SWIDLER
&
BERLIN
CHARTERED

June 26, 1997

VIA OVERNIGHT MAIL

Ms. Blanca S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

970789-TK

Re: Application of Teltrust Communications Services, Inc. for Authority to Provide Alternative Exchange Service Within the State of Florida

Dear Ms. Blanco:

Enclosed for filing on behalf of Teltrust Communications Services, Inc ("Teltrust"), please find an original and six (6) copies of its Application for Authority to Provide Alternative Exchange Service Within the State of Florida, as well as a check for the application fee on the amount of US$ 250.00, payable to the Florida Public Service Commission.

Please date-stamp the enclosed extra copy of this filing, and return it in the enclosed, self-addressed stamped envelope.

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

Sincerely,

Katherine Rolph

Margaret M. Charles
Katherine Rolph

Counsel for Teltrust Communications Services, Inc.

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:
B.T.
[illegible]

Enclosures

cc: Steven E. Swenson
Andrew D. Lipman (w/o enclosure)

195781.1

DOCUMENT NUMBER-DATE
06474 JUN 27 ≅
FPSC-RECORDS/REPORTING

3000 K Street, N.W. ■ Suite 300
Washington, D.C. 20007-5116
(202)424-7500 ■ Telex 701131 ■ Facsimile (202)424-7645

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

---

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

(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 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:

Teltrust Communications Services, Inc., a/k/a "Teltrust" and/or "TCS" (hereafter referred to as the "Company" and/or the "Applicant.")

3. Name under which the applicant will do business (d/b/a):

The applicant will do business as "TCS" and "Teltrust." The d/b/a registration for the "Teltrust" d/b/a is currently pending.

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

Fictitious name registration number: G97070900008

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

Teltrust Communications Services, Inc.
221 North Charles Lindbergh Drive
Salt Lake City, Utah 84116
(801) 535-2000 (Tel.)
(801) 535-2241 (Fax)

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

Teltrust does not currently have a mailing address in Florida. The name and address of Teltrust's registered agent in Florida is:

Corporation Services Company
110 North Magnolia Street
Tallahassee, Florida 32301
(800) 342-8086 (Tel.)

6. Structure of organization:

( ) Individual	( ) Corporation
(X) Foreign corporation	( ) Foreign Partnership
( ) General Partnership	( ) Limited Partnership
( ) Joint Venture	( ) Other, Please explain ________________

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

Not Applicable.

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 Teltrust's officers, directors, nor any of the ten largest stockholders, have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or any crime; nor are any such proceedings pending.

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

A copy of Applicant's certificate of authority to transact business in the State of Florida as a foreign corporation is attached hereto as Exhibit 1.

Corporate charter number: **F92000000438**

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.

<u>Ongoing liaison</u>: Steven E. Swenson, Vice President and General Counsel, Teltrust Communications Services, Inc., 221 North Charles Lindbergh Drive, Salt Lake City, Utah 84116, Tel: (801) 535-2000; Fax: (801) 535-2241.

<u>Liaison for Application</u>: Margaret M. Charles, Esq. and Katherine A. Rolph, Esq., Swidler & Berlin Chartered, 3000 K Street, Suite 300, Washington, D.C. 20007-5116 Tel: (202) 424-7788; Fax (202) 424-7645.

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.

Applicant is currently in the process of obtaining authority to provide local exchange telecommunications services in Arizona, California, Illinois, New York, Texas, and Utah.

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 substantive penalties have been imposed against the applicant in any other state.

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

Customers can file a service complaint with the Applicant by contacting its customer service department at 800-530-3252.

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

Teltrust will file a complete price list with the Commission in accordance with Commission Rule 25-24.825 prior to initiating service.

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. **See Exhibit 2.**

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet
2. income statement
3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

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 attest that the financial statements are true and correct.

B. Managerial capability. **See Exhibit 3.**

C. **Technical capability. See Exhibit 3.**

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency service. 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, described in detail the difference.)

Teltrust will negotiate an E911/911 interconnection arrangement with the incumbent LECs that will allow it to complete 911 calls for its customers. Teltrust will coordinate with the agency operating the Public Service Answering Point ("PSAP") in each locality that it serves, in order to assure that 911 calls are routed and delivered in the manner desired by the PSAP. In those localities where E911 service has been implemented, Teltrust also will make arrangements for the proper delivery of Automatic Number Identification ("ANI") and Automatic Location Identification ("ALI") information to the PSAP.

AFFIDAVIT

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

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

Official: ______________________ June 24, 1997
Signature Date

Title: Steven E. Swenson
Vice President and General Counsel

(801) 535-2000
Telephone Number

Address: 221 North Charles Lindbergh Drive
Salt Lake City, Utah 84116

EXHIBITS

EXHIBIT 1	Certificate of Authority to Transact Business
EXHIBIT 2	Financial Statements for Teltrust's Parent Company, Teltrust, Inc.
EXHIBIT 3	Managerial and Technical Capability

EXHIBIT 1

Certificate of Authority to Transact Business

State of Florida

Department of State

I certify from the records of this office that TELTRUST COMMUNICATIONS SERVICES, INC., is a corporation organized under the laws of Utah, authorized to transact business in the State of Florida, qualified on December 1, 1992.

The document number of this corporation is F92000000438.

I further certify that said corporation has paid all fees and penalties due this office through December 31, 1996, that its most recent annual report was filed on February 16, 1996, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the Great Seal of the State of Florida, at Tallahassee, the Capitol, this the Twenty-third day of October, 1996

Sandra B. Mortham

Sandra B. Mortham
Secretary of State

CR2EO22 (2-95)

State of Florida

Department of State

I certify the attached is a true and correct copy of the application by TELTRUST COMMUNICATIONS SERVICES, INC., a Utah corporation, authorized to transact business within the state of Florida on December 1, 1992, as shown by the records of this office.

The document number of this corporation is F92000000438.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capital, this the
First day of December, 1992

Jim Smith

Jim Smith
Secretary of State

CR2EO22 (2-91)

EXHIBIT 2

Financial Qualifications

Financial Qualifications

Teltrust has sufficient financial resources to provide and maintain local exchange resale services in Florida. By way of background, Teltrust has extensive experience in providing telecommunications services. Teltrust provides resold interstate interexchange service pursuant to the policies adopted by the Federal Communications Commission; Teltrust is also successfully providing a wide range of resold intrastate interexchange telecommunications services in numerous states, including Florida. Teltrust now seeks to expand its service offerings to include competitive local exchange service in a number of states, including Florida. Teltrust's successful provision of telecommunications services is proof, in the first instance, of its technical, managerial, and financial ability to provide local exchange resale services in the State.

Teltrust initially plans to provide service on a resale basis, which means that significant additional capital expenditures will not be required in the first year of operation. It is anticipated that Teltrust will be able to integrate the provision of resold local exchange services into its existing telecommunications operations. In this manner, Teltrust will be able to take advantage of the existing resources currently available in the Company in such areas as billing, customer service, maintenance and technical support, and marketing and sales, and thereby further reduce the expenditures required to provide local service in the state.

In providing local exchange services, Applicant will rely upon the substantial financial resources of its parent company, Teltrust, Inc. In support of Teltrust's application, attached hereto as Exhibit 2 are copies of Teltrust, Inc.'s balance sheets, statement of cash flows, and statement of operations for calendar years 1994, 1995 and 1996, all of which demonstrate the economic feasibility of the Company's service plan. As reported on the balance sheet, as of December 31, 1996, Applicant's parent company has available cash or cash equivalents in the amount of $8,301,883, which demonstrates that the Company is fully capable of financing and operating its proposed expanded operations. These financial statements provide the required documentation to show that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served, to maintain the requested service, and to meet its lease or ownership obligations. The Company does not anticipate significant capital requirements to expand its current Florida service offerings to include the provision of local exchange telecommunications services, initially on a resale basis. The Company is well positioned and well qualified to meet the financing requirements necessary to enter the Florida local exchange market.

Teltrust, Inc. (and subsidiaries)

1996 Annual Report

Table of Contents

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Teltrust, Inc.:

We have audited the accompanying consolidated balance sheets of Teltrust, Inc. (a Utah corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teltrust, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Salt Lake City, Utah
February 28, 1997

Consolidated Balance Sheets
As of December 31, 1996 and 1995

		1996		1995
Current assets:				
Cash and cash equivalents	$	8,301,863	$	13,390
Receivables:				
Third party billings, net of estimated clearing costs		783,777		1,217,692
Other, net of allowance for doubtful accounts		5,317,900		2,591,462
Inventory		9,460		20,431
Prepaid expenses and other		229,400		62,430
Total current assets		14,642,420		3,905,405
Property and equipment, net of accumulated depreciation		3,665,213		3,043,956
Equipment held under capital lease obligations, net of accumulated amortization		2,862,149		1,318,485
Notes receivable		132,178		85,409
Notes receivable - related party		93,552		79,808
Other assets, net of accumulated amortization		934,748		594,127
Total assets	$	22,330,260	$	9,027,190
Current liabilities:				
Current portion of notes payable	$	-	$	1,075,847
Current portion of capital lease obligations		636,272		315,322
Current portion of subordinated notes payable to shareholders		400,649		-
Current portion of subordinated revolving credit agreements		48,378		-
Accounts payable		4,907,322		4,669,755
Related party payable		251,434		145,649
Accrued liabilities		1,642,220		1,624,816
Total current liabilities		7,886,275		7,831,589
Capital lease obligations, net of current portion		1,900,354		663,001
Subordinated notes payable to shareholders		-		1,977,097
Subordinated revolving credit agreements, net of current portion		490,508		-
Total liabilities		10,277,137		10,471,687
Minority interest		(343,520)		(196,352)
Commitments and contingencies (Notes 5,7,9)				
Shareholders' equity (deficit):				
Preferred stock, no par value; 5,000,000 shares authorized: Series A, 8% cumulative, convertible, 3,216,884 shares outstanding in 1996 (Liquidation preference of $15,131,507)		14,510,951		-
Common stock, $.01 par value: 20,000,000 shares authorized, 3,958,000 shares outstanding		39,580		39,580
Additional paid-in capital		3,154,920		3,154,920
Outstanding warrants		150,000		-
Deferred interest expense		(40,625)		-
Accumulated deficit		(5,418,183)		(4,442,645)
Total shareholders' equity (deficit)		12,396,643		(1,248,145)
Total liabilities and shareholders' equity (deficit)	$	22,330,260	$	9,027,190

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Operations

For the years ended December 31, 1996, 1995 and 1994

	1996	1995	1994
Operating revenues	$ 36,575,568	$ 29,513,697	$ 20,173,192
Operating expenses:			
Costs of operating revenues	26,113,870	21,565,597	14,001,439
Selling, general and administrative	9,409,604	8,484,789	6,679,960
Depreciation and amortization	1,240,693	928,894	636,356
Provision for doubtful receivables	400,678	531,010	843,777
Total operating expenses	37,164,845	31,510,290	22,161,532
Loss from continuing operations	(589,277)	(1,996,593)	(1,988,340)
Other income (expense):			
Interest expense	(726,010)	(513,569)	(282,630)
Interest income	187,597	26,276	109,027
Other income (expense), net	(18,179)	30,350	43,159
Total other expense, net	(556,592)	(456,943)	(130,444)
Loss from continuing operations before minority interest and benefit from income taxes	(1,145,869)	(2,453,536)	(2,118,784)
Benefit from income taxes	23,163	786,187	174,771
Loss from continuing operations before minority interest	(1,122,706)	(1,667,349)	(1,944,013)
Minority interest in joint venture loss	147,168	125,387	70,965
Loss from continuing operations	(975,538)	(1,541,962)	(1,873,048)
Discontinued operations of Teltrust Phones, Inc.:			
Operating income, less applicable income tax provision of $233,599 and $176,106, in 1995 and 1994, respectively	-	392,671	296,027
Gain from disposal, less applicable income tax provision of $587,688	-	987,882	-
Net loss	$ (975,538)	$ (161,409)	$ (1,577,021)

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

Consolidated Statements of Shareholders' Equity (Deficit)

For the years ended December 31, 1996, 1995 and 1994

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Outstanding Warrants	Deferred Interest Expense	Total
Balance, December 31, 1993	2,895,000	$ 28,950	-	$ -	$ 1,039,550	$ (2,704,215)	$ -	$ -	$ (1,635,715)
Net loss	-	-	-	-	-	$ (1,577,021)	-	-	(1,577,021)
Balance, December 31, 1994	2,895,000	28,950	-	-	1,039,550	(4,281,236)	-	-	(3,212,736)
Conversion of subordinated notes payable to shareholders to 1,063,000 shares of common stock at $2.00 per share	1,063,000	10,630	-	-	2,115,370	-	-	-	2,126,000
Net loss	-	-	-	-	-	(161,409)	-	-	(161,409)
Balance, December 31, 1995	3,958,000	39,580	-	-	3,154,920	(4,442,645)	-	-	(1,248,145)
Issuance of preferred shares at $4.66 per share, net of offering costs of $488,049	-	-	3,218,884	14,510,951	-	-	-	-	14,510,951
Warrants issued in connection with subordinated revolving credit agreements	-	-	-	-	-	-	50,000	(40,625)	9,375
Warrants issued in connection with subordinated notes payable to shareholders	-	-	-	-	-	-	100,000	-	100,000
Net loss	-	-	-	-	-	(975,538)	-	-	(975,538)
Balance, December 31, 1996	3,958,000	$ 39,580	3,218,884	$ 14,510,951	$ 3,154,920	$ (5,418,183)	$ 150,000	$ (40,625)	$ 12,396,643

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

Consolidated Statements of Cash Flows
For the years ended December 31, 1996, 1995 and 1994

	1996	1995	1994
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities:			
Net loss	$ (975,538)	$ (161,409)	$ (1,577,021)
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	1,240,693	1,146,818	854,768
Gain on disposal of discontinued operations	-	(1,575,570)	-
Loss on disposal of property and equipment	-	5,579	104,708
Interest expense paid through issuance of subordinated notes payable to shareholders	193,519	247,417	182,145
Accrued interest expense on subordinated revolving credit agreement added to principal	38,886	-	-
Non-cash interest expense related to warrants	109,375	-	-
Allocation of loss to minority interest	(147,168)	(125,387)	(70,965)
Decrease in related party note receivable	-	30,000	30,000
Change in assets and liabilities:			
Decrease (increase) in third party billings receivable	433,915	439,140	(845,540)
Increase in other receivables, net	(2,726,438)	(1,652,612)	(368,040)
Decrease in related party receivable	-	-	153,956
(Increase) decrease in inventory	10,971	(5,261)	3,472
Increase in prepaid expenses and other	(166,970)	(44,743)	(182,500)
Increase in other assets	(340,621)	(40,157)	(178,539)
(Decrease) increase in accounts payable	237,567	(1,740,817)	1,122,374
Increase in related party payable	105,585	145,849	-
(Decrease) increase in accrued liabilities	17,404	(158,604)	2,399,450
Net cash provided by (used in) operating activities	(1,968,820)	(3,489,757)	1,628,268
Cash flows from investing activities:			
Purchase of property and equipment	(1,549,622)	(1,503,208)	(2,344,061)
Proceeds from sale of discontinued operations	-	3,664,889	-
Increase in notes receivable	(46,769)	(85,409)	-
Decrease (increase) in notes receivable - related party	(13,744)	(31,496)	21,623
Net cash provided by (used in) investing activities	(1,610,135)	2,044,776	(2,322,438)
Cash flows from financing activities:			
Proceeds from issuance of:			
Notes payable	-	2,120,688	259,900
Subordinated notes payable to shareholders	-	1,200,000	925,985
Subordinated revolving credit agreements	500,000	-	-
Proceeds from sale of preferred stock, net	14,510,951	-	-
Principal payments on:			
Notes payable	(1,076,847)	(1,518,529)	(252,320)
Capital lease obligations	(297,689)	(353,746)	(249,753)
Subordinated notes payable to shareholders	(1,769,967)	-	(15,452)
Net cash provided by financing activities	11,867,448	1,448,413	668,360
Net increase (decrease) in cash	8,288,493	3,432	(25,810)
Cash and cash equivalents at beginning of the year	13,390	9,958	35,768
Cash and cash equivalents at end of the year	$ 8,301,883	$ 13,390	$ 9,958

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

Consolidated Statements of Cash Flows – Continued

For the years ended December 31, 1996, 1995 and 1994

	1996	1995	1994
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 404,074	$ 286,153	$ 160,219
Income Taxes	$ 35,100	$ -	$ 28,992
Supplemental schedule of non-cash investing and financing activities:			
Capital lease obligations incurred during the year	$ 1,856,992	$ 513,383	$ 283,896
Issuance of 1,063,000 shares of the Company's common stock to shareholders in exchange for reduction in subordinated notes payable	$ -	$ 2,126,000	$ -
Issuance of warrants to purchase 500,000 shares of the Company's common stock	$ 50,000	$ -	$ -
Issuance of warrants to purchase 2,000,520 shares of the Company's common stock	$ 100,000	$ -	$ -

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

Notes to Consolidated Financial Statements

Note 1 Nature of Operations

Teltrust, Inc. ("Teltrust") was initially organized under the laws of the State of Utah as Romney & Johnson Company on July 21, 1986. The name of the Company was changed on July 31, 1990 to Teltrust, Inc. Teltrust and its subsidiaries (collectively referred to as "the Company") provide the following telecommunications related services: live agent services (call assistance), automated calling services, wholesale network services and call management and consulting services. The Company's principal strategy is to market these services to other telecommunications companies, in both established and emerging markets, who desire to outsource such activities. As such, the Company is primarily a wholesale provider to Interexchange Carriers, Local Exchange Carriers, Bell Operating Companies, Operator Service providers, Wireless Communication providers (e.g. cellular and PCS), Independent Payphone Providers, Hospitality concerns, and Prepaid Calling Card markets throughout the continental United States.

The Company, during 1994, launched new strategies and products designed to position itself as a premier provider of outsourced agent and network services to ensure a multiple market, diversified product revenue stream, and to take advantage of emerging markets in telecommunications. The Telecommunications Act of 1996 created additional opportunity for the Company to penetrate newly established markets with its products comprised primarily of agent, technology and network based products as follows: national directory assistance, live operator assisted calling, automated call processing services, customer assistance, integrated carrier order verification and the reselling of network and switching facilities.

During 1996, 1995 and 1994, the Company experienced significant losses from operations. These losses were primarily the result of operational challenges in the Company's core business units as well as significant investments in its new business lines. The Company has transitioned from relying on revenue streams from a small segment of the telecommunications industry to becoming a premier provider of out-source services to a broader client base, ranging from small, specialized companies to some of the largest telecommunications companies in the United States today.

Discontinued Operations

Effective November 1, 1995, the Company entered into an agreement with Cherokee Communications, Inc. ("Cherokee") for the sale of the assets of Teltrust Phones, Inc. ("Phones"). Cherokee acquired substantially all of the assets of Phones in exchange for $3,664,889 in cash. Additionally, the Company is bound by a covenant not to compete in the pay telephone business for the five years subsequent to the sale. A gain on the disposal of the subsidiary of $1,575,570 (before the related income tax provision of $567,688) has been reflected in the accompanying consolidated statement of operations for the year ended December 31, 1995. Revenues from discontinued operations were $3,275,781 for the period from January 1, 1995 through October 31, 1995, and were $3,209,615 for the year ended December 31, 1994. Operating income for discontinued operations for 1995 and 1994 have been presented as separate captions in the statements of operations.

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Teltrust and its wholly owned subsidiaries – Teltrust Communication Services, Inc. ("TCS"), Teltrust Phones, Inc. ("Phones" now inactive) and Teltrust Teleservices, Inc. ("Teleservices"); as well as its majority owned subsidiary, Teltrust Data Services, LLC. (d.b.a. "teltrust.com") which is a joint venture limited liability company of which Teltrust owns a 60% interest. All significant intercompany transactions and accounts have been eliminated in consolidation. The assets of Phones were sold effective November 1, 1995.

Notes to Consolidated Financial Statements – Continued

Note 2 Summary of Significant Accounting Policies – Continued

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with maturities of three or fewer months to be cash equivalents. As of December 31, 1996, $6,900,000 of the Company's cash and cash equivalents has been specifically designated to repay $400,000 of subordinated notes payable to shareholders, $2,500,000 to purchase treasury stock and $4,000,000 for capital expenditures.

Revenue Recognition

The Company recognizes revenues from operator services as those services are performed. Operator services revenues are recognized net of an allowance for anticipated uncollectible revenues, based on historical experience. Revenues from other services are recognized as those services are performed.

Fair Value of Financial Investments

The book value of the Company's financial instruments approximates fair value. The estimated fair values have been determined using appropriate market information and valuation methodologies.

Third Party Billing Receivable and Collection Services

A third party billing provider, Zero Plus Dialing, Inc. ("ZPDI"), provides the majority of billing and collection services for the Company through billing and collection agreements with Local Exchange Carriers ("LECs"). Bills are generated by the LECs and the collected funds are remitted to ZPDI, which in turn remits the collected funds, net of fees and previous advances, to the Company.

Third party billings receivable, estimated clearing costs and advances from third party billing providers as of December 31, 1996 and 1995, were as follows:

	1996	1995
Third party billings receivable	$ 5,651,474	$ 8,681,114
Less estimated clearing costs	(1,118,511)	(1,569,250)
Less advances from third party billing providers	(3,749,186)	(5,894,172)
Third party billings receivable, net of estimated clearing costs and advances	$ 783,777	$ 1,217,692

Accounts Receivable Financing

The Company has an Advanced Payment Agreement with ZPDI whereby advances are received against certain of the Company's billings. These advances are net of all expected fees and interest charges. The advances are repaid as LECs collect and remit to ZPDI funds billed to end-users. The Company's client is responsible for any amounts, which ultimately are not collectible, however the Company is subject to the credit risks associated with collecting these amounts from its client. As of December 31, 1996 and 1995, the Company has established reserves which management believes are sufficient for potential charge backs.

As of December 31, 1996 and 1995, third party billing receivables included approximately $775,000 and $1,190,000, respectively, of billings for which advance funding has not been received. Funding under the Advanced Payment Agreement normally occurs seven days after submission of billing records to ZPDI.

Notes to Consolidated Financial Statements – Continued

Note 2 Summary of Significant Accounting Policies - Continued

As a component of the Company's Advance Payment Agreement with ZPDI the Company is charged interest at the prime lending rate as quoted in the *Wall Street Journal* (8.25 percent at December 31, 1996) plus two percent on advances received from ZPDI. The Company in turn charges its clients interest on these amounts at the prime lending rate as quoted in the *Wall Street Journal* plus two percent.

Other Receivables

Other receivables associated with the invoicing of network provisioning services as of December 31, 1996 and 1995, were as follows:

	1996	1995
Other receivables	$ 6,274,071	$ 3,322,375
Less allowance for doubtful accounts	(956,171)	(730,913)
Other receivables, net of allowance for doubtful accounts	$ 5,317,900	$ 2,591,462

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years. Upon sale or other disposition of property and equipment, the cost and related accumulated depreciation or amortization is removed from the accounts and any gain or loss is included in the determination of net income or loss.

Expenditures for maintenance and repairs are charged to expense as incurred. Direct installation costs and major improvements are capitalized.

Property and equipment as of December 31, 1996 and 1995, are summarized as follows:

	1996	1995
Computer equipment	$ 1,595,566	$ 1,266,017
Switch equipment	1,652,303	1,142,089
Office furniture and equipment	886,531	678,531
Leasehold improvements	735,090	664,091
Operator stations	813,041	523,401
Software	571,279	413,196
Vehicles	19,066	19,066
Total property and equipment	6,272,876	4,706,391
Less accumulated depreciation	(2,607,663)	(1,662,435)
Net property and equipment	$ 3,665,213	$ 3,043,956

Notes to Consolidated Financial Statements – Continued

Note 2 Summary of Significant Accounting Policies – Continued

Equipment held under Capital Lease Obligations

Equipment held under capital lease obligations as of December 31, 1996 and 1995, is summarized as follows:

	1996	1995
Switch equipment	$ 3,632,955	$ 1,814,032
Computer equipment	72,817	72,817
Total equipment held under capital lease obligations	3,705,772	1,886,849
Less accumulated amortization	(843,623)	(568,364)
Net equipment held under capital lease obligations	$ 2,862,149	$ 1,318,485

Other Assets

Other assets as of December 31, 1996 and 1995, are summarized as follows:

	1996	1995
Investments in joint ventures	$ 464,899	$ 267,482
Deposits	188,023	190,228
Installation and certification costs	149,373	39,454
Other	284,007	226,219
Less accumulated amortization	(151,554)	(129,256)
Other assets, net of accumulated amortization	$ 934,748	$ 594,127

Income Taxes

The Company accounts for income taxes utilizing the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". SFAS No. 109 requires that income tax accounts be computed using the liability method. Deferred income taxes are determined based on the estimated future tax effects of differences between the financial reporting and tax reporting bases of assets and liabilities given the provisions of currently enacted tax laws.

Recent Accounting Pronouncement

In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The adoption of SFAS No. 121 did not have a material impact on the Company's financial position or results of operations.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The use of estimates and assumptions may 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. Actual results could differ from those estimates.

Notes to Consolidated Financial Statements – Continued

Note 3 Investments in Partnerships

FYI National Directory Assistance

In 1994, the Company entered into a joint venture general partnership agreement with Metromail, Inc. to jointly market its directory assistance service under the name of FYI National Directory Assistance ("NDA"). Each party owns 50 percent of the joint venture. During 1995, the Company contributed $25,000 as its initial investment in NDA. Metromail, Inc.'s contribution to NDA was in the form of operator stations, software and the directory data base. The Company accounts for this joint venture under the equity method of accounting. Profits from the joint venture are the equivalent to a management fee and as such are recorded as revenue. For the years ended December 31, 1996 and 1995, NDA's operating activities were as follows:

	1996 (Unaudited)	1995 (Unaudited)
Operating revenues	$ 3,646,281	$ 1,425,085
Operating expenses:		
Costs of revenue	2,916,635	877,479
Selling, general and administrative expenses	296,821	62,642
Total operating expenses	3,213,456	940,121
Net income	$ 432,825	$ 484,964

Teltrust Data Services, LLC (d.b.a. teltrust.com)

In October 1994, the Company entered into a joint venture with Premier Messaging Integrators, Inc. to jointly market its experience and expertise in workgroup and messaging solutions to the Greater Novell market place. The joint venture is operated as a limited liability company under the laws of the State of Utah using the name of Teltrust Data Services, LLC (d.b.a. "teltrust.com"). The Company's initial capital contribution was $100,000 for a 60 percent ownership interest.

The Company Advanced additional amounts to teltrust.com in the form of loans as follows:

- The Company loaned $100,000 in start-up funds to teltrust.com, on a non-interest-bearing basis, to fund operations for the initial six months. This loan agreement provides for repayment as cash becomes available from the profits of teltrust.com.
- The Company loaned $100,994 to teltrust.com on September 1, 1994. This loan provides for interest at the prime-lending rate as quoted by the *Wall Street Journal* (8.25% at December 31, 1996) plus two percent. This loan arrangement provides for repayment, as cash becomes available from the profits of teltrust.com. This loan is subject to the conversion features of the operating agreement as discussed below.
- The Company loaned $574,016 to teltrust.com during 1995. This revolving loan provides for interest at the prime-lending rate as quoted by the *Wall Street Journal* plus two percent. This loan agreement provides for repayment, as cash becomes available from the profits of teltrust.com. This loan is subject to the conversion features of the operating agreement as discussed below.
- The Company loaned $581,567 to teltrust.com during 1996. This revolving loan provides for interest at the prime-lending rate as quoted by the *Wall Street Journal* plus two percent. This loan is subject to the conversion features of the operating agreement as discussed below.

teltrust.com's operating agreement provides for the conversion of outstanding loans, except for the original $100,000 start-up loan, to shares of capital stock of teltrust.com. The exercise of the conversion option provides for each $10,000 increment of loan principal converting to one percent of additional ownership of teltrust.com. the exercise of this conversion option is at the sole discretion of the Company. As of December 31, 1996, no outstanding debt of teltrust.com had been converted to shares of capital stock.

Notes to Consolidated Financial Statements – Continued

Note 4 Notes payable

Notes Payable

As of December 31, 1996 and 1995, notes payable consisted of the following:

		1996		1995
Note payable to a vendor, paid in full in February 1996	$	-	$	641,841
Note payable to a bank, paid in full in February 1996		-		250,000
Note payable to a finance company, paid in full in January 1996		-		169,839
Notes payable to a bank, paid in full during 1996		-		4,004
Other, paid in full during 1996				10,163
Total notes payable		-		1,075,847
Less current portion				(1,075,847)
Notes payable, net of current portion	$	-	$	-

Subordinated Notes Payable to Shareholders

As of December 31, 1996 and 1995, subordinated notes payable to shareholders consisted of the following:

		1996		1995
Unsecured subordinated note payable to a shareholder and officer of the Company, paid in full in November 1996	$	-	$	1,474,660
Unsecured subordinated note payable to a shareholder and director of the Company, interest at 5.03 percent, due in 36 monthly installments of $13,019 beginning January 1, 1996, intended to be paid in full during 1997		400,649		363,858
Unsecured subordinated note payable to a shareholder and director of the Company, paid in full in November 1996		-		138,579
Total subordinated notes payable to shareholders		400,649		1,977,097
Less current portion		(400,649)		-
Subordinated notes payable to shareholders, net of current portion	$	-	$	1,977,097

Subordinated Revolving Credit Agreements

As of December 31, 1996 and 1995, subordinated revolving credit agreements consisted of the following:

		1996		1995
Subordinated revolving credit agreement with an independent investor	$	431,636	$	-
Subordinated revolving credit agreement with an independent investor		107,250		-
Total subordinated revolving credit agreements		538,886		-
Less current portion		(48,378)		-
Subordinated revolving credit agreements, net of current portion	$	490,508	$	-

Notes to Consolidated Financial Statements – Continued

Note 4 Notes Payable - Continued

On April 2, 1996, the Company entered into a revolving credit agreement with an independent investor for $400,000. This revolving credit agreement bears interest at the greater of the prime-lending rate (as quoted in the Wall Street Journal) plus two percent, or 12 percent. The revolving credit agreement is due in 24 equal monthly installments together with accrued interest commencing on April 1, 1998. During the first 12 months of the agreement interest will accrue to the outstanding principal balance. During the second 12 months of the agreement, interest is to be paid monthly on the outstanding principal together with interest accrued during the first 12 months.

Also on April 2, 1996, the Company entered into a revolving credit agreement with an independent investor for $100,000. This revolving credit agreement bears interest at the greater of the prime-lending rate (as quoted in the Wall Street Journal) plus two percent, or 10.25 percent. The revolving credit agreement is due in 24 equal monthly installments together with accrued interest commencing on April 1, 1998. During the first 12 months of the agreement interest will accrue to the outstanding principal balance. During the second 12 months of the agreement, interest is to be paid monthly on the outstanding principal together with interest accrued during the first 12 months.

In conjunction with these revolving credit agreements, the Company issued warrants to purchase 400,000 and 100,000 shares of the Company's common stock (one warrant for each $1 loaned), respectively. These warrants are exercisable under the following schedule:

If exercised:			Exercise Price per Share
First 24 months	(April 2, 1996 through April 1, 1998)	$	1.00
Subsequent 6 months	(April 2, 1998 through October 1, 1998)	$	2.00
Subsequent 18 months	(October 2, 1998 through April 1, 2000)	$	3.00

Note 5 Lease Obligations

Operating Leases

The Company leases office space and certain telecommunications equipment under non-cancelable operating lease agreements. Rent expense under these leases for the years ended December 31, 1996, 1995 and 1994 was $798,813, $631,575 and $284,726, respectively.

Future minimum lease payments by year under these leases for the years ending December 31, are as follows:

1997	$	797,727
1998		663,926
1999		243,737
2000		124,387
2001		96,757
Total future minimum lease payments	$	1,926,534

Notes to Consolidated Financial Statements – Continued

Note 5 Lease Obligations - Continued

Capital Leases

The Company leases various computer and telecommunications equipment under capital lease agreements. The following is a schedule by year of future minimum lease payments under capital lease obligations together with the present value of the future net minimum lease payments as of December 31, 1996:

1997	$ 799,900
1998	862,265
1999	598,685
2000	583,200
2001	135,370
Total future minimum lease payments	2,979,420
Less amount representing interest	(442,794)
Present value of net minimum lease payments	2,536,626
Less current portion	(636,272)
Capital lease obligations, net of current portion	$ 1,900,354

Note 6 Income Taxes

The components of the benefit from federal and state income taxes for the years ended December 31, 1996, 1995 and 1994, are as follows:

	1996	1995	1994
Federal	$ 284,837	$ 792,492	$ 696,258
State	35,715	122,677	94,365
Non-deductible items	(17,294)	(26,299)	(37,223)
Change in valuation allowance	(280,095)	(102,683)	(578,629)
Benefit from income taxes	$ 23,163	$ 786,187	$ 174,771

In applying the provisions of SFAS No. 109, the Company has determined that a valuation allowance should be provided against all of its net deferred tax assets in the accompanying consolidated balance sheets as follows:

	1996	1995
Net operating loss carryforwards	$ 1,258,695	$ 937,411
Future taxable temporary differences related to depreciation and amortization, reserves and accruals	421,058	462,247
Less valuation allowance	(1,679,753)	(1,399,658)
Net deferred tax asset	$ -	$ -

As a result of incurring taxable losses or utilizing available net operating loss carryforwards, the Company had no regular federal income tax provision in 1996, 1995 and 1994. However, the Company is subject to approximately $3,833, $35,000 and $1,000 of Federal alternative minimum tax and state income tax for the years ended December 31, 1996, 1995 and 1994, respectively.

Notes to Consolidated Financial Statements – Continued

Note 6 Income Taxes - Continued

For tax reporting purposes, the Company has net operating loss carryforwards of approximately $3,375,000 at December 31, 1996 available to offset future taxable income, if any. The Tax Reform Act of 1986 contains provisions which limit net operating loss carryforwards available based upon certain changes in ownership. In November 1996, changes in the ownership of the Company may have resulted in limitations on all pre-existing net operating loss carryforwards. At December 31, 1996, management estimates that the Company's net operating loss carryforwards may be limited to utilization of approximately $2,200,000 per year. If the annual limited amount is unutilized in any particular year, it remains available on a cumulative basis through the expiration date.

The following summarizes the tax net operating loss carryforwards and their respective expiration dates as of December 31, 1996:

2004	$	213,000
2005		-
2006		-
2007		1,082,000
2008		-
2009		-
2010		1,218,000
2011		862,000
Total net operating loss carryforwards	$	3,375,000

Note 7 Commitments and Contingencies

Claims and Legal Actions

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position or results of operations. However, due to the inherent uncertainty of litigation, there can be no assurances that new developments or the resolution of any particular claim or proceeding would not have an adverse effect on the Company's results of operations for the year in which such new developments or resolution occurred.

Minimum Usage Charges

The Company is obligated to pay approximately $3,000,000 during 1997 for minimum usage (network charges) under agreements with certain providers of network services.

Note 8 Shareholders' Equity

Amendment to Articles of Incorporation

On November 19, 1996, the Company's articles of incorporation were amended to (i) increase the number of authorized shares of common stock from 10,000,000 shares to 20,000,000 shares and (ii) establish 5,000,000 shares of preferred stock to be issued in series.

Notes to Consolidated Financial Statements - Continued

Note 8 Shareholders' Equity - Continued

Series A Convertible Preferred Stock

The Company's Series A Convertible Preferred Stock consists of 3,218,884 preferred shares and were issued on November 21, 1996 in exchange for $15,000,000 of cash (before offering costs of $489,049). The holders of Series A Convertible Preferred Stock, in preference to the holders of the Company's common shares, are entitled to receive cumulative dividends at the rate of 8 percent per annum if, as and when declared by the Company's board of directors. Undeclared or unpaid dividends are added to the liquidation preference of the Series A Convertible Preferred Stock. In addition, the holders of Series A Convertible Preferred Stock, vote together with the shares of the Company's common stock in the same manner as the Company's common stock. Series A Convertible Preferred stockholders are entitled, at their option, to convert preferred shares (but not undeclared or unpaid dividends) to common shares at an initial conversion price of $4.66 per share.

The affirmative vote of a majority of the then outstanding shares of Series A Convertible Preferred Stock is required to affect any of the following actions on behalf of the Company and its subsidiaries:

- Increasing the number of outstanding common or preferred shares.
- Increasing the Company's indebtedness beyond $3,000,000 in aggregate.
- Amendments to the Company's articles of incorporation and bylaws.
- Purchase or sale of material assets.
- Merger, consolidation, liquidation, dissolution or winding up of business activities.
- Initiation of any new business activities outside the telecommunications sector.
- Execution of any material contract or agreement which is outside of the ordinary course of business.
- Hiring of or changes in compensation, other than normal base salary adjustments to reflect cost-of-living increases, related to senior management personnel.

In addition to the above voting rights the holders of Series A Convertible Preferred Stock have certain registration rights which allow them to demand a registration statement to be filed for which the Company would bear the cost of filing such registration statement. Holders of Series A Convertible Preferred Stock may also "piggyback" registration rights on registrations filed by the Company.

The Company is required to keep available out of its authorized but unissued shares of common stock such number of shares of common stock as are issuable upon the conversion of all outstanding Series A Convertible Preferred Stock.

Conversion of Subordinated Notes Payable to Shareholders to Equity

In April 1995, the Company issued 1,063,000 shares of the Company's common stock to shareholders in exchange for the retirement of $2,126,000 of subordinated notes payable to shareholders.

Common Stock Warrants

During 1992, the Company issued warrants to purchase 2,000,520 shares of common stock. The warrants were issued to shareholders that held subordinated notes payable from the Company. Each warrant is exercisable at $.17 per share, which was the estimated fair market value on the date of grant, and expires on March 31, 1997. In connection with these warrants, $100,000 of interest expense has been recorded by the Company. The warrants provide the shareholders with the option to pay for the common stock with cash or by reducing the amount of their subordinated notes by the equivalent amount. As of December 31, 1996, no warrants issued to subordinated noteholders have been exercised.

During 1996, the Company issued warrants to purchase 500,000 shares of common stock. The warrants were issued to independent investors that entered into subordinated revolving credit agreements with the Company (see Note 4).

Notes to Consolidated Financial Statements – Continued

Note 8 Shareholders' Equity – Continued

Stock Option Plan

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plan (as described below). Accordingly, no compensation cost has been recognized for options granted under its stock option plan. Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value of the option at the grant dates for awards under the plan consistent with statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company's net loss would have been increased to the pro forma amounts indicated below:

	1996	1995
Net loss:		
As reported	$ (975,538)	$ (161,409)
Pro forma	$ (1,027,667)	$ (161,409)

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, and due to the nature and timing of option grants, the resulting pro forma compensation costs may not be indicative of future years.

The fair value of each option grant has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1996 and 1995, in calculating compensation costs:

- Risk-free interest rate of 6.95% and 6.10% for 1996 and 1995, respectively.
- Expected life of seven years for both 1996 and 1995.

Effective September 27, 1994, the Company's shareholders approved the 1993 Employee Stock Option Plan (the "Plan") by unanimous written consent. The purpose of the Plan is to enable the Company to attract and retain experienced and able officers, directors and other key employees. The Plan provides for the issuance of a maximum of 600,000 shares of common stock. The Plan is administered by a committee, consisting of at least three members of the board of directors (the "Committee") who are "disinterested persons" as that term is defined in the Securities and Exchange Act of 1934 Rule 16b-3. Subject to the terms of the Plan, the Committee determines the persons who are to receive options, the number of shares subject to each option and the terms and conditions of each option. The Committee also has the authority to construe and interpret any provisions of the Plan or any options granted thereunder.

On November 22, 1996, an amendment to the Plan was adopted by the Company which, increased the maximum number of shares of common stock that may be issued pursuant to the Plan from 600,000 to 1,100,000.

The Plan permits the granting of options that are intended to qualify either as Incentive Stock Options ("ISOs") or Non-qualified Stock Options ("NQSOs"). The option exercise price for each ISO must be no less than 100 percent of the "fair market value" (as defined in the Plan) of a share of common stock at the time such option is granted. Except in the case of a 10 percent or greater shareholder, in which case the exercise price must be no less than 110 percent of the fair market value. The Committee determines the exercise price for each NQSO option at the time of grant. Both types of options are exercisable for the period defined by the Committee on the date of grant. However, no stock option will be exercisable before six months have elapsed from the date it is granted and no incentive stock option shall be exercisable after ten years from the date of grant.

Notes to Consolidated Financial Statements – Continued

Note 8   Shareholders' Equity – Continued

The following table summarizes the stock option activity for the years ended December 31, 1996 and 1995:

	Expiration Date	Number of Options		Weighted Average Exercise Price per Share
Outstanding at December 31, 1993	December 13, 2003	231,000	$	0.60
Granted	January 16, 2004	17,000		0.60
Outstanding at December 31, 1994		248,000		0.60
Granted	April 15, 2005	338,500		2.00
Outstanding at December 31, 1995		586,500		1.41
Granted	November 21, 2006	290,000		6.00
Forfeited		(23,000)		0.60
Outstanding at December 31, 1996		853,500	$	2.99

The options granted during the years ended December 31, 1996 and 1995 vest at a rate of 20 percent per year and are fully exercisable five years after the date of grant. As of December 31, 1996, options for the purchase of 199,300 shares of common stock were exercisable. These options have a weighted average remaining contractual life of 7.7 years and a weighted average exercise price of $1.06.

Note 9   Regulatory Matters

Operator Services Providers ("OSPs") such as the Company are required to file informational tariffs with the Federal Communications Commission ("FCC") that describe the rules and regulations governing the provision of their interstate operator assisted services, including any rates and charges that may be applied. Additional regulations govern the manner in which those services are provided, such as the provision of written and verbal identification of the OSP on each call. At the date of this report, the Company is in material compliance with the regulations set forth by the FCC, and by those state regulatory agencies who have exercised similar authority over intrastate calls.

<u>Billed Party Preference and Related Proceedings</u>

Billed Party Preference ("BPP") is an issue under consideration currently by the FCC. BPP refers to a concept in which any long distance call outside the local telephone company's calling area, carried from a publicly available telephone, would be automatically routed over the long distance telephone company network of the billed party's preference. This would be accomplished through a local telephone company, database system that would match every calling card and telephone number to a preferred long distance telephone company and route all calls accordingly. In April 1992, the FCC tentatively proposed adopting BPP. During the summer of 1992, comments from local telephone companies, long distance telephone companies and other industry representatives revealed that the cost of imposing BPP could be in excess of $1 Billion and could require hundreds of millions of dollars each year to operate. Commentary made it clear that many ancillary technical impediments would necessarily accompany deployment of BPP, as contemplated. Furthermore, equipment manufactures could not support implementation of BPP until four years from adoption at the earliest. Most commentators opposed the BPP proposal.

On June 6, 1994, the FCC released a "Further Notice of Proposed Rulemaking" in the BPP proceeding. Once again, the FCC expressed a clear interest in examining further the relative costs associated with BPP implementation. The FCC also requested that the industry provide suggestions for a more cost efficient alternative that might similarly meet the objectives of BPP, which are the facilitation of access to operator service networks, increased competition and lower end user rates. The FCC received industry member's comments on August 1, 1994, which again were heavily against the adoption of this system.

Notes to Consolidated Financial Statements – Continued

Note 9 Regulatory Matters - Continued

If such a system were implemented, the unique market niche of OSPs, such as a segment of the Company's business, would be severely impaired, since OSPs depend upon public telephone presubscription, and BPP takes the call routing decision away from the public telephone owner. It is difficult to assess the industry support for BPP, given the inherent technical problems it involves. AT&T is on record as opposing this proposal, and the Regional Bell Operating Companies agree that they would not support it unless they were not held accountable for the costs of its implementation. The FCC has been investigating this proposal now for eight years, and the record in this proceeding shows that network reconfiguration would take two to four years beyond any positive FCC action. Thus, while BPP remains arguably viable, as demonstrated by the FCC's recent Notice, it is not probable that it would be technically implemented in the near term.

On March 9, 1995, the FCC requested industry comment on two proposals it had recently received relative to the BPP proceeding. In an ex-parte petition, the National Association of Attorney's General ("NAAG") suggested that the FCC modify its current branding requirement such that OSP's would be required to announce at the beginning of each call more specific information for obtaining access to alternate carriers (the "NAAG Petition.") Another petition filed by a coalition of industry members consisting of most of the Regional Bell Operating Companies, two competitive access providers, the American Public Communications Counsel ("APCC") and the Competitive Telecommunications Association ("CompTel"), recommended that the FCC impose certain rate thresholds for interstate operator assisted services, which the FCC would presume to be reasonable. Any OSP electing to charge rates higher than such threshold would be required to first prove to the FCC that such rates are justified based upon the underlying costs of the service (the "APCC Rate Cap proposal.") The NAAG Petition was proposed to remain in effect until such time that BPP is adopted and fully implemented. The APCC Rate Cap Proposal was proposed to obviate the need to consider any further action regarding BPP.

If adopted, the NAAG Petition could have a negative effect upon the number of calls completed over OSP networks, such as the Company's if end users elect to act upon the additional branding announcement regarding access to their carriers. Furthermore, additional network time would be consumed without a corresponding increase in revenues. Furthermore, if the APCC Rate Cap Proposal is adopted, OSPs such as the Company may be immediately required to lower their interstate rates until such time as the FCC rules upon an attempt to justify higher, existing rates. OSPs may be required to adjust the amount of commission payments made to their subscriber customers as a result of implementation of such a proposal, or affect other operational charges to offset any reduction in interstate operator services revenue.

Subsequently, in June 1996, the FCC issued a Second Further Notice of Proposed Rulemaking ("SFNPRM") in the BPP proceeding. In it, the FCC proposed adopting a rule which would require OSPs like the Company to announce the rates for certain calls to the billed party prior to connecting the call, thereby allowing the billed party to disconnect such call without incurring any unwanted charges. In September 1996, the FCC issued a second request for Comment in the SFNPRM soliciting technical and other administrative details to support the proposed announcement requirement. Many commentaries objected to the discriminatory nature of the proposals, which would have some carriers announcing rates while others would not. If the FCC adopts any of these proposals, the Company's operator service traffic could be negatively affected. The Company cannot predict when and if any final ruling on either proposal might be issued.

Notes to Consolidated Financial Statements – Continued

Note 9 Regulatory Matters – Continued

Regulatory Rate Proceedings

During the course of normal operations, a regulated company may at any time come under specific scrutiny with regard to any if its rates, terms or conditions by which such service is rendered by the state or federal regulatory agency charged with such oversight responsibility. In such cases, a regulated company can be required to provide, among other things, cost justification for the charges on some or all of its services. After review of such justification, the regulatory agency generally has the authority to require a carrier to modify the process by which such services are rendered or to affect changes to its applicable rate structure. The Company operates in several jurisdictions in which its tariffs may fall under such scrutiny at the discretion of the governing regulatory agency. The Company could therefore be required, as a result of such an investigation and subsequent proceeding, to implement changes in its rate structure, which could ultimately affect its revenues. The Company cannot predict whether or not any such requirement may be imposed in any particular jurisdiction.

Note 10 Related-Party Transactions

During the years ended December 31, 1996, 1995 and 1994, the Company paid approximately $79,000, $60,000 and $38,000, respectively, of insurance premiums to an insurance company for which a former member of the board of directors of the Company was an agent for the insurance company.

At December 31, 1996 and 1995, the related party note receivable consisted of an unsecured note receivable from a shareholder. This note bears interest at seven percent and is due in installments of $400 per month with a maturity date of December 31, 1998.

At December 31, 1996 and 1995, the Company owed $251,434 and $145,849, respectively, to a related party. These net payable amounts are the result of both receivable and payable transactions arising from the day-to-day activities of the Company's NDA joint venture.

Note 11 Subsequent Events

On January 17, 1997, the Company repurchased 536,481 shares of the Company's common stock, from an officer and shareholder of the Company, for $2,440,000 in cash (net of an agreed upon portion of costs associated with the sale of Series A Convertible Preferred Stock).

EXHIBIT 3

Managerial and Technical Capability

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Managerial and Technical Capability

Teltrust is technically and managerially qualified to provide local exchange telecommunications services within Florida. The Company has acquired extensive experience in providing a variety of telecommunications services to customers, and has developed a management team with excellent credentials and experiences in telecommunications. Teltrust's local exchange service operations will be managed by a highly trained staff. A description of the extensive managerial and technical telecommunications experience and expertise of Teltrust's key management personnel is attached hereto.

Teltrust is also technically qualified to provide local exchange telecommunications services within the State. The Company has an excellent Network operations team, all of whom have extensive experience in developing and operating state-of-the-art telecommunications infrastructures. Teltrust is successfully providing a wide range of resold interexchange telecommunications services in numerous states, including on a statewide basis in Illinois. Teltrust is authorized by virtue of certification, registration, or on an unregulated basis to provide various resold interexchange telecommunications services throughout the United States, except Hawaii, Alaska, Arkansas, Connecticut, New Hampshire, Maine, and Oklahoma. (Teltrust has certification applications pending in each of these remaining states). Teltrust now seeks to expand its service offerings to include competitive local exchange service in a number of states, including Florida.

Teltrust will be able to take advantage of the existing resources currently available in the Company in such areas as billing, customer service, maintenance and technical support, and marketing and sales. Teltrust's successful provision of telecommunications services throughout the country is proof, in the first instance, of its technical, managerial, and financial ability to provide local exchange resale services in the State.

Teltrust Key Management Personnel

Lyle O. Keys, Chairman Mr. Keys became an investor in Teltrust in 1988, and as the company grew, he became more directly involved in the company's financial and management operations. He was elected Chairman of the Board and Chief Executive Officer in 1991. Prior to 1988, Mr. Keys had an extensive background in the manufacture of equipment in broadcast television. In 1977, he founded Utah Scientific, Inc., a manufacturer of broadcast switching and control products. In 1981, the company was acquired by Dynatech Corporation. Mr. Keys remained President of Utah Scientific until 1987. Prior to his involvement with Utah Scientific, Mr. Keys founded TeleMation, Inc. also a manufacturer of high-end television equipment, which operated from 1963 to 1975, when its hardware division was sold to Bell & Howell and is now owned by Phillips Electronics, of The Netherlands. The teleproduction division continued operation until 1994, when it was sold to interests in New York.

Jerry E. Romney, Jr., Vice Chairman. Mr. Romney founded Teltrust (originally Romney & Johnson Company), in 1986. His background includes more than 18 years of specialized communications management experience, including positions with International Film, Inc., National Inn-formation Network, and Tele-Inn, Inc. Currently, Mr. Romney is a prominent figure in the telecommunications industry, serving on the Board of Directors for the American Public Communications Council. He also served as President of the Utah Payphone Association. Mr. Romney is active in many other state and regional payphone associations, as well as being active in the North American Telecommunications Council, the American Carriers Telecommunications Association, and the Operator Services Providers Association.

Marc B. Cohen, President & CEO (Acting CFO). Mr. Cohen joined Teltrust in 1988, while completing his studies for a B.S. in Business Administration. Mr. Cohen oversees the company's accounting and financial reporting functions, is active in contract negotiations, strategic planning and business segment analyses, and plays a key role in critical industry negotiations, new product planning and new business opportunities. With Lifespring, Inc., a San Rafael, California based communications and training company, his responsibilities included management and production of corporate financial statements, consolidating information and operations for 23 offices nationwide, including budget, balance sheet and variance analyses. Since joining the company, Mr. Cohen has served as Director of Operations; Vice President, Client Relations; Sr. Vice President, Executive Vice President, Assistant to the Chairman in addition to his current position.

Paul Rius, Senior Vice President & C.O.O. Mr. Rius was originally hired as a consultant to the company, in 1990 and accepted full-time employment in 1991. Since that time, Mr. Rius has directed the company's network operations and currently manages all network and technical operations and implementation services. Mr. Rius has more than 15 years of telecommunications network management positions with the University of Utah, Mountain Bell, AT&T, Touch America Long Distance and Access Long Distance. In 1987, Mr. Rius founded First Digital Network, an operator services and direct dial long distance company. After building the business to profitability, he sold it to a major California-based operator services provider. Mr. Rius has served as President of the America Carriers Telecommunications Association (ACTA).

Vicki S. Pearson, Senior Vice President, Business Operations. Ms. Pearson began consulting for Teltrust in August, 1993. She joined the company full-time, in January 1994. Ms. Pearson currently directs services, public relations, client services, human resources and corporate training and operator center activities of the company. Ms. Pearson has more than 25 years experience in marketing management in high technology industries. She has been widely published in national trade journals in a variety of technical markets. Prior to joining the company, Ms. Pearson owned and operated a successful advertising agency for nearly ten years. She has also held management positions with several telecommunications equipment manufacturers.

Michael L. Bird, Vice President, Sales. Mr. Bird joined the company in 1992, with more than 22 years of communications and high-technology industry experience. His extensive background in sales and marketing includes management positions with Fone American, Inc., Pamtel Long Distance Management, Inc., and Cascade Telecommunications, Inc., a distribution arm of Rolm Communications. Mr. Bird also has held high-level sales positions with Xerox Corporation and Lotus Development Corporation. Additionally, he developed and implemented a sales expansion program for Ashton-Tate, Inc., that encompassed the United States and Canada.

Steven E. Swenson, Vice President & General Counsel. Mr. Swenson accepted the position of Teltrust's General Counsel, in April 1994. Prior to joining the company, Mr. Swenson was in private practice in Washington, D.C., where he specialized in telecommunications law. He has a broad background in Federal Communications Regulatory matters and transactions involving telecommunications companies. Mr. Swenson received his law degree from Georgetown University.

Richard R. Heath, Vice President, Special Projects. Mr. Heath has an extensive background in equipment manufacture, telecommunications, radio and television broadcasting. Before joining the company in 1991, he managed the final test department and analog manufacturing engineering department of Utah Scientific, where he was employed for eight years. Mr. Heath also worked for the University of Utah, as a broadband systems specialist. Mr. Heath manages the company's facilities and special projects. He has supervised the design and construction of the company's physical facilities for the past three years.

Mark Arensdorf, Director of Technical Operations. Mr. Arensdorf joined the company in September 1991 and is responsible for overseeing the daily operations, trouble shooting and development of the company switches' hardware and software. Prior to joining the company, Mr. Arensdorf was the Manager of Technical Operations for a regional long distance company. He served in the United States Army as an Electronic Warfare Intercept Systems Repairman and received a Good Conduct Medal. Mr. Arensdorf also attended the United States Army Intelligence School where he obtained Top Secret Clearance.

Deborah Barrett, Vice President, Regulatory Affairs. Ms. Barrett joined the company in January 1997 and is responsible for overseeing the company's state and federal regulatory matters. Prior to joining the company, Ms. Barrett was Vice President of Regulatory for an interexchange carrier and operator service provider and has over eight years of experience in the telecommunications industry. Ms. Barrett has been on the Board of Directors of America's Carriers Telecommunications Association (ACTA) for over six years and currently serves as Vice President, representing over 195 carrier members. She has also served on the Legal, Regulatory and

Legislative Affairs Committees of COMPTEL, also a trade association representing the telecommunications industry. Ms. Barrett holds a B.A. in Telecommunications and Business from Indiana University.

Susan Johnson, Manager, Regulatory Affairs. Ms. Johnson joined Teltrust in December 1991 and serves as Teltrust's primary regulatory affairs liaison. She is responsible for coordination of Teltrust's regulatory affairs and for ensuring compliance with rules and regulations in the various jurisdictions wherein Teltrust conducts business. Since joining the company, Ms. Johnson has served as Sr. Client Relations Representative, Special Projects Administrator and Enhanced Services Manager. Prior to joining the company, Ms. Johnson was employed as a Major Accounts Analyst by a regional long distance company. In all, Ms. Johnson has over eight years experience in the telecommunications industry.

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&
BERLIN

CHARTERED

DEPOSIT

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DATE

JUN 27 1997

June 26, 1997

VIA OVERNIGHT MAIL

Ms. Blanca S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

970789-TX

Re: Application of Teltrust Communications Services, Inc. for Authority to Provide Alternative Exchange Service Within the State of Florida

Dear Ms. Blanco:

Enclosed for filing on behalf of Teltrust Communications Services, Inc. ("Teltrust"), please find an original and six (6) copies of its Application for Authority to Provide Alternative Exchange Service Within the State of Florida, as well as a check for the application fee on the amount of US$ 250.00, payable to the Florida Public Service Commission.

Please date-stamp the enclosed extra copy of this filing, and return it in the enclosed, self-addressed stamped envelope.

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

Sincerely,

Check received with filing and

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

FIRST UNION NATIONAL BANK
WASHINGTON, D.C.

0057737

NO. 057737

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

DATE	AMOUNT
06/26/97	*****250.00

GENERAL ACCOUNT
TWO SIGNATURES REQUIRED ABOVE $10,000

PAY TO THE ORDER OF FLORIDA PUBLIC SERVICE COMMISS

ARTER & HADDEN
ATTORNEYS AT LAW

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10 West Broad Street, Suite 2100
Columbus, Ohio 43215-3422

Dane Stinson, Esq.
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