WIGGINS & VILLACORTA, P.A.
ATTORNEYS AT LAW
501 EAST TENNESSEE STREET
POST OFFICE DRAWER 1657
TALLAHASSEE, FLORIDA 32302

TELEPHONE (904) 222-1534
TELECOPIER (904) 222-1689

November 18, 1996

VIA HAND DELIVERY

Ms. Steve Tribble
Director of Administration
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

961372-TI

Re: OpTel

Dear Mr. Tribble:

Enclosed for filing are the original and six copies of OpTel's Application Form for Authority to Provide Interexchange Telecommunications Service Within the State of Florida, along with the $250.00 filing fee. I would like to bring to the Commission's attention the following aspects of the application:

1. Appendix B is not signed because the applicant intends to file a waiver for the requirement that it maintain a surety bond;

2. On page 15, applicant states that it has not previously provided intrastate telecommunications services in Florida. In answering this questions applicant assumed that the inquiry went to intrastate interexchange telecommunications services in Florida. Applicant is currently certificated as a STS provider and does provide such service in Florida; and

3. The application is being filed without an accompanying tariff, which will be filed with the Commission within the next two weeks. I

If you have any questions about this application, please let me know.

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check:

Sincerely,

Patrick K. Wiggins

Patrick K. Wiggins

Enclosures

** FLORIDA PUBLIC SERVICE COMMISSION **

DIVISION OF COMMUNICATIONS
BUREAU OF SERVICE EVALUATION

APPLICATION FORM
for
AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICE WITHIN THE STATE OF FLORIDA

Instructions

A. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee (See Appendix A).

B. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.

C. Use a separate sheet for each answer which will not fit the allotted space.

D. If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Communications
Bureau of Service Evaluation
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, Florida 32399-0850
(904) 413-6600

E. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of $250.00 to:

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, Florida 32399-0850
(904) 413-6251

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

1. This is an application for (check one):

(x) **Original Authority** (New company).
( ) **Approval of Transfer** (To another certificated company).
( ) **Approval of Assignment of existing certificate** (To a uncertificated 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):

(x) **Facilities based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

( ) **Operator Service Provider** - 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.

(x) **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.

( ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers. Then offers the resold service by enrolling unaffiliated customers.

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

TVMAX Telecommunications, Inc.

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

OpTel

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

1111 West Mockingbird Lane
Suite 1000
Dallas, Texas 75247

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

1250 E. Hallandale Beach Boulevard, Suite 700
Hallendale, Florida 33009

7. Structure of organization;

( ) Individual
( ) Foreign Corporation
( ) General Partnership
(x) Corporation
( ) Foreign Partnership
( ) Limited Partnership
( ) Other, ______________________________

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

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

(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.

(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.

The applicant is a corporation.

9. If incorporated, please give:

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

Corporate charter number: F950000001985

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

Prentice-Hall Corporation System, Inc.
1201 Hays Street, Suite 105
Tallahassee, Florida 32301

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

Fictitious name registration number: G9527890012

(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.

None of the officers, directors, or any stock holders has been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

(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.

None of the officers, directors, or stockholders has been an officer, director, partner or stockholder in any other Florida certificated telephone company.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

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

(a) The application;

Patrick K. Wiggins
Wiggins & Villacorta, P.A.
501 East Tennessee Street, Suite B
Post Office Drawer 1657
Tallahassee, Florida 32302
(904) 222-1534

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

Michael E. Katzenstein
Vice President and General Counsel
OpTel
1111 West Mockingbird Lane
Suite 1000
Dallas, Texas 75247
(214) 634-3824

(c) Tariff;

Patrick K. Wiggins
Wiggins & Villacorta, P.A.
501 East Tennessee Street
Suite B
Post Office Drawer 1657
Tallahassee, Florida 32302
(904) 222-1534

(d) Complaints/Inquiries from customers;

Missy Orr-Ryan
Vice President Customer Operations
OpTel
1111 West Mockingbird Lane
Suite 1000
Dallas, Texas 75247
(214) 634-3824

11. List the states in which the applicant:

a) Has operated as an interexchange carrier.

None.

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

None.

c) Is certificated to operate as an interexchange carrier.

None.

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:

(x) Facilities.
(x) Billing and Collection. ( ) Operators.
( ) Maintenance. ( ) Sales.
( ) Other: None

13. Do you have a marketing program?

Yes.

14. Will your marketing program:
( ) Pay commissions?
( ) Offer sales franchises?
( ) Offer multi-level sales incentives?
( ) Offer other sales incentives?

Marketing for OpTel is done by salaried employees and occasionally by independent contractors.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

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

N/A

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

(x) Residential customers.
(x) Business customers.
( ) PATS providers.
( ) PATS station end-users.
(x) Hotels & motels.
(x) Hotels & motel guests.
(x) Universities.
(x) University dormitory residents.
( ) Other: (specify) ______________.

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?

OpTel's name and telephone number will appear on its bills.

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

The Applicant will bill for services.

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

A. Financial capability.

Regarding the showing of financial capability, the following applies:

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

1. the balance sheet

Attached as Exhibit 1.

2. income statement

Attached as Exhibit 1.

3. statement of retained earnings for the most recent 3 years.

Attached as Exhibit 1.

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.

Attached as Exhibit 2.

C. Technical capability.

Attached as Exhibit 3.

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

The Applicant will file a tariff with the Commission prior providing any IXC services in the State of Florida.

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

_X_ **MTS with distance sensitive per minute rates**
_X_ Method of access is FGA
_X_ Method of access is FGB
_X_ Method of access is FGD
_X_ Method of access is 800

_X_ **MTS with route specific rates per minute**
_X_ Method of access is FGA
_X_ Method of access is FGB
_X_ Method of access is FGD
_X_ Method of access is 800

__X__ **MTS with statewide flat rates per minute (i.e. not distance sensitive)**
__X__ Method of access is FGA
__X__ Method of access is FGB
__X__ Method of access is FGD
__X__ Method of access is 800

__X__ **MTS for pay telephone service providers**

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

__X__ **800 Service (Toll free)**

____ **WATS type service (Bulk or volume discount)**
__X__ Method of access is via dedicated facilities
__x__ Method of access is via switched facilities

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

__X__ **Travel Service**
__X__ Method of access is 950
__x__ Method of access is 800

__X__ **900 service**

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

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

Services included are:

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

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

    Initial Dial with 10 or 7 digits and additional digits dependent upon the service arrangements

22. ___ **Other:**

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

APPLICANT ACKNOWLEDGEMENT 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 two 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 intra 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 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".

UTILITY OFFICIAL: [signature] 1/14/96

Signature   Date

Vice President + General Counsel   (214) 634-3824

Title   Telephone No.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

** APPENDIX A **

CERTIFICATE TRANSFER STATEMENT

I, **(TYPE NAME)** ______________________________,
(TITLE) ______________________, of **(NAME OF COMPANY)**
______________________________, and current holder of
certificate number ______________, have reviewed
this application and join in the petitioner's request for a transfer of the above-mentioned certificate.

UTILITY OFFICIAL: ______________________ ____________

Signature Date

____

______________________ ____________

Title Telephone No.

The applicant is applying for original authorization so this Appendix A is not applicable.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

**** 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):

( ) **The applicant will not collect deposits nor will it collect payments for service more than one month in advance.**

(x) **The applicant will file with the Commission and maintain a surety bond in an that the applicant believes will equal the maximum balance of deposits and advance payments in excess of one month. (Bond must accompany application.)**

UTILITY OFFICIAL:

______________________ Signature

______________________ Date

____

______________________ Title

______________________ Telephone No.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

**** APPENDIX C ****

INTRASTATE NETWORK

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

    1) 2)

    3) 4)

    IXC service is currently contemplated to be provided in conjunction with STS locations served by applicant under its STS certificate.

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

    1) 2)

    3) 4)

    See above.

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

	POP-to-POP	TYPE	OWNERSHIP
1)			
2)			

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

    IXC service is currently contemplated to be provided in conjunction with STS locations served by applicant under its STS certificate. The applicant will notify the commision of the locations at which it will provide IXC services prior to commencement of providing the IXC services.

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).

    The Applicant will comply with the requirements of Commission Rule 25-24.471(4)(a) as modified by Order No. PSC-95-0203-FOF-TP.

6. **CURRENT FLORIDA INTRASTATE SERVICES:** Applicant has ( ) or has not (X) previously provided intrastate telecommunications in Florida. If the answer is <u>has</u>, 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?

<u>UTILITY OFFICIAL:</u> [signature] 11/14/96

Signature Date

Vice President and General Counsel (214)634-3824

Title Telephone No.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

** APPENDIX D **

FLORIDA TELEPHONE EXCHANGES

AND

EAS ROUTES

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate.

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

** FLORIDA EAS FOR MAJOR EXCHANGES **

Extended Service Area	with	These Exchanges
PENSACOLA:		Cantonment, Gulf Breeze, Pace, Milton Holley-Navarre.
PANAMA CITY:		Lynn Haven, Panama City Beach, Youngstown-Foutain and Tyndall AFB.
TALLAHASSEE:		Crawfordville, Havana, Monticello, Panacea, Sopchoppy and St. Marks.
JACKSONVILLE:		Baldwin, Ft. George, Jacksonville Beach, Callahan, Maxville, Middleburg, Orange Park, Ponte Vedra and Julington.
GAINESVILLE:		Alachua, Archer, Brooker, Hawthorne, High Springs, Melrose, Micanopy, Newberry and Waldo.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

OCALA:	Belleview, Citra, Dunnellon, Forest Lady Lake (B21), McIntosh, Oklawaha, Orange Springs, Salt Springs and Silver Springs Shores.
DAYTONA BEACH:	New Smyrna Beach.
TAMPA:	Central None East Plant City North Zephyrhills South Palmetto West Clearwater
CLEARWATER:	St. Petersburg, Tampa-West and Tarpon Springs.
ST. PETERSBURG:	Clearwater.
LAKELAND:	Bartow, Mulberry, Plant City, Polk City and Winter Haven.
ORLANDO:	Apopka, East Orange, Lake Buena Vista, Oviedo, Windermere, Winter Garden, Winter Park, Montverde, Reedy Creek, and Oviedo-Winter Springs.
WINTER PARK:	Apopka, East Orange, Lake Buena Vista, Orlando, Oviedo, Sanford, Windermere, Winter Garden, Oviedo-Winter Springs, Reedy Creek, Geneva and Montverde.
TITUSVILLE:	Cocoa and Cocoa Beach.
COCOA:	Cocoa Beach, Eau Gallie, Melbourne and Titusville.
MELBOURNE:	Cocoa, Cocoa Beach, Eau Gallie, and Sebastian.
SARASOTA:	Bradenton, Myakka and Venice.

FT. MYERS:	Cape Coral, Ft. Myers Beach, North Cape Coral, North Ft. Myers, Pine Island, Lehigh Acres and Sanibel-Captiva Islands.
NAPLES:	Marco Island and North Naples.
WEST PALM BEACH:	Boynton Beach and Jupiter.
POMPANO BEACH:	Boca Raton, Coral Springs, Deerfield Beach and Ft. Lauderdale.
FT. LAUDERDALE:	Coral Springs, Deerfield Beach, Hollywood and Pompano Beach.
HOLLYWOOD:	Ft. Lauderdale and North Dade.
NORTH DADE:	Hollywood, Miami and Perrine.
MIAMI:	Homestead, North Dade and Perrine.

OPTEL, INC. AND SUBSIDIARIES

Consolidated Financial Statements
Period From January 1, 1995 to August 31, 1995, and
Independent Auditors' Report

Deloitte &
Touche LLP

Suite 1600
Texas Commerce Tower
2200 Ross Avenue
Dallas, Texas 75201-6778

Telephone: (214) 777-7000

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
OpTel, Inc.:

We have audited the accompanying consolidated balance sheet of OpTel, Inc. and subsidiaries (the "Company") as of August 31, 1995, and the related consolidated statement of operations, stockholders' equity and cash flows for the period from January 1, 1995 to August 31, 1995. 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 audit.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of OpTel, Inc. and subsidiaries as of August 31, 1995, and the results of their operations and their cash flows for the period from January 1, 1995 to August 31, 1995, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

October 24, 1995 (except for Note 13,
as to which the date is January 31, 1996)

OPTEL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AUGUST 31, 1995

ASSETS	
CASH AND CASH EQUIVALENTS	$ 2,035,980
ACCOUNTS RECEIVABLE (Net of allowance for doubtful accounts of $473,218)	1,594,110
PREPAID EXPENSES, DEPOSITS AND OTHER ASSETS	825,138
ADVANCES TO EMPLOYEES	113,981
PROPERTY AND EQUIPMENT, NET (Note 4)	48,059,601
INTANGIBLE ASSETS AND DEFERRED COSTS, NET (Note 5)	55,443,266
TOTAL	$ 108,072,076
LIABILITIES AND STOCKHOLDERS' EQUITY	
ACCOUNTS PAYABLE	$ 6,508,868
ACCRUED EXPENSES AND OTHER LIABILITIES (Note 6)	4,787,117
CUSTOMER DEPOSITS AND DEFERRED REVENUES	1,258,120
CONVERTIBLE NOTES PAYABLE DUE TO STOCKHOLDER (Notes 8 and 11)	17,949,690
LIMITED PARTNERSHIP OBLIGATIONS (Notes 7 and 8)	991,071
NOTES PAYABLE AND OBLIGATIONS UNDER CAPITAL LEASES (Note 8)	1,858,352
DEFERRED ACQUISITION LIABILITIES (Notes 3 and 8)	6,174,295
Total liabilities	39,527,513
COMMITMENTS AND CONTINGENCIES (Notes 3, 9 and 13)	-
STOCKHOLDERS' EQUITY (Note 12):	
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued and outstanding	-
Class A common stock, $.01 par value; 2,000,000 shares authorized; none issued and outstanding	-
Class B common stock, $.01 par value; 1,000,000 shares authorized; 116,959 issued and outstanding	1,170
Additional paid-in capital	78,922,705
Accumulated deficit	(10,379,312)
Total stockholders' equity	68,544,563
TOTAL	$ 108,072,076

See notes to consolidated financial statements.

OPTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
PERIOD FROM JANUARY 1, 1995 THROUGH AUGUST 31, 1995

REVENUE:	
Cable	$ 8,782,610
Telephone	787,788
Total revenue	9,570,398
OPERATING EXPENSES:	
Programming	2,892,425
Telephone service costs	1,007,466
Royalties and other direct costs	900,633
General and administrative	7,991,840
Nonrecurring relocation and severance costs (Note 1)	3,819,916
Depreciation and amortization	2,420,397
OPERATING LOSS	(9,462,279)
OTHER INCOME (EXPENSE):	
Interest expense	(349,297)
Interest expense on convertible notes payable due to stockholder (Note 11)	(918,501)
Other income, net	99,936
LOSS BEFORE INCOME TAXES	(10,630,141)
INCOME TAX BENEFIT (Note 10)	469,502
NET LOSS	$(10,160,639)
NET LOSS PER COMMON SHARE	$ (105.84)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	88,517

See notes to consolidated financial statements.

OPTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
PERIOD FROM JANUARY 1, 1995 THROUGH AUGUST 31, 1995

	Class B Common Stock			
	Shares Outstanding	Par Value	Additional Paid-In Capital	Accumulated Deficit
BALANCE, JANUARY 1, 1995	39,000	$ 390	$ 3,030,856	$ (218,673)
Issuance of stock upon debt conversion, net of unamortized transaction costs, March 31, 1995 (Note 11)	61,000	610	59,204,363	-
Sale and issuance of stock, July 26, 1995 (Note 11)	16,959	170	16,687,486	-
Net loss	-	-	-	(10,160,639)
BALANCE, AUGUST 31, 1995	116,959	$ 1,170	$ 78,922,705	$ (10,379,312)

See notes to consolidated financial statements.

OPTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
PERIOD FROM JANUARY 1, 1995 THROUGH AUGUST 31, 1995

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (10,160,639)
Adjustments to reconcile net loss to net cash flow used in operating activities:	
Depreciation and amortization	2,420,397
Bad debt expense	372,339
Noncash interest expense	1,020,327
Changes in operating assets and liabilities net of effect of business combinations:	
Increase in accounts receivable	(1,376,915)
Decrease in prepaid expenses, deposits and other assets	180,363
Increase in deferred revenue and other liabilities	894,993
Increase in accounts payable and accrued expenses	3,028,848
Net cash flows used in operating activities	(3,620,287)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of businesses	(49,974,397)
Increase in intangible assets and deferred costs	(608,345)
Purchases of property and equipment	(21,561,505)
Net cash flows used in investing activities	(72,144,247)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from convertible notes payable	62,949,690
Decrease in limited partnership obligations	(2,114,431)
Proceeds from issuance of common stock	16,687,656
Payment on notes payable	(4,741,336)
Net cash flows provided by financing activities	72,781,579
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,982,955)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,018,935
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,035,980
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (Notes 3 and 11):	
Cash paid during the period for:	
Interest	$ 119,725
Taxes	$ 18,900
Decrease in deferred tax liability	$ (488,402)
Conversion of convertible debt to common stock:	
Convertible debt and accrued interest	$ (60,792,115)
Common stock	$ 610
Additional paid-in capital, net of transaction costs	$ 59,204,363

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

OpTel, Inc., a Delaware corporation, and subsidiaries (the "Company" or "OpTel") is the successor of the cable television operations of Vanguard Communications, L.P. ("Vanguard"). Vanguard commenced operations in April 1993. On December 20, 1994, Vanguard contributed its cable operations to TVMAX Telecommunications, Inc. ("TVMAX"), a wholly owned subsidiary of OpTel, which at the time of the transfer was wholly owned by Vanguard. The contribution to TVMAX was made at Vanguard's historical cost.

OpTel is a developer, operator and owner of private cable and telephone systems that utilize advanced technologies to deliver cable television and telephone service to customers in multiple dwelling units. The Company negotiates long-term, exclusive cable service agreements and non-exclusive telephone service agreements with owners and managers of multiple dwelling units, generally for terms of up to 15 years.

During the period from January 1, 1995 to March 31, 1995, the Company was wholly owned by Vanguard. On March 31, 1995, VPC Corporation ("VPC") (a wholly owned subsidiary of Le Groupe Vidéotron ltée ("Vidéotron") - a Canadian company), acquired a 66.75% interest in the Company (see Note 11).

During the period, the Company relocated its corporate headquarters and began relocating its customer service centers. As a result of these relocations, significant nonrecurring costs were incurred primarily relating to severance costs of former employees at the previous locations and relocation and recruiting costs of employees at the new location.

The Company elected to change its year-end to August 31 from December 31 to conform to that of its new majority stockholder.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of OpTel and its wholly owned subsidiaries and majority-owned partnerships. All significant intercompany accounts and transactions have been eliminated. Amounts due to minority partners are included in limited partnership obligations (see Note 7).

Property and Equipment - Property and equipment are stated at cost, which includes amounts for material and applicable labor and overhead. During the period from January 1, 1995 to August 31, 1995, OpTel capitalized direct labor and overhead costs of $4,075,000. When assets are disposed of, the costs and related accumulated depreciation are removed and any resulting gain or loss is reflected in income for the period. Cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the various classes of property and equipment as follows:

Headends	15 years
Telephone switches	10 years
Distribution systems and enhancements	15 years
Computer software and equipment	7 years
Office furniture and fixtures	10 years
Vehicles	5 years
Leasehold improvements	Life of lease

Intangible Assets - Organization costs, financing costs, costs associated with licensing fees and commissions paid upon the execution of right-of-entry agreements to provide cable and telephone service to multiple dwelling units, and the excess of purchase price over the fair value of tangible assets acquired are amortized using the straight-line method over the following estimated useful lives:

Goodwill	20 years
Licensing fees and rights of entry costs	Life of contract
Organization costs, financing costs and other	2 to 5 years
Noncompete agreements	Life of agreement

Management routinely evaluates its recorded investments for impairment and believes the investments to be recoverable.

Federal and State Income Taxes - The Company and its corporate subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are recorded based on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences. Provision is made or benefit recognized for deferred taxes relating to temporary differences in the recognition of expense and income for financial reporting purposes. To the extent a deferred tax asset does not meet the criterion of "more likely than not" for realization, a valuation allowance is recorded.

Cash and Cash Equivalents - Cash and cash equivalents of the Company are composed of demand deposits with banks and short-term investments with maturities at the date of purchase of three months or less.

Revenue Recognition - The Company recognizes revenue upon delivery of cable programming and telephone service to subscribers. OpTel typically bills customers in advance for monthly cable services, which results in the deferral of revenue until those services are provided. As of August 31, 1995, the Company had deferred revenue of $1,127,015 relating to future monthly service.

Net Loss Per Common Share - The computation of net loss per share is based on the weighted average number of common shares outstanding during the period. The $60,000,000 of debt which was converted to 61,000 shares of Company Stock on March 31, 1995, is included in shares outstanding as if it were converted on the date of issuance (see Note 11). The net loss per common share, assuming full dilution, is considered to be the same as primary since the effect of the convertible notes outstanding as of August 31, 1995, would be antidilutive.

3. ACQUISITIONS

On December 28, 1994, the Company acquired the stock of the operating subsidiaries of International Richey Pacific Cablevision, Ltd. ("IRPC") by assuming approximately $15,500,000 in liabilities, issuance of a note for $1,000,000, payment of approximately $800,000 in cash and issuance of a warrant for the right to purchase units in Vanguard. IRPC may exercise the warrant through December 28, 1997, at a price of $1,250,000. Within the exercise period, Vanguard may call the warrant at a price of $4,000,000. If the warrant is neither exercised by IRPC nor called by Vanguard, within 90 days of the expiration of the exercise period, IRPC may put the warrant to OpTel at a price of $1,000,000. The warrant is recorded by OpTel at its obligation under the put option of $1,000,000 at August 31, 1995. Additionally, the $1,000,000 note payable is due to IRPC one year after closing and is subject to adjustment based on the actual amount of assumed liabilities. The combined amounts due to IRPC are included on the accompanying consolidated balance sheet in deferred acquisition liabilities.

On January 11, 1995, the Company purchased the assets of Eaglevision, a division of Nationwide Communications, Inc. ("NCI"). The purchase price consisted of $15,200,000 in cash, the assumption of approximately $110,000 of liabilities and a deferred payment due to NCI of not less than $6,000,000 and not more than $10,000,000 based on the profitability of the Eaglevision assets with certain adjustments. This deferred payment shall be payable at NCI's option either, (a) following the sale of all or substantially all of the Eaglevision assets or the sale of a majority of the outstanding voting capital of the OpTel subsidiary which acquired Eaglevision assets to a third party who is not an affiliate, or (b) at the conclusion of the fifth or sixth year following the acquisition. This deferred payment is carried on the balance sheet in deferred acquisition liabilities at the net present value of the estimated final payment with an accretion of interest recorded to operations. As of the date of acquisition the estimated payment due was $6,000,000 with a net present value of $3,928,500. During 1995, the Company accreted $228,212 of interest. Eaglevision's operations are located in the Houston, Texas, area.

On June 30, 1995, the Company purchased the stock of Sunshine Television Entertainment, Inc. ("Sunshine") for approximately $5,500,000 in cash and the assumption of approximately $350,000 of liabilities. Sunshine's operations are located in the Miami, Florida, area.

On July 31, 1995, the Company purchased the assets from certain partnerships controlled by Interface Communications Group, Inc. ("Interface") for approximately $8,900,000 in cash and the assumption of approximately $30,000 of liabilities. The operations of Interface are located in the Denver, Colorado, area.

On August 31, 1995, the Company purchased the partnership interests of Triax Associates V L.P. ("Triax"), a Colorado Limited Partnership for $15,200,000 cash and the assumption of approximately $100,000 in liabilities. The operations of Triax are located in the Chicago, Illinois, area.

The above acquisitions were accounted for using the purchase method of accounting, and accordingly, results of operations of the acquired properties are included in the accompanying consolidated financial statements from the dates of acquisition.

The purchase price of certain of the above acquisitions are subject to final adjustments for such items as working capital balances and number of subscribers.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31, 1995:

Headends	$18,281,508
Telephone switches	2,535,497
Distribution systems and enhancements	15,337,808
Computer software and equipment	1,205,405
Office furniture and fixtures	639,301
Vehicles	1,135,814
Leasehold improvements	408,002
Construction in progress	9,903,862
	49,447,197
Less accumulated depreciation	(1,387,596)
	$48,059,601

5. INTANGIBLE ASSETS AND DEFERRED COSTS

Intangible assets and deferred costs consisted of the following at August 31, 1995:

Goodwill	$41,907,574
Licensing fees and rights of entry costs	13,378,382
Organization costs, financing costs and other	872,382
Noncompete agreements	450,000
	56,608,338
Less accumulated amortization	(1,165,072)
	$55,443,266

6. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at August 31, 1995:

Professional fees	$1,249,810
Salaries, benefits and other employee-related	1,109,059
Severance agreement	363,663
Other	2,064,585
	$4,787,117

7. LIMITED PARTNERSHIP OBLIGATIONS

The Company, as a result of the acquisition from IRPC, is a general partner in limited partnership investments (the "Partnerships"). The operations of these Partnerships have been consolidated with those of the Company.

The Company has the option to purchase the interest of each limited partner at defined amounts ranging from 110% to 140% of each limited partner's initial capital contribution for the first four years of the Partnership agreements and can be required to purchase the interests at the end of the fifth year at 150% of the initial capital contribution. The Partnership agreements further provide that, at the option of the limited partner, the Company is obligated to repurchase, within the first year, a limited partner's investment at a price equal to the limited partner's initial capital contribution, less cash previously distributed.

During the period from January 1, 1995 to August 31, 1995, OpTel paid $2,114,431 to repurchase certain Partnership obligations and at August 31, 1995, had entered negotiations to repurchase the remaining obligations. As of August 31, 1995, $991,071 was accrued for the repurchase of these remaining Partnership obligations.

8. NOTES PAYABLE AND OBLIGATIONS UNDER CAPITAL LEASES

Notes payable and obligations under capital leases consisted of the following at August 31, 1995:

Installment notes payable bearing interest at rates ranging from 7.75% to 13% per annum, substantially all collateralized by transportation equipment	$ 148,350
Notes payable bearing interest at rates ranging from 10% to 11% per annum, substantially all collateralized by assets of private cable television systems	362,651
Unsecured note payable bearing interest at 8% per annum	446,721
Other notes payable collateralized by miscellaneous assets	64,686
Obligations under capital leases	835,944
	$1,858,352

Aggregate maturities of the Company's indebtedness are as follows:

Fiscal year ending:	Notes Payable and Obligations Under Capital Leases	Convertible Notes Payable Due to Stockholder (Note 11)	Limited Partnership Obligations (Note 7)	Deferred Acquisition Liabilities (Note 3)	Totals
1996	$ 698,237	$17,949,690	$560,008	$1,017,583	$20,225,518
1997	517,654	-	431,063	-	948,717
1998	317,787	-	-	1,000,000	1,317,787
1999	263,891	-	-	-	263,891
2000	44,593	-	-	6,000,000	6,044,593
Thereafter	16,190	-	-	-	16,190
Totals	$1,858,352	$17,949,690	$991,071	$8,017,583	$28,816,696

The deferred acquisition liabilities include interest that will have been accreted as of the payment date.

The Company leases office space and certain equipment under operating and capital leases. The leases generally have initial terms of 3 to 20 years.

The amount of capital leases under which equipment is leased at August 31, 1995, consists of the following:

Amount of equipment under capital leases	$925,105
Less accumulated amortization	(93,962)
	$831,143

Minimum future obligations on leases in effect at August 31, 1995, consist of the following:

	Operating Leases	Capital Leases
Fiscal year ending:		
1996	$ 933,209	$ 313,489
1997	880,175	289,333
1998	835,578	269,201
1999	768,839	219,849
2000	628,486	17,527
Thereafter	3,168,965	-
Total minimum lease payments	$7,215,252	1,109,399
Less amounts representing interest		(273,455)
Present value of minimum future lease payments		$ 835,944

Rental expense under operating leases for the period ended August 31, 1995, was approximately $616,000.

9. COMMITMENTS AND CONTINGENCIES

Employment and Consulting Agreements - At August 31, 1995, the Company had employment agreements with certain executive employees. In general, the agreements state that if employment is terminated due to change of control or without cause, the employee is entitled to a separation payment equal to 3 to 12 months of the employee's annual salary, in addition to accrued and unpaid compensation through the termination date. However, stipulations for termination payment and payment terms vary. During 1995, the Company paid approximately $1,590,000 in severance.

The Company also maintains consulting agreements for services relating to its business and operations. Provided the consultants are in compliance with their respective agreements, total compensation of approximately $460,000 will be paid through 1997.

Both the severance costs and the consulting fees described above are substantially the result of the Company's acquisitions (see Note 3) and the acquisition of the Company by VPC (see Note 1).

Management Agreements - The Company has entered into two agreements with former owners of certain acquired assets to provide interim management and certain accounting services until such activities are assumed by the Company. The agreements, which expire during 1996, call for payment for these services based on the number of customers and the level of monthly activity. Payments under these contracts are approximately $200,000 per month.

Legal - The Company is a defendant in certain lawsuits incurred in the ordinary course of business. It is the opinion of the Company's management that the outcome of the suits now pending will not have a material, adverse effect on the operations, cash flows or the consolidated financial position of the Company (see also Note 13).

10. INCOME TAXES

The cumulative losses of Vanguard incurred prior to the transfer of its assets to the Company on December 20, 1994, have been reported in the individual income tax returns of Vanguard's partners. Upon transfer, the Company recorded deferred taxes for the difference between the tax and book basis of the assets, which was not material. Upon acquisition of the stock of the IRPC subsidiaries, a deferred tax liability of $488,402 was recorded to recognize the excess of the basis in the assets for financial reporting purposes over the tax basis for the net assets acquired. During the period, the Company accumulated losses sufficient to offset these deferred liabilities; accordingly, a tax benefit was recorded in the statement of operations. Additionally, during the period, the Company incurred $18,900 of federal and state income tax expense.

As of August 31, 1995, the Company had a deferred income tax asset resulting from the tax effects of significant temporary differences primarily attributable to net operating losses accumulated of approximately $9,000,000 offset by the excess of tax depreciation and amortization as a result of the use of accelerated depreciation and amortization of fixed assets and intangibles. The net deferred income tax asset after applying the Company's statutory rate of 34% is approximately $3,100,000. The Company is unable to determine whether these accumulated losses will be utilized; accordingly, a valuation allowance has been provided. The change in the Company's valuation allowance for the period from January 1, 1995 to August 31, 1995, was $3,100,000.

The Company's tax net operating losses of approximately $9,000,000 expire through the year 2010.

11. CONVERTIBLE NOTES PAYABLE DUE TO STOCKHOLDER AND STOCK ISSUANCE

From December 22, 1994 through March 31, 1995, the Company borrowed $60,000,000 from VPC under a Senior Secured Convertible Note Agreement. The note, with an original maturity of June 30, 1996, and the accrued interest of $792,115 for the period from December 22, 1994 until conversion on March 31, 1995, was converted to 61,000 shares of common stock of OpTel on March 31, 1995. Concurrently, VPC purchased 5,750 shares of OpTel's common stock from Vanguard. As a result of these transactions, VPC owns 66.75% of OpTel common stock. Additionally, the Company incurred $1,587,142 of costs related to this conversion of debt which was charged to additional paid-in capital.

On July 26, 1995, VPC invested $24,999,504 in the Company of which $16,687,656 represented VPC's purchase of an additional 16,959 shares of OpTel common stock and $8,311,848 represented a convertible note payable due to VPC. The $8,311,848 bears interest at 15% and is convertible to 8,447 shares of common stock at the option of VPC on November 15, 1995 (extended to January 29, 1996). In connection with the July 26, 1995, equity call, Vanguard has the option to fund its portion to maintain its ownership interest at 33.25% by November 15, 1995 (extended to January 29, 1996). The Company is required to use the proceeds from any Vanguard contribution to repay the convertible note. At August 31, 1995, $126,386 of accrued interest had been recognized.

Additionally, on August 30, 1995, the Company entered into a $15,000,000 convertible note with VPC bearing interest at 15% with principal and interest due on demand. As of August 31, 1995, $9,511,456 was advanced to OpTel under the note, and on September 11, 1995, the remaining $5,488,544 was advanced.

12. STOCKHOLDERS' EQUITY

The Class A Common Stock ("Class A stock") and Class B Common Stock ("Class B stock") of the Company are identical in all respects and have equal powers, preferences, rights and privileges except that each holder of Class A stock shall be entitled to one vote for each share of Class A stock held, and each holder of Class B stock shall be entitled to ten votes for each share of Class B stock held. VPC and Vanguard (and their affiliates) are the only permitted holders of Class B stock. Any Class B stock that is either sold or transferred to any party other than the permitted holders automatically converts to a like number of shares of Class A stock.

13. SUBSEQUENT EVENTS

During December 1995, the Company entered into a definitive agreement to purchase the assets of Telecom Master L.P. and Telecom Satellite Systems Corporation ("Telecom") for approximately $5,600,000 in cash. The operations of Telecom are located in the Dallas, Texas, area. This acquisition was funded on January 31, 1996, through proceeds obtained from VPC in the form of a convertible note. This debt bears interest at 15% and is due on demand.

The Company has continued its construction and acquisition programs. To fund these programs, since August 31, 1995 through January 31, 1996, the Company entered into additional convertible note agreements with VPC totaling $20,000,000. Total borrowings from these notes through January 31, 1996, totaled $17,750,000. This debt bears interest at 15% and is due on demand.

On January 29, 1996, Vanguard filed suit against Vidéotron and certain subsidiaries and officers of Vidéotron (including directors of the Company), alleging among other things that certain agreements entered into by other subsidiaries of Vidéotron improperly restrict the ability of the Company to operate in certain significant geographic locations in the United States. Vanguard seeks, for itself and the benefit of the Company, injunctive relief, specific performance and damages aggregating $450 million. The Company is a nominal defendant in this litigation, and no damages or other relief is being sought against the Company.

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Managerial Capability

OpTel's parent company, Le Groupe Videotron of Montreal, Canada has established a growing business in the United Kingdom and in Canada. OpTel will have access to Le Groupe Videotron's technical resources and the benefit of the parent company's intimate knowledge of the telecommunications industry.

In the UK, Videotron Holdings Plc. was licensed as a Public Telecommunications Operator in London, England in 1991 following the Duopoly review in the UK. After spending \$2-\$3 million per week on infrastructure, Videotron Holdings Plc. now provides 120,000 telephone exchange lines to residential and business customers, a number that grows by 800 to 1000 lines per week. As a provider of both CATV and telecommunications services Videotron Holdings PLc. employs over 1000 permanent staff. In Canada, Videotron Telecom currently operates a 2500 km fiber optic telecommunications network.

In addition to the strong support that OpTel will have from its parent company, three key individuals in the OpTel's senior management team have previously contributed to the establishment of the telecommunications business in the UK. Rory Cole, OpTel's COO, and Bertrand Blanchette, OpTel's CFO, each have been a key participants in Videotron's top management committee. Louis Brunel, OpTel's CEO is also the CEO of Videotron Plc. Mr. Brunel is a 19 year veteran of Videotron who has been developing the integrated CATV and telecommunications business since 1990.

Technical Capability

OpTel provides telecommunication services to multi-family residential housing customers in several markets in Texas. As such, the necessary access to technology has been established. Switching systems, transmission systems and local distribution wiring is all part of the R-STS (Residential Shared Tenant Services) infrastructure currently in place. On-going relationships with competitive equipment vendors ensure multiple sources of the latest technology and security of supply of all key network components.

Vendor relationships include, Fujitsu, Nortel and Ericsson in switching, AML Wireless and Omnivision for microwave systems and Pirelli, Anixter, Antec/Telewire for fibre and copper plant. There are many others supplying a wide range of products used in the deployment of telephony.

Technical design, engineering, installation and maintenance staff are permanently employed by OpTel, in addition to a range of contract workers who provide move, add and re-arrangement services in response to customer demand.