equipment is held under non-cancelable capital leases. The cost of this equipment is being amortized using the straight-line method over the estimated life of five years. The rates of interest implicit in the leases range from 21% to 52%. The investment in capital leases and accumulated amortization included in equipment at December 31, 2002 and 2001 is as follows:

	<u>2002</u>	<u>2001</u>
Equipment cost	\$ 633,097	\$ 633,097
Less accumulated amortization	(159,183)	(65,515)
	<u>\$ 473,914</u>	<u>\$ 567,582</u>

The net minimum lease payments as of December 31, 2002, including the lease in dispute outlined in Note - 6, are as follows:

<u>Year Ended December 31,</u>	
2003	\$ 69,594
2004	136,800
Total future minimum lease payments	<u>206,394</u>
Less imputed interest and taxes	(104,791)
Present value of net minimum lease payments	101,603
Less current portion	(49,520)
	52,083
Lease in dispute, Note - 6	479,109
Long-term portion	<u>\$ 531,192</u>

A capital lease obligation included above contains certain provisions that allow the lessor to accept payment of the final option price of \$72,000 in shares of Northwest Telephone, Inc. common shares valued at \$1.00 per share.

Note 6 - Lease in Dispute - Subsequent Event

On November 3, 2000 the Company entered into a Master Agreement to Lease Equipment with a vendor in connection with the acquisition of telephone switching equipment. In addition to the lease commitment, the vendor received warrants to purchase 128,700 shares of the Company's common stock for a \$1 per share exercise price. Any unexercised warrants expire on November 3, 2005. The related switching equipment has a capitalized cost of \$497,018 and related accumulated depreciation of \$216,563 at December 31, 2002.

Since its installation the switching equipment has not performed to the standards expected by management of Northwest Telephone, Inc. Management believes that the malfunctioning equipment has significantly reduced the Company's ability to provide quality service to existing and potential customers, thus impeding the Company's growth and profitability. In August 2001 the Company suspended all payments on the obligation until the matter can be resolved to their satisfaction. At December 31, 2002 the Company was still in negotiations with the vendor. In March 2003 a tentative agreement was presented to the Company that would relieve the Company of the entire obligation and allow it to maintain ownership of the equipment.

NORTHWEST TELEPHONE, INC.

Notes to the Financial Statements

December 31, 2002 and 2001

Note 7 - Business Risks and Credit Concentration

The Company operates in the highly competitive telecommunications and Internet service industry. Significant technological changes and increased competition in the industry could adversely affect operating results.

The Company provides credit, in the normal course of business, to customers located in Washington State. All outstanding customer balances are generally unsecured.

The Company maintains cash balances at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. In the normal course of business, the Company may have deposits that exceed the insured balance.

Note 8 - Advertising Expense

The Company expenses the cost of advertising as incurred. Advertising costs charged to operations for the years ended December 31, 2002 and 2001 were \$28,580 and \$58,387, respectively.

Note 9 - Operating Lease Commitments

The Company leases its office space and equipment site in Wenatchee, Washington under two separate agreements. The office is rented for \$1,200 per month for five years beginning January 1, 1999. The equipment site is rented for \$900 per month for five years beginning November 1, 2000. Both leases contain options for an additional five year term. The Company also leases office space in Moses Lake, Washington for \$450 per month under a five year lease beginning July 15, 2000.

The following is a schedule by years of future minimum payments for the significant non-cancelable operating leases at December 31, 2002.

<u>Year Ended December 31,</u>	
2003	\$ 30,600
2004	30,600
2005	<u>11,700</u>
	<u>\$ 72,900</u>

In addition to the above leases, the Company rents communications site space at various locations through-out the State. The lease terms range from one to five years and carry a monthly rental of approximately \$1,750 in aggregate.

Total rents paid during the years ended December 31, 2002 and 2001 for office, facilities and communication sites were \$53,882 and \$44,500, respectively.

NORTHWEST TELEPHONE, INC.

Notes to the Financial Statements

December 31, 2002 and 2001

Note 10 - Preferred Stock

In accordance with the Articles of Incorporation as amended, the authorized shares of preferred stock were divided into and issued in series. Certain series of preferred stock are presently designated, and their terms are set forth as follows:

	<u>Authorized</u> <u>Shares</u>	<u>Issued</u> <u>Shares</u>
Series A Preferred Stock	1,875,000	1,825,000
Series B Preferred Stock	2,500,000	392,727
Series B-1 Preferred Stock	<u>1,814,546</u>	<u>1,514,546</u>
	<u>6,189,546</u>	<u>3,732,273</u>

Preferences, rights, privileges and restrictions granted to or imposed on the respective shares of each such series of Designated Preferred Stock include preferences as to dividends, liquidating distributions, and voting rights.

During 2000 the Company issued an additional 1,200,000 shares of Series A Preferred Stock and 1,150,000 shares of Series B Preferred Stock in exchange for capital contributions of \$300,000 and \$1,150,000 respectively. The convertible note receivable at December 31, 2001 represents \$29,000 for the unpaid portion of convertible notes. During 2002 \$4,000 of this amount was received. The remaining \$25,000 was cancelled by the issuing party.

Note 11 - Warrants and Options

As part of the Company's efforts to raise capital and obtain financing for operating equipment the Company issues warrants and stock purchase options to existing stockholders and major equipment vendors from time to time. The following is a schedule of warrants and options outstanding as of December 31, 2002 and 2001:

<u>Share Class</u>	<u>Type</u>	<u>2002</u>	<u>2001</u>
Common	Warrants	694,325	694,325
Preferred	Warrants	3,749,782	3,525,634
Common	Options	72,000	72,000

The options and warrants contain various expiration dates between 2002 and 2006. As of December 31, 2002 the combined value from exercisable options and warrants was approximately \$2.7M.

Note 12 - Compensated Absences

Employees of Northwest Telephone, Inc. earn a vested right to compensation for unused vacation and personal absence time. Accordingly, the Company has made an accrual for vacation and personal absence compensation that employees have earned but not taken.

NORTHWEST TELEPHONE, INC.

Notes to the Financial Statements
December 31, 2002 and 2001

Note 13 - Convertible Notes

The Company is authorized to issue 10% Convertible Promissory Notes for an aggregate principal amount of up to \$1,000,000. At December 31, 2002 and 2001 a total of \$741,100 and \$730,100 in Convertible Promissory Notes were issued, respectively. Interest accrues on the outstanding principal balance from the date of issue until the date the Notes are paid in full, at the rate of ten percent (10%) per annum, simple interest. If not sooner paid or converted according to the Note terms, the outstanding principal balances and any accrued interest thereon were scheduled to mature on September 30, 2002. During 2002 the maturity date was extended to September 30, 2004. The notes are subordinated in right of payment to the prior payment in full of all the Company's Senior Indebtedness.

The Notes are convertible as follows:

Automatic Conversion - If, prior to the Maturity Date, the Company completes as single, continuous, integrated offering of its Series C Preferred Stock for cash in an amount not less than \$500,000 in the aggregate (the "Triggering Financing"), the Outstanding Principal Balance and accrued interest shall be automatically converted into that number of shares of Equivalent Preferred Stock equal to the quotient (rounded downward to the nearest whole number) obtained by dividing the amount of the Outstanding Principal Balance and accrued interest by the lower of the (i) per share offering price of the Series C Preferred Stock sold in the Triggering Financing, or (ii) \$.50 per share. Equivalent Preferred Stock shall mean a series of preferred stock if not the Series C Preferred Stock, to be duly authorized and issued by the Company to accommodate the conversion, substantially equivalent in its rights, privileges, powers, and limitations to, and on a parity with, the Series C Preferred Stock sold in the Triggering Financing.

Optional Conversion - If the Notes are not sooner paid or automatically converted, a majority-in-interest of Holders of the Notes may, (i) at any time after the Maturity Date, (ii) at any time during the Notice Period, or (iii) upon the sale, conveyance or other transfer of all or substantially all of the Company's assets or business (other than a spin-off to a commonly-owned entity) or upon the acquisition of the Company by means of any transaction or series of related transactions (including without limitation any reorganization, share exchange, merger or consolidation) that results in the transfer of fifty percent (50%) or more of the outstanding voting power of the Company, at their option, elect to convert the Outstanding Principal Balance and accrued interest under the Notes, in whole or in part, into that number of shares of the Company's Common Stock equal to the quotient (rounded downward to the nearest whole number) obtained by dividing the amount of the Outstanding Principal Balance and accrued interest by \$0.50 per share.

Note 14 - Employee Stock Purchase Plan

The Company has an employee stock purchase plan which provides that eligible employees may purchase shares of the Company's common stock. The total number of shares issuable under the plan is 1,000,000. January 2002 was the earliest date current employees became eligible to purchase shares. To date no eligible employees have purchased shares under the terms of the plan..

NORTHWEST TELEPHONE, INC.

Notes to the Financial Statements

December 31, 2002 and 2001

Note 15 - Income Taxes

The (provision) benefit for federal income taxes for the years ended December 31, 2002 and 2001, consists of the following:

	<u>2002</u>	<u>2001</u>
Current	\$ -	\$ -
Deferred	148,747	254,386
	<u>\$ 148,747</u>	<u>\$ 254,386</u>

The compositions of the deferred income tax assets and liabilities at December 31, 2002 and 2001, are as follows:

	<u>2002</u>	<u>2001</u>
Non-current deferred income taxes		
Gross deferred tax assets	\$ 782,868	\$ 546,404
Gross deferred tax liabilities	(200,272)	(112,555)
	<u>\$ 582,596</u>	<u>\$ 433,849</u>

The significant temporary differences between the carrying amounts and tax bases of existing assets and liabilities that give rise to deferred tax assets and liabilities include property and equipment, and a net operating loss carry forward of \$2,302,500 that is available to offset future taxable income. The net operating loss carry forward will begin to expire in the year 2014 if not used.

Supplementary Information

NORTHWEST TELEPHONE, INC.
1630 N WENATCHEE AVE, SUITE 9
WENATCHEE, WASHINGTON 98801
Voice: 509.661.2000
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Web: www.nw-tel.com

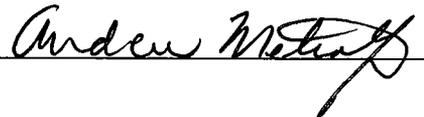
Describing All Services Offered; and All Prices, Charges, Terms and Conditions
Pertaining Thereto

November 12, 2003

Date Issued

Effective Date:

Issued by: Northwest Telephone, Inc.

By: 

Title: President

NORTHWEST TELEPHONE, INC
PRICE LIST
PAGE NO. 2

EXPLANATION OF SYMBOLS

- (C) To signify changed conditions or regulations
 - (D) To signify discontinued rate, regulation or condition
 - (I) To signify increase
 - (K) To signify that material has been transferred to another sheet or place in the price list.
 - (M) To signify that material has been transferred from another sheet or place in the price list.
 - (N) To signify new rate, regulation, condition or sheet
 - (O) To signify no change*
 - (R) To signify reduction
 - (T) To signify a change in text for clarification
- The use of the symbol "O" shall be discretionary unless its use in the interest of clarity is evident or specifically requested by the Commission.

November 12, 2003

Date Issued

Effective Date:

Issued by: Northwest Telephone, Inc.

By: 

Title: President

NORTHWEST TELEPHONE, INC
PRICE LIST
PAGE NO. 3

SECTION 1 – DEFINITIONS

Authorized User: An end user authorized by the customer to use the service.

Collect Call: A billing arrangement where a call is billed to the called station.

Commission: The Idaho Utilities and Transportation Commission

Customer: The person, firm, corporation or other entity which orders or uses service and has agreed by signature or otherwise to honor the terms of the service herein, and is responsible for the payment of rates and charges for service to called customer locations and for compliance with price list regulations.

Measured Service: The provision of intrastate and interstate long distance measured time communications telephone service to customers who access the carrier's service at its switching and call processing equipment by means of access facilities obtained from a local exchange common carrier. Carrier is responsible for arranging for any access lines.

Operator Station: A call that is completed with the assistance of an operator and billed to the calling party.

Person – to – Person: A call for which the person originating the call specifies to the operator a particular person, department or extension is to be reached. Person – to – Person charges only apply when the call is completed to the requested party or when the calling party agrees to talk to another person.

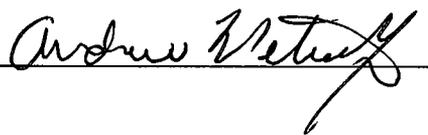
Third Party Calling: Service option that allows a call to be billed to an account different from that of the calling or called party.

November 12, 2003

Date Issued

Effective Date:

Issued by: Northwest Telephone, Inc.

By: 

Title: President

NORTHWEST TELEPHONE, INC.
PRICE LIST
PAGE NO. 4

SECTION 2 – SERVICES, LOCATION, PRICES AND CHARGES

1. DESCRIPTION OF SERVICE

- a. Northwest Telephone, Inc. offers resold and switched services including local exchange, intrastate, interstate and international, dialed and operator-assisted telecommunications message services procured from common carriers in the local exchange and long distance sectors.
- b. Timing of calls begins when the called station is answered, as determined by standard industry methods generally in use for ascertaining answer, including hardware answer supervision in which the local telephone company sends a signal to the switch utilizing audio tone detection. The company does not bill for incomplete calls.

2. LOCATION OF SERVICE

- a. Northwest Telephone, Inc. serves the entire state of Idaho as both a Competitive Exchange Carrier and an Interexchange Carrier. Its initial areas of focus are Coeur d'Alene and Boise, with expansion into the remainder of the state over ensuing years.

November 12, 2003

Date Issued

Effective Date:

Issued by: Northwest Telephone, Inc.

By: 

Title: President

NORTHWEST TELEPHONE, INC.
PRICE LIST
PAGE NO. 5

SECTION 2 – SERVICES, LOCATION, PRICES AND CHARGES (Cont'd)

3. PRICES AND CHARGES

Local Exchange

Business Service

In areas where Verizon or other Independent telephone company is the Incumbent Local Exchange Carrier, Northwest Telephone, Inc. hereby elects to mirror the tariffs and rates for Local exchange service, as filed by Verizon, with the Idaho Utilities and Transportation Commission.

Northwest Telephone, Inc. will add to bill all applicable surcharges assessed by other agencies.

Intrastate Toll Service

Business Service

IntraLATA

All Mileage / Min Flat Rate*

Northwest Telephone, Inc. bills a 6 second minimum, then in 6 seconds increments

InterLATA

All Mileage / Min Flat Rate*

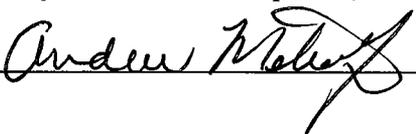
Northwest Telephone, Inc. bills a 6 second minimum, then in 6 seconds increments

November 12, 2003

Date Issued

Effective Date:

Issued by: Northwest Telephone, Inc.

By: 

Title: President

NORTHWEST TELEPHONE, INC.

PRICE LIST

PAGE NO. 6

SECTION 2 – SERVICES, LOCATION, PRICES AND CHARGES (Cont'd)

3. PRICES AND CHARGES (Cont'd)

Interstate Toll Service

Business Service

All Mileage / Min Flat Rate*

Northwest Telephone, Inc. bills a 6 second minimum, then in 6 seconds increments

800/888 Service

Business Service

800 Inbound / Switched Service

IntraLATA

All Mileage / Min Flat Rate*

Northwest Telephone, Inc. bills a 6 second minimum, then in 6 seconds increments

T-1 800 Inbound

IntraLATA

All Mileage / Min Flat Rate*

Northwest Telephone, Inc. bills a 6 second minimum, then in 6 seconds increments

November 12, 2003

Date Issued

Effective Date:

Issued by: Northwest Telephone, Inc.

By: 

Title: President

NORTHWEST TELEPHONE, INC.
PRICE LIST
PAGE NO. 7

SECTION 2 – SERVICES, LOCATION, PRICES AND CHARGES (Cont'd)

3. PRICES AND CHARGES (Cont'd)

Prepaid Toll Service (CAN INCLUDE TRAVEL CARD)

Business Service

IntraLATA

All Mileage / Min Flat Rate*

Northwest Telephone, Inc. bills a 6 second minimum, then in 6 seconds increments

***Flat Rate includes, Day, Evening & Night Usage**

SECTION 3 – RULES AND REGULATIONS

1. ADOPTION OF RULES OR REGULATORY AUTHORITY

- a. The rules regulating Competitive Classified Companies presubscribed by the Commission are adopted and by this reference are made a part of this price list unless otherwise waived by the order of the Commission.

2. INTERCONNECTION

- a. Interconnection with the facilities or services of other carriers shall be under the applicable terms and conditions of the other carrier's tariffs. The customer is responsible for taking all necessary legal steps for interconnecting customer-provided terminal equipment or communications systems with carrier's facilities. The customer shall secure all licenses, permits, right-of-way and other arrangements necessary for such interconnection. Any special interface equipment or facilities necessary to achieve compatibility between the facilities of the carrier and other participation carriers shall be provided at the customer's expense.

November 12, 2003

Date Issued

Effective Date:

Issued by: Northwest Telephone, Inc.

By:



Title: President

NORTHWEST TELEPHONE, INC.
PRICE LIST
PAGE NO. 8

SECTION 3 – RULES AND REGULATIONS (Cont'd)

3. APPLICATION FOR SERVICE

- a. Application for service may be made verbally or in writing. The name(s) of the customer(s) desiring to use the service must be set forth in the application for service.

4. DEPOSITS

- a. Customers will be required to demonstrate satisfactory credit when ordering either local exchange service or interexchange service. The requirements and conditions for establishing satisfactory credit shall be the same as those set forth in Commission Rules at IDAPA 31.41.01 Rule (5) Section (3), which are adopted and made a part of this price list by reference.
- b. When a customer does not evidence satisfactory credit based on the measurements set forth in IDAPA 31.41.01 Rule (5) Section (3), the requirements for the type and amount of deposit necessary shall be those listed in IDAPA 31.41.01 Rule 101 Section (2) and (3).

5. PAYMENT AND BILLING

- a. Service is provided and billed on a monthly basis in advance.
- b. Initial billing for set-up and installation charges or monthly services fees will not commence for any new customer until the customer has been placed in service.
- c. Billing will be payable upon receipt and past due 15 days after issuance.

November 12, 2003

Date Issued

Effective Date:

Issued by: Northwest Telephone, Inc.

By: Andrew Metcalf

Title: President

NORTHWEST TELEPHONE, INC.
PRICE LIST
PAGE NO. 9

SECTION 3 – RULES AND REGULATIONS (Cont'd)

6. CANCELLATION BY CUSTOMER

- a. Cancellation of service by the customer must be made in writing.
 - i. Where an application for service is canceled by the customer prior to the start of any design work or installation of facilities, no charge applies.
 - ii. When the application, which requires special design work is canceled after the design work has begun, the company may collect charges equal to the cost incurred for the associated design work to date.
 - iii. If cancellation is requested after completion of an installation, it will be treated as a discontinuance of service. Any minimum contract requirements of prescribed service will be applicable.

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Title: President

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PRICE LIST

PAGE NO. 10

SECTION 3 – RULES AND REGULATIONS (Cont'd)

7. DISCONNECTION OF SERVICE BY CARRIER

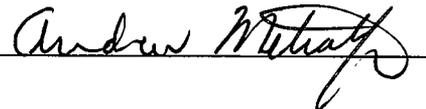
- a. The carrier may discontinue service for any of the following reasons:
- i. Nonpayment of bills;
 - ii. Tampering with the company's property;
 - iii. Vacation of the premise by subscriber;
 - iv. Violation of rules, service agreement or filed price list;
 - v. Use of subscriber equipment which adversely affects the company's service to its other subscribers;
 - vi. Fraudulent obtaining or use of service;
 - vii. Unlawful use of service or use of service for unlawful purposes.

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PRICE LIST
PAGE NO. 11

SECTION 3 – RULES AND REGULATIONS (Cont'd)

7. DISCONNECTION OF SERVICE BY CARRIER (Cont'd)

- b. Except in case of danger to life or property, fraudulent use, impairment of service or violation of law, the carrier will, prior to disconnection, mail written notice of the pending disconnection to the subscriber. The company will not disconnect service prior to the eighth business day following mailing of the notice. In the alternative the company may provide delivered notice and disconnect not prior to 5 p.m. on the next business day, in accordance with IDAPA 31.41.01 Rule 302 and Rule 303.

- c. Before service is disconnected, the company will make a good faith effort, by two attempts during reasonable hours, to reach the subscriber by telephone to advise the subscriber of the pending disconnection and the reasons therefore. The company will maintain a log or record of the attempts, showing the telephone number called and the time of the call. In the alternative, the company may provide personal notice in accordance with IDAPA 31.41.01 Rule 304.

Telephone or personal contact need not be attempted when the company has attempted such contact in any two billing periods during a consecutive twelve month period and the company has notified the subscriber in the writing that telephone or personal contact will not be attempted in the future before disconnecting service.

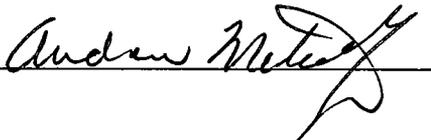
- d. All notices of delinquency or pending disconnection will include details pertinent to the situation and describe how the subscriber can make contact with the company to resolve any differences. All notices must accurately state amounts owing for service(s), which are subject to disconnection. A new notice will be required in cases where information is incorrect.

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PRICE LIST
PAGE NO. 12

SECTION 3 – RULES AND REGULATIONS (Cont'd)

7. DISCONNECTION OF SERVICE BY CARRIER (Cont'd)

- e. Except in case of danger to life or property, no disconnection shall be made on Saturdays, Sundays, legal holidays, or on any other day on which the company cannot reestablish service on the same or following day.
- f. When the company has reason to believe service is to other than the subscriber of record, the company shall undertake reasonable efforts to inform occupants of the service address of the impending disconnection. In this case, at the request of the service users, a minimum period of five business days will be allowed to permit the service users to arrange for continued service.
- g. Where service is provided to a hospital, medical clinic with resident patients or nursing home, notice of the pending disconnection shall be provided to the secretary, Idaho State Department of Social and Health Services, as well as to the subscriber. Upon request from the secretary or his designee, a delay in disconnection of no less than five business days from the date of notice will be allowed so that the department may take whatever steps are necessary in its view to protect the interests of the resident patients.
- h. The company may not immediately disconnect service if the customer has met the requirements of 31.41.01 Rule 308 regarding a medical emergency.
- i. Service will not be totally disconnected while a subscriber is pursuing any remedy or appeal provided for by the Commission rules, provided any amounts not in dispute are paid when due.
- j. Service will be restored when the causes of discontinuance have been removed and when payment or satisfactory arrangements for payment of all proper charges due from the customer has been made as provided for in the price list of NTI.

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PRICE LIST
PAGE NO. 13

SECTION 3 – RULES AND REGULATIONS (Cont'd)

8. INTERRUPTION OF SERVICE

- a. The company will follow the Commission's rules (IDAPA 31.41.01 Rule 501) in the case of major outage and/or service interruption.
- b. It is the obligation of the customer to notify the carrier of any interruptions in service. Before giving such notice, the customer shall ascertain that the trouble is not being caused by any action or omission of the customer, not within the customer's control, or is not in wiring or equipment connected to the terminal of the carrier.
- c. All reported interruptions of service will be restored within two working days, excluding Sundays and holidays, except those caused by emergency situations, unavoidable catastrophes and force majeure.

9. RESTORATION OF SERVICE

- a. The use and restoration of service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities and in compliance with IDAPA 31.41.01 Rule 503.

10. TAX ADJUSTMENT

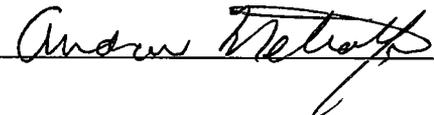
- a. The Company concurs in the Municipal Utility Occupation tax schedules of each Local Exchange Company tariff in the state of Idaho to the extent those local taxes are both current and applicable to the services the Company provides. This amount will be separately stated on bill to the customer.

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