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HOUSTON, TEXAS 77058

DIRECT (281) 286-1040
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FACSIMILE (281) 286-1027

April 1, 1997

DEPOSIT

DATE

D495 •

APR 02 1997

Florida Public Service Commission
Secretary
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0866

970412 TX
Re *Application for U.S. Telco, Inc. for Authority to Provide Alternative Local Exchange Service Within the State of Florida*

Dear Madam or Sir

Enclosed herewith for filing on behalf of U.S. Telco, Inc., please find an original and six (6) copies of its Application for Authority to Provide Alternative Local Exchange Services within the State of Florida. Also, please find our firm check in the amount of \$250.00 made payable to the Florida Public Service Commission to cover filing fees.

Please date-stamp the extra copy and return to the undersigned in the self-addressed stamped envelope provided. If you have any questions, please contact me at (281) 286-1040.

Respectfully submitted,


Kyle I. Dickson

Check received with filing and
forwarded to Fiscal for deposit.
Please return a copy of check
to FPLS with proof of deposit.
Initials of person who forwarded check
A9

DOCUMENT NO.
0334997
4-2-97

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

**APPLICATION FORM
for**

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

INSTRUCTIONS

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

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

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

-
- 1 This is an application for (check one)
- (X) Original authority (new company)
 - () Approval of transfer (to another certificated company)
Example, a certificated company purchases an existing company and desires to retain the original certificate authority
 - () Approval of assignment of existing certificate (to a noncertificated company)
Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate
 - () Approval for transfer of control (to another certificated company)
Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity

2 Name of Applicant
U.S. Telco, Inc.

3 A National mailing address including street name, number, post office box, city, state, zip code, and phone number
5215 O'Conner, Suite 300
Irving, Texas 75039
(972) 506-3245

B Florida mailing address including street name, number, post office box, city, state, zip code, and phone number
1200 South Pine Island Road
Plantation, Florida 33324
(305) 473-5503

C Physical address of alternative local exchange service in Florida including street name, number, post office box, city, zip code, and phone number
N/A.

4 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"/> Joint Venture | <input type="checkbox"/> Other, Please explain _____ |

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

Corporate charter number F97000001164

A copy of Applicant's Certificate of Authority to do Business in Florida is attached hereto as Exhibit "A".

6 Name under which the applicant will do business (d/b/a)
U.S. Telco, Inc.

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

Fictitious name registration number N/A

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

9 State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.
None

-
- 10 Please provide the name, title, address, telephone number, Internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application

Ongoing Operations:

David Pikoff
President
U.S. Telco, Inc.
5215 O'Conner, Ste. 300
Irving, Texas 75039
(972) 506-3245 (Phone)
(972) 506-3266 (Fax)

Application

Kyle L. Dickson
Maxwell, Baker & McPatridge, P.C.
17625 El Camino Real, Ste. 310
Houston, Texas 77058
(281) 286-1040 (Phone)
(281) 286-1043 (Fax)

- 11 Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service
Texas, Oklahoma & District of Columbia
- 12 Has the applicant been denied certification in any other state? If so, please list the state and reason for denial
No.
- 13 Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty
No.
- 14 Please indicate how a customer can file a service complaint with your company
Customers can either call the Company's toll-free telephone number (888-878-3526) or write to the Company directly.

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

A Financial capability See Exhibit "B".

Regarding the showing of financial capability, the following applies

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

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

If available, the financial statements should be audited financial statements

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

B Managerial capability See Exhibit "C".

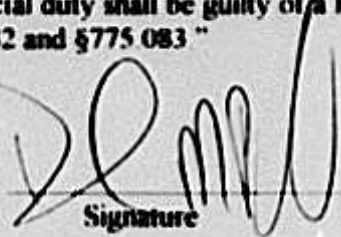
C Technical capability See Exhibit "C".

AFFIDAVIT

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

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

Official



Signature

3-24-97

Date

Title

President

(972) 506-3245

Telephone Number

Address U.S. Telco, Inc

5215 O'Conner, Suite 300

Irving, Texas 75039

EXHIBIT "A"

**CERTIFICATE OF AUTHORITY TO DO
BUSINESS IN THE STATE OF FLORIDA**



FLORIDA DEPARTMENT OF STATE
Sandra B. Mortham
Secretary of State

March 6, 1997

C T CORP

Qualification documents for U.S. TELCO, INC. were filed on March 6, 1997 and assigned document number F97000001164. Please refer to this number whenever corresponding with this office.

Your corporation is now qualified and authorized to transact business in Florida as of the file date.

A corporation annual report will be due this office between January 1 and May 1 of the year following the calendar year of the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the corporate address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (904) 487-6091, the Foreign Qualification/Tax Lien Section.

Michael Mays
Document Specialist
Division of Corporations

Letter Number: 597A00011559

**APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION
TO TRANSACT BUSINESS IN FLORIDA**

*IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS
SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE
STATE OF FLORIDA:*

1 U.S. Telco, Inc

(Name of corporation must include the word "INCORPORATED", "COMPANY", "CORPORATION" or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present)

2 Texas

(State or country under the law of which it is incorporated)

3 74-2773730

(FEI number, if applicable)

4 February 16, 1996

(Date of incorporation)

5 Perpetual

(Duration: Year corp. will cease to exist or "perpetual")

6 March 15, 1997 (Estimated)

(Date first transacted business in Florida (SEE SECTION 607.1501, 607.1502, AND 617.155, F.S.))

7

208 West Laurel

San Antonio, Texas 78212

(Current mailing address)

8 Provide Telecommunications Services

(Purpose(s) of corporation authorized in home state or country to be carried out in the state of Florida)

9 **Name and street address of Florida registered agent: (P.O. Box or Mail Drop Box NOT acceptable)**

Name: CT Corporate System

OFFICE ADDRESS: 1200 South Pine Island Road

Plantation

, Florida, 33324

(Zip Code)

10 **Registered agent's acceptance:**

Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

Connie Bryan
(Registered agent's signature)

CONNIE BRYAN
SPECIAL ASSISTANT SECRETARY

11 Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated

12 Names and addresses of officers and/or directors (Street address ONLY - P.O. Box NOT acceptable)

A. DIRECTORS (Street address only - P.O. Box NOT acceptable)

Chairman David Pikoff

Address 208 West Laurel

San Antonio, Texas 78212

Director Ron Jensen

Address 8721 Airport Freeway

Fort Worth, Texas 76180

Director John Condit

Address 208 West Laurel

San Antonio, Texas 78212

B. OFFICERS (Street address only - P.O. Box NOT acceptable)

President David Pikoff

Address 208 West Laurel

San Antonio, Texas 78212

Vice President Ron Howard

Address 8721 Airport Freeway

Fort Worth, Texas 76180

Treasurer Gary Friedman

Address 8721 Airport Freeway

Fort Worth, Texas 76180

NOTE: If necessary, you may attach an addendum to the application listing additional officers and/or directors

13


(Signature of Chairman, Vice Chairman, or any officer listed in number 12 of the application)

14 David Pikoff, President

(Typed or printed name and capacity of person signing application)



TEXAS COMPTROLLER OF PUBLIC ACCOUNTS
JOHN SHARP • COMPTROLLER • AUSTIN, TEXAS 78774

February 7, 1997

2H08/CTER197

U S TELCO INC
208 W LAUREL
SAN ANTONIO

TX 78212-4303

CERTIFICATION OF ACCOUNT STATUS

THE STATE OF TEXAS

COUNTY OF TRAVIS

I, John Sharp, Comptroller of Public Accounts of the State of Texas, DO
HEREBY CERTIFY that according to the records of this office

U S TELCO INC

is, as of this date, in good standing with this office having no franchise
tax reports or payments due at this time.

This certificate is valid through the date that the next franchise tax report
will be due, May 15, 1997.

This certificate is not valid for the purpose of dissolution, merger or
withdrawal.

GIVEN UNDER MY HAND AND
SEAL OF OFFICE in the City of
Austin, this 7th day of
February, 1997 A.D.



JOHN SHARP
Comptroller of Public Accounts

Charter/C.O.A. number: 013890256-0

EXHIBIT "E"
BALANCE SHEET
INCOME STATEMENT
STATEMENT OF RETAINED EARNINGS FOR 3 YEARS

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF FLORIDA

IN THE MATTER OF THE APPLICATION §
OF U.S. TELCO, INC. FOR A CERTIFICATE §
TO RESELL AND OFFER LOCAL §
EXCHANGE TELECOMMUNICATIONS §
SERVICES TO THE PUBLIC IN THE §
STATE OF FLORIDA §

Case No. _____

AFFIDAVIT OF DAVID PIKOFF

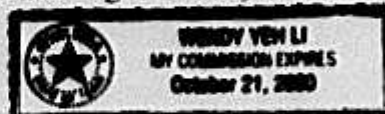
BEFORE ME, the undersigned authority, on this 24th day of March, 1997, personally appeared David Pikoff, who swore upon his oath that the following facts were true


- 1 My name is David Pikoff, I am of sound mind and have never been convicted of a felony and am over the age of 18 years, capable of making this affidavit and fully competent to testify to the matter stated herein. I have personal knowledge of each of the facts stated herein and to the best of my knowledge, each is true and correct
- 2 I am currently President of U.S. Telco, Inc.
- 3 To the best of my knowledge, the financial statements for U.S. Telco, Inc. are true and correct

EXECUTED this 24th day of March, 1997


David Pikoff, President

SUBSCRIBED AND SWORN TO before me the undersigned Notary Public on this
day of 24th March, 1997




Notary Public in and for the
State of TEXAS

U S TELCO, INC
Balance Sheet
For the year ending December 31, 1996

Assets

Current assets	
Cash	\$ 12,297
Accounts receivable	171,957
Total current assets	<u>184,254</u>
Property and equipment, net	47,872
Total assets	<u>\$232,126</u>

Liabilities and Stockholders' Equity

Current liabilities	
Accounts payable	\$278,860
Sales and excise taxes payable	19,127
Total current liabilities	<u>297,987</u>
Notes payable	309,613
Retained earnings	(375,474)
Total liabilities and stockholders' equity	<u>\$232,126</u>

UNAUDITED

U.S. TELCO, INC.
Statement of Earnings
For the year ending December 31, 1996

Revenues	\$ 506,582
Cost of revenues	<u>447,442</u>
Gross margin	59,120
Selling, general and administrative expenses	<u>434,594</u>
Operating income (loss) before taxes	<u>\$(375,474)</u>

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Balance Sheets

December 31, 1996 and 1995

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Current assets:		
Cash and cash equivalents	\$ 4,622,395	3,164,053
Accounts receivable, net	10,507,580	9,997,081
Due from affiliates	1,212,414	834,150
Other current assets	2,200,751	251,960
Total current assets	<u>18,543,140</u>	<u>14,247,244</u>
Investment and advances to DNS Communications, Inc.	-	1,244,637
Property and equipment, net	1,621,355	1,796,398
Other assets, net	39,621	142,318
Deferred income taxes	134,288	150,097
Total assets	<u>\$ 20,338,404</u>	<u>17,580,694</u>
 <u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 2,102,232	1,872,373
Accrued network service costs	4,863,663	6,419,260
Sales and excise taxes payable	1,676,677	1,694,367
Due to affiliates	2,597,559	3,340,222
Income taxes payable	512,790	377,463
Deferred income taxes	-	337,487
Total current liabilities	<u>11,752,921</u>	<u>14,041,173</u>
Stockholders' equity:		
Common stock, no par value; authorized 10,000,000 shares, 193,570 and 153,846 shares issued at December 31, 1996 and 1995, respectively	8,255,626	5,336,815
Retained earnings (accumulated deficit)	769,440	(1,797,293)
Treasury stock, 3,840 common shares in 1996, at cost	(439,583)	-
Total stockholders' equity	<u>8,585,483</u>	<u>3,539,522</u>
Commitments and contingencies		
Total liabilities and stockholders' equity	<u>\$ 20,338,404</u>	<u>17,580,694</u>

See accompanying notes to financial statements.

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MATRIX TELECOM, INC. AND SUBSIDIARIES

Statements of Operations

Years ended December 31, 1996, 1995 and 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Revenues	\$ 71,558,295	64,289,718	59,551,307
Cost of revenues	<u>47,674,396</u>	<u>42,980,127</u>	<u>40,074,801</u>
Gross margin	<u>23,883,899</u>	<u>21,309,591</u>	<u>19,476,506</u>
Operating expenses:			
Selling, general and administrative	18,798,925	17,888,856	18,057,296
Depreciation and amortization	<u>993,940</u>	<u>998,342</u>	<u>815,101</u>
Operating income	<u>19,792,865</u>	<u>18,887,198</u>	<u>18,872,397</u>
	4,091,034	2,422,393	604,109
Interest expense	(230,922)	(6,299)	(176,922)
Other income, net	<u>271,171</u>	<u>165,616</u>	<u>88,514</u>
Income before income tax expense	<u>4,131,283</u>	<u>2,581,710</u>	<u>515,701</u>
Income tax expense (benefit)	<u>1,686,876</u>	<u>1,081,726</u>	<u>(127,499)</u>
	<u>2,444,407</u>	<u>1,499,984</u>	<u>643,200</u>
Equity in income (loss) of DNS	<u>122,327</u>	<u>(3,940,477)</u>	<u>-</u>
Net income (loss)	<u>\$ 2,566,734</u>	<u>(2,440,493)</u>	<u>643,200</u>
Earnings (loss) per share	<u>\$ 15.82</u>	<u>(21.49)</u>	<u>6.43</u>

See accompanying notes to financial statements.

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Statements of Stockholders' Equity

Years ended December 31, 1996, 1995 and 1994

	<u>Partners' capital</u>	<u>Common stock</u>	<u>Retained earnings (accumulated deficit)</u>	<u>Treasury stock</u>	<u>Total stockholders' equity</u>
Balances at December 31, 1993	\$ 1,729,133	-	-	-	1,729,133
Dissolution of partnership and contribution of assets to a corporation	(1,729,133)	1,729,133	-	-	-
Net income	-	-	643,200	-	643,200
Balance at December 31, 1994	-	1,729,133	643,200	-	2,372,333
Purchase of DNS Communications, Inc.	-	3,607,682	-	-	3,607,682
Net (loss)	-	-	(2,440,493)	-	(2,440,493)
Balances at December 31, 1995	-	5,336,815	(1,797,293)	-	3,539,522
Purchase of 3,840 common shares	-	-	-	(439,583)	(439,583)
Issuance of 32,764 common shares	-	2,195,211	-	-	2,195,211
Issuance of 10,800 common shares	-	723,600	-	-	723,600
Net income	-	-	2,566,734	-	2,566,734
Balances at December 31, 1996	\$ -	8,255,626	769,440	(439,583)	8,585,483

See accompanying notes to financial statements.

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Statements of Cash Flows

Years ended December 31, 1996, 1995 and 1994

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:			
Net income (loss)	\$ 2,566,734	(2,440,493)	643,200
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	993,940	998,342	815,101
Amortization of advanced commissions	618,791	-	-
Provision for bad debts	1,461,471	1,955,842	1,974,903
Loss on disposition of assets	-	-	14,365
Deferred income taxes	(321,678)	530,885	(343,494)
Equity in (income) loss of DNS	(122,327)	3,940,477	-
Changes in assets and liabilities:			
Accounts receivable	(1,971,970)	(2,170,807)	(2,994,971)
Due from affiliate	345,336	630,395	(1,452,481)
Federal and state income tax receivable	-	631,183	(631,183)
Other current assets	(393,781)	(96,791)	161,967
Accounts payable and accrued liabilities	(1,397,160)	526,850	5,051,696
Due to affiliate	<u>(742,663)</u>	<u>591,889</u>	<u>1,293,631</u>
Net cash provided by operating activities	<u>1,036,693</u>	<u>5,097,772</u>	<u>4,532,734</u>
Cash flows from investing activities:			
Purchase of property and equipment	(701,718)	(529,805)	(1,125,444)
Payments for billing and collection agreements	(14,482)	-	(17,600)
Purchase of acquired customer bases	-	(103,970)	(32,723)
Advances to DNS, net	1,577,432	(1,577,432)	-
Proceeds from sale of property and equipment	-	52,173	77,967
Net cash provided by (used in) investing activities	<u>861,232</u>	<u>(2,159,034)</u>	<u>(1,047,800)</u>
Cash flows from financing activities:			
Net change in notes payable	-	-	(3,230,121)
Purchase of common stock for treasury	<u>(439,583)</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(439,583)</u>	<u>-</u>	<u>(3,230,121)</u>
Net increase in cash and cash equivalents	1,458,342	2,938,738	204,813
Cash and cash equivalents at beginning of year	<u>3,164,053</u>	<u>225,315</u>	<u>20,502</u>
Cash and cash equivalents at end of year	<u>\$ 4,622,395</u>	<u>3,164,053</u>	<u>225,315</u>

(Continued)

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Statements of Cash Flows, Continued

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Cash paid during the year for:			
Interest	\$ <u>212,404</u>	<u>6,300</u>	<u>175,134</u>
Income taxes, net of refunds	\$ <u>1,482,103</u>	<u>(475,177)</u>	<u>847,179</u>
Noncash financing activities:			
Common stock issued for DNS acquisition	\$ <u>-</u>	<u>3,607,682</u>	<u>-</u>
Common stock issued for advanced commissions	\$ <u>2,195,211</u>	<u>-</u>	<u>-</u>
Common stock issued for receivable from major shareholder	\$ <u>723,600</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Notes to Financial Statements

December 31, 1996, 1995 and 1994

(1) Summary of Significant Accounting Policies

(a) Business and Background

All references to the "Company" or "Matrix Telecom" refer to Matrix Telecom, Inc. and include its subsidiaries and predecessors. The Company provides long distance telephone service to its customers in forty-nine states over intercity facilities provided by fully certified dominant domestic and international carriers. Matrix resells to both residential and commercial customers; however, the primary focus is to the small business owner with five or fewer employees whose usage resembles that of the residential customer. The Company is fully certified by the Federal Communications Commission and certified to operate in all states requiring such certification. The Company holds billing and collection agreements with all regional bell operating companies, GTE, and other independent telephone companies.

The Company was originally formed May 29, 1990 as a Texas general partnership. The partners consisted of Matrix Communications, Limited ("MCL") a Texas limited liability partnership and Onward and Upward, Inc. ("OUI"). Effective January 1, 1994, the partnership was dissolved (see note 4). Prior to the dissolution, cash distributions were made to OUI in satisfaction of its partnership interest. Concurrent with the dissolution, all remaining tangible and intangible assets and liabilities of the Company then owned by MCL were transferred to Matrix Telecom, Inc., a Texas corporation. The transfer was a tax free transaction and significant controlling interest in the company did not change. Effective June 30, 1995, MCL was liquidated and its sole asset (Matrix Telecom capital stock) was distributed to MCL's partners in proportion to their ownership interests.

(b) Basis of Presentation

The Company includes the operations of DNS Communications, Inc. in its financial statements using the equity method of accounting. The Company utilized the equity method due to the temporary period of time that its investment in the operations of DNS was retained (see note 7).

(c) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all demand deposits, time deposits, and other investments with a remaining maturity at date of purchase of less than ninety days to be cash equivalents.

MATRIX TELECOM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Commissions

Commissions to sales agents are paid and expensed based on a percentage of billings as incurred.

Commissions paid in advance of \$1,576,000 as of December 31, 1996, included in other current assets, are being expensed over a period of twelve months based on estimated billings of the customers for which the commissions were paid. (See note 4).

(e) Revenue Recognition

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

(f) Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are charged against income as incurred, while renewals and major replacements are capitalized. The cost and related accumulated depreciation of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in operations. The Company provides depreciation on fixed assets using the straight-line method over the estimated useful lives of the respective assets.

(g) Income Taxes

Effective January 1, 1994 the Company began accounting for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Prior to January 1, 1994, the Company operated as a partnership. Accordingly, the Company was not a taxable entity. Income taxes were the responsibility of the individual partners.

(Continued)

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(h) Use of Estimates

Management of the Company has made a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(i) Concentrations of Credit Risk

The Company's subscribers are primarily small business owners and residential subscribers and are not concentrated in any specific geographic region of the United States. The Company has agreements with LECs, which provide billing and collection services to the majority of the Company's subscribers. A significant portion of the Company's accounts receivable are due from these Companies.

(j) Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts and other provisions of \$626,790 and \$730,354 as of December 31, 1996 and 1995, respectively. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of subscribers, historical trends and other information.

(k) Earnings (loss) per share

Earnings (loss) per share are computed based on average common shares which were 162,221, 113,572, and 100,000 in 1996, 1995 and 1994, respectively.

(2) Property and Equipment

Property and equipment consisted of the following:

	Estimated useful life	1996	1995
Communications system	2.5 years	\$ 1,328,079	\$ 1,328,079
Office furniture and equipment software	1.7 years	2,010,451	2,010,451
Leasehold improvements	lease term	416,280	416,280
		<u>4,754,810</u>	<u>4,754,810</u>
		\$ 1,621,339	\$ 1,621,339

(Continued)

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Depreciation expense was \$877,000, \$882,000 and \$683,000 for 1996, 1995 and 1994, respectively.

(3) Related Party Transactions

The Company has had transactions in the normal course of business with various companies which are affiliated with shareholders of the Company. Pacific Gateway Exchange ("PGE"), an affiliated company, provides the Company with significant domestic and international transmission services. A common shareholder holds an interest in both PGE and the Company. Affiliates of the Company also act as agents for the Company in the solicitation of new customers. In addition, the Company's employees are leased from United Group Service Center, an affiliate, who provides such services to a number of affiliated companies. The Company provides long distance service to a number of affiliated companies. Balances with affiliates are settled monthly.

Due from affiliates consists of the following:

	<u>December 31</u>	
	<u>1996</u>	<u>1995</u>
Excell Agent Services (long distance services)	\$ 193,285	129,007
Interactive Media Works (IMW) (long distance services)	525	336,345
Core Marketing (long distance services)	134,652	-
Other transactions with various affiliates	160,352	368,798
Receivable from major shareholder for stock issued	<u>723,600</u>	<u>-</u>
	<u>\$ 1,212,414</u>	<u>834,150</u>

The due to affiliate consists of the following:

	<u>1996</u>	<u>1995</u>
PGE (network transmission services)	\$ 2,244,411	2,559,031
UGA and Core Marketing (commissions)	144,612	294,484
Other transactions with various affiliates	<u>208,536</u>	<u>486,707</u>
	<u>\$ 2,597,559</u>	<u>3,340,222</u>

MATRIX TELECOM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Significant services and transactions incurred in the normal course of operations with affiliated companies are summarized as follows:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Network transmission services - PGE	\$ 20,527,236	17,195,182	9,259,150
Expenses paid on behalf of PGE for access services, for which the Company was reimbursed	5,040,051	3,142,222	853,060
Expenses incurred for leasing employees from United Group Service Center	4,542,007	3,655,712	2,442,442
Consulting fees to United Group Association ("UGA")	-	-	313,294
Sales commissions to affiliates: TravelCom 800, Core Marketing, UICI and UGA	5,335,233	6,314,878	5,108,123
Long distance revenues from affiliates: IIGA, UICI IMW, and Core Marketing	5,445,903	3,180,302	1,240,203
Advances to TravelCom 800	-	126,550	468,609
Overhead expenses reimbursed to/from UGA	77,231	105,007	151,038
Interest paid to shareholder	173,380	6,299	175,134

During 1996, the Company obtained loans from a significant shareholder for working capital and other purposes of \$4,900,000. Such amount was repaid during 1996.

(4) Stockholders' Equity

Matrix Telecom, Inc.'s original stock issuance consisted of 100 common shares. Effective December 31, 1994, a 10 for 1 stock split was declared. Concurrent with the dissolution of MCL on June 30, 1995, the Company's then outstanding 1,000 shares of common stock were cancelled and 100,000 shares were distributed to the prior MCL partners in proportion to their ownership interest in MCL. All share amounts have been restated to reflect the stock split and share exchange.

In October 1995, the Company issued 53,846 shares of its no par value common stock valued at \$3,607,682 for 100% of the outstanding shares of DNS Communications, Inc. (DNS), a Houston based long distance reseller. Matrix Telecom is a private company and accordingly, its stock does not have a readily determinable market value. For purposes of determining the cost of DNS, the stock consideration of \$67 per share was valued based on the price paid by a shareholder of the Company to purchase the Company's common stock issued to the former owners of DNS in the acquisition of DNS (see note 7).

In December 1996, the Company issued 32,764 of its no par value common stock to its majority shareholder in settlement of future commissions due to affiliates also owned by this majority shareholder as of October 31, 1996. A value of \$67 per share was used in determining the number of shares to issue in settlement of the \$2,195,211 obligation. Of this amount, \$619,000 was expensed as commission expense in 1996.

(Continued)

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Periodically the Board approves stock options for certain officers and employees. Stock option transactions during 1995 and 1996 were as follows:

	<u>Options</u>	<u>Exercisable Price</u>
Outstanding at December 31, 1994	—	—
Granted	<u>1,200</u>	\$ 100
Outstanding at December 31, 1995	<u>1,200</u>	100
Granted	<u>12,100</u>	100
Cancelled	<u>12,800</u>	100
Outstanding at December 31, 1996	<u>500</u>	100

As of December 31, 1996 and 1995 all outstanding options were exercisable. The Company accounts for its stock options in accordance with the provisions of APB Opinion No. 25 as allowed by SFAS No. 123 "Accounting for Stock Based Compensation." The impact on 1996 and 1995 net income for stock options is not significant.

In connection with the cancellation of 10,800 of the above options during 1996, the Company sold to such employees 10,800 shares of common stock at \$67 per share. As of December 31, 1996, the Company has recorded a \$723,600 receivable for such shares, which was subsequently collected on February __, 1997. Proceeds used to pay for these shares were loaned to the employees by a major shareholder of the Company. Also as a part of this transaction, the Company and the employees entered into agreements whereby such shares could be put or called, as applicable, under certain conditions. As of December 31, 1996, the shares subject to this agreement could be put or called at a price per share of approximately \$83 totalling \$896,000.

During May 1996 the Company purchased 3,840 shares from the majority shareholder for \$439,583.

(5) Leasing Activities and Other Commitments

The Company has no significant capital lease liabilities; however, the Company leases office space and various equipment under operating leases expiring in various years through 2000. In the normal course of business, operating leases are generally renewed or replaced by other leases. Total rental expenses were \$325,000 in 1996, \$239,000 in 1995 and \$156,000 in 1994. Minimum future rental payments at December 31, 1996 are as follows:

1997	\$ 253,587
1998	265,552
1999	276,575
2000	<u>253,527</u>
	<u>\$ 1,049,241</u>

UNAUDITED

(Continued)

MATRIX TELECOM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Substantially all of the Company's switching and transmission facilities have been provided by long distance suppliers. The Company purchases long distance services at certain per-minute rates, which vary depending on the time and type of call. At December 31, 1996, there are outstanding contractual agreements committing the Company to minimum usage requirements for the duration of the contracts as set forth below:

1997	\$ 14,925,000
1998	<u>1,050,000</u>
	\$ <u>15,975,000</u>

(6) Federal and State Income Taxes

The Company was originally organized as a partnership and continued to operate as a partnership until December 31, 1993. Effective January 1, 1994, the Company became a C corporation for federal income tax purposes.

Deferred income taxes for 1996 and 1995 reflect the impact of temporary differences between financial statement carrying amounts and tax bases of assets and liabilities. The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 1996 and 1995 are presented below:

	<u>December 31</u>	
	<u>1996</u>	<u>1995</u>
Deferred tax assets:		
Financial over tax amortization of purchased customer base	\$ 134,288	150,097
Less valuation allowance	<u>134,288</u>	<u>150,097</u>
Not deferred tax asset		
Deferred tax liabilities:		
Tax versus financial recognition of expenses	<u>134,288</u>	(337,487)
Not deferred tax asset (liability)		<u>(187,390)</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and prior taxes paid in making this assessment.

(Continued)

UNAUDITED

MATRIX TELECOM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Summarized financial information related to DNS is as follows:

		<u>December 31, 1995</u>
Current assets		\$ 2,461,961
Noncurrent assets		<u>555,739</u>
		\$ <u>3,017,700</u>
Current liabilities		\$ 3,350,495
Shareholder's equity		<u>(332,795)</u>
		\$ <u>3,017,700</u>

	<u>Year Ended</u> <u>December 31, 1996</u>	<u>Period from</u> <u>October 1, 1995 to</u> <u>December 31, 1995</u>
Revenue	\$ 11,027,000	\$ 4,277,000
Gain on sale of acquired customer bases	3,221,000	—
Net income (loss)	122,000	(3,940,000)

Subsequent to the acquisition, the operations of DNS generated substantial losses. DNS's customer churn rate and bad debts as well as projected cash flows were evaluated and as of December 31, 1995 it was determined that the remaining investment in the DNS acquired customer base totaling approximately \$4,462,000 should be written off. Such amount net of related deferred taxes is included in the loss of DNS reflected above for 1995.

In June 1996, the Company sold the customer base acquired in the DNS acquisition in addition to certain blocks of customers acquired during 1995 and 1996 together with related assets to a former officer of the Company and a former shareholder of DNS for approximately \$5,270,000. The Company recorded a gain on this sale of approximately \$3,221,000. This gain is recorded in equity in earnings of DNS in the 1996 statement of operations.

(8) Contingencies

The Company presently has contingent liabilities relating to various lawsuits and other matters related to the conduct of its business. On the basis of information furnished by counsel and others, management believes these contingencies upon resolution will not materially effect the financial condition of the Company.

UNAUDITED

EXHIBIT "C"

MANAGERIAL AND TECHNICAL CAPABILITIES

MANAGEMENT OF U.S. TELCO, INC.

DAVID M. PIKOFF, President, Mr. Pikoff began his career with U.S. Telco in February 1996. Mr. Pikoff was one of the founders of the company and originally conceived the idea of bundling the resale of local and long distance. Mr. Pikoff was instrumental in getting U.S. Telco's alternative local exchange company certification in Texas, which was among the first, as well as the negotiation and approval of their interconnection/resale agreement with SWB which was the second such agreement to be approved in Texas. U.S. Telco was the first alternative local exchange company to provide resold local and long distance services on a bundled basis. They began this endeavor in June 1996. Mr. Pikoff's marketing skills have allowed U.S. Telco significant growth and they were able to obtain more than 3,000 customers in just 90 days.

Prior to U.S. Telco, Mr. Pikoff was director of sales for Multi Technology Services, a facilities based shared-tenant service provider located in Houston, Texas. Prior to his employment with MTS, Mr. Pikoff spent several years in the marketing department of Sisco Foods as Regional Marketing Associate where he was consistently ranked in the top 10 percent of their sales staff.

Mr. Pikoff received a B.B.A. from St. Edwards University in Austin, Texas, *magna cum laude*, and was a member of Alpha Sigma Lambda National Scholastic Honor Society.

JASON PICK, Vice President, Mr. Pick is currently the director of accounting and management of information systems at U.S. Telco, Inc. Mr. Pick is responsible for all of the accounting and MIS activities as well as LEC interface.

Prior to his employment with U.S. Telco, Mr. Pick spent several years as an Accounting Consultant emphasizing in automated systems and provided services to a variety of companies including telecommunications carriers and industrial contractors. Mr. Pick graduated from the University of Texas with a B.B.A. in Accounting.

MANAGEMENT OF MATRIX TELECOM, INC.

RONALD I. JENSEN, President and Chief Executive Officer Background Mr Jensen has served as a member of Matrix Telecom, Inc since its inception in May 1990. He has been the sole owner since 1985 of United Group Association, a health insurance agency and has held various executive offices since such date. Mr Jensen is the Chairman of the Board and served as President from 1988 to 1994 of United Insurance Companies, Inc., a publicly traded insurance holding company, and is a member of the board of directors of Pacific Gateway Exchange, an international facilities based carrier.

RAYMOND S. WATERS, JR., Executive Vice President and Chief Operating Officer Background Mr Waters serves as the Chief Operating Officer and previously served as Director of Business Development and Director of Operations for Matrix Telecom, Inc. Mr Waters has over 18 years of experience in the telecommunications industry. From 1983 to 1995, he worked with Sprint Communications where he led organizations responsible for marketing, product management and development, and sales support. While at Sprint, he was directly responsible for introduction of two network management products for the large business market segment, and was a member of the team which introduced the industry's first Virtual Private Network service. From 1978 to 1983, Mr Waters worked for AT&T Long Lines and filled positions in network planning and engineering, human resources, and operations as a participant in the Manager Development Program. In addition to his telecommunications experience, Mr Waters recently completed a dual career in the Naval Reserves, where he attained the grade of Captain and served three tours as a Commanding Officer and Executive Officer.

JOE RENTERIA, Vice President Background Mr Renteria has served Matrix Telecom, Inc in key management positions since October 1993, and currently serves as its Vice President of Information Systems. Mr Renteria's responsibilities include all areas of information systems and related technologies. Prior to joining Matrix Telecom, Inc., Mr Renteria was Manager of Information Systems for RSR Corporation, a national heavy metals producer, from August 1979 to September 1993. Mr Renteria has over 30 years of information systems experience - 25 years of which have been in management level positions.

GARY L. FRIEDMAN, Secretary Background Mr Friedman has served in an advisory capacity with Matrix Telecom, Inc., since its inception in May 1990, and has served as its Director, Secretary and Vice President of Strategic Operations since January 1994. Since 1984, Mr Friedman has served as Director of United Group Insurance Company and since 1985, he has served as Director and Treasurer of United Group Associations, a leading agency offering association benefits packages, with emphasis on health insurance. Mr Friedman has also served as Secretary of United Group Associations since July 1990.

VIRGINIA A BAKER, Treasurer Background Ms Baker has served Matrix Telecom, Inc in a key financial capacity since October 1993 and currently serves as its Vice President and Treasurer. From July 1990 to October 1993, Ms Baker served as Controller of VarTec Telecom, Inc., a large facility based national long distance provider located in Dallas, Texas. Prior to entering the telecommunications industry, Ms Baker worked as a C P A from September 1987 to July 1990 for Deloitte & Touche, a national accounting firm.

TECHNICAL QUALIFICATIONS OF U.S. TELCO, INC.

On May 8th, 1996, U.S. Telco, Inc. was issued its first alternative local exchange certification in Texas, a Service Provider Certificate of Operating Authority ("SPCOA"). U.S. Telco was among the first ALEC's certificated in Texas.

The concept of bundling and reselling local and long-distanced services to residential customers was U.S. Telco's initial focus. U.S. Telco's plan was allow its professional marketing representatives to go to local apartment complexes and train their leasing agents to become the front line sales force. These point-of-purchase sales efforts resulted in a 90% sales ratio. This well rounded concept compensated all who came in contact with U.S. Telco. The end user enjoyed the ease, convenience and the savings, the owner of the apartment community shared in the revenue collected from each of their properties and the leasing agents made a commission. The apartment concept quickly brought a solid foundation for U.S. Telco and allowed it to launch additional programs. U.S. Telco obtained over 3000 new customers within the first ninety days of operation.

U.S. Telco's newest program is its Automatic Approval Program ("AAP") offering pre-paid local service. Because of U.S. Telco success in a newly emerging industry it was able to obtain a strategic alliance with a large publicly held check cashing company. This company has over 800 retail locations. These high traffic locations have a 100% overlap with the target demographics U.S. Telco's AAP.

TECHNICAL QUALIFICATIONS OF MATRIX TELECOM, INC.

Matrix Telecom is an interexchange company doing business in the state of Texas, headquartered in Ft. Worth. Matrix Telecom has approximately 98 employees and 250,000 customers. In 1996, Matrix Telecom will have sales of approximately \$84 million.

Matrix Telecom is a switchless reseller of interexchange carrier services. Matrix Telecom does not currently own or have any present plans to own any transmission facilities. Matrix Telecom's services are fully redundant in that its underlying carriers have diverse routing options among all of its major suppliers so that service interruption is virtually impossible and re-routing takes place on an automatic basis.

Customer Service is available 24 hours per day, seven days a week. Matrix Telecom houses its full-service Customer Service Department at its headquarters in Ft. Worth. Matrix Telecom owns and operates its own billing systems to bill telecommunication services to its customers. The retail billing system is one of the most sophisticated telecommunications billing systems available in the United States and provides Matrix Telecom with a significant competitive edge by allowing the company to provide unique services through its retail billing options. This billing system is also maintained 24 hours per day and is supported by redundant systems and back-up systems.

MAXWELL, BAKER & McFATRIDGE, P.C.

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April 1, 1997

DEPOSIT

DATE

D495

APR 02 1997

Florida Public Service Commission
Secretary
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0866

970412-D

Re *Application for U.S. Telco, Inc. for Authority to Provide Alternative Local Exchange Service Within the State of Florida*

Dear Madam or Sir

Enclosed herewith for filing on behalf of U.S. Telco, Inc., please find an original and six (6) copies of its Application for Authority to Provide Alternative Local Exchange Services within the State of Florida. Also, please find our firm check in the amount of \$250.00 made payable to the Florida Public Service Commission to cover filing fees.

Please date-stamp the extra copy and return to the undersigned in the self-addressed stamped envelope provided. If you have any questions, please contact me at (281) 286-1040.

Respectfully submitted,



Kyle L. Dickson

MAXWELL, BAKER & McFATRIDGE, P.C.
17625 EL CAMINO REAL, SUITE 310
HOUSTON, TEXAS 77058 3052

FIRST PROSPERITY BANK
CLEAR LAKE
P.O. BOX 35560
HOUSTON, TEXAS 77235-5560

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3/25/1997

PAY TO THE ORDER OF **FLORIDA PUBLIC SERVICE COMMISSION**

0994-99
4-2-97

\$ 250.00

TWO HUNDRED FIFTY AND 00/100.....

DOLLARS

FLORIDA PUBLIC SERVICE COMM.
2540 SHUMARD OAK BLVD.
TALLAHASSEE, FL 32399-0866



MEMO FILING FEES - (USTO3-KLD)