

**Chang, Karen**

**From:** Greg Taylor [GTaylor@matrixvalue.com]  
**Sent:** Tuesday, May 17, 2005 8:43 AM  
**To:** Chang, Karen  
**Subject:** RE: Docket #05-0213, IL. Application  
**Attachments:** Royalty2004-2003.tif; SprintWriteOff\_20050131.tif

Ms. Chang:

Below are the journal entries with the explanations from our controller. I have also attached the general ledger reports for the same.

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 Increase to Goodwill Q4 2004 resulted from two entries (attached file):

- 1) 10/31/04 \$906,318.07 ----- 2003 Royalty payment to Staples for 3.5% of 2003 revenue generated from Claricom Networks, LLC.
- 2) 12/31/04 \$547,225.00 ----- 2004 Royalty payment to Staples for 3.5% of 2004 revenue generated from Claricom Networks, LLC.

1/31/05 Sprint Write Off entry attached.

Nancy Forrest, Controller  
 Matrix Telecom, Inc. / Claricom Networks, LLC  
 voice (405) 717-9661  
 fax (405) 951-6361

-----  
 Greg Taylor  
 VP & General Counsel

**Matrix Telecom**  
 300 N. Meridian, Suite 280 North  
 Oklahoma City, OK 73107  
 T: (405) 717-9612  
 F: (405) 951-6312  
 gtaylor@matrixvalue.com

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**From:** Chang, Karen [mailto:kbuckley@icc.state.il.us]  
**Sent:** Monday, May 09, 2005 10:52 AM  
**To:** Greg Taylor  
**Subject:** RE: Docket #05-0213, IL. Application

**OFFICIAL FILE**

ILL. C.C. DOCKET NO. 05-0213  
 Exhibit No. Supplement to Attachment H

5/17/2005

*Attachment H Supplement*

File 5-17-05 Reporter CB

**Yoder, Stephen**

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**From:** Greg Taylor [GTaylor@matrixvalue.com]  
**Sent:** Friday, May 06, 2005 12:26 PM  
**To:** Chang, Karen  
**Cc:** Yoder, Stephen  
**Subject:** RE: Docket #05-0213, IL. Application

**Attachments:** Matrix Telecom Inc - Chart of Accounts (ILLINOIS).pdf; Matrix Telecom, Inc. - Appendix C (Amended).pdf

Ms. Chang:

Pursuant to your requests below, please be advised of the following:

(1) The consolidated financial statements marked as Exhibit H in Matrix's application are consolidated in that the financials include revenues and costs associated with IEComm and Claricom Networks, LLC. Matrix acquired IEComm in or about 2002. It's a small base of residential customers, primarily situated on the west coast. Matrix provides management services for Claricom Networks, LLC, which was acquired by our parent company, Platinum Equity, LLC from Staples Communications in or about 2002 as well.

(2)

- Impairment of Goodwill – FASB 142 (Financial Accounting Standards Board) requires that an annual test for impairment be performed to substantiate the book value of goodwill carried on company balance sheets. In conjunction with audit and review procedures performed on the Matrix books in 2002, the goodwill account was tested using the methods and procedures outlined by FASB 142 and the value was found to be impaired. Accordingly, the goodwill of the company was written down and recorded as an extraordinary expense item on the income statement.
- Extinguishment of Debt – This amount reflects the full write-off of a note payable with a network service provider. The note payable was given in consideration of disputed network service accounts payable which were recorded on Matrix's books during the years of 2001 through 2004. Matrix obtained a full release of this note payable obligation.

(3) Matrix requests waiver of Part 710 and of Section 735.180 of Part 735. Specifically, Matrix requests the Commission waive the requirements set forth in Part 710 on the basis that Matrix maintains its books and records in accordance with Generally Accepted Accounting Principles (GAAP) and further that the Commission's grant of Matrix's request would neither harm Illinois consumers, nor would it impede development or operation of a competitive telecommunications market in Illinois.

With respect to Section 735.180 of Part 735, Matrix requests the Commission waive the requirement to publish a subscriber directory on the basis that the subscriber names are included in the directories published by the incumbent local exchange service providers as part of the services pursuant to its interconnection agreements with various competitive service providers. Matrix subscribers will not be discriminated against or otherwise harmed in that Matrix has executed an agreement with Global Crossing to provide local exchange services to Illinois customers and in a similar manner as is set forth in its interconnection agreement(s) with Illinois ILECs.

A revised Appendix C (and Attachment I: Chart of Accounts) is attached to this message and will be filed with the Commission Clerk.

Please contact me without hesitation should you require additional information regarding this matter.

Greg Taylor  
VP & General Counsel

**Matrix Telecom**

5/16/2005

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**From:** Chang, Karen [mailto:kbuckley@icc.state.il.us]  
**Sent:** Wednesday, May 04, 2005 9:38 AM  
**To:** Greg Taylor  
**Cc:** Yoder, Stephen  
**Subject:** Docket #05-0213, IL. Application

Mr. Taylor—

I left a message on your phone on Monday but I had not heard from you. I am listing the following questions concerning the application Matrix filed in Illinois. The answers you provide ASAP will help me complete the evaluation of the application. It is a normal practice for Staff to obtain necessary information via e-mail prior to the hearing so the process may go smoothly.

- Attachment H, Matrix Telecom, Inc consolidated financial statements for 2002 to 2004. Is it a consolidation of multiple companies? A group of affiliated subsidiaries?
- Please explain the changes in Goodwill account and the Extinguishment of Debt account during the fourth quarter in 2004.
- Does the Company seek a waiver for Part 710 Uniform System of Accounts for Telecommunications Carriers? If yes, Application question #3 and Appendix C needs to be completed.

I hope to hear from you soon. Please do not hesitate to call me at 217-524-7911 for any questions you may have.

Sincerely

Karen Chang  
Illinois Commerce Commission  
527 E. Capitol Ave.  
Springfield, IL. 62701

5/16/2005

Financial Questions for Applicants Seeking Local Exchange Service Authority

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1. (Answer if requesting waiver of Part 710) What circumstances warrant a departure from the prescribed Uniform System of Accounts ("USOA")?

A: Matrix requests the Commission waive the requirements set forth in Part 710 on the basis that Matrix maintains its books and records in accordance with Generally Accepted Accounting Principles (GAAP) and further that the Commission's grant of Matrix's request would neither harm Illinois consumers, nor would it impede development or operation of a competitive telecommunications market in Illinois.

2. Will records be maintained in accordance with Generally Accepted Accounting Principles ("GAAP")?

A: Yes.

3. Will applicants accounting system provide an equivalent portrayal of operating results and financial condition as the USOA?

A: Yes.

4. Will applicants accounting procedures maintain or improve uniformity in substantive results as among similar telecommunications companies?

A: Yes.

5. Will applicant maintain its records in sufficient detail to facilitate the calculation of all applicable taxes?

A: Yes.

6. Does the accounting system currently in use by applicant provide sufficiently detailed data for the preparation of Illinois Gross Receipts Tax returns? What specific accounts or sub-accounts provide this data?

A: Yes. Matrix's billing vendor uses a nationally recognized tax application that provides accurate tax calculations, including Illinois gross receipt taxes.

7. If a waiver of Part 710 is granted, will applicant provide annual audited statements or all periods subsequent to granting of the waiver?

A: Matrix Telecom is a wholly-owned subsidiary of Platinum Equity, LLC. While Matrix regularly maintains accounting records, including financial statements, it is not audited as a stand-alone entity but rather is subject to audit from time-to-time at the parent-level as its financial information is reported on the parent's consolidated financial. Matrix will however, provide the Commission with its unaudited

System: 11/16/2004 9:54:17 AM  
 User Date: 11/16/2004

Claricom Networks, LLC  
 GENERAL POSTING JOURNAL  
 General Ledger

Page: 1  
 User ID: nforrest

Batch ID: 2003 ROYALTY  
 Batch Comment: Record 2003 Royalty payment to Staples from PEH

Approved: No	Batch Total Actual:	\$1,812,636.14	Batch Total Control:	\$1,812,636.14
Approved by:	Trx Total Actual:	1	Trx Total Control:	1
Approval Date:				

Journal Entry	Transaction Type	Transaction Date	Reversing Date	Source Document	Transaction Reference	Audit Trail Code	Reversing Audit Trail Code
13,407	Standard	10/31/2004		GJ	2003 Royalty @ 3.5% of Revenue	GLTRX00004327	
				Account	Description	Debit	Credit
				1710-00-00-000-0000	Goodwill	\$906,318.07	
				3210-00-00-000-0000	Contributed Capital		\$906,318.07
Total Distributions:		2		Totals:		\$906,318.07	\$906,318.07
Total Journal Entries:		1					

10/31/04 entry needed per Kristen Sinn

**Royalty Payment to Staples**

For year ending 2003

	<u>NBC</u>	<u>Claricom</u>	<u>Total</u>
Revenue	\$ 22,778,619.00	\$ 25,894,802.00	\$ 48,673,421.00
%	3.5%	3.5%	
Royalty Due	\$ 797,251.67	\$ 906,318.07	\$ 1,703,569.74

**NBC Books**

Goodwill/Intangibles	\$ 797,251.67		
Additional paid in capital		\$ (797,251.67)	

**Claricom Books**

Goodwill/Intangibles	\$ 906,318.07		
Additional paid in capital		\$ (906,318.07)	

**Platinum Books**

Investment in NBC	\$ 797,251.67		
Investment in Claricom	\$ 906,318.07		
Contingent payment liability		\$ (1,703,569.74)	

11/4 asked Kristen how to amortize the Goodwill.

11/4

Kristen:

Claricom Contributed Capital entries for prior two years are as follows:

1/1/02	Subsequent Purchase by Parent	(\$127,710.00)	This could not be made @
12/31/01	because Dynamics 2001 was closed to entry.		
12/31/02	Royalty @ 3.5% of Revenue	(\$1,113,972.72)	
12/31/03	W/O PEH Interco Balance	(\$205,930.39)	
12/31/03	W/O Accrued PEH Mgmt Fee	(\$2,400,000.00)	

No entry during 2004.

Answer to your question: The royalty payment by PEH to Staples for year 2003 has not been recorded to the Claricom ledger, though we supplied the 2003 revenue information to PEH when requested.

Nancy Forrest, Controller  
Matrix Telecom, Inc. / Claricom Networks, LLC  
voice (405) 717-9661  
fax (405) 951-6361

-----Original Message-----

**From:** Finn, Kristen [mailto:KFin@platinumequity.com]  
**Sent:** Wednesday, November 03, 2004 5:28 PM  
**To:** Nancy Forrest  
**Cc:** Bala, Kristi; Hsieh, Peggy  
**Subject:** Claricom Contingent Payment

Each year we have to accrue for a contingent payment to Staples - the former owners of Claricom, which is based on a % of revenue. Can you look to see if we asked you to book an entry at the end of 2003? Your entry would resemble the following:

Goodwill/intangibles xx  
Additional paid in capital (xx)

Please let me know if we asked you to book this. If we did not, we will provide you with the amounts and ask you to book in October 2004 results.

Regards,  
Kristen Finn  
Platinum Equity  
310-712-1850

**Royalty Payment to Staples**  
**For year ending 2004**  
**Claricom Networks, LLC**  
**Revenue (GAAP) - by Month**  
**2004**

Jan-04	1,635,000
Feb-04	1,578,000
Mar-04	1,602,000
Apr-04	1,538,000
May-04	1,390,000
Jun-04	1,302,000
Jul-04	1,261,000
Aug-04	1,262,000
Sep-04	1,138,000
Oct-04	1,066,000
Nov-04	977,000
Dec-04	900,000

Intercompany Revenue (14,000)

**Total - 2004** 15,635,000

**Royalty %** 3.5%  
547,225.00

**Claricom Books**

Goodwill/Intangibles	\$ 547,225.00	
Additional paid in capital		\$ 547,225.00

**Platinum Books**

Investment in Claricom	\$ 547,225.00	
Contingent payment liability		\$ 547,225.00

-----Original Message-----

**From:** Cullen, Jonathan [mailto:jcullen@platinumequity.com]  
**Sent:** Tuesday, January 25, 2005 5:38 PM  
**To:** Nancy Forrest  
**Cc:** Finn, Kristen  
**Subject:** RE: 2003-Staples Royalty Calc (Dec 2004)-DG-121404.xls

Nancy:

Attached is the Journal entry for the Claricom Royalty calculation.

Please ensure that you book the entry in Claricom's books, and resubmit your numbers to Peggy Hsieh.

Thank you

**Jonathan Cullen**

Platinum Equity

310-712-1850

310-228-9678

email: [jcullen@platinumequity.com](mailto:jcullen@platinumequity.com)

**Claricom Networks, LLC**  
**Revenue (GAAP) - by Month**  
**2004**

Jan-04	1,635
Feb-04	1,578
Mar-04	1,602
Apr-04	1,538
May-04	1,390
Jun-04	1,302
Jul-04	1,261
Aug-04	1,262
Sep-04	1,138
Oct-04	1,066
Nov-04	977
Dec-04	900

<b>Total - 2004</b>	<b><u>15,649</u></b>	<b>3.50% \$ 547.70</b>
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---Original Message---

**From:** Finn, Kristen [mailto:KFinn@platinumequity.com]  
**Sent:** Monday, January 24, 2005 12:24 PM  
**To:** Nancy Forrest  
**Subject:** Fw: 2003-Staples Royalty Calc (Dec 2004)-DG-121404.xls

**Pls book this amt to goodwill/intangibles and credit apic/equity. 3.5% of revenue number for year end 2004.**

**Then resubmit tb for Claircom.**