

WIGGINS & VILLACORTA, P.A.

ATTORNEYS AT LAW

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November 18, 1996

VIA HAND DELIVERY

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

961370-TX

Re: OpTel

Dear Mr. Tribble:

Enclosed for filing are the original and five copies of OpTel's Application Form for Authority to Provide Alternative Local Exchange Service Within the State of Florida, along with the \$250.00 filing fee.

Thank you for your assistance in this matter.

Sincerely,

Patrick K. Wiggins

PKW:plk  
Enclosures

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

Initials of person who forwarded check:  
LLG

DOCUMENT NUMBER-DATE

12228 NOV 18 96

FPSC-RECORDS/REPORTING

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

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 of authority.

( ) Approval of assignment of existing certificate (to a non-certificated company)  
Example: a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

( ) Approval for transfer of control (to another certificated company)  
Example: a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:

OpTel (Florida) Telecom, Inc.

3. Name under which the applicant will do business:

OpTel.

4. If applicable, please provide proof of fictitious name registration.

Fictitious name registration number: G96317900032.

5. A. National and Florida mailing addresses including street name, number, post office box, city, state and zip code.

DOCUMENT NUMBER-DATE

12228 NOV 18 88

FPSC-RECORDS/REPORTING

National: 1111 West Mockingbird Lane  
Suite 1000  
Dallas, Texas 75247

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

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

6. Structure of organization:

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

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

The applicant is a corporation.

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

None of the officers, directors, or any of the ten largest stockholders has been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, and no such actions may result from pending proceedings.

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

Corporate charter number: F96000005876

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 liaison:

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

Application liaison:

Patrick K. Wiggins  
Wiggins & Villacorta, P.A.  
501 East Tennessee Street  
Suite B  
Post Office Drawer 1657  
Tallahassee, Florida 32302  
(904) 222-1534 telephone  
(904) 222-1689 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.

None.

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 contact Customer Service by calling a toll-free number: 1-800-487-3320.

15. Please complete and file a price list in accordance with Commission Rule 25-24.825.

OpTel will file its price list prior to offering ALEC services to the public.

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

- A. Financial capability.

Attached as Exhibit 1.

- B. Managerial capability.

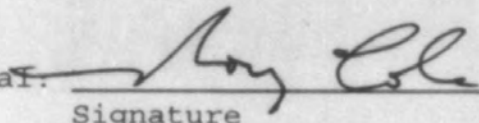
Attached as Exhibit 2.

- C. Technical capability.  
(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency services. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that provided by the local exchange companies in the areas to be served, describe in detail the differences.)

Attached as Exhibit 3.

**AFFIDAVIT**

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

Official:	 Signature	11/15/96 Date
Title:	Chief Operating Officer	214-634-3800 Telephone
Number	_____ _____ _____ _____ _____	

**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)

Deloitte Touche  
Tohmatsu  
International



# OPTEL, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET AUGUST 31, 1995

<b>ASSETS</b>	
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
<b>TOTAL</b>	<u>\$ 108,072,076</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
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	<u>39,527,513</u>
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	<u>(10,379,312)</u>
Total stockholders' equity	68,544,563
<b>TOTAL</b>	<u>\$ 108,072,076</u>

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	<u>787,788</u>
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	<u>2,420,397</u>
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	<u>99,936</u>
LOSS BEFORE INCOME TAXES	(10,630,141)
INCOME TAX BENEFIT (Note 10)	<u>469,502</u>
NET LOSS	<u>\$ (10,160,639)</u>
NET LOSS PER COMMON SHARE	<u>\$ (105.84)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>88,517</u>

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		Additional Paid-In Capital	Accumulated Deficit
	Shares Outstanding	Par Value		
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	<u>116,959</u>	<u>\$ 1,170</u>	<u>\$ 78,922,705</u>	<u>\$ (10,379,312)</u>

See notes to consolidated financial statements.



OPTEL, INC. AND SUBSIDIARIES

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

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
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	<u>(3,620,287)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of businesses	(49,974,397)
Increase in intangible assets and deferred costs	(608,345)
Purchases of property and equipment	<u>(21,561,505)</u>
Net cash flows used in investing activities	<u>(72,144,247)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
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	<u>(4,741,336)</u>
Net cash flows provided by financing activities	<u>72,781,579</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,982,955)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>5,018,935</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>\$ 2,035,980</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (Notes 3 and 11):</b>	
Cash paid during the period for:	
Interest	<u>\$ 119,725</u>
Taxes	<u>\$ 18,900</u>
Decrease in deferred tax liability	<u>\$ (488,402)</u>
Conversion of convertible debt to common stock:	
Convertible debt and accrued interest	<u>\$ (60,792,115)</u>
Common stock	<u>\$ 610</u>
Additional paid-in capital, net of transaction costs	<u>\$ 59,204,363</u>

See notes to consolidated financial statements.

# OPTEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM JANUARY 1, 1995 TO AUGUST 31, 1995

### 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	<u>9,903,862</u>
	49,447,197
Less accumulated depreciation	<u>(1,387,596)</u>
	<u>\$48,059,601</u>

#### 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	<u>450,000</u>
	56,608,338
Less accumulated amortization	<u>(1,165,072)</u>
	<u>\$55,443,266</u>

#### 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	<u>2,064,585</u>
	<u>\$4,787,117</u>

#### 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	<u>835,944</u>
	<u>\$1,858,352</u>

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	<u>16,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,190</u>
Totals	<u>\$1,858,352</u>	<u>\$17,949,690</u>	<u>\$991,071</u>	<u>\$8,017,583</u>	<u>\$28,816,696</u>

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:

Fiscal year ending:	Operating Leases	Capital Leases
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	<u>3,168,965</u>	<u>-</u>
Total minimum lease payments	<u>\$ 7,215,252</u>	1,109,399
Less amounts representing interest		<u>(273,455)</u>
Present value of minimum future lease payments		<u>\$ 835,944</u>

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, have each 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.

Exhibit 3 -- Technical Capability

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-STIS (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.

OpTel will provide access to 911 emergency services over LEC or ALEC facilities. The nature of the emergency 911 service access and funding mechanism will therefore be equivalent to that provided by the local exchange companies in the areas to be served.