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November 4, 1996

INTERNET
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961325 - TI

VIA FEDERAL EXPRESS

Florida Public Service Commission
Division of Administration
2540 Sumard Oak Boulevard
Gunter Building
Tallahassee, Florida 32399

Re: National Teleservice, Inc.
Application for Certification of Public Convenience

Dear Sir or Madam:

Transmitted herewith on behalf of National Teleservice, Inc. ("NTI"), are an original and six (6) copies of NTI's Application for a Certificate of Public Convenience and Necessity so that it may provide interexchange telecommunications services in the State of Florida. Also enclosed is a \$250.00 check to cover the requisite filing fee.

Please date stamp the enclosed "Receipt Copy" of this filing and return it in the enclosed, self-addressed, stamped envelope. If you have any questions regarding this matter, please contact the undersigned.

Respectfully submitted,

Glenn S. Richards
Jaqualin Friend Peterson
Counsel for National Teleservice, Inc.

Enclosures

cc: John Leaf (w/out enclosures)
Mary Lang

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC _____
- WAS _____
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111 Riverfront
P.O. BOX 1142
Winona, MN 55987-7142

NORWEST BANK OHIO, N.A.
VAN WERT, OH 45891
56-382-412

041956
CHECK NO.

041956

TWO HUNDRED FIFTY AND 00/100 DOLLARS

DATE 11/01/96 AMOUNT *****\$250.00

PAY
TO THE
ORDER
OF

FLORIDA PUBLIC SERVICE COMM



**BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF FLORIDA**

In the matter of the Application of)
National Teleservice, Inc. for a)
Certification of Public Convenience)
and Necessity to Offer Interexchange)
Telecommunications Services to the)
Public in the State of Florida)

APPLICATION

National Teleservice, Inc. ("Applicant"), hereby requests a Certification of Public Convenience and Necessity so that it may provide interexchange telecommunications services in the State of Florida.

In support of its request, Applicant provides below the following information:

**APPLICATION FORM FOR AUTHORITY TO PROVIDE
INTEREXCHANGE TELECOMMUNICATIONS SERVICE
BETWEEN POINTS WITHIN
THE STATE OF FLORIDA**

1. This is an application for (check one):
 - Original Authority (New Company).
 - Approval of Transfer (To another certificated company)
 - Approval of Assignment of existing certificate (To a noncertificated company).
 - Approval for transfer of control (To another certificated company).

2. Select what type of business your company will be conducting (check all that apply):
 - Facilities based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.
 - Alternative Operator Service** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.
 - Reseller** - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.
 - Switchless rebiller** - company has no switch or transmission facilities but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.
 - Call aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers associated with such aggregated telecommunications business.

3. Name of corporation, partnership, cooperative, joint venture or sole proprietorship:

National Teleservice, Inc.

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

National Teleservice, Inc. d/b/a NTI

5. National address (including street name and number, post office box, city, state and zip code).

National Teleservice, Inc.
111 Riverfront
Winona, Minnesota 55987

6. Florida address (including street name and number, post office box, city, state and zip code):

N/A

7. Structure of organization;

<input type="checkbox"/> Individual	<input type="checkbox"/> Corporation
<input checked="" type="checkbox"/> Foreign Corporation	<input type="checkbox"/> Foreign Partnership
<input type="checkbox"/> General Partnership	<input type="checkbox"/> Limited Partnership
<input type="checkbox"/> Other _____	

8. If applicant is an individual or partnership, please give name, title, and address of sole proprietor or partners.

N/A

- (a) Provide proof of compliance with the foreign limited partnership statute (Chapter 620.169 FS), if applicable.

N/A

- (b) Indicate if the individual or any of the partners have previously been:

- (1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings:

N/A

- (2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

N/A

9. If incorporated, please give:

- (a) Proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

A copy of Applicant's Certificate of Authority to Operate in Florida is attached hereto as Attachment A.

- (b) Name and address of the company's Florida registered agent.

CT Corporation System
1200 South Pine Island Road
Plantation, FL 33324

- (c) Provide proof of compliance with the fictitious name statute (Chapter 865.09 FS), if applicable.

N/A

- (d) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

- (1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

No

- (2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

No

10. Who will serve as liaison with the Commission in regard to (please give name, title, address and telephone number):

- (a) The application:

Mary Lang, Vice President-Operations
National Teleservice, Inc.
111 Riverfront
Winona, Minnesota 55987
507/452-8263

or

Glenn S. Richards, Esq.
Counsel for National Teleservice, Inc.
Fisher Wayland Cooper Leader & Zaragoza L.L.P.
2001 Pennsylvania Avenue, NW, Suite 400
Washington, DC 20006
(202) 775-5678

- (b) Official Point of Contact for the ongoing operations of the company:

Mary Lang
Vice President—Operations
National Teleservice, Inc.
111 Riverfront
Winona, Minnesota 55987
507/452-8263

- (c) Tariff:

Mary Lang
Vice President—Operations
National Teleservice, Inc.
111 Riverfront
Winona, Minnesota 55987
507/452-8263

- (d) Complaints/Inquiries from customers:

Mary Lang
Vice President—Operations
National Teleservice, Inc.
111 Riverfront
Winona, Minnesota 55987
507/452-8263

11. List the states in which the applicant:

(a) Has operated as an interexchange carrier.

<u>STATE</u>	<u>AUTHORIZATION DATE</u>
California	July 19, 1995
Illinois	August 10, 1994
Iowa	Registered 1991
Kansas	May 11, 1995
Minnesota	Granted 1991
Missouri	July 1, 1995
Nebraska	May 23, 1995
North Dakota	May 23, 1995
South Dakota	May 2, 1995
Wisconsin	November 9, 1988

(b) Has applications pending to be certificated as an interexchange carrier.

New York, Texas

(c) Is certificated to operate as an interexchange carrier.

Same as above.

(d) Has been denied authority to operate as an interexchange carrier and the circumstances involved.

None

(e) Has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

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

None

12. What services will the applicant offer to other certificated telephone companies:

- | | |
|---|--|
| <input type="checkbox"/> Facilities | <input type="checkbox"/> Operators |
| <input type="checkbox"/> Billing and Collection | <input type="checkbox"/> Sales |
| <input type="checkbox"/> Maintenance | <input type="checkbox"/> Other - Bulk capacity |
| <input checked="" type="checkbox"/> None of the above | |

13. Do you have a marketing program?

Applicant utilizes its in-house sales force and independent sales agents to market its services. Applicant does not engage in multi-level marketing.

14. Will your marketing program:

- Pay commissions?
- Offer sales franchises?
- Offer multi-level sales incentives?
- Offer other sales incentives?

15. Explain any of the offers checked in question 14 (To whom, what amount, type of franchise, etc.).

Sales agents are employees of NTI paid on a salary plus commission basis.

16. Who will receive the bills for your service (Check all that apply)?

- | | |
|---|--|
| <input checked="" type="checkbox"/> Residential customers | <input checked="" type="checkbox"/> Business customers |
| <input type="checkbox"/> PATS providers | <input type="checkbox"/> PATS station end-users |
| <input type="checkbox"/> Hotels and motels | <input type="checkbox"/> Hotel and motel guests |
| <input type="checkbox"/> Universities | <input type="checkbox"/> Univ. dormitory residents |
| <input type="checkbox"/> Other _____ | |

17. Please provide the following (if applicable):

(a) Will the name of your company appear on the bill for your services, and if not who will the billed party contact to ask questions about the bill (provide name and phone number) and how is this information provided?

Yes

(b) Name and address of the firm who will bill for your service.

Applicant will bill customers directly.

18. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide interexchange telecommunications service in Florida.

(a) Financial capability.

Applicant is financially qualified to provide resold interexchange services in Florida. In 1995, Applicant's annual revenue reached nearly \$20 million. A copy of applicant's most recent Income Statement and Balance Sheet are attached hereto as Attachment B. Pursuant to Section 364.337(1)(3) and 364.339(2), Florida Statutes, effective July 1, 1995, this Attachment demonstrates that Applicant has the financial ability to:

- (1) Provide the requested service in the geographic area proposed to be served;
- (2) Maintain the requested service; and
- (3) Meet its ownership obligations.

(b) Managerial capability.

Applicant possesses the managerial and technical ability to provide the proposed services. Below is a brief description of the experience of some key management personnel:

Mr. John Leaf and Ms. Mary Lang have been with the Company since its inception in 1984. Mr. Leaf, President, oversees sales and marketing. Ms. Lang, Vice-President of Operations since 1986, is responsible for various aspects of Applicant's operations, including overseeing Applicant's financial matters, customer service and regulatory issues, establishing rate tables within Applicant's billing system, traffic engineering and carrier contract negotiations. Under the direction of Mr. Leaf and Ms. Lang, Applicant has experienced continued growth and profitability, reaching nearly \$20 million in annual revenue in 1995.

(c) Technical capability.

Applicant is technically qualified to resell telecommunications services in the State of Florida. As noted above in response to 18(b), Ms. Lang has significant experience in the technical operations of a telecommunications company. Moreover, as a reseller of long distance services, Applicant will not own, control, operate, or manage facilities in the State of Florida.

19. Please submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485.

See Attachment C.

20. The applicant will provide the following interexchange carrier services (Check all that apply):

- MTS with distance sensitive per minute rates
- Method of access if FGA
- Method of access if FGB
- Method of access if FGD
- Method of access if 800

- MTS with route specific rates per minute
- Method of access if FGA
- Method of access if FGB
- Method of access if FGD
- Method of access if 800

- MTS with statewide flat rates per minute (i.e., not distance sensitive)
- Method of access if FGA
- Method of access if FGB
- Method of access if FGD
- Method of access if 800

- MTS for pay telephone service providers

- Block-of-time calling plan (Reach out Florida, Ring America, etc.)

- 800 Service (Toll free)

- WATS type service (Bulk or volume discount)
- Method of access is via dedicated facilities
- Method of access is via switched facilities

- Private Line services (Channel Services) (For ex. 1.544 mbs., DS-3, etc.)

- Travel Service
- Method of access is 950
- Method of access is 800

- 900 service

- Operator Services
- Available to presubscribed customers
- Available to non presubscribed customers (for example to patrons of hotels, students in universities, patients in hospitals).
- Available to inmates

Services included are:

- Station assistance
- Person to Person assistance
- Directory assistance
- Operator verify and interrupt
- Conference Calling

21. What does the end user dial for each of the interexchange carrier services that were checked in services included (above).

Outbound services: 1 + NPA-NXX-XXXX

Travel Services: 1-800 + authorization code + NPA-NXX-XXXX

22. Other:

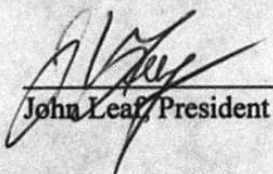
Operator Services are provided by the reseller on their network.

PUBLIC INTEREST STATEMENT

Applicant seeks to provide long distance services to customers in the State of Florida. By obtaining a Certificate of Public Convenience and Necessity, Applicant will be able to provide economic, efficient, and high quality telephone services using existing facilities. Applicant will also bring the benefits of increased competition to Florida telecommunications users, including competitive prices, additional service options, and high service quality.

APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of one and one-half percent on all intra and interstate business.
3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intrastate and interstate revenues.
4. **APPLICATION FEE:** A non-refundable application fee of \$250.00 must be submitted with the application.
5. **RECEIPT AND UNDERSTANDING OF RULES:** I acknowledge receipt and understanding of the Florida Public Service Commission's Rules and Orders relating to my provision of interexchange telephone service in Florida. I also understand that it is my responsibility to comply with all current and future Commission requirements regarding interexchange telephone service.
6. **ACCURACY OF APPLICATION:** By my signature below, I the undersigned owner or officer of the named utility in the application, attest to the accuracy of the information contained in this application and associated attachments. I have read the foregoing and declare that to the best of my knowledge and belief, the information is a true and correct statement. 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."



John Leaf, President

10/21/96
Date

ATTACHMENTS

- A - CERTIFICATE OF AUTHORITY TO OPERATE IN THE STATE OF FLORIDA
- B - BALANCE SHEET, INCOME STATEMENT & STATEMENT OF RETAINED EARNINGS
- C - TARIFF

APPENDICES:

- A - CERTIFICATE TRANSFER STATEMENT
- B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
- C - INTRASTATE NETWORK
- D - FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES
- E - GLOSSARY

ATTACHMENT A

**Certificate of Authority to
Operate in the State of Florida**

To Be Supplied by Supplement

ATTACHMENT B

**Balance Sheet, Income Statement
and Statement of Retained Earnings
National Teleservice, Inc.**

**NATIONAL TELESERVICE,
INCORPORATED**

**Consolidated Financial Statements for the
Years Ended September 30, 1995 and 1994
and Independent Auditors' Report**

Deloitte & Touche LLP



400 One Financial Plaza
120 South Sixth Street
Minneapolis, Minnesota 55402-1844

Telephone: (612) 397-4000
Facsimile: (612) 397-4350

INDEPENDENT AUDITORS' REPORT

Board of Directors
National TeleService, Incorporated
Winona, Minnesota

We have audited the accompanying consolidated balance sheets of National TeleService, Inc. (the Company) as of September 30, 1995 and 1994 and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, such consolidated financial statements present fairly, in all material respects, the financial position of National TeleService, Inc. at September 30, 1995 and 1994 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

February 12, 1996

NATIONAL TELESERVICE, INCORPORATED

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 1995 AND 1994

	1995	1994
ASSETS		
CURRENT ASSETS:		
Cash	\$ 324,822	\$ 542,148
Accounts receivable, net of allowances for uncollectible accounts of \$15,752 and \$17,959, respectively (Note 3)	2,674,403	2,182,952
Prepaid expenses	101,378	4,500
Deferred tax asset (Note 5)	<u>2,893</u>	<u>33,166</u>
Total current assets	3,103,496	2,762,766
INVESTMENTS	66,667	66,667
PROPERTY AND EQUIPMENT (Notes 2, 3, and 4)	2,491,733	2,352,491
Less accumulated depreciation	<u>(951,266)</u>	<u>(592,826)</u>
	1,540,467	1,759,665
LAND , carried at lower of cost or market (Note 10)	1,152,627	522,049
OTHER ASSETS	<u>70,034</u>	<u>96,762</u>
	<u>\$ 5,933,291</u>	<u>\$ 5,207,909</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,435,650	\$ 1,544,433
Accrued compensation	663,643	677,702
Accrued liabilities (Note 5)	143,568	435,181
Long-term debt - current portion (Note 4)	<u>416,700</u>	<u>66,071</u>
Total current liabilities	2,659,561	2,723,387
LONG-TERM DEBT (Note 4)	662,896	479,267
DEFERRED TAX LIABILITY (Note 5)	306,568	246,320
COMMITMENTS (Notes 3 and 6)		
SHAREHOLDERS' EQUITY (Note 8):		
Common stock, no par value; authorized 25,000 shares; issued and outstanding 940 shares	20,000	20,000
Retained earnings	<u>2,284,266</u>	<u>1,738,935</u>
Total shareholders' equity	<u>2,304,266</u>	<u>1,758,935</u>
	<u>\$ 5,933,291</u>	<u>\$ 5,207,909</u>

See notes to consolidated financial statements.

NATIONAL TELESERVICE, INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED SEPTEMBER 30, 1995 AND 1994

	1995	1994
OPERATING REVENUES	\$ 19,425,838	\$ 16,136,106
COST OF TRANSMISSIONS	<u>12,726,622</u>	<u>10,384,860</u>
GROSS PROFIT	6,699,216	5,751,246
OPERATING EXPENSES:		
Selling expenses	1,934,073	1,451,356
General and administrative expenses (Note 7)	<u>3,676,539</u>	<u>2,937,490</u>
	<u>5,610,612</u>	<u>4,388,846</u>
OPERATING INCOME	1,088,604	1,362,400
NONOPERATING INCOME (EXPENSE):		
Income	82,078	76,627
Expense	<u>(99,882)</u>	<u>(53,448)</u>
	<u>(17,804)</u>	<u>23,179</u>
INCOME BEFORE INCOME TAX EXPENSE	1,070,800	1,385,579
INCOME TAX EXPENSE (Note 5)	<u>525,469</u>	<u>587,996</u>
NET INCOME	<u>\$ 545,331</u>	<u>\$ 797,583</u>

See notes to consolidated financial statements.

NATIONAL TELESERVICE, INCORPORATED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY YEARS ENDED SEPTEMBER 30, 1995 AND 1994

	Common Shares	Common Stock	Retained Earnings
BALANCE AT SEPTEMBER 30, 1993	940	\$ 20,000	\$ 941,352
Net income	—	—	<u>797,583</u>
BALANCE AT SEPTEMBER 30, 1994	940	20,000	1,738,935
Net income	—	—	<u>545,331</u>
BALANCE AT SEPTEMBER 30, 1995	<u>940</u>	<u>\$ 20,000</u>	<u>\$ 2,284,266</u>

See notes to consolidated financial statements.

NATIONAL TELESERVICE, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 1995 AND 1994

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

National TeleService, Inc. (the Company) is a telecommunications company providing intrastate and interstate long distance services in various states to both commercial and residential customers.

Basis of Presentation - The consolidated financial statements include the accounts of the Company, Palmview Partnership (Palmview) and LaQuinta Partnership (LaQuinta). The only activity of the partnerships has been to purchase tracts of land for investment purposes or future use as transmission sites. During 1994, the Company acquired the remaining 33% of Palmview that it did not own and recorded a gain of approximately \$61,000.

Property and Equipment - Property and equipment are carried at cost. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the related assets, generally five to ten years.

Impairment of Long-Lived Assets - Management of the Company periodically reviews the carrying value of long-term assets for potential impairment by comparing the carrying value of these assets with their related expected future net cash flows. Should the sum of the related expected future net cash flows be less than the carrying value, management will determine whether an impairment loss should be recognized. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds the fair value of the asset. To date, management has determined that no impairment of these assets exists except for a \$178,000 writedown to net realizable value on a piece of land which was subsequently disposed of (see Note 10)

Income Taxes - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. The statement requires the use of an asset and liability approach for financial accounting and reporting for income taxes, with deferred income taxes being provided for all differences between the financial statement and tax bases of assets and liabilities.

Line Installation Costs - The Company makes payments to various phone carriers for the installation of lines to service customers in a certain region. These one-time payments are capitalized and amortized on a straight-line basis over a five-year period and are included in other assets.

Supplemental Cash Flows Information - In 1995, LaQuinta issued \$600,000 of debt to purchase land. In 1994, the Company entered into a capital lease to acquire certain switch equipment for \$235,929. Interest paid was \$55,000 and \$13,000 in 1995 and 1994, respectively, and income taxes paid was \$512,015 and \$306,945 in 1995 and 1994, respectively.

Investments - The Company accounts for investments in less than 20%-owned entities at cost.

Estimates - The preparation of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Major areas involving estimates include allowances for uncollectible accounts receivable, income taxes, and valuation of impairment of long-lived assets. Actual results could differ from these estimates.

The nature of the Company's operations exposes it to certain business risks. Such business risks include a concentration of costs of transmissions transactions with three vendors, which accounted for 58% and 59% of 1995 and 1994 costs of transmissions, respectively.

2. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	1995	1994
Equipment	\$ 1,856,514	\$ 1,789,550
Dialers	345,977	274,552
Furniture and fixtures	194,925	194,072
Leasehold improvements	<u>94,317</u>	<u>94,317</u>
	2,491,733	2,352,491
Accumulated depreciation	<u>(951,266)</u>	<u>(592,826)</u>
	<u>\$ 1,540,467</u>	<u>\$ 1,759,665</u>

The Company leases equipment under a capital lease. Equipment under the capital lease was recorded at \$235,929 and related accumulated depreciation was \$117,965 and \$70,779 at September 30, 1995 and 1994, respectively.

3. LINE OF CREDIT

The Company has a \$1,000,000 line of credit, due on demand, with a bank which expires April 1, 1996. Terms of the agreement limit the amount advanced to the lesser of \$1,000,000 or the sum of 80% of the Company's eligible billed accounts receivable, 50% of its unbilled accounts receivable, and 50% of its equipment. Borrowings are secured by the Company's equipment, accounts receivable, and general intangibles. The Company had no outstanding balances under the line of credit agreement as of September 30, 1995 and 1994.

4. LONG-TERM DEBT

Long-term debt consisted of the following at September 30:

	1995	1994
Note payable with interest payable monthly at 1.5% above prime (prime was 8.75% at September 30, 1995) and principal due in full on December 7, 1998, collateralized by land	\$ 600,000	
Note payable with interest payable quarterly at 7.5% and principal due in full on May 24, 1996, collateralized by land	344,640	\$ 344,640
Note payable, principal and interest at the prime rate plus 1.0% (prime was 8.75% at September 30, 1995) payable monthly through October 1996, unsecured	24,056	43,637
Capital lease	<u>110,900</u>	<u>157,061</u>
	1,079,596	545,338
Less current maturities	<u>(416,700)</u>	<u>(66,071)</u>
	<u>\$ 662,896</u>	<u>\$ 479,267</u>

Long-term debt maturities at September 30, 1995 are as follows:

Years ending September 30:	
1996	\$ 416,700
1997	53,801
1998	9,095
1999	<u>600,000</u>
	<u>\$ 1,079,596</u>

The notes payable due on December 7, 1998 and May 24, 1996 and the capital lease are secured by the assets purchased under the agreements with a net book value of approximately \$1,270,000 and \$687,000 at September 30, 1995 and 1994, respectively.

5. INCOME TAXES

The components of income tax expense are as follows:

	1995	1994
Current:		
State	\$ 91,363	\$ 112,366
Federal	<u>343,585</u>	<u>379,326</u>
	434,948	491,692
Deferred	<u>90,521</u>	<u>96,304</u>
	<u>\$ 525,469</u>	<u>\$ 587,996</u>

The difference between the tax provision calculated at the statutory rate of 34% and the recorded tax provision resulted primarily from the capital loss on Palmview not being deductible for tax purposes, meals and entertainment expenses and state income taxes, net of the federal benefit.

Temporary differences comprising the net deferred income taxes as of September 30, 1995 and 1994 consist of tax accumulated depreciation in excess of book accumulated depreciation and allowance for doubtful accounts.

At September 30, 1995, the Company had a \$178,000 capital loss carryforward related to the Palmview loss, which expires in 2001. The benefit from this loss has not been recorded, as it is uncertain whether or not there will be future capital gains to utilize the loss carryforward.

6. COMMITMENTS

The shareholders of the Company have entered into an agreement which requires any selling shareholder to offer such shares first to the Company and then to other shareholders at the same price and on the same terms offered in good faith by the third party offering to purchase such shares.

The agreement also provides that for the remainder of the fiscal year in which the Chairman of the Board or the President dies, and for the two fiscal years thereafter, the Company shall pay to the decedent's personal representative, for the benefit of the decedent's heirs and/or legal beneficiaries, the annual sum of \$200,000. This \$200,000 is increased each fiscal year, beginning with fiscal 1994, by an inflation index. In addition, for the remainder of the fiscal year in which the Chairman of the Board or the President dies and the two fiscal years thereafter, the survivor shall also receive an annual cash bonus of \$200,000 to compensate him for the additional services he will be required to perform during that period. Such amount shall also be increased by an inflation factor beginning in 1994. These amounts may be reduced, as described in such agreement, if the survivor determines that payment would not be advisable due to the Company's financial condition.

Following the death of the Chairman or the President, and for the remainder of the fiscal year in which the Chairman or the President dies and the two fiscal years thereafter, the Company shall make quarterly distributions to its shareholders which aggregate not less than 25% of the Company's pretax net income for such fiscal year. For each fiscal year thereafter, the Company shall make quarterly distributions to its shareholders which aggregate not less than 50% of the Company's pretax net income for such year.

The Company leases office space under noncancelable operating leases. Minimum annual rental obligations are summarized as follows:

Years ending September 30:

1996	\$ 92,000
1997	75,000
1998	67,000
1999	<u>51,000</u>
	<u>\$ 285,000</u>

The Company is also obligated to pay certain occupancy costs as defined in the leases. Rental expense charged to operations for office space and equipment in 1995 and 1994 was approximately \$106,000 and \$76,000, respectively.

7. RELATED PARTIES

During fiscal 1995 and 1994, the Company made various payments to Waldon Financial Corporation (WFC) and Kirkland Consultants (KC), under separate consulting agreements. The Company's chairman also serves as the president of both WFC and KC. Under the agreements, \$200,000 was charged to the consolidated statements of operations in both 1995 and 1994, related to WFC, and payments totaling \$373,000 and \$334,000 were made to KC and charged to the consolidated statements of operations during fiscal 1995 and 1994, respectively.

8. SHAREHOLDERS' EQUITY

On December 10, 1992, the Company granted an option to an officer of the Company to purchase all or any part of the number of shares of the Company's common stock which, when issued, would equal 5% of the total number of shares of common stock outstanding to an officer. The exercise price is \$150,000, or the pro-rata amount in the event of partial exercise of the option. The option is only exercisable upon (i) a sale of the Company by merger or other business combination in which the Company is not the surviving corporation, or (ii) a sale of all or substantially all of the Company's assets, or (iii) a sale of 80% or more of the outstanding common stock of the Company to a person or group of persons who are not then shareholders, or (iv) the filing by the Company with the Securities and Exchange Commission for a registration statement providing for a public offering of the Company's stock.

9. EMPLOYEE BENEFIT PLANS

Effective October 1, 1994, the Company discontinued its Simplified Employee Pension Plan and implemented a defined contribution 401(k) plan. Employees are eligible to become participants in the plan after completing one year of service and after attaining the age of 21. Participants may contribute an amount equal to 1% to 12% of their compensation. The plan provides for a matching contribution by the Company in an amount equal to 50% of the participants' contribution, not to exceed 6% of the participant's compensation. Amounts charged to operations under the Plans were approximately \$63,000 and \$71,000 in 1995 and 1994, respectively.

10. SUBSEQUENT EVENT

Subsequent to September 30, 1995, Palmview relinquished title to the land it had originally purchased in exchange for forgiveness of the outstanding debt of \$344,640. Palmview was subsequently dissolved. There was no gain or loss associated with the transaction, as the land had been written down to loan value at September 30, 1995.

NATIONAL TELESERVICE, INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 1995 AND 1994

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 545,331	\$ 797,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	453,291	473,577
Loss on writedown of land	178,000	
Deferred income taxes	90,521	96,304
Gain on acquisition of minority interest		(60,878)
Loss on disposal of property	50,669	32,587
Increase in accounts receivable	(491,451)	(580,323)
(Increase) decrease in prepaid expenses	(96,878)	841
(Decrease) increase in accounts payable	(108,783)	9,151
(Decrease) increase in accrued compensation	(14,059)	283,926
(Decrease) increase in accrued liabilities	(291,613)	227,067
Other	<u>(25,137)</u>	<u>(18,902)</u>
Net cash provided by operating activities	289,891	1,260,933
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(232,897)	(650,758)
Purchase of land	(208,578)	
Purchase of equity securities		<u>(66,667)</u>
Net cash used in investing activities	<u>(441,475)</u>	<u>(717,425)</u>
CASH FLOWS FROM FINANCING ACTIVITIES -		
Payments on long-term debt	<u>(65,742)</u>	<u>(190,079)</u>
NET (DECREASE) INCREASE IN CASH	(217,326)	353,429
CASH AT BEGINNING OF YEAR	<u>542,148</u>	<u>188,719</u>
CASH AT END OF YEAR	<u>\$ 324,822</u>	<u>\$ 542,148</u>

See notes to consolidated financial statements.

To Stockholders
National TeleService of Winona, Inc.
Winona, Minnesota

We have compiled the accompanying Balance Sheet of National TeleService of Winona, Inc. as of July 31, 1996 and 1995, and the related statements of income and cashflows for the periods then ended, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue, expenses and cashflows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Flad Ltd
August 22, 1996

National TeleService of Winona
Comparative Balance Sheet
As of July 31,
(Unaudited)

	1996	1995
ASSETS		
CURRENT ASSETS		
1010 Petty Cash	67.98	92.48
1020 Cash - Savings	853,045.58	470,350.51
1030 Cash - Payroll Acct.	10,007.28	65,792.16
1040 Checking - Norwest	-87,121.23	-62,900.55
1060 Savings- T.Bills	644,426.31	0.00
	-----	-----
TOTAL CASH	1,420,425.92	473,334.60
1100 A/R - Billed	1,579,425.80	1,540,650.54
1105 Provision for Bad Debts	9,562.09	-107,278.74
1110 A/R - Unbilled	1,147,124.86	844,232.76
1120 A/R - Other	8,125.38	18,984.06
1130 A/R - Acct. Rep.	0.00	27,606.97
1140 A/R - Sales Rep.	0.00	-0.04
1150 A/R - Employee Loans	0.00	4,000.00
1170 A/R - Officers	96,432.87	88,294.80
	-----	-----
TOTAL RECEIVABLES	2,840,671.00	2,416,490.35
1220 Prepaid Expenses	567,753.75	414,669.73
1220 Prepaid Expenses	3,648.00	0.00
	-----	-----
TOTAL OTHER CURRENT ASSETS	571,401.75	414,669.73
	-----	-----
TOTAL CURRENT ASSETS	4,832,498.67	3,304,494.68
LAND/BUILDINGS/EQUIPMENT		
1600 Equipment	1,754,687.30	1,721,007.87
1600 Equipment	9,091.12	5,139.17
1620 Furniture & Fixtures	193,953.29	203,945.43
1620 Furniture & Fixtures	2,117.18	1,408.19
1630 Leasehold Improvements	94,317.31	95,355.12
1650 Accum. Depr. Equipment	-1,128,893.52	-997,593.33
1650 Accum. Depr. Equipment	-4,242.53	0.00
1670 Accum. Depr. Furn. & Fix.	-131,692.66	-119,964.51
1670 Accum. Depr. Furn. & Fix.	-734.59	-76.67
1680 Accum. Depr. L.I.	-19,520.35	-15,340.21
	-----	-----
TOTAL LAND/BUILDINGS/EQUIPMENT	769,082.55	893,881.06
OTHER ASSETS		
1810 INET Purchase	185,434.73	185,434.73
1815 INET Amortization	-185,434.73	-184,035.40
1830 ICSI Purchase	295,775.00	295,775.00
1835 ICSI Amortization	-295,775.00	-281,616.34
1840 Palmview Investment	163,164.97	207,927.90
1850 FIND Investment	66,666.66	66,666.66

See Accountant's Report

ational TeleService of Winona
Comparative Balance Sheet
As of July 31,
(Unaudited)

		1996	1995
1860	La Quinta Land Investment	348,588.82	230,853.39
1920	Line Installation Costs	127,526.57	94,589.12
1920	Line Installation Costs	1,023.14	0.00
1930	Accum Amort - Installation Cos	-104,200.00	-104,200.00
	TOTAL OTHER ASSETS	602,770.16	511,395.06
	TOTAL ASSETS	6,204,351.38	4,709,770.80

See Accountant's Report

NATIONAL TELESERVICE OF MINNISCOTA
Comparative Balance Sheet
 As of July 31,
 (Unaudited)

	1996	1995
LIABILITIES & OWNER'S EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
2040	Cont. Liab. - Acct. Rep. 0.00	27,606.97
2050	Accounts Payable 362,133.81	666,346.45
2052	Disputed Accts Payable 50,775.75	49,093.28
2055	Accrued Trans. Cost 1,219,561.44	997,862.00
2060	Salaries, Wages, Commission 231,611.94	153,627.00
2070	SEP Plan Payable 9,187.99	2.07
2080	Cafeteria Plan Payable 1,115.67	803.81
2100	Accrued FICA Tax 12,618.73	0.00
2120	State W/H Tax 26.25	2.48
2130	Other Tax Accrued 937.06	0.00
2140	Federal Excise Tax 27,766.54	27,521.68
2150	State Sales Tax 87,327.20	66,812.69
2150	State Sales Tax 7,719.20	0.00
2180	WI Gross Receipts Tax 34,336.54	38,541.02
2190	Security Deposit 17,438.53	14,362.90
	TOTAL CURRENT LIABILITIES 2,062,556.65	2,042,582.35
	TOTAL LIABILITIES 2,062,556.65	2,042,582.35
SHAREHOLDER EQUITY		
2900	Common Stock 20,000.00	20,000.00
2920	Retained Earnings 2,340,171.13	1,470,436.74
	Retained Earnings-CA -248,520.89	0.00
2950	Current Year Profit(Loss) 2,279,943.57	1,313,383.28
	Current Year Profit (Loss)-CA -249,799.08	-136,631.57
	TOTAL SHAREHOLDERS EQUITY 4,141,794.73	2,667,188.45
	TOTAL LIABILITY/OWNER EQUITY 6,204,351.38	4,709,770.80

See Accountant's Report

National TeleService of Winona
Comparative Income Statement
For the Periods Ended July 31,
(Unaudited)

Account Description	Current Period						Year-to-Date					
	Actual	%	Plan	%	Prior	%	Actual	%	Plan	%	Prior	%
	10/01/95 - 07/31/96											
INCOME												
3000 Volume Discount	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	-9,334	-0.06
Sales & Trans	1,945,016	97.46	1,739,000	100.00	1,489,998	96.57	18,479,808	96.88	18,043,000	100.00	15,383,635	96.67
Sales - S/C	23,114	1.16	0	0.00	18,172	1.18	213,612	1.12	0	0.00	166,089	1.04
3030 Sales - Fed Taxes	0	0.00	0	0.00	2,726	0.18	0	0.00	0	0.00	2,771	0.02
Sales - State Taxes	1,389	0.07	0	0.00	1,569	0.10	17,369	0.09	0	0.00	10,673	0.07
Sales - Finance Charges	9,136	0.46	0	0.00	6,403	0.41	76,640	0.40	0	0.00	69,953	0.44
Dialer Leases	2,246	0.11	0	0.00	1,939	0.13	21,315	0.11	0	0.00	17,021	0.11
Promotional Discounts	-8,998	-0.45	0	0.00	-11,686	-0.76	-86,425	-0.45	0	0.00	-119,832	-0.75
Volume Discounts	-40,791	-2.04	0	0.00	-21,885	-1.42	-310,716	-1.63	0	0.00	-214,300	-1.35
3090 Sales - Private Line	5,998	0.30	0	0.00	6,776	0.44	61,556	0.32	0	0.00	65,912	0.41
Sales-Other	46,880	2.35	0	0.00	39,994	2.59	485,849	2.55	0	0.00	424,185	2.67
3110 Sales - Operator Services	6,000	0.30	0	0.00	4,643	0.30	59,538	0.31	0	0.00	83,890	0.53
3130 Sales - T-1 Access	3,057	0.15	0	0.00	4,297	0.28	22,985	0.12	0	0.00	33,578	0.21
Conference Calling Charges	2,718	0.14	0	0.00	0	0.00	33,466	0.18	0	0.00	0	0.00
TOTAL INCOME	1,995,765	100.00	1,739,000	100.00	1,542,945	100.00	19,074,998	100.00	18,043,000	100.00	15,914,240	00
COST OF GOODS SOLD												
Cost of Transmission	1,037,665	51.99	1,137,480	65.41	1,026,724	66.54	10,730,837	56.26	11,801,925	65.41	9,148,177	57.48
4012 Disputed Trans Cost	-17,439	-2.38	0	0.00	-61,773	-4.00	50,776	0.27	0	0.00	41,638	0.26
Accrued Transmission Cost	42,044	2.11	0	0.00	26,159	1.70	1,219,561	6.39	0	0.00	897,862	6.27
4020 Rental - Switching Equip	4,882	0.24	4,256	0.24	4,882	0.32	48,823	0.26	44,121	0.24	43,940	0.28
Depreciation-Equipment	21,669	1.09	3,500	0.20	12,873	0.83	216,693	1.14	35,000	0.19	352,642	2.22
Labor - R & M	275	0.01	2,158	0.12	33	0.00	1,690	0.01	22,362	0.12	19,416	0.12
4050 Repairs & Maintenance	1,359	0.07	2,662	0.15	594	0.04	28,454	0.15	27,499	0.15	28,030	0.18
4055 Customer Equipment	0	0.00	0	0.00	0	0.00	232	0.00	0	0.00	0	0.00
4060 Installation Costs	12,500	0.63	1,886	0.11	2,000	0.13	90,993	0.48	19,708	0.11	19,934	0.13

See Accountant's Report

National TeleService of Winona
 Comparative Income Statement
 For the Periods Ended July 31,
 (Unaudited)

Page 2

Account Description	Current Period						Year-to-Date					
	Actual	%	Plan	%	Prior	%	Actual	%	Plan	%	Prior	%
	10/01/95 - 07/31/96											
Dialer Labor	6,186	0.31	6,956	0.40	6,243	0.40	65,697	0.34	72,148	0.40	73,241	
Dialer Equipment	68	0.00	6,934	0.40	4,817	0.31	29,506	0.15	71,952	0.40	75,972	0.48
4090 Private line Expense	7,167	0.36	4,263	0.25	16,683	1.08	42,451	0.22	44,193	0.24	44,827	0.28
COST OF GOODS SOLD	1,086,375	54.43	1,170,095	67.29	1,039,233	67.35	12,525,712	65.67	12,138,908	67.28	10,845,680	68.15
GROSS PROFIT	909,390	45.57	568,905	32.71	503,712	32.65	6,549,286	34.33	5,904,092	32.72	5,068,560	31.85
SELLING EXPENSES												
Sales Managers' Salary & Comm.	50,680	2.54	45,592	2.62	24,873	1.61	508,896	2.67	473,110	2.62	372,485	2.34
Commissions	98,419	4.93	104,340	6.00	99,063	6.42	1,148,858	6.02	1,082,580	6.00	952,142	5.98
Telemarketing Wages	0	0.00	0	0.00	0	0.00	23,258	0.12	0	0.00	0	0.00
Marketing	0	0.00	3,328	0.19	32,830	2.13	2,773	0.01	34,517	0.19	100,558	0.63
5031 Telemarketing	0	0.00	0	0.00	0	0.00	7,579	0.04	0	0.00	0	0.00
5040 Customer Retention	0	0.00	771	0.04	583	0.04	850	0.00	7,987	0.04	7,734	0.05
Advertising	2,494	0.12	1,980	0.11	3,952	0.26	32,099	0.17	20,544	0.11	33,463	0.20
Sales Entertainment	1,195	0.06	3,564	0.20	5,910	0.38	45,078	0.24	36,961	0.20	32,762	0.20
Sales Travel	2,582	0.13	0	0.00	0	0.00	19,019	0.10	0	0.00	0	0.00
TOTAL SELLING EXPENSES	155,371	7.79	159,575	9.18	167,211	10.84	1,788,410	9.38	1,655,699	9.18	1,499,144	9.42
GENERAL & ADMINISTRATIVE												
5100 Salaries - Officers	44,250	2.22	39,250	2.26	39,250	2.54	420,264	2.20	392,500	2.18	362,500	2.28
5115 Financial Consulting	38,034	1.91	33,000	1.90	33,034	2.14	347,836	1.82	330,000	1.83	300,336	1.89
Managers Salaries	0	0.00	0	0.00	34,920	2.26	96,394	0.51	0	0.00	34,920	0.22
Salaries - Office	60,612	3.04	60,225	3.46	53,779	3.49	620,960	3.26	602,247	3.34	516,744	3.25
Employee Benefits	8,193	0.41	5,292	0.30	7,134	0.46	70,512	0.37	52,912	0.29	47,107	0.30

See Accountant's Report

National TeleService of Winona
Comparative Income Statement
For the Periods Ended July 31,
(Unaudited)

Account Description	Current Period			Year-to-Date								
	Actual	%	Plan	%	Prior	%	Actual	%	Plan	%	Prior	%
							10/01/95 - 07/31/96					
FICA Taxes	13,588	0.68	14,173	0.82	14,858	0.96	157,013	0.82	141,730	0.79	123,846	0.88
UC Taxes	1,753	0.09	2,267	0.13	2,808	0.18	29,849	0.16	22,679	0.13	20,581	0.13
Office Supplies	4,781	0.24	2,294	0.13	3,070	0.20	37,267	0.20	23,805	0.13	32,749	0.21
Depreciation	2,508	0.13	4,346	0.25	8,019	0.52	24,538	0.13	43,464	0.24	37,008	0.23
Telephone	14,212	0.71	14,250	0.82	16,753	1.09	151,951	0.80	147,847	0.82	125,933	0.79
Utilities	2,973	0.15	1,131	0.07	1,219	0.08	11,529	0.06	11,337	0.06	9,325	0.06
Legal Fees	3,484	0.17	4,167	0.24	3,608	0.23	7,120	0.04	41,667	0.23	46,721	0.29
Officer Entertainment	6,590	0.33	8,833	0.51	6,376	0.41	41,118	0.22	88,334	0.49	89,480	0.56
Officer Travel	2,735	0.14	0	0.00	0	0.00	21,858	0.11	0	0.00	0	0.00
Consulting	0	0.00	1,700	0.10	0	0.00	14,013	0.07	17,000	0.09	29,050	0.18
Postage	11,488	0.58	10,233	0.59	11,983	0.78	105,142	0.55	106,209	0.59	90,582	0.57
Insurance	2,786	0.14	2,083	0.12	1,500	0.10	34,653	0.18	20,833	0.12	23,252	0.15
5220 Accounting Fees	2,050	0.10	2,083	0.12	10,000	0.65	26,955	0.14	20,833	0.12	32,128	0.20
Printing	3,551	0.18	3,404	0.20	3,768	0.24	38,547	0.20	35,318	0.20	58,676	0.37
5240 Microfiche	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	81	0.00
Contract Labor	1,277	0.06	2,533	0.15	3,528	0.23	40,792	0.21	26,283	0.15	27,720	0.17
5255 Amortization Customer List	0	0.00	0	0.00	1,315	0.09	0	0.00	0	0.00	13,152	0.08
5260 Amortization INET Non Compete	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	275	0.00
5270 Property Tax	0	0.00	0	0.00	0	0.00	9	0.00	0	0.00	44	0.00
Meeting & Seminars	2,604	0.13	1,615	0.09	553	0.04	14,548	0.08	16,755	0.09	18,287	0.11
Billing Expense	13,293	0.67	10,707	0.62	11,948	0.77	111,013	0.58	111,090	0.62	92,515	0.58
5285 Rent - Eau Claire	115	0.01	115	0.01	115	0.01	1,150	0.01	1,150	0.01	1,150	0.01
5287 Rent - Mankato	135	0.01	167	0.01	134	0.01	1,370	0.01	1,670	0.01	1,356	0.01
5290 Rent - Mpls.	559	0.03	571	0.03	571	0.04	5,475	0.03	5,710	0.03	5,709	0.04
5294 Rent - Waukesha	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	600	0.00
5295 Rent - La Crosse	125	0.01	125	0.01	125	0.01	1,250	0.01	1,250	0.01	1,250	0.01
5297 Rent - St. Cloud	200	0.01	165	0.01	165	0.01	2,025	0.01	1,650	0.01	1,600	0.01
5298 Rent - Davenport	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	1,190	0.01

See Accountant's Report

National TeleService of Winona
Comparative Income Statement
For the Periods Ended July 31,
(Unaudited)

Account Description	Current Period			Year-to-Date								
	Actual	%	Plan	%	Prior	%	Actual	%	Plan	%	Prior	%
							10/01/95 - 07/31/96					
TOTAL GENERAL & ADMINISTRATIVE	271,742	13.62	247,980	14.26	301,401	19.53	2,720,825	14.26	2,502,502	13.87	2,418,950	13.20
TOTAL EXPENSES	427,113	21.40	407,555	23.44	468,612	30.37	4,509,235	23.64	4,158,201	23.05	3,918,095	24.62
OTHER INCOME												
7200 Interest Income	2,683	0.13	1,667	0.10	2,744	0.18	30,491	0.16	16,667	0.09	17,469	0.11
7300 Sale of Assets	0	0.00	0	0.00	0	0.00	105	0.00	0	0.00	76	0.00
7400 Miscellaneous Income	0	0.00	0	0.00	0	0.00	47	0.00	0	0.00	59,329	0.37
TOTAL OTHER INCOME	2,683	0.13	1,667	0.10	2,744	0.18	30,643	0.16	16,667	0.09	76,874	0.48
OTHER EXPENSE												
8100 Bank Charges	3,226	0.16	3,500	0.20	3,062	0.20	39,597	0.21	35,000	0.19	37,623	0.24
8200 Interest Expense	58	0.00	83	0.00	20	0.00	894	0.00	833	0.00	813	0.01
8200 Interest Expense	0	0.00	0	0.00	0	0.00	59	0.00	0	0.00	0	0.00
State Income Tax	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	12,151	0.08
TOTAL OTHER EXPENSE	3,284	0.16	3,583	0.21	3,082	0.20	40,550	0.21	35,833	0.20	50,587	0.32
NET INCOME BEFORE TAX	481,676	24.13	159,434	9.17	34,763	2.25	2,030,144	10.64	1,726,725	9.57	1,176,752	7.39

See Accountant's Report

ATTACHMENT C

Tariff

INTEREXCHANGE TELECOMMUNICATIONS SERVICES

TITLE SHEET

FLORIDA TELECOMMUNICATIONS TARIFF

This Tariff contains the descriptions, regulations, and rates applicable to the furnishing of service and facilities for telecommunications services provided by National Teleservice, Inc. (hereinafter "Carrier") with principal offices at 111 Riverfront, Winona, Minnesota 55987. This Tariff applies to services furnished within the state of Florida. This Tariff is on file with the Florida Public Service Commission ("Commission"), and copies may be inspected, during normal business hours, at Carrier's principal place of business.

Issued: _____

Effective: _____

By:
Mary Lang, Vice President - Operations
National Teleservice, Inc.
111 Riverfront
Winona, MN 55987

INTEREXCHANGE TELECOMMUNICATIONS SERVICES

CHECK SHEET

Sheets of this Tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets, as named below, comprise all changes from the original Tariff that are currently in effect as of the date on the bottom of this sheet.

<u>SHEET</u>	<u>NUMBER OF REVISION (except as indicated)</u>	<u>EFFECTIVE DATE</u>
1	Original	
2	Original	
3	Original	
4	Original	
5	Original	
6	Original	
7	Original	
8	Original	
9	Original	
10	Original	
11	Original	
12	Original	
13	Original	
14	Original	
15	Original	
16	Original	
17	Original	
18	Original	

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

EXPLANATION OF SYMBOLS
AND ABBREVIATIONS

The following are the only symbols used for the purposes indicated below.

- D - Delete or Discontinue
- I - Change resulting in an increase to a Customer's bill
- M - Moved from another Tariff location
- N - New
- R - Change resulting in a reduction to a Customer's bill
- T - Change in text or regulation but no change in rate or charge

The following are abbreviations used in this tariff.

LATA - Local Access and Transport Area

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

TARIFF FORMAT

- A. Sheet Numbering - Sheet numbers appear in the upper-right corner of the sheet. Sheets are numbered sequentially. However, new sheets are occasionally added to the Tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between Sheets 14 and 15 would be 14.1.
- B. Sheet Revision Numbers - Revision numbers also appear in the upper-right corner of the sheet. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the third revised Sheet 14. Because of various suspension periods, deferrals, etc. the Commission follows in their Tariff approval process, the most current sheet number on file with the Commission is not always the Tariff page in effect. Consult the Check Sheet for the sheet currently in effect.
- C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level of coding.
- 2.
 - 2.1.
 - 2.1.1.
 - 2.1.1.A.
 - 2.1.1.A.1.
 - 2.1.1.A.1.(a)
 - 2.1.1.A.1.(a).I
 - 2.1.1.A.1.(a).I.(i)
 - 2.1.1.A.1.(a).I.(i)(1)
- D. Check Sheets - When a Tariff filing is made with the Commission, an updated check sheet accompanies the Tariff filing. The check sheet lists the sheets contained in the Tariff, with a cross reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some sheets). The Tariff user should refer to the latest check sheet to find out if a particular sheet is the most current sheet on file with the Commission.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 1 - DEFINITIONS

Application for Service - A standard order form which includes all pertinent billing, technical, and other descriptive information which will enable the Carrier to provide telecommunication service as required.

Carrier - National Teleservice, Inc. ("Carrier"), unless the context indicates otherwise.

Commission - Florida Public Service Commission, unless context indicates otherwise.

Customer - The person, firm, corporation, or other entity which orders or uses service and is responsible for the payment of rates and charges and compliance with Tariff regulations.

Day - From 8:00 a.m. up to but not including 5:00 p.m. local time Monday through Friday.

Disconnection - The disconnection of a circuit, dedicated access line, or port connection being used for existing service.

Evening - From 5:00 p.m. up to but not including 11:00 p.m. local time Sunday through Friday.

Holiday - Carrier specified holidays are New Year's Day, Martin Luther King's Birthday (federally observed), Presidents' Day, Memorial Day (federally observed), Independence Day, Labor Day, Columbus Day, Veterans' Day, Thanksgiving Day, and Christmas Day.

LATA (Local Access and transport Area) - A group of telephone exchanges within which FCC rules allow local exchange carriers to carry toll telephone calls.

Night/Weekend - From 11:00 p.m. up to but not including 8:00 a.m., and 8:00 a.m. Saturday up to but not including 5:00 p.m. Sunday.

Premises - The space designated by a Customer as its place or places of business for termination of service (whether for its own communications needs or for its resale Customers). In the case of a non-profit sharing group, this term includes space at each sharer's place or places of business, as well as space at the Customer place of business.

Service or Services - The services covered by this Tariff shall include only the State of Florida.

Terminal Equipment - Telecommunications devices, apparatus, and their associated wiring, such as teleprinters, telephone, and data sets.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 2 - RULES AND REGULATIONS2.1 UNDERTAKING OF CARRIER

Carrier is a resale common carrier providing intrastate communications services to Customers for their direct transmission and reception of voice, data, and other types of telecommunications. Service is available 24 hours a day, seven days a week, throughout the state.

2.2 LIMITATIONS OF SERVICE

2.2.1 The Carrier offers service to all those who desire to purchase service from the Carrier consistent with all provisions of this Tariff. Customers or subscribers interested in the Carrier's services shall file a service application with the Carrier which fully satisfies the Carrier and identifies the services required.

2.2.2 Service is offered subject to the availability of the necessary facilities and/or equipment and subject to the provisions of this Tariff. Carrier reserves the right not to provide service to or from a location where legally prohibited or the necessary facilities or equipment are not available.

2.2.3 Carrier reserves the right to discontinue furnishing service, upon a written notice, when necessitated by conditions beyond its control, or when the Customer is using the service in violation of any provision in this Tariff, the rules and regulations of the Commission, or the law.

2.2.4 Title to all facilities provided by the Carrier under these regulations remains with the Carrier. Prior written permission from the Carrier is required before any assignment or transfer. All regulations and conditions contained in this Tariff shall apply to all such permitted assignees or transferees, as well as all conditions for service.

2.3 USE OF SERVICE

Service may not be used for any unlawful purposes or for any purpose for which any payment or other compensation is received by the Customer, except when the Customer is a duly authorized and regulated common carrier. This provision does not prohibit an arrangement between the Customer, authorized user, or joint user to share the cost of the service as long as the arrangement generates no profit for any participant in the arrangement.

2.3.1 Minimum Service Period

The minimum period of service is one month (30 days), unless otherwise stated in this Tariff.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

2.4 LIABILITY

- 2.4.1 The liability of the Carrier for any claim or loss, expense or damage, due to any interruption, delay, error, omission, or defect in any service, facility, or transmission provided under the Tariff shall not exceed an amount equivalent to the proportionate charge to the Customer for the period of service or the facility provided during which such interruption, delay, error, omission, or defect occurs. For the purpose of computing this amount, a month is considered to have 30 days. In no event will Carrier be liable for any indirect, consequential, or special damages, or for any lost profits, even if advised of the possibility of the same.
- 2.4.2 Carrier shall not be liable for any claim or loss, expense, or damage, due to any interruption, delay, error, omission, or other defect in service, facility, or transmission provided under this Tariff, if caused by any person or entity other than Carrier, any malfunction of any service or facility provided by any other carrier, act of God, fire, war, civil disturbance, act of government, or by any other cause beyond Carrier's control.
- 2.4.3 Carrier shall not be liable for and shall be fully indemnified and held harmless by Customer against any claim of loss, expense, or damage, including indirect, special, or consequential damage for:
- A. defamation, libel, slander, invasion of privacy, infringement of copyright or patent, unauthorized use of any trademark, trade name, or service mark, unfair competition, interference with or misappropriation, or violation of any contract, proprietary or creative right, or any other injury to any person, property, or entity arising from the material, data, information, or content revealed to, transmitted, processed, handled, or used by Carrier under this Tariff;
 - B. connecting, combining, or adapting Carrier's facilities with Customer's apparatus or systems;
 - C. any act of omission by the Customer; or
 - D. any personal injury or death of any person or for any loss of or damage to Customer's premises or any other property, whether owned by Customer or others, caused directly or indirectly by the installation, maintenance, location, condition, operation, failure, presence, use, or removal of equipment or wiring provided by the Carrier, if not caused by gross negligence of the Carrier.
- 2.4.4 No agent or employee of any other carrier shall be deemed to be an agent or employee of the Carrier.
- 2.4.5 CARRIER MAKES NO WARRANTY REGARDING THE PROVISION OF SERVICE PURSUANT TO THIS TARIFF, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

2.5 INTERRUPTION OF SERVICE

Credit allowance for interruption of service which is not due to the negligence of Customer or to the failure of channels, equipment, and/or communications systems provided by the Customer and other carriers are subject to the general liability provisions set forth in Section 2.4 herein. It shall be the obligation of the Customer to notify Carrier immediately of any interruption in service for which a credit allowance is desired by Customer. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission of the Customer within his or her control, or is not in wiring or equipment, if any, furnished by Customer and connected to Carrier's terminal.

2.6 RESPONSIBILITY OF THE CUSTOMER

2.6.1 All Customers assume general responsibilities in connection with the provisions and use of Carrier's service. When facilities, equipment, and/or communications systems provided by others are connected to Carrier's facilities, Customer assumes additional responsibilities. Customers are responsible for the following:

- A. Customer is responsible for placing orders for service, paying all charges for service rendered by Carrier, and complying with Carrier's regulations governing the service. Customer is also responsible for assuring that its users comply with regulations.
- B. When placing an order for service, Customer must provide:
 - 1. the name(s) and address(es) of the person(s) responsible for the payment of service charges; and
 - 2. the name(s), telephone number(s), and address(es) of the Customer contact person(s).
- C. Customer must pay Carrier for the replacement or repair of Carrier's equipment when the damage results from:
 - 1. the negligence or willful act of Customer or user;
 - 2. improper use of service; or
 - 3. any use of equipment or service provided by others.

2.6.2 Availability of Service for Maintenance, Testing, and Adjustment

Upon reasonable notice, the facilities provided by Carrier shall be made available to Carrier for such tests and adjustments as may be necessary to maintain them in satisfactory condition. No interruption allowance will be granted for the time during which such tests and adjustments are made.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

2.7 RESPONSIBILITY OF CARRIER (continued)2.7.2 Cancellation of Credit

Where Carrier cancels a service and the final service period is less than the monthly billing period, a credit will be issued for any amounts billed in advance, prorated at 1/30th of the monthly recurring charge for each day after the service was discontinued. This credit will be issued to Customer or applied against the balance remaining on Customer's account.

2.7.3 Disconnection of Service by Carrier

Carrier may discontinue service or cancel an application for service without incurring any liability for any of the following reasons:

- A. After ten days' written notice, for non-payment of any sum due to Carrier for service for more than 30 days beyond the date of rendition of the bill for such service. Notice of disconnection shall be separate and apart from the regular monthly bill for service;
- B. After ten days' written notice, in the event of a violation of any regulation governing the service under this Tariff;
- C. Without notice, in the event of a violation of any law, rule, or regulation of any government authority having jurisdiction over the service;
- D. Without notice in the event Carrier is prohibited from furnishing services by order of a court or other government authority having jurisdiction; or
- E. In the event of fraudulent use of Carrier's network, Carrier will discontinue service and/or seek legal recourse to recover all costs involved in enforcement of this provision.

2.7.4 Fractional Charges

Charges for a fractional part of a month are calculated by counting the number of days remaining in the billing period after service is furnished. Divide that number of days by 30 days (billing period). The result is then multiplied by the applicable monthly service charge to arrive at the appropriate fractional monthly service charge.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

2.8 RESTORATION OF SERVICE

The use and restoration of service in emergencies shall be in accordance with the priority system specified in Part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

2.9 TAXES

Customer will be billed and is responsible for payment of applicable local, state, and federal taxes assessed in conjunction with service used. All state and local taxes will be listed in the billing statement as separate line item charges. These assessments are not included in the rates provided in this Tariff.

2.10 TIMING OF CALLS**2.10.1 When Billing Charges Begin and Terminate for Phone Calls**

Customer's long distance usage charge is based on the actual usage of Carrier's network. Usage begins when the called party picks up the receiver (i.e., when two-way communication, often referred to as "conversation time," is possible). When the called party picks up is determined by hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. A call is terminated when the calling or called party hangs up. There will be no charge for uncompleted calls.

2.10.2 Billing Increments

Unless otherwise specified in this Tariff, the minimum call duration for billing purposes is one minute for a connected call. Calls beyond one minute are billed in one-minute increments. Billing will be rounded to the nearest penny for each call.

2.11 START OF BILLING

For billing purposes, the start of service is the day following acceptance by the Customer of Carrier's service or equipment. The end of service date is the last day of the minimum notification of cancellation or any portion of the last day, after receipt by Carrier of notification of cancellation as described in Section 2.6.4 of this Tariff.

2.12 INTERCONNECTION

2.12.1 Service furnished by Carrier may be interconnected with services or facilities of other authorized communications common carriers and with private systems, subject to the technical limitation established by Carrier. Service furnished by Carrier is not part of a joint undertaking with such other carriers. Any special interface equipment or facilities necessary to achieve compatibility between the facilities of Carrier and other participating carriers shall be provided at the Customer's expense.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

2.12 INTERCONNECTION (continued)

2.12.2 Interconnection with the facilities or services of other carriers shall be under the applicable terms and conditions of the other carriers' tariffs. The Customer is responsible for taking all necessary legal steps for interconnecting his or her customer provided terminal equipment of communications systems with Carriers' facilities. Customers shall secure all licenses, permits, rights-of-way, and other arrangements necessary for such interconnections.

2.13 CALCULATION OF DISTANCE

Usage charges for all mileage-sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the call. The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal coordinates associated with the rate centers involved.

Formula:

$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

2.14 MINIMUM CALL COMPLETION RATE

Customers can expect a call completion rate of 99.5 percent (number of calls completed/number of calls attempted) and not less than 90 percent during peak use periods for all 1+ dialing services.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 3 - SERVICES AND RATES

The Carrier offers and provides interexchange, intrastate telecommunications services to commercial, governmental, residential, and non-profit customers subscribing to these services

3.1 OUTBOUND 1+

Outbound 1+ rates apply when the person originating the call dials the telephone number desired and completes the call, and the call is billed to the calling station.

3.2 CALLING CARD

A calling card service that may be accessed from any touch tone or rotary telephone. The Customer dials the appropriate telephone number desired and completes the call and the call is billed to the Calling Card.

3.3 INBOUND 800

Inbound 1+ rates apply when the person originating the call dials the "800" telephone number desired and completes the call, and the call is billed to the called station.

3.3.1 Reservations of Numbers for 800 Services - A prospective 800 Service Customer may reserve not more than (10) 800 Service telephone numbers. Nothing herein, or in any other provision of this Tariff, or in any marketing materials issued by the Carrier, shall give any person, including prospective Customers who have reserved an 800 Service telephone number hereunder and Customer who subscribes to and uses 800 Service, or its transferees or assignees, any ownership interest or proprietary right in any given 800 Service telephone number; provided, however, that a Customer who sells an ongoing operating business for which 800 Service telephone number has been in use may transfer the right to continue to use the 800 Service telephone number. If an 800 Service Customer terminates the Service, any 800 Service telephone number which had been assigned to said Customer will be forfeited and revert to NTI.

3.4 DIRECTORY ASSISTANCE

Directory Assistance.

3.5 OPERATOR SERVICES

Operator Services are offered to NTI presubscribed customers and apply when the customer completes the call through the assistance of a live or automated operator.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

3.6 DISCOUNTS FOR HEARING IMPAIRED CUSTOMERS

Intrastate toll message rates for TDD users, which is communicated using a telecommunications device for the deaf (TDD) by properly certified business establishments or individuals equipped with TDDs for communications with hearing or speech impaired persons, shall be evening rates for daytime calls and night rates for evening and night calls.

3.7 DIRECTORY ASSISTANCE CHARGES FOR HANDICAPPED PERSONS

Pursuant to Florida Public Service Commission Rules and regulations Carrier will not charge for the first 50 directory assistance calls made each month by a handicapped person.

3.8 OPERATION OF TELECOMMUNICATIONS RELAY SERVICE

Intrastate toll calls received from the relay service, each local exchange and interexchange telecommunications company billing relay call will be discounted by 50 percent of the applicable rate for a voice nonrelay call except that where either the calling or called party indicates that either party is both hearing and visually impaired, the call will be discounted 60 percent off the applicable rate for voice nonrelay call. The above discounts apply only to time-sensitive elements of a charge for the call and shall not apply to per call charges such as a credit card Service Charges.

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INTEREXCHANGE TELECOMMUNICATIONS SERVICES

SECTION 4 - RATES AND CHARGES

4.1 OUTBOUND 1+ RATES

Rate per minute of use: \$ 0.149

4.2 CALLING CARD RATES

Rate per minute of use:

Day: \$ 0.27
Evening: \$ 0.23
Night: \$ 0.23

4.3 INBOUND 800 RATES

Rate per minute of use: \$ 0.166

4.4 DIRECTORY ASSISTANCE RATES

Rate per call: \$ 0.87

J:\DATA\CLIENT\REGULATOR\TARIFFS\6761001T.FL

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CERTIFICATE TRANSFER STATEMENT

N/A

I, _____, current holder of certificate number _____,
have reviewed this application and join in the petitioner's request.

Signature of owner or chief
officer of the certificate

Title

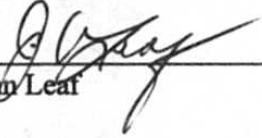
Date

**** APPENDIX B ****

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be responded to in one of the following ways (applicant please check one):

- (X) The applicant will not collect deposits nor will it collect payments for service more than one month in advance.
- () The applicant will file with the Commission and maintain a surety bond in an amount equal to the current balance of deposits and advance payments in excess of one month. (Bond must accompany application.)



John Leaf

President

(507) 452-8263

Telephone Number

10-21-96

Date

INTRASTATE NETWORK

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

N/A

1) 2)

3) 4)

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

N/A

1) 2)

3) 4)

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

<u>POP-to-POP</u>	<u>TYPE</u>	<u>OWNERSHIP</u>
-------------------	-------------	------------------

N/A

4. **ORIGINATING SERVICE:** Please provide the list of exchanges where you are proposing to provide originating service within 30 days after the effective date of the certificate (Appendix D).

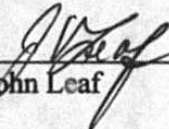
All exchanges within the State of Florida.

5. **TRAFFIC RESTRICTIONS:** Please explain how the applicant will comply with the EAEA requirements contained in Commission Rule 25-24.471 (4) (a) (copy enclosed).

Applicant will provide inter-EAEA services over resold facilities. Intra-EAEA calls will be handled by the Customer's Local Exchange Carrier.

6. **CURRENT FLORIDA INTRASTATE SERVICES.** Applicant has
() or has not (X) previously provided intrastate telecommunications in Florida.
If the answer is has, fully describe the following:

- (a) What services have been provided and when did these services begin?
- (b) If the services are not currently offered, when were they discontinued?



John Leaf

President

(507) 452-8263

Telephone Number

10-21-96

Date