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&  
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ATTORNEYS

1100 N. West Street  
Washington, D.C.

1100 N. West Street  
Washington, D.C.

May 10, 1996

**VIA OVERNIGHT DELIVERY**

Walter D'Haeseleer  
Director, Division of Communications  
Florida Public Service Commission  
2540 Shumard Oak, Blvd.  
Tallahassee, Florida 32399-0870

*960605-18*

Re Application of Excel Telecommunications, Inc. for Authority to  
Provide Local Exchange Service in Florida

96 MAY 13 11 12 AM '96

Dear Mr. D'Haeseleer

Enclosed for filing on behalf of Excel Telecommunications, Inc. ("Excel") please find an original and six (6) copies of Excel's above-referenced application

Please date-stamp the extra copy and return it to the undersigned in the enclosed self-addressed, stamped envelope.

Should you have any questions concerning this filing, please do not hesitate to contact the undersigned

Very truly yours,

*Katherine A. Rolph*

Julia A. Waysdorf  
Katherine A. Rolph

Enclosures

c: J. Christopher Dance

File is reviewed with filing and  
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this is the record and a copy of check  
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1000 1/2 Street, N.W. • Suite 100  
Washington, D.C. 20007-5116

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FLORIDA PUBLIC SERVICE COMMISSION  
CAPITAL CIRCLE OFFICE CENTER - 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

APPLICATION FORM  
for

AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE  
WITHIN THE STATE OF FLORIDA

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INSTRUCTIONS

- 1 This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing alternative local exchange certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee.
- 2 Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.
- 3 Use a separate sheet for each answer which will not fit the allotted space.
- 4 If you have questions about completing the form, contact:

**Florida Public Service Commission**  
**Division of Communications, Certification & Compliance Section**  
**2540 Shumard Oak Boulevard**  
**Tallahassee, Florida 32399-0866**  
**(904) 413-6600**

- 5 Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of \$250 made payable to the Florida Public Service Commission at the above address.

1 This is an application for (check one)

**Original authority** (new company)

**Approval of transfer** (to another certificated company)

Example, a certificated company purchases an existing company and desires to retain the original certificate authority

**Approval of assignment of existing certificate** (to a non-certificated company)

Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

**Approval for transfer of control** (to another certificated company)

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

2 Name of applicant:

**Excel Telecommunications, Inc.**

3 A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.

**9303 LBJ Freeway  
Suite 1100  
Dallas, TX 75243  
(214) 889-5500**

B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

**Excel Telecommunications, Inc. does not have a mailing address in Florida.**

C. Physical address of alternative local exchange service in Florida including street name, number, post office box, city, zip code and phone number. **Excel does not have an office in Florida. Excel's registered agent in Florida is:**

**CT Corporation  
c/o CT Corporation System  
1200 South Pine Island Road  
Plantation, FL 33324**

4 Structure of organization

- |  |  |
|--|--|
| <input type="checkbox"/> Individual          | <input checked="" type="checkbox"/> Corporation      |
| <input type="checkbox"/> Foreign corporation | <input type="checkbox"/> Foreign Partnership         |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership         |
| <input type="checkbox"/> Joint Venture       | <input type="checkbox"/> Other, Please explain _____ |

5 If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida

Corporate charter number 2240 (issued 3/21/90)

6 Name under which the applicant will do business (d/b/a)  
Excel.

7 If applicable, please provide proof of fictitious name (d/b/a) registration

Fictitious name registration number \_\_\_\_\_

8 If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity

9 State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

**None of Excel's officers, directors, nor any of its ten largest stockholders, have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime; nor are any such proceedings pending.**

10 Please provide the name, title, address, telephone number, Internet address and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application  
**Katherine A. Rolph, Esq. Swidler & Berlin, Chartered, 3000 K Street, Suite 300, Washington, D.C. 20007-5116 Tel: (202) 424-7788; Fax: (202) 424-7643**

11 Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service  
**Excel is currently in the process of applying to provide resold local exchange service in California, North Carolina, Kentucky, Michigan and Texas, and will be applying in additional states as well in the near future.**

12 Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

No.

13 Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

See Exhibit 1.

14 Please indicate how a customer can file a service complaint with your company.

See Exhibit 2.

15 Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida:

A Financial capability See Exhibit 3.

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements, including:

1. the balance sheet
2. income statement
3. statement of retained earnings for the most recent 3 years.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should affirm that the financial statements are true and correct.

B Managerial capability See Exhibit 4.

C Technical capability See Exhibit 5.

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

**Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083".**

Official                       
  
Signature

                      
Date

Title                       
                      
Secretary

                      
Telephone Number

Address

## **EXHIBITS**

- |           |  |
|-----------|--|
| EXHIBIT 1 | Response to Question 13                    |
| EXHIBIT 2 | Customer Service (Response to Question 14) |
| EXHIBIT 3 | Audited Financial Statements               |
| EXHIBIT 4 | Managerial Capability                      |
| EXHIBIT 5 | Technical Capability                       |

## EXHIBIT 1

### Response to Question 13

This Commission previously initiated a show cause proceeding involving Excel concerning certain alleged unauthorized switching incidents which occurred over a period of several years. On March 5, 1996, the Commission voted to resolve this matter without a finding of liability against Excel, and Excel agreed to make a \$10,000 payment to the Florida Treasury. The payment has been made and this matter is closed.

On January 24, 1996, the State of Connecticut granted Excel certification subject to a \$10,000 administrative fine for the provision of unauthorized intrastate services. The fine has been paid and Excel is fully authorized to provide intrastate interexchange services in the State.

No penalties have been imposed against the Company in any other State.



**EXHIBIT 2**

Procedure for Handling Customer Complaints  
(Response to Question 14)

## Customer Service

Excel's Customer Service Department is available to handle customer inquiries and billing questions 24 hours per day, seven days per week. When a call is received, a service representative will retrieve customer account information and be prepared to address specific billing inquiries including questions about the customer's overall monthly bill, specific rates and charges, and the mechanics of the company's special discount programs. Service representatives are also available to assist customers with questions about the company and its product offerings.

Excel strives to work with customers to resolve a complaint in a satisfactory manner. When a billing adjustment is needed, the service representative will process the adjustment at the time of inquiry. Each representative has the authority to adjust a customer's bill up to a specified dollar amount; any adjustments which exceed this amount are handled by a department supervisor. When an adjustment is made, the customer will see the credit within sixty days of its issuance.

Written inquiries from regulatory agencies and others are handled by the Customer Relations Department. When a written complaint is received, it is promptly reviewed and researched. In some instances, a service representative may contact the customer to ascertain more information about a particular grievance. A letter addressing the problem and documenting the resolution is then forwarded to the agency, customer, or complainant as appropriate.

Excel provides its service representatives with one-on-one, hands-on training. In addition, Department meetings and periodic service bulletins keep service representatives apprised of changes in rates, billing policies, and operating procedures. Future systems enhancements and modifications of current procedures are aimed at assuring that customers receive the help they need in the most expeditious and efficient manner possible.

**EXHIBIT 3**

Audited Financial Statements

# ARTHUR ANDERSEN LLP

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To EXCEL Communications, Inc.:

We have audited the accompanying consolidated balance sheets of EXCEL Communications, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 1994 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1994 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

As explained in Note 2 to the consolidated financial statements, the Company has given retroactive effect to the changes in accounting for management services and training fees and subscriber acquisition costs.

*Arthur Andersen LLP*

Dallas, Texas  
February 8, 1996

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31,	
	1994	1993
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 8,821	\$ 30,387
Accounts receivable, net .....	28,591	90,427
Inventories .....	1,077	2,862
Deferred income tax asset .....	581	2,100
Other current assets .....	295	566
	<u>39,365</u>	<u>126,342</u>
Property and equipment, net .....	2,476	8,560
Deferred subscriber acquisition costs .....	16,953	68,366
Other assets .....	618	313
	<u>\$59,412</u>	<u>\$203,581</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$16,303	\$ 65,116
Commissions payable .....	4,717	10,886
Accrued liabilities .....	4,890	13,822
Income taxes payable .....	2,803	4,974
Current maturities of long-term debt and capital lease obligations .....	518	473
Dividends payable .....	3,000	20,000
	<u>32,231</u>	<u>125,271</u>
Long-term debt and capital lease obligations .....	3,369	345
Deferred management services fees .....	5,489	21,291
Deferred income taxes payable .....	4,688	18,966
Commitments and contingencies .....	—	—
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none outstanding ..	—	—
Common stock, \$0.001 par value, 500,000,000 shares authorized, 100,000,000 and 99,000,000 issued in 1994 and 1995, and 99,000,000 outstanding .....	100	99
Additional paid-in capital .....	345	1,902
Unearned Compensation .....	—	(2,158)
Treasury stock, 1,000,000 shares at cost in 1994 .....	(13)	—
Retained earnings .....	13,203	37,865
	<u>13,635</u>	<u>37,708</u>
Total stockholders' equity .....	<u>\$59,412</u>	<u>\$203,581</u>

The accompanying notes are an integral part of these consolidated financial statements.

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Unearned Compensation	Treasury Stock	Retained Earnings (Deficit)	Total Equity
Balance, December 31, 1992 .....	5100	5 173	5 —	5 (23)	5 (586)	5 (336)
Net income .....	—	—	—	—	2,369	2,369
Purchase of treasury stock .....	—	—	—	(100)	—	(100)
Issuance of treasury stock .....	—	51	—	11	—	62
Balance, December 31, 1993 .....	100	224	—	(112)	1,783	1,995
Net income .....	—	—	—	—	15,870	15,870
Dividends declared (\$0.046 per share) ..	—	—	—	—	(4,450)	(4,450)
Purchase of treasury stock .....	—	—	—	(30)	—	(30)
Issuance of treasury stock .....	—	121	—	129	—	250
Balance, December 31, 1994 .....	100	345	—	(13)	13,203	13,635
Net income .....	—	—	—	—	44,446	44,446
Dividends declared (\$0.202 per share) ..	—	—	—	—	(19,784)	(19,784)
Advances to employee stock ownership plan .....	—	—	(6,000)	—	—	(6,000)
Allocation of common stock to employees .....	—	1,569	3,842	—	—	5,411
Cancellation of treasury stock .....	(1)	(12)	—	13	—	—
	<u>5 99</u>	<u>51,902</u>	<u>5(2,158)</u>	<u>5 —</u>	<u>537,865</u>	<u>537,708</u>

The accompanying notes are an integral part of these consolidated financial statements.

**EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Years Ended December 31.		
	1993	1994	1995
Operating activities:			
Net income .....	\$ 2,369	\$ 15,870	\$ 44,446
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization .....	190	346	1,239
ESOP compensation .....	—	—	5,627
Equity in losses of joint venture .....	—	—	6,248
Deferred income taxes .....	1,009	3,055	12,759
Changes in assets and liabilities:			
Accounts receivable, net .....	(1,187)	(25,992)	(61,836)
Deferred subscriber acquisition costs .....	(3,594)	(13,068)	(51,413)
Accounts payable .....	1,585	13,660	48,813
Commissions payable .....	772	3,417	16,169
Deferred management services fees .....	637	4,608	15,802
Accrued liabilities .....	(45)	4,397	8,932
Income taxes payable .....	—	3,061	2,171
Inventories and other .....	(1,081)	(413)	(1,996)
Net cash provided by operating activities .....	<u>655</u>	<u>8,941</u>	<u>46,961</u>
Investing activities:			
Purchase of property and equipment .....	(255)	(811)	(7,323)
Investment in joint venture .....	—	(245)	(6,003)
Net cash used in investing activities .....	<u>(255)</u>	<u>(1,056)</u>	<u>(13,326)</u>
Financing activities:			
(Payments of) advances on debt and capital lease obligations .....	(1)	2,010	(3,069)
Issuance of treasury stock .....	62	—	—
Purchase of treasury stock .....	(100)	(30)	—
Payments of dividends .....	—	(1,430)	(3,000)
Advances to employee stock ownership plan .....	—	—	(6,000)
Net cash (used in) provided by financing activities .....	<u>(39)</u>	<u>530</u>	<u>(12,069)</u>
Net increase in cash .....	361	8,415	21,566
Cash, beginning of period .....	45	406	8,821
Cash, end of period .....	<u>\$ 406</u>	<u>\$ 8,821</u>	<u>\$ 30,387</u>
Supplemental disclosure:			
Interest paid during the period .....	\$ 75	\$ 295	\$ 593
Income taxes paid during the period .....	375	4,459	13,046
Noncash financing activities:			
Capital lease of property and equipment .....	—	1,349	—

The accompanying notes are an integral part of these consolidated financial statements.

## EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share data)

#### 1. Organization and Presentation

##### *Description of Business and Operations*

EXCEL Communications, Inc. was incorporated in the State of Delaware in December 1995. The Company's predecessor, EXCEL Telecommunications, Inc., was incorporated in the state of Texas in December 1988. All references to the "Company" or "EXCEL" refer to EXCEL Communications, Inc. and include its subsidiaries and predecessors. EXCEL is a provider of long distance telephone service. The Company primarily utilizes independent representatives to market its long distance service to residential and small business subscribers throughout the United States. The Company completes subscriber calls to all directly dialable locations worldwide. Since its formation, the Company has utilized network switching and transmission facilities provided by other companies.

Substantially all of the Company's switching and transmission facilities have been provided by one supplier in 1995 and prior periods. Under the current agreement with the supplier, the Company purchases long distance service at certain per-minute rates, which vary depending on the time, distance, and type of call. The Company is required to utilize the facilities of the supplier to carry 100 million minutes of long distance traffic per month. The Company's obligation to utilize the facilities of the supplier is subject to reductions under certain conditions. The supplier agreement expires on April 30, 1998. The Company expects to meet all of its obligations under the agreement.

##### *Marketing Activities*

EXCEL's long distance service is sold primarily by independent representatives located throughout the United States. Except in certain states, independent representatives are required to make an initial refundable application deposit with EXCEL as an expression of commitment. There is no additional cost to participate. Independent representatives have an option to purchase a start-up package, which includes a training class and training materials, a starter kit of forms, promotional and presentation materials, on-going technical and administrative support services, and monthly reports. If the start-up package is purchased, the deposit requirement is waived. In addition, EXCEL offers training positions whereby trainers, certified by the Company, may provide training to new representatives and training coordinators.

Marketing services revenues are comprised of receipts from independent representatives and training coordinators for training, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports. The portions of the marketing services revenues that relate to on-going technical and administrative support services are deferred and reflected as deferred management services fees in the accompanying consolidated balance sheets. The Company has adopted an accounting convention of amortizing deferred management services fees over a period of 12 months in order to match those revenues with the costs of providing the related support services. Marketing services revenues include the effect of the deferral of a portion of the cash received for management services during a period, as well as the effect of the current period amortization of amounts deferred in the current and prior periods. The net effect of deferring and amortizing a portion of management services fees was a reduction in revenues reflected in the Company's consolidated financial statements by \$637, \$4,608, and \$15,802 for the years ended December 31, 1993, 1994, and 1995, respectively.

Marketing services costs are directly related to the Company's marketing activities. Marketing services costs include commissions and the costs of providing training, business forms, promotional and presentation materials, technical and administrative support services, and monthly reports. Commissions are paid to independent representatives for the acquisition of new long distance subscribers and for long distance telephone usage by



**EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(Dollars in thousands, except share data)

subscribers. The Company also pays commissions for the training of independent representatives and certain training coordinators. The portions of commissions paid that directly relate to the acquisition of long distance subscribers are capitalized. The Company has adopted an accounting convention of amortizing capitalized subscriber acquisition costs to expense over a period of 12 months in order to better match those costs with the revenues from subscribers' long distance usage during the first 12 months of service to such subscribers. Marketing services costs, as reflected in the Company's consolidated financial statements, include the effect of the capitalization of the portion of commissions paid for the acquisition of new subscribers during a period, as well as the effect of the current period amortization of amounts capitalized in the current and prior periods. The net effect of capitalizing and amortizing a portion of commissions expense was a reduction in marketing services costs reflected in the Company's consolidated financial statements by \$3,594, \$13,068, and \$51,413 for the years ended December 31, 1993, 1994, and 1995, respectively. These deferred costs solely comprise deferred subscriber acquisition costs included in the accompanying consolidated balance sheets. When the Company's marketing services costs are offset by its marketing services revenue, the net expense represents the Company's net cost of marketing its communications products. This net cost was \$4.1 million in 1995, \$3.4 million in 1994 and \$1.1 million in 1993.

**2. Summary of Significant Accounting Policies**

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

*Accounts Receivable*

Accounts receivable are net of allowance for doubtful accounts and anticipated revenue adjustments of approximately \$1,700 and \$5,881 as of December 31, 1994 and 1995, respectively. The Company establishes an allowance for doubtful accounts and anticipated revenue adjustments based upon factors surrounding the credit risk of specific subscribers, historical trends, and other information. During 1995, the Company recorded bad debt reserves of approximately 4.0% of long distance revenues based on current trends and information.

*Long Distance Revenue Recognition*

Long distance revenues are recognized as service is provided to subscribers.

*Concentrations of Credit Risk*

The Company's subscribers are primarily residential subscribers and are not concentrated in any specific geographic region of the United States. The Company has agreements with LECs, which provide billing and collection services to the majority of the Company's subscribers. As of December 31, 1994 and 1995, approximately 79%, and 92% of the Company's accounts receivable were due from LECs, respectively.

*Inventories*

Inventory consists primarily of sales aids, which include marketing materials and promotional items and is listed at the lower of cost (determined on a first-in, first-out basis) or market.

*Property and Equipment*

Property and equipment, including items financed through capital leases, are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Asset Classification	Estimated Useful Life
Furniture and equipment .....	5 years
Leasehold improvements .....	Life of lease

## EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands, except share data)

#### *Investments*

During 1994, the Company made an initial capital contribution of \$245 to obtain a 49% interest in a joint venture. During 1995, the Company made additional capital contributions of \$6,003. The joint venture was formed for the purpose of obtaining and operating switches to provide telecommunications services to the Company and other long distance providers. During 1995, the venture's net losses exceeded total capital contributions to the venture. The Company recorded equity in net losses of \$6,248 for the year ended December 31, 1995, to reduce the carrying value of the investment in the joint venture to zero. The venture's operations for 1994 were insignificant.

Subsequent to December 31, 1995, the Company sold its entire 49% interest in its joint venture (SSC) for a sales price of \$6,248, which will be paid to the Company during 1996 and be recorded as income when received. Contemporaneously with such sale, the Company agreed to purchase a minimum of 70 million minutes of long distance usage per month from SSC. This minimum commitment must be met beginning no later than October 1996 and continues through the earlier of (a) the date on which the Company has routed 4.2 billion minutes over the SSC network, (b) five years from the beginning of the month during which the Company first routes 70 million minutes over the SSC network, or (c) the date on which certain other conditions are met. The Company has guaranteed certain of the joint venture's obligations under capitalized leases. These guarantees totaled approximately \$4,412 at December 31, 1995.

#### *Income Taxes*

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" which requires that deferred income tax expenses be provided based upon estimated future tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes calculated based upon provisions of enacted tax laws.

#### *Use of Estimates*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Net Income per Share*

Net income per share is based on the weighted average number of shares of common stock outstanding excluding employee stock ownership plan shares that have not been committed to be released.

**EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(Dollars in thousands, except share data)

*Restatements*

The accompanying consolidated financial statements have been restated to reflect changes in accounting for management services and training fees, and subscriber acquisition costs. These changes were made to appropriately match revenues and expenses. These restatements resulted in a net change in net income of \$1,945, \$5,082, and \$22,720 for the years ended December 31, 1993, 1994, and 1995, respectively.

Certain reclassifications to the prior year financial statements have been made to conform to the current year presentation.

**3. Long-Term Debt and Capital Lease Obligations**

Long-term debt and capital lease obligations consisted of the following at December 31, 1994 and 1995

	December 31,	
	1994	1995
Revolving credit line .....	\$2,500	\$—
Capital lease obligations (see Note 7) .....	1,387	818
	3,887	818
Less current maturities .....	518	473
	\$3,369	\$345

As of December 31, 1994 and 1995, the Company had a revolving credit line agreement with a bank. The amount available under the agreement is limited to the lesser of \$10,000 or the borrowing base minus any letters of credit outstanding. The Company had available borrowing capacity of \$10,000 at December 31, 1995.

Interest is payable monthly at an annual rate of prime plus one-half percent (9.0% at December 31, 1995). The facility will mature on May 26, 1997, with a one-year renewal option, and is secured by accounts receivable, inventories, and property and equipment. The agreement contains limitations on incurring additional indebtedness and payment of dividends and requires the maintenance of certain financial ratios and covenants.

**4. Property and Equipment**

Property and equipment consisted of the following at December 31, 1994 and 1995

	December 31,	
	1994	1995
Furniture and equipment .....	\$2,610	\$ 9,933
Leasehold improvements .....	611	611
Total .....	3,221	10,544
Less—Accumulated depreciation and amortization .....	(745)	(1,984)
Net property and equipment .....	\$2,476	\$ 8,560

Depreciation and amortization expense was \$190, \$346, and \$1,239 for the years ended December 31, 1993, 1994, and 1995, respectively.

**EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(Dollars in thousands, except share data)

**5. Income Taxes**

The components of the provision for income taxes are as follows for the years ended December 31, 1993, 1994 and 1995:

	Year Ended December 31.		
	1993	1994	1995
Current .....	\$ 117	\$ 7,593	\$14,134
Deferred .....	1,009	3,055	12,759
Provision for income taxes .....	<u>\$1,126</u>	<u>\$10,648</u>	<u>\$26,893</u>

Temporary differences which give rise to the net deferred income tax liability at December 31, 1994 and 1995 are as follows:

	December 31.	
	1994	1995
Deferred income tax asset:		
Allowance for doubtful accounts .....	\$ 581	\$ 2,100
Deferred management services fees .....	2,196	7,729
Deferred income tax liability:		
Depreciation .....	(140)	(358)
Deferred subscriber acquisition costs .....	(6,498)	(24,817)
Other .....	(246)	(1,520)
Net deferred tax liability .....	(4,107)	(16,866)
Less—current deferred income tax asset .....	(581)	(2,100)
Long-term deferred income taxes payable .....	<u>\$ (4,688)</u>	<u>\$ (18,966)</u>

The provision for income taxes was different than the amount computed using the statutory income tax rate for the reasons set forth in the following table (in thousands):

	Year Ended December 31.		
	1993	1994	1995
Tax computed at statutory rate .....	\$1,223	\$ 9,281	\$24,969
State income taxes and other .....	(97)	1,367	1,924
Provision for income taxes .....	<u>\$1,126</u>	<u>\$10,648</u>	<u>\$26,893</u>

**6. Stockholders' Equity**

Effective January 1, 1996, the Company issued 99,000,000 shares of its common stock to stockholders at a conversion rate of 1,000 shares of newly issued common stock for each share of common stock previously held. These new shares were issued pursuant to a reorganization, which included a statutory merger whereby the Company was formed as a holding company. In addition, 500,000,000 shares were authorized. All common stock and per share amounts in the accompanying consolidated financial statements have been adjusted retroactively to give effect to the stock conversion and the change in authorized shares.

Subsequent to the reorganization completed in January 1996, the Company has 10,000,000 shares of Preferred Stock authorized, which can be issued in one or more series with fixed designations, relative powers, preferences, rights, qualifications, limitations, and restrictions of all shares of each series, including without

**EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(Dollars in thousands, except share data)

limitation dividend rates, preemptive rights, conversion rights, voting rights, redemption and sinking fund provisions, liquidation preferences, and the number of shares constituting each such series, without any further vote or action by the stockholders.

During December 1995, the Company declared a dividend of \$20,000. The portion of the dividend related to unallocated ESOP shares totaled \$216 and was charged to general and administrative expense.

**7. Commitments and Contingencies**

The Company leases certain office equipment and office space under operating leases. Total rental expense for the years ended December 31, 1993, 1994 and 1995 was approximately \$329, \$762, and \$1,101, respectively.

Future minimum rents due under operating leases with initial or remaining terms greater than 12 months as of December 31, 1995 are as follows:

1996 .....	1,611
1997 .....	1,350
1998 .....	1,105
1999 .....	165
2000 and thereafter .....	7

The Company has also entered into various capital lease agreements for certain equipment. Future minimum payments for these leases at December 31, 1995, are as follows:

1996 .....	\$600
1997 .....	272
1998 .....	70
1999 .....	34
2000 and thereafter .....	—
Total minimum lease payments .....	976
Less amount representing interest .....	158
Present value of net minimum lease payments .....	<u>\$818</u>

The Company has entered into various construction contracts which include capital commitments totaling \$17.8 million.

The Company's long distance and marketing activities are subject to certain federal and state regulations. The Company is involved in various regulatory matters as well as lawsuits incidental to its business. In the opinion of management, these regulatory matters and lawsuits in the aggregate will not have a material adverse effect on the Company's financial position or the results of operations of future periods.

**8. Related Party Transactions**

The Company had three outstanding notes receivable from stockholders totaling \$6,000, all of which were paid in 1995, and accrued interest at 7.25%.

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, except share data)

9. Employee Benefit Plans

The Company provides a 401(k) plan to substantially all eligible employees of the Company, as defined. Discretionary profit sharing contributions may be made by the Company to employees in an amount equal to or less than 4% of their respective compensation. Company contributions to the plan for the years ended December 31, 1993, 1994, and 1995 were not significant.

Effective January 1, 1995, the Company amended the 401(k) plan to incorporate an employee stock ownership plan (ESOP) for substantially all employees of EXCEL. On November 1, 1995, the ESOP borrowed \$6,000 from the Company to purchase 3,000,000 shares of common stock. The shares are held in a trust and are allocated to employees' accounts in the ESOP during the same calendar year in which debt repayments are made. Company contributions will total the amount required by the ESOP to pay the principal and interest due under the ESOP loan agreement. Compensation expense is recognized as employees render service and is based on the fair market value of the shares to be allocated at the date the debt repayment is made or the date the employees render the service, whichever is earlier. During 1995, the Company recognized compensation expense of \$5,627 related to the ESOP.

Effective October 30, 1995, the Company established a stock option plan which permits the issuance of either incentive stock options or non-statutory options to selected employees of and consultants to the Company and its affiliates. The plan reserves 8,910,000 shares of common stock for grant. Options for 4,853,475 shares have been granted at a price of \$4.55 per share and these options vest over a five-year period beginning in 1997. Options issued expire October 30, 2005.

**EXHIBIT 4**

Managerial Capability

**Kenny A. Troutt -- Chief Executive Officer, President, Chairman of the Board, Director, and founder of the Company.**

Mr. Troutt has served as President and a director of the Company since the Company's formation in 1988. In January 1991, Mr. Troutt was elected as Chairman of the Board of the Company and, in July 1995, he was elected as Chief Executive Officer of the Company. Mr. Troutt served as Secretary and Treasurer of the Company from December 1988 until July 1995. Prior to 1988, Mr. Troutt served as President of SunTex Resources, Inc., an oil and gas exploration company located in Dallas, Texas, which he founded in 1982. In 1970, Mr. Troutt founded Kenny Troutt Construction, a construction company located in Omaha, Nebraska, and served as its sole manager until 1982. Mr. Troutt is a graduate of Southern Illinois University.

**John J. McLaine -- Executive Vice President, Chief Financial Officer, Secretary, and Director.**

Mr. McLaine has been employed with the Company and has performed the function of chief financial officer since August 1994. In July 1995, Mr. McLaine was elected as Secretary and a director of the Company and, in January 1996, he was elected as Executive Vice President and Chief Financial Officer of the Company. Mr. McLaine served as Vice President and Treasurer of the Company from July 1995 until January 1996. Prior to August 1994, Mr. McLaine served as President of McLaine Associates, Inc., a consulting firm providing consulting services with respect to mergers and acquisitions and business turnarounds, which he founded in 1990. From 1989 until 1990, Mr. McLaine served as the Chief Financial Officer and President of International Operations for Pearle Vision, Inc., a retail optical chain. Prior to 1989, Mr. McLaine served as Vice President of Finance and Control for American National Can Company, an international packaging company. Mr. McLaine holds an MBA from DePaul University and a BS degree from the University of Scranton and is a Certified Public Accountant.

**Stephen R. Smith -- Executive Vice President of Marketing and Director.**

Mr. Smith served the Company as an independent consultant from January 1989 until January 1996. Mr. Smith was elected as Executive Vice President and a director of the Company in July 1995. Mr. Smith was elected as Executive Vice President of Marketing of the Company in January 1996 and became an employee of the Company in February 1996. From 1984 through 1988, Mr. Smith served as an independent representative and consultant for various network marketing organizations, including Coastal Telephone, a regional long distance company, and Netcom Information Systems, a voice mail company.

**Craig E. Holmes -- Vice President and Chief Accounting Officer.**

Mr. Holmes has been employed with Excel and has performed the function of chief accounting officer since September 1995. In January 1996, Mr. Holmes was elected Vice President and Chief Accounting Officer of the Company. From 1982 until September 1995, Mr. Holmes was with Arthur Andersen LLP, and he was elected as a Partner in the Audit and Business Advisory Services unit at Arthur Andersen LLP in 1995. Mr. Holmes' practice focused in the areas of financial audits, corporate finance, and business process re-engineering. Mr. Holmes holds BBA and MS degrees from Texas Tech University and is a Certified Public Accountant.



**J. Christopher Dance -- Vice President, Legal Affairs and Assistant Secretary.**

Mr. Dance has been employed by the Company and has performed the function of general counsel since May 1995. In January 1996, Mr. Dance was elected as Vice President--Legal Affairs and Assistant Secretary of the Company. Prior to 1995, Mr. Dance served as an attorney with Munsch Hardt Kopf Harr & Dinan, P.C. From 1990 until 1994, Mr. Dance served as an attorney with Akin, Gump, Strauss, Hauer & Feld, L.L.P. Mr. Dance holds a BBA in Accounting & Finance from Texas A & M University and a JD from the University of Texas School of Law.

**Steven J. Troutt -- Vice President and Treasurer.**

Mr. Troutt has been employed by the Company and has performed the function of treasurer since January 1995. In January 1996, Mr. Troutt was elected as Vice President and Treasurer of the Company. From February 1990 to January 1995, Mr. Troutt served as Accounting Systems Coordinator with Lincoln Telephone and Telegraph Company, a local telephone operating company based in Lincoln, Nebraska, and from 1979 until 1990 Mr. Troutt held various other accounting positions with Lincoln Telephone and Telegraph Company. Mr. Troutt holds a BS in Accounting from Southern Illinois University.

**M. Kathy Delahoussaye -- Vice President, Teleservices.**

Ms. Delahoussaye has been employed by the Company and has performed the function of head of the teleservices department since January 1995. In January 1996, she was elected as Vice President--Teleservices of the Company. From August 1993 to January 1995, Ms. Delahoussaye served as a Senior Consultant for The Management Network Group, Inc., a consulting firm specializing in telecommunications companies. From 1991 until July 1993, Ms. Delahoussaye served as Executive Vice President, Operations for The National Registry, Inc., a start up company established to develop and market industrial, government, and consumer applications for biometric fingerprint identification systems. From 1990 until 1991, she served as Chief Executive Officer and President of Mega Designs, Inc., an apparel company specializing in the design and distribution of garments for the tourist industry. Ms. Delahoussaye holds an Associates degree from Lon Morris College.

**Daniel Martignon, Jr. -- Vice President--Network Operations.**

Mr. Martignon has been employed by the Company and has performed the function of head of network operations since October 1994. In January 1996, Mr. Martignon was elected as Vice President--Network Operations of the Company. From June 1992 until October 1994, Mr. Martignon served as Area Manager, Common Channel Signaling for Southwestern Bell Telephone's five-state territory supporting the administrative functions of the SS7 network. From September 1987 until June 1992, Mr. Martignon served as Area Manager for Southwestern Bell Telephone, a RBOC, and was responsible for network management of switching and SS7 elements. Prior to 1987, Mr. Martignon served in various engineering capacities with Southwestern Bell Telephone.

**EXHIBIT 5**

Technical Capability

Excel was formed in December 1988 and has been a long distance service provider since 1989. Excel currently operates as an interexchange service reseller in Florida pursuant to the grant of a certificate of convenience and necessity. Excel also is authorized to provide resold long distance telecommunications services in 47 other states, either pursuant to certification, registration, or deregulatory policies. Excel currently provides service on a switchless resale basis, but plans to begin installing switching centers in the near future. The switches to be installed will be used to provide Excel's long distance services as well as the local services proposed to be provided in Florida and in the other states where similar local resale authority is being requested.

Excel provides residential and small business customers high quality, cost effective long distance telecommunications accompanied by superior customer service. Excel is now seeking to expand its service offering to also include competitive local exchange service in a number of states, including Florida. As detailed in this application, Excel proposes to provide local service in Florida on a resold basis only. Service will be provided throughout the state, as authorized by the Commission, within the service areas of BellSouth, GTE, and other incumbent local exchange carriers.

Excel's local service operations in Florida will be operated in conjunction with its present provision of long distance services. Excel's operations will be directed by a Vice President, assisted by a professional, technical and operations staff, who will have both marketing and operations responsibility. Excel also will rely upon the significant existing management resources of the Company for planning, marketing, network and legal/regulatory assistance. As indicated in the attached resumes, Excel's management has extensive experience in providing high quality resold telecommunications services on an intrastate interexchange basis, which experience is directly transferable to the provision of resold local services.

Excel currently is one of the fastest growing providers of long distance telecommunications services in the United States, currently providing service to approximately 3.1 million customers on a nationwide basis. In Florida alone, Excel currently provides service to approximately 213,037 subscribers. Excel's successful provision of interexchange resale services in Florida and across the country is proof, in the first instance, of its technical, managerial, and financial ability to provide local exchange resale services in the State.

State of Florida

Commissioners:

SUSAN F. CLARK, CHAIRMAN  
J. TERRY DEASON  
JULIA L. JOHNSON  
DIANE K. KIESLING  
JOE GARCIA



DIVISION OF RECORDS &  
REPORTING  
BLANCA S. BAYO  
DIRECTOR  
(904) 413-6770

## Public Service Commission

May 14, 1996

Katherine A. Rolph  
c/o Swidler & Berlin  
3000 K Street, N.W., Suite 300  
Washington, D.C. 20007-5116

Docket No. 960605-TX

Dear Mr. Rolph:

This will acknowledge receipt of an application for certificate to provide alternative local exchange telecommunications service by Excel Telecommunications, Inc., which was filed in this office on May 13, 1996 and assigned the above-referenced docket number. Appropriate staff members will be advised.

A tentative schedule of events in your docket (referred to as a Case Assignment and Scheduling Record or CASR) should be available, upon request, ten (10) working days after establishment of the docket. You may contact the Records Section at (904) 413-6770 or by fax at (904) 413-7118 to request that a copy of the case schedule be faxed or mailed to you. The schedule of events provides you with an opportunity to anticipate completion stages of work in the docket. These dates are subject to change, therefore, you may wish to call the Records Section periodically to obtain revised schedules for your docket. For firm dates of hearings or other activities, please look to the Commission's official notices and orders. You can also obtain information on your docket by accessing the PSC Home Page on the Internet, at <http://www.state.fl.us/psc/>.

Sincerely,

Matilda Sanders  
Commission Deputy Clerk

SWIDLER  
&  
BERLIN  
CHARTERED

JULIA A. WASSDORF  
ATTORNEY AT LAW

RECEIVED  
MAY 14 1996

May 10, 1996

DEPOSIT TREAS DEPT

VIA OVERNIGHT DELIVERY

0313

MAY 14 '96

Walter D'Haeseleer  
Director, Division of Communications  
Florida Public Service Commission  
2540 Shumard Oak, Blvd.  
Tallahassee, Florida 32399-0870

RECEIVED  
MAY 13 PM 12:00  
MAIL ROOM

Re Application of Excel Telecommunications, Inc. for Authority to Provide Local Exchange Service in Florida

Dear Mr. D'Haeseleer

Enclosed for filing on behalf of Excel Telecommunications, Inc. ("Excel") please find an original and six (6) copies of Excel's above-referenced application.

Please date-stamp the extra copy and return it to the undersigned in the enclosed self-addressed, stamped envelope.

Should you have any questions concerning this filing, please do not hesitate to contact the undersigned.

SWIDLER & BERLIN  
CHARTERED  
3000 K STREET, N.W., SUITE 300  
WASHINGTON, D.C. 20007

CRESTAR BANK N.A.  
WASHINGTON, D.C.

0044202

NO 044202

15-62/540

EXACTLY\*\*\*\*\*250\*DOLLARS AND\*00\*CENTS

DATE

AMOUNT

05/10/96

\*\*\*\*\*250.00

GENERAL ACCOUNT

PAY FLORIDA PUBLIC SERVICE COMMISS  
TO THE  
ORDER  
OF

*Edward Berlin*

⑈044202⑈ ⑆054000522⑆ 206675524⑈

SWIDLER  
&  
BERLIN  
CHARTERED

JULIA A. WAYS DORF  
ATTORNEY AT LAW

1000 K STREET, N.W. SUITE 100  
WASHINGTON, D.C. 20007-5116

May 10, 1996

**VIA OVERNIGHT DELIVERY**

Walter D'Haeseleer  
Director, Division of Communications  
Florida Public Service Commission  
2540 Shumard Oak, Blvd.  
Tallahassee, Florida 32399-0870

960605 11

96 MAY 13 04 12 PM

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Very truly yours,

*Katherine A. Rolph*

Julia A. Waysdorf  
Katherine A. Rolph

Enclosures

c: J. Christopher Dance

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