



ORIGINAL

210 N. Park Ave.  
Winter Park, FL  
32789

P.O. Drawer 200  
Winter Park, FL  
32790-0200

Tel: 407-740-8575  
Fax: 407-740-0613  
tmi@tminc.com

May 10, 2000  
**Overnight**

Blanca Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oaks Boulevard  
Tallahassee, FL 32399-0870

000576-TX

RE: Initial Alternative Local Exchange Carrier Application of  
**Coyote Metro, LLC d/b/a INET Local Phone Service**

Dear Ms. Bayo:

Enclosed for filing are the original and six copies of the above referenced application of Coyote Metro, LLC d/b/a INET Local Phone Service to provide Alternative Local Exchange Carrier Service in Florida. The company primarily offers bundled local and long distance services and has simultaneously filed an application and tariff for interexchange service.

The company has filed for interexchange authority under a separate application and submitted the \$250 filing fee at that time. Questions pertaining to this application or tariff should be directed to my attention at (407) 740-8575.

Please acknowledge receipt of this filing by returning, file-stamped, the extra copy of this cover letter in the self-addressed, stamped envelope enclosed for this purpose.

Thank you for your assistance.

Sincerely,

Monique Byrnes  
Consultant to  
Coyote Metro, Inc.

cc: H. Legendre, Coyote  
file: Coyote - FL  
tms: fl10000

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:

*W.S.*

DOCUMENT NUMBER-DATE  
**05871 MAY 11 8**  
FPSC-RECORDS/REPORTING

DIVISION OF TELECOMMUNICATIONS  
BUREAU OF CERTIFICATION AND SERVICE EVALUATION

## APPLICATION FORM

for

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

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**Instructions**

- This form is used for an original application for a certificate and for approval of the assignment or transfer of an existing certificate. In case of an assignment or transfer, the information provided shall be for the purchaser, assignee or transferee. (See appendix A.)
- Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.
- Use a separate sheet for each answer which will not fit the allotted space.
- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **\$250.00** to:

**Florida Public Service Commission  
Division of Records and Reporting  
2450 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850  
(850) 413-6770**

- If you have any questions about completing the form, contact:

**Florida Public Service Commission  
Division of Telecommunications  
Bureau of Certification and Service Evaluation  
2450 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850  
(850) 413-6600**

# APPLICATION

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

**Original certificate** (new company)

**Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate authority.

**Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

Coyote Metro, LLC

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

INET Local Phone Service

4. Official mailing address (including street name & number, post office box, city, state, zip code):

**Name:** Coyote Metro, LLC  
**Street:** 1640 S. Sepulveda, Suite 320  
**P.O. Box:**  
**City:** Los Angeles  
**State:** California  
**Zip Code:** 90025

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

Not applicable

**Name:**  
**Street:**  
**P.O. Box:**  
**City:**  
**State:**  
**Zip Code:**

6. Structure of organization:

- |                                     |  |                          |                     |
|-------------------------------------|--|--------------------------|---------------------|
| <input type="checkbox"/>            | Individual   | <input type="checkbox"/> | Corporation         |
| <input type="checkbox"/>            | Foreign Corporation                                      | <input type="checkbox"/> | Foreign Partnership |
| <input type="checkbox"/>            | General Partnership                                      | <input type="checkbox"/> | Limited Partnership |
| <input checked="" type="checkbox"/> | Other, Please explain : Nevada Limited Liability Company |                          |                     |

7. If individual, provide:

**Name:**

**Title:**

**Address:**

**City, State, Zip:**

**Telephone No.:**

**Fax No.:**

**Internet E-Mail Address:**

**Internet Website Address:**

8. If incorporated in Florida, provide proof of authority to operate in Florida:

(A) The Florida Secretary of State corporate registration number:

9. If foreign corporation, provide proof of authority to operate in Florida:

(A) The Florida Secretary of State corporate registration number:

10. If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

(A) The Florida Secretary of State fictitious name registration number:

**G00027900099**

11. If a limited liability partnership, provide proof of registration to operate in Florida:

(A) The Florida Secretary of State registration Number:

**M96000000255**



12. **If a partnership,** provide name, title and address of all partners and a copy of the partnership agreement.

**Name:**

**Title:**

**Address:**

**City, State, Zip:**

**Telephone No.:**

**Fax No.:**

**Internet E-Mail Address:**

**Internet Website Address:**

13. **If a foreign limited partnership,** provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(A) The Florida registration number:

14. Provide **F.E.I. Number** (if applicable):

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

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

None of the company's 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.

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

No officer, director, partner or stockholder of the company has been an officer, director, partner or stockholder in any other Florida certificated telephone company.

6. Who will serve as liaison to the Commission with regard to the following?

(A) The application:

**Name:** Monique Byrnes  
**Title:** Consultant to Coyote Metro, LLC  
**Address:** 210 N. Park Avenue  
**City, State, Zip:** Winter Park, FL 32789  
**Telephone No.:** 407-740-8575 **Fax No.:** 407-740-0613  
**Internet E-Mail Address:** mbyrnes@tminc.com  
**Internet Website Address:** www.tminc.com

(B) Official point of contact for the ongoing operations of the company:

**Name:** Helene Legendre  
**Title:** Executive Vice President  
**Address:** 1640 South Sepulveda, Suite 320  
**City, State, Zip:** Los Angeles, CA 90025  
**Telephone No.:** 310-966-2330 **Fax No.:** 310-235-3190  
**Internet E-Mail Address:** Hlegendre@inettel.com  
**Internet Website Address:** www.inettel.com

(C) Complaints/Inquiries from customers:

**Name:** Janice Gordon  
**Title:** Sales Manager  
**Address:** 1640 South Sepulveda, Suite 320  
**City, State, Zip:** Los Angeles, CA 90025  
**Telephone No.:** 310-966-2342 **Fax No.:** 310-235-3190  
**Internet E-Mail Address:** Jgordon@inettel.com  
**Internet Website Address:** www.inettel.com

17. List the states in which the applicant:

(A) has operated as an alternative local exchange company

None

(B) has applications pending to be certificated as an alternative local exchange company.

None

(C) is certificated to operate as an alternative local exchange company.

None

(D) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None

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

None

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

None

18. Submit the following.

(A) Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. The balance sheet:
2. Income statement: and
3. Statement of retained earnings.

**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.

Further, the following (which includes supporting documentation) should be provided:

1. **Written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
2. **Written explanation** that the applicant has sufficient financial capability to maintain the requested service.
3. **Written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

B. Managerial capability.

Give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

C. Technical capability.

Give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

**\*\*APPLICANT ACKNOWLEDGMENT STATEMENT\*\***

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.
3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.
4. **APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with this application.

**UTILITY OFFICIAL:**

  
\_\_\_\_\_  
Claude Buchert, President

310 235 3177  
Telephone Number

12/9/1999  
310 235 3184  
Fax Number

Address: 1640 S. Sepulveda, Suite 320  
Los Angeles, CA 90025

**ATTACHMENTS:**

- A- CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
- B- INTRASTATE NETWORK
- C- AFFIDAVIT
- GLOSSARY

**INTRASTATE NETWORK** (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

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

<u>Location</u>	<u>Owned or Leased</u>
1)	
2)	
3)	
4)	

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

<u>Location</u>	<u>Type</u>	<u>Owned or Leased</u>
1)		
2)		
3)		
4)		

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

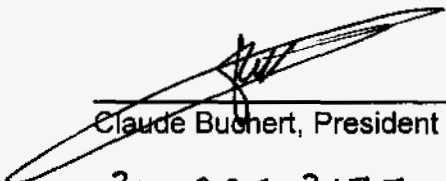
<u>Type of POP-to POP</u>	<u>Owned or Leased</u>
1)	
2)	
3)	
4)	

**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".**

**UTILITY OFFICIAL:**

  
\_\_\_\_\_  
Claude Buchert, President  
310 235 3177  
Telephone Number

12/9/1999  
310 235 3184  
Fax Number

Address: 1640 S. Sepulveda, Suite 320  
Los Angeles, CA 90025

**Coyote Metro, LLC**

**EXHIBIT I**

**Financials**

**Coyote Metro, LLC presents the financial statements of its parent company Coyote Network Systems, Inc.:**

**Form 10Q  
Form 10-K/A**


**Quarterly period ended June 30, 1999  
Fiscal year ended March 31, 1999**



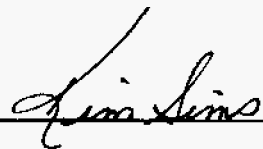
STATE OF FLORIDA *CALIFORNIA* )  
COUNTY OF *Los Angeles* )

**VERIFICATION OF FINANCIAL INFORMATION**

The undersigned officer attests to the accuracy of the foregoing financial statements. The information contained therein is accurate to best of his knowledge and belief:

 \_\_\_\_\_ Date: *12/9/1999*

Sworn before me this *9<sup>th</sup>* day of *December*, 1999.

  
\_\_\_\_\_

Notary Public



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5486

**COYOTE NETWORK SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

36-2448698

(I.R.S. Employer Identification No.)

4360 Park Terrace Drive, Westlake Village, CA 91361

(Address of principal executive offices)

(Zip Code)

(818) 735-7600

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

At August 12, 1999, the Registrant had issued and outstanding an aggregate of 12,602,350 shares of its common stock.

**PAK I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
(In Thousands)

<b>Assets</b>	<b>June 30, 1999</b>	<b>March 31, 1999</b>
	(Unaudited)	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,344	\$ 1,225
Receivables, net of allowance of \$514 at June 30, 1999 and \$402 at March 31, 1999	17,632	12,292
Inventories	1,642	2,130
Notes receivable – current	2,367	2,367
Other current assets	<u>4,601</u>	<u>4,323</u>
Total current assets	27,586	22,337
Property and equipment, net	9,074	8,192
Capitalized software development	1,941	1,604
Intangible assets, net	5,562	5,620
Net assets of discontinued operations	—	234
Notes receivable – non-current	905	871
Investments	1,550	1,550
Other assets	<u>620</u>	<u>620</u>
	<b><u>\$ 47,238</u></b>	<b><u>\$ 41,028</u></b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Lines of credit	\$ 777	\$ 1,133
Accounts payable	8,149	8,161
Deferred revenue and customer deposits	12,164	7,811
Accrued professional fees and litigation costs	489	676
Other accrued liabilities	3,163	3,900
Current portion of long-term debt and capital lease obligations	<u>1,147</u>	<u>1,315</u>
Total current liabilities	\$ 25,889	22,996
Notes payable	9,049	8,183
Long-term debt	1,464	1,534
Capital lease obligations	1,785	1,830
Other liabilities	422	428
Commitments and contingencies		
<b>Shareholders' equity:</b>		
Preferred stock - \$.01 par value: authorized 5,000,000 shares; issued 600 and 700 shares, liquidation preference of \$10,000 per share	6,000	7,000
Common stock - \$1 par value: authorized 30,000,000 shares, issued 13,290,042 and 11,167,456 shares	13,290	11,167
Additional paid-in capital	114,852	109,649
Accumulated deficit	(119,756)	(116,002)
Treasury stock at cost	<u>(5,757)</u>	<u>(5,757)</u>
Total shareholders' equity	<u>8,629</u>	<u>6,057</u>
	<b><u>\$ 47,238</u></b>	<b><u>\$ 41,028</u></b>

*See notes to condensed consolidated financial statements.*

**COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)  
(In Thousands)

	<b>3 MONTHS ENDED</b>	
	<b>June 30, 1999</b>	<b>June 30, 1998</b>
Operating activities:		
Net loss	\$ (3,754)	\$ (1,078)
Adjustments to reconcile loss to net cash provided (used) by operating activities:		
Depreciation and amortization	465	276
Net change in discontinued operations	234	—
Changes in current assets and liabilities	<u>(1,257)</u>	<u>1,703</u>
Net cash provided (used) by operating activities	<u>(4,312)</u>	<u>901</u>
Investing activities:		
Purchases of property and equipment	(1,289)	(722)
Increase in other assets	(337)	—
Proceeds from sales of marketable securities	—	30
Change in notes receivable	40	340
Increase in investments in affiliate	(303)	—
Net change in discontinued operations	—	(96)
Other items	<u>—</u>	<u>5</u>
Net cash provided (used) by investing activities	<u>(1,889)</u>	<u>(443)</u>
Financing activities:		
Repayments of long-term debt and capital lease obligations	(291)	(71)
Common stock issued, net of expenses	10,226	300
Redemption of preferred stock	(4,000)	—
Increase in note payable	741	590
Decrease in borrowing on line of credit	(356)	—
Other items	<u>—</u>	<u>(9)</u>
Net cash provided by financing activities	<u>6,320</u>	<u>810</u>
Increase (decrease) in cash and cash equivalents	119	1,268
Cash and cash equivalents:		
At beginning of the period	<u>1,225</u>	<u>3,746</u>
At end of the period	<u>\$ 1,344</u>	<u>\$ 5,014</u>

*See notes to condensed consolidated financial statements.*

**NOTE 4 BUSINESS SEGMENT INFORMATION**

In addition to operating the telecom switching equipment business segment, in fiscal 1999, the Company acquired AGT (April 1998) and INET (September 1998) and through these subsidiaries operates an international long distance services business segment. The accounting policies are the same for all segments; however, the Company evaluates performance based on operating profit. The telecom switching equipment business segment consists solely of the operations of CTL. Information by industry segment is as follows (in thousands):

	<b>3 Months Ended</b>	
	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Net Sales:		
Switching equipment	\$ 8,556	\$ 7,065
Long distance services	<u>1,849</u>	<u>128</u>
	<u>\$ 10,405</u>	<u>\$ 7,193</u>
Operating Loss:		
Switching equipment	\$ (1,451)	\$ (49)
Long distance services	(1,103)	(315)
Corporate	<u>(643)</u>	<u>(540)</u>
	<u>\$ (3,197)</u>	<u>\$ (904)</u>
Depreciation and amortization:		
Switching equipment	\$ 350	\$ 261
Long distance services	110	12
Corporate	<u>5</u>	<u>3</u>
	<u>\$ 465</u>	<u>\$ 276</u>
Capital expenditures:		
Switching equipment	\$ 31	\$ 542
Long distance services	1,253	166
Corporate	<u>5</u>	<u>14</u>
	<u>\$ 1,289</u>	<u>\$ 722</u>
Identifiable assets:		
Switching equipment	\$ 23,425	\$ 10,762
Long distance services	13,691	1,466
Discontinued operations	---	1,005
Corporate	<u>10,122</u>	<u>10,394</u>
	<u>\$ 47,238</u>	<u>\$ 23,627</u>

**NOTE 5 SHAREHOLDERS' EQUITY****Common Stock and Convertible Preferred Stock**

On May 27, 1999, the Company sold, pursuant to Rule 506 under Regulation D, 1,767,000 shares of common stock at \$6.00 per share in a private placement with new and existing domestic and international institutional investors. The placement agent received cash commissions of \$352,000 and commissions in the form of common stock aggregating 131,148 shares and five-year warrants to purchase 176,700 shares at \$6.00 per share. Of the net proceeds of approximately \$10.2 million, \$4.0 million were used to redeem a portion of the outstanding Convertible Preferred Stock and the balance is to be used for working capital. In connection with this redemption, the conversion price of the remaining \$6 million of Convertible Preferred Stock was fixed at \$6.00 per share and the Company issued the holder of the Convertible Preferred Stock 18-month warrants to purchase 325,000 shares of common stock at \$6.00 per share. These warrants may be exercised at any time until December 30, 2000.

On July 15, 1999, the Company filed a registration statement as to the common stock issued in the private placement and underlying the warrants and Convertible Preferred Stock referred to above.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### Results of Operations for the Quarter Ended June 30, 1999

For the first quarter of fiscal year 2000 we had revenues of \$10.4 million, representing a \$3.2 million, or a 45% increase over the first quarter of the prior fiscal year and a 30% increase over the previous quarter. Revenues from the sale of DSS Switches and related services increased to \$8.6 million from \$7.1 million in the prior year and from \$6.1 million in the previous quarter. The international long distance service subsidiaries that were acquired during the prior fiscal year generated revenues of \$1.8 million.

Shipments of switching equipment were contracted to three new customers during the quarter and they represented \$7.5 million of the switching equipment revenues. We have granted extended payment terms to these customers while they are in the process of seeking lease financing for their capital purchases. In view of the extended payment terms and the comparatively short operating history of these customers, we have deferred recognition of profit of \$5.6 million attributable of these sales, until payment is received or all contingencies are removed. Contingencies were removed and final payment has been received on equipment sales contracts in respect of which we had previously deferred profit of \$1.6 million. This profit was recognized in the quarter ended June 30, 1999.

The revenue generated from sales of switching equipment is \$8.6 million in the quarter with a gross margin of 31%. If the gross margin for the switching equipment was not impacted by the profit deferral described above, the gross margin on revenue of \$8.6 million would be 77% compared to 55% in the first fiscal quarter of the prior year. The international long distance service subsidiaries that were acquired during the prior fiscal year generated a gross margin of \$0.4 million or 24% of long distance service revenues during the quarter ended June 30, 1999. The total gross margin for all lines of business for the first fiscal quarter is \$3.1 million, or 30% of total revenues, as compared to \$3.9 million or 55% of total revenues for the first quarter of the prior fiscal year.

Selling and general administrative expenses for the first fiscal quarter were \$4.1 million compared to \$2.9 million for the first quarter of the prior fiscal year. The increase is primarily related to the additional operating expenses incurred by the long distance service providers acquired in fiscal 1999. As a proportion of total revenues, the selling and general administrative expenses improved to 39% from 41% in the first quarter of the prior fiscal year.

Engineering, research and development expenses for the first quarter of fiscal 2000 are \$2.2 million, or 21% of sales, as compared with \$1.9 million, or 27% of sales, for the first quarter of the prior fiscal year. We have continued to enhance product offerings to meet current and anticipated customer demand, including further refinement of our client/server architecture on our switch and the development of voice over Internet Protocol.

The operating loss for the quarter is \$3.2 million versus a loss of \$0.9 million in the first quarter of the prior fiscal year. The increase in the loss over the corresponding quarter of the prior year is primarily the result of the lower gross margin due to the profit deferrals referred to above and to the increased operating expenses required to support the increase in revenues.

Interest expense for the quarter is \$0.4 million versus \$0.02 million for the first quarter of the prior fiscal year. The increased expense is comprised entirely of financing costs related to the operations of the international long distance service subsidiaries.

The loss from discontinued operations in the first quarter of fiscal 2000 consists of property tax expenses related to the remaining assets of the discontinued operations. The assets were sold in July 1999.

The net loss for continuing operations for the first quarter of fiscal 2000 is \$3.4 million versus a net loss of \$1.1 million for the corresponding quarter of the prior year. The loss represents a basic and fully diluted loss per common share of \$0.31 versus a loss of \$0.11 for the corresponding quarter of the prior year. The loss from discontinued operations for the first quarter of fiscal 2000 is \$0.3 million and increases the basic and fully diluted per share loss to \$0.34.

statements rely on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside of the Company's control, that could cause actual results to differ materially from such statements. These include, but are not limited to: risks associated with recent operating losses, no assurance of profitability, the need to increase sales, liquidity deficiency and in general the other risk factors set forth in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999. The Company disclaims any intention or obligation to update or revise any forward looking statements whether as a result of new information, future events or otherwise.

The Company has agreed to use its best efforts to file a registration statement as to the common stock issued in the private placement and underlying the warrants and Convertible Preferred Stock referred to above.

(3) A Form 8-K/A was filed by the Company on June 18, 1999, which covered:

Item 7 of the Current Report on Form 8-K of Coyote Network Systems, Inc. dated May 27, 1999, filed with the Securities and Exchange Commission on June 3, 1999, is hereby amended to refile Exhibit 4.2. An incorrect copy of such exhibit was filed on June 3, 1999.

(4) A Form 8-K/A, Amendment No. 2 was filed by the Company on June 22, 1999, which covered:

Item 7 of the Current Report on Form 8-K/A of Coyote Network Systems, Inc. dated May 27, 1999, filed with the Securities and Exchange Commission on June 18, 1999, is hereby amended to refile Exhibit 4.2. Such exhibit as filed June 18, 1999, incorrectly listed the title of Mr. Daniel W. Latham. Mr. Latham's title is hereby amended to correctly read President and Chief Operating Officer of Coyote Network Systems, Inc.



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K/A**  
Amendment No. 2

- Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the fiscal year ended March 31, 1999
- Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_
- Commission file number 1-5486

**COYOTE NETWORK SYSTEMS, INC.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-2448698  
(I.R.S. Employer Identification No.)

4360 Park Terrace Drive, Westlake Village, California  
(Address of principal executive offices)

91361  
(Zip Code)

Registrant's telephone number, including area code: (818) 735-7600

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act: Common Stock, \$1.00 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

On July 12, 1999, the aggregate market value of the voting stock of the Registrant held by stockholders who were not affiliates of the Registrant was \$58,353,000 based on the closing sale price of \$5.00 of the Registrant's common stock on The Nasdaq National Stock Market. At July 12, 1999, the Registrant had issued and outstanding an aggregate of 12,702,350 shares of its common stock. For purposes of this Report, the number of shares held by non-affiliates was determined by aggregating the number of shares held by Officers and Directors of Registrant, and by others who, to Registrant's knowledge, own more than 10% of Registrant's common stock, and subtracting those shares from the total number of shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE - NONE.

formed Coyote Communications Services LLC, designed to provide network operations and support services to our customers and other new, entrepreneurial carriers.

Our principal executive offices are located at 4360 Park Terrace Drive, Westlake Village, California 91361 and our telephone number is (818) 735-7600.

## **Industry Overview**

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The telecommunications industry is in a period of rapid technological evolution, marked by the introduction of competitive product and service offerings, such as the utilization of IP (Internet Protocol) and ATM (Asynchronous Transfer Mode) networks, and the Internet for voice and data communications.

A survey of Fortune 1000 telecom and datacom managers by Killen & Associates shows that respondents expect 18% of all voice traffic to be IP-based by 2002, and to reach 33% by 2005. Probe Research expects the combined U.S. voice and fax over IP services market to reach 36 billion minutes by 2002. Jupiter Communications believes that established service providers should integrate IP telephony into their suite of services to prevent market erosion by nimble competitors. Voice compression is a benefit of IP telephony. Today's compression standards enable a toll quality call to be completed using a fraction of the bandwidth for an uncompressed call. We are committed to delivering leading edge technologies, such as compressed voice over IP.

From the standpoint of U.S.-based long distance providers, the industry can be divided into two major segments: the U.S. international market, consisting of all international calls billed in the U.S., and the overseas market, consisting of all international calls billed in countries other than the U.S. The U.S. international market has experienced substantial growth in recent years, with gross revenues from international long distance services rising from approximately \$8.0 billion in 1990 to approximately \$19.3 billion in 1997, according to Federal Communications Commission ("FCC") data.

The 1984 deregulation of the U.S. telecommunications industry enabled the emergence of a number of new long distance companies in the U.S. Currently, there are more than 500 U.S. long distance companies, most of which are small or medium-sized companies. To be successful, these small and medium-sized companies need to offer their customers a full range of services, including international long distance. However, most of these carriers do not have the critical mass to receive volume discounts on international traffic from the larger facilities-based carriers such as AT&T Corp. ("AT&T"), MCI Worldcom ("MCI") and Sprint Corporation ("Sprint"). In addition, these small and medium-sized companies generally have only limited capital resources to invest in international facilities. New international carriers emerged to take advantage of this demand for less expensive international bandwidth. These entrepreneurial multinational carriers acted as aggregators of international traffic for smaller carriers, taking advantage of larger volumes to obtain volume discounts on international routes (resale traffic), or investing in facilities when volume on particular routes justified such investments. Over time, as these international carriers became established and created high quality networks, they began to carry overflow traffic from the larger long distance providers seeking lower rates on certain routes. Our wholesale international long distance company and Telecom Alliance are designed, among other things, to obtain volume discounts and other economies by aggregating a number of emerging carriers.

Deregulation and privatization have also allowed new long distance providers to emerge in foreign markets. By eroding the traditional monopolies held by single national providers, many of which are wholly or partially government owned, such as Post Telegraph & Telephone operators ("PTTs"), deregulation is providing U.S.-based providers the opportunity to negotiate more favorable agreements with PTTs and emerging foreign providers. In addition, deregulation in certain foreign countries is enabling U.S.-based providers to establish local switching and transmission facilities in order to terminate their own traffic and begin to carry international long distance traffic originated in that country. We believe that growth of traffic originated in markets outside of the U.S. will be higher than the growth in traffic originated within the U.S. due to recent deregulation in many foreign markets, relative economic growth rates and increasing access to telecommunications facilities in emerging markets.

Our DSS Switch is an all-digital telephone switch used in central office, tandem and international gateway solutions that enable telecom and Internet service providers to enter new markets and generate new revenues. DSS Switches are modular in design and can be expanded in size from 96 to 10,240 lines enabling telecom carriers to start small and to cost effectively add telephone lines as their customer base grows.

The DSS Switch converts different signaling systems from international countries to be compatible with the signaling system used for domestic telephone calls, providing reliable, efficient, affordable international voice and data communications.

As an international gateway, the DSS Switch enables calls to be placed from the U.S. to international countries. As a central office or end office Class 5 switch, the DSS connects customers to the public switched telephone network. As a tandem Class 4 switch, the DSS connects to other switches in the public telephone network to enable long distance calls to be completed. The DSS Switch is flexible, modular and designed with an open architecture, enabling it to operate as a stand-alone product or in conjunction with products provided by other equipment manufacturers.

### **Carrier IP Gateway**

The Carrier IP Gateway is a flexible Internet Protocol (IP) solution designed to meet the needs of domestic and international long distance carriers, local service providers and Internet access providers. Internet Protocol describes software that is used on the Internet and data networks to track addresses, to route outgoing messages and to recognize incoming messages. The Carrier IP Gateway improves the efficiency of costly dedicated long distance telephone lines by compressing and packetizing the traffic and routing it between the public telephone network, private data networks and the Internet.

The Carrier IP Gateway serves as a connection between the public telephone network, private voice and data networks and/or the Internet. The Carrier IP Gateway enables voice and fax calls to be routed over networks that use IP. When connected to our DSS Switch, the Carrier IP Gateway can be configured to use IP or other packet technologies like frame-relay or Asynchronous Transfer Mode (ATM). Frame relay is a popular type of packet technology generally used for data transmission. ATM is a high-speed transmission technology that is generally believed to be a preferred technology for high bandwidth networks and is compatible with IP technology.

Data or IP networks are more efficient and cost effective for transmitting voice traffic than the public telephone network resulting in lower operating cost, better utilization of telephone lines and the ability to add new applications that utilize both voice and data technologies. The Carrier IP Gateway is standards-based and capable of communicating with virtually any Class 5 central office or Class 4 tandem telecom switch.

### **Retail and Wholesale Domestic and International Long Distance Services**

We also provide wholesale domestic and international long distance services, primarily to emerging and entrepreneurial carriers through a flexible network comprised of international gateway switches, leased transmission facilities and resale arrangements, operating agreement and termination arrangements with other long distance service providers, all of which enables us to complete telephone calls to more than 200 countries in Europe, Africa, Asia, the Pacific Rim, Australia, Canada, the Caribbean and Central and South America.

Our INET Interactive Network System subsidiary is a full service, facilities-based telecommunications carrier that provides retail as well as wholesale long distance services to commercial customers as well as affinity groups, such as French and Japanese speaking people in the United States. As of March 31, 1999, INET had approximately 9,900 customers who purchased approximately 16,250,000 minutes of traffic for the three months ended March 1999.

INET's retail and wholesale services include call origination to and from anywhere in the U.S. to more than 200 countries worldwide. INET also provides back office services, such as billing administration and invoice

3. Acquire IRUs (Indefeasible Right of Use) to carry our international traffic and sell excess capacity to resellers and customers. The owner of an IRU has the right to use that portion of the undersea cable for a specified period of time.
4. Use these sources of revenues (switch and gateway sales, international long distance services, customer contracts, and minutes sold on IRUs) to develop a financial mechanism to warrant further acquisitions and to extend our technology position.
  - The success of our strategy depends on our ability to provide a total solution of telecom equipment, international long distance and network services and on our capacity to find carriers that can be integrated into our network. Our success is also dependent on obtaining additional financing.
  - We believe that our decision to focus on international and “affinity-based” entrepreneurial carriers should yield positive results in creating synergies and generating increased revenues. Affinity-based carriers typically have higher margins, primarily due to focused marketing efforts, requiring less marketing expense. Such groups also typically have a stronger customer allegiance since there are group-based.
  - We also plan to market our telecom equipment, international long distance and network services in Europe, where market liberalization is in its early stages. To do so, for example, we may seek alliances with European companies to permit them to market our products and services in Europe and permitting us to market their products and services in the U.S.
  - Our joint venture, TelecomAlliance, plans to provide entrepreneurial carriers with switching equipment, long distance as well as data and Internet services, network design and operations, access to financing, facilities management, billing administration, customer support services and access to a path to voice over data networks. TelecomAlliance plans to carry up to 550 million minutes of traffic per month for its members.
  - TelecomAlliance is intended to be a stand-alone operation initially limited to up to 30 switchless resellers.

The fulfillment of our strategy is subject to a number of contingencies, including our obtaining adequate financing to pursue our objectives.

## **STRATEGY IMPLEMENTATION**

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### **General Framework**

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We have identified initiatives to turn our strategic vision into reality.

#### **Consolidating and Expanding Our Technology Position**

We plan to continue to develop, acquire, take equity positions in and/or contract with companies that have leading-edge technologies and that serve customers with cost-competitive solutions, including IP gateways, alternative transmission and packet- and revenue-generating applications. For example, our Carrier IP Gateway combines the high bandwidth efficiency of an IP link with compression equipment, improving the efficiency of costly dedicated long distance lines. Besides being more efficient, new networks, such as IP, ATM and the Internet, typically bypass conventional long distance carriers, who must pay local access charges.

We plan to bundle local, long distance, data and video services in focused markets to better serve our customers with value-added, cost-competitive solutions. We also plan to add Internet services, international facilities and IRUs.

Our equipment sales are targeted to entrepreneurial carriers, such as competitive local exchange carriers, switchless resellers and international and domestic long distance providers. Many of the equipment sales are coupled with service contracts or contemplate additional equipment sales as the end-user customer progresses with the implementation of their business plan. Our receipt of the additional service or equipment revenues is subject to the ability of our customers to implement their business plans. In many instances, we facilitate sales by arranging for third party lease financing. In such instances, we often provide warrants and other financial inducements to the lease company to facilitate the financing.

We primarily market our wholesale long distance services directly to carriers and through independent agents. We primarily market our retail long distance services through our agents and focused sales and marketing activities, e.g., advertising in local ethnic newspapers.

### **Customers and Customer Concentration**

Our equipment products are targeted at markets for small-to-medium sized telecom switches and IP gateways. Potential customers for our telecommunications equipment include, among others, entrepreneurial telecommunications carriers such as competitive local exchange carriers, switchless resellers, incumbent local exchange carriers, wholesale and retail international and domestic long distance providers and Internet service providers. We market retail international long distance services to affinity groups. Our equipment revenues in fiscal 1999 were from shipments to 16 end-user customers, seven of which were sold through third party lessors and which accounted for approximately 93% of the total equipment revenues. In fiscal 1998, we shipped equipment to 12 customers, one of which accounted for approximately 40% of total equipment revenues.

Among the companies that have taken delivery of our switches are Apollo Telecom, BD Communications, Cellular XL, Concentric Network Corporation, Crescent Communications, Dakota Carrier Services, DTA/I:COMM Networks, Lightcom International, Inc., Mercury Telecom (USA), Mony Travel Inc., Rhinos International, Telesys S.A., Vancouver Telephone Company, Wireless USA and WorldWave Communications.

While our customer base continues to grow, many of our customers are entrepreneurial carriers with limited financial resources. Their ability to pay for our equipment and services is often dependent on obtaining third party financing. The timeliness of such financings will continue to be an important ingredient in our results. Our recent agreements with RCC Finance and PrinVest are aimed at providing this necessary part of our program. In certain of these lease transactions, we issue warrants and other financial inducements to the leasing company to facilitate financing to our end-user customer. We recognize profit on these transactions as payments are received.

A component of our long-term strategy is our expansion into international markets as evidenced by our investment in Systeam, S.p.A. and our OEM (original equipment manufacturer) agreement with Tokyo-based Apollo KK. In order to effect this strategy, we are seeking strategic alliances with companies that have established international distribution channels. We also recently obtained a Class II carrier license and a point of presence in Japan. A Class II license enables us to originate and terminate traffic in that country and a point of presence is the physical place where a long distance carrier connects to a local exchange carrier's network.

Our wholesale international long distance services are offered primarily to U.S.-based entrepreneurial carriers.

### **Customer Service and Support**

We service and provide support for our products and services. We, or an authorized third party, provide customer training in connection with the installation of our products and services. We have entered into agreements with third parties, including certain suppliers of equipment incorporated into our products, to



includes the manufacturing or procurement of board, chassis, and system level assemblies. We conduct final assembly and testing of our products at our facilities and then ship the products directly to our end-user customer sites via a third-party transportation company.

Certain software and hardware associated with adjunct and peripheral equipment to provide certain functions and features are licensed or procured under OEM arrangements from other vendors.

### **Proprietary Rights**

We use a combination of trade secrets, industry know-how, confidentiality, non-compete agreements and tight control of our software to protect the products and features that we believe give us competitive advantages. We are currently engaged in litigation alleging that our use of the name Coyote infringes on the rights of the plaintiff.

### **Wholesale and Retail Facilities**

We provide long distance service to international countries through a flexible network comprised of various foreign termination relationships, international gateway switches, leased facilities and resale arrangements with long distance providers. We plan to grow our revenues by capitalizing on the deregulation of international telecommunications markets.

### **Competition in the Telecommunications Industry**

The telecommunications equipment markets are highly competitive. We compete with telecommunications equipment providers, including Nortel, Cisco Systems, Lucent Technologies, Newbridge Networks, and Digital Switch Corporation, which have the resources and expertise to compete in the smaller-scale telecom switch and IP gateway market. In addition, it is possible that large communication carriers with financial resources significantly greater than ours may enter the telecom equipment market. Some of these large carriers, such as AT&T, MCI Worldcom and Sprint, could initiate and support prolonged price competition to gain market share.

The international telecommunications long distance market is also intensely competitive and subject to rapid change. Our competitors in the international wholesale long distance market and the retail international long distance market include:

- large, multinational corporations;
- smaller service providers in the U.S. and overseas that have emerged as a result of deregulation;
- switchless and switch-based resellers of international long distance services;
- international joint ventures and alliances;
- dominant telecommunications operators that previously held various monopolies established by law over the telecommunications traffic in their countries; and
- U.S. based and foreign long-distance providers that have the authority from the Federal Communications Commission (the "FCC") to resell and terminate international telecommunications services.

Many of these competitors have considerably greater financial and other resources and more extensive domestic and international communications networks than us. In addition, consolidation in the telecommunications industry could create even larger competitors with greater financial and other resources, and could also affect us by reducing the number of potential customers for our services.

for us and for our competitors. However, the precise scope and timing of the implementation of the WTO Agreement remain uncertain and there can be no assurance that the WTO Agreement will result in beneficial regulatory liberalization.

We have a "Special Type II Telecommunications Carrier" license that allows us to originate and terminate traffic in Japan. As such, we must comply with the provisions of the Japanese Telecommunications Business Law and the Japanese Ministry of Post and Telecommunications (MPT) "Three Year program for the Promotion of Deregulation" and related laws on the "Rationalization of Regulatory Frameworks in the Telecommunications Field." A Special Type II license provides us with certain privileges and responsibilities, e.g., we must have two certified switch engineers in Japan and we must file periodic reports with the MPT.

### **Environmental Regulation**

Compliance with federal, state and local regulations relating to environmental protection has not had a material effect upon our capital expenditures, operating results or competitive position.

### **Employees**

As of May 27, 1999, we had 154 employees. In addition, we retain from time to time, on a contract basis, a number of people for specific projects. We believe that our future growth and success will depend in large part upon our ability to continue to attract and retain highly qualified people. We have no collective bargaining agreement with our employees.

**IRU** – Indefeasible right of use. A measure of currency in the underseas cable business. The owner of the IRU has the right to use that portion of the cable for the time provided for.

**ISP** – Internet Service Provider.

**Landing Rights** – The right to carry traffic into and out of a country. The respective governments grant the carrier the right to bring traffic into or out of a country.

**LAN** – Local Area Network.

**OEM** – Original Equipment Manufacturer.

**Point of Presence – POP** - Physical place where a long distance carrier connects with a local exchange carrier's network.

**Ports** – An entrance to or exit from a device or an entire network.

**PTT – Post Telephone & Telegraph** – PTTs provide telephone and telecommunications services in most foreign countries. Their governments have traditionally owned them. In some countries, privatization and deregulation have mapped a future with less government control for some PTTs.

**PSTN – Public Switched Telephone Network** – The public telephone network.

**Public Internet** – The Internet, a public network using IP. There are also private or dedicated IP networks which are not part of the public Internet.

**SSA – Switch Server Architecture** – A network architecture strategy developed by Coyote Technologies, LLC, which allows interworking of voice and data networks and the applications operating on these networks.

**Server** – A shared computer on a network that can be as simple as a regular PC on a local network set aside to handle print request to a single printer. Usually, it is the fastest PC or workstation or largest computer around. It may be used as a depository and a distributor of large amounts of data. It may also be the gatekeeper controlling access to voice mail, electronic mail, facsimile services and other applications. Today, servers can be found throughout local area networks and across wide area networks, including the Internet. Generally, they can be characterized as applications platforms. In some contextual uses of the word server, the word refers only to software running on the application platform. Generally, however, server refers to hardware, operating systems, and applications software.

**SS7 – Signaling System 7** – A signaling system that works with the telephone network to improve call processing and allows for more advanced network applications to work with the telephone network. In the United States, SS7-ANSI is the prevailing standard. Outside the United States, SS7-ITU (or sometimes referred to as C7) is the prevailing standard.

**Switchless Reseller** – A reseller of long distance (or local) services who does not own a telephone switch. These carriers must arrange for leasing of switch capacity from other carriers.

**Switched Reseller** – A reseller of long distance (or local) services who own at least one telephone switch.

**T1** – A digital transmission link with the capacity of 1,544,000 BPS. A T1 uses two pairs of normal copper wires, the same wires utilized in homes. A T1 can be channelized into 24 voice or data channels, each handling 64,000 BPS. A T1 may also be utilized for ISDN-PRI and advanced services including Frame Relay, IP and ATM. T1 is the unit of base telephone trunking in the United States. Overseas, E1 is the standard.



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PART II.

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**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

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Our common stock was listed on The Nasdaq National Market under the symbol CYOE on November 5, 1998. Prior to such date, our common stock was included for quotation on the NASD OTC Bulletin Board under the symbol CYOE. The table below sets forth by quarter, the high and low sales prices of our common stock on The Nasdaq National Market, and the high and low bid prices per share for our common stock obtained from trading reports of The Nasdaq National Market subsequent to November 5, 1998. The sales prices have been adjusted to reflect the 5% stock dividend paid on November 4, 1998. Prices set forth below from prior to our November 5, 1998, listing on The Nasdaq National Market reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	FISCAL 1999			FISCAL 1998	
<u>Quarter</u>	<u>High</u>	<u>Low</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
First	\$ 9.167	\$ 3.720	First	\$ 5.580	\$ 1.235
Second	10.119	4.533	Second	9.762	2.679
Third	16.500	6.071	Third	8.274	4.539
Fourth	\$ 9.125	\$ 4.125	Fourth	\$ 6.429	\$ 3.303

At June 11, 1999, we had 1,224 stockholders of record.

We have not declared any cash dividends during the last three fiscal years. We have no plans to pay cash dividends on our common stock in the foreseeable future. The payment of cash dividends on our common stock is restricted by our subordinated debentures, which provide that our consolidated tangible net worth cannot be reduced to less than an amount equal to the aggregate principal amount of the subordinated debentures (\$1,254,000 as of June 25, 1999).

**Sales and Issuance of Unregistered Securities**

None except as described below and as previously disclosed in reports filed pursuant to the Securities and Exchange Act of 1934.

In June 1999, in connection with lease financing provided to our end-user customers, we issued three warrants to PrinVest Financial Corporation, a third-party leasing company. Each of these warrants is to purchase 30,000 shares of common stock and may be exercised for three years from the date of issuance at \$3.56, \$5.56 and \$7.56, per share, respectively.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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**General**

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In November 1996, we made a strategic decision to dispose of all of our non-telecommunications switch business segments (the "Restructuring"). Subsequently, on February 3, 1997, our Board of Directors approved the sale of Atlanta Provision Company to Colorado Boxed Beef Company. On November 20, 1997, we completed the sale of our telecommunications equipment and distributor subsidiary, C&L Communications, Inc. to the management of C&L. In March 1998, we reached an agreement for the sale of our 80% owned wire installation and service subsidiary, Valley Communications, Inc., to Technology Services Corporation. As part of the Restructuring, our Board of Directors approved plans changing our name to Coyote Network Systems, Inc. and in November 1997, our shareholders approved the name change. Subsequently, the name of our telecommunications equipment subsidiary, Sattel Communications LLC, was changed to Coyote Technologies, LLC ("CTL"). Based in Richardson, Texas, CTL has granted subordinated equity participation interests, which amount to approximately a 20% effective ownership interest in CTL, to certain of our employees. These participation interests are convertible into shares of our common stock at the option of the holder.

In April 1998, our subsidiary, Coyote Gateway, LLC ("CGL"), acquired substantially all of the assets of privately held American Gateway Telecommunications, Inc. ("AGT"), a provider of wholesale international long distance services, primarily to entrepreneurial carriers. In consideration of the asset transfer, AGT received a 20% ownership interest in CGL. CGL continues to operate under the name of AGT. Based in Richardson, Texas, AGT provides wholesale long distance service to international countries through a network comprised of foreign termination agreements, international gateway switches, leased transmission facilities and resale arrangements with other long distance providers. AGT is leveraging CTL's scalable DSS Switch to route international long distance calls. The DSS Switch enables AGT to enter new markets and capture calls at a low per minute, per customer cost creating a competitive advantage over traditional wireline carriers.

On September 30, 1998, we completed the acquisition of INET Interactive Network System, Inc. ("INET"), through the merger of INET into one of our wholly owned subsidiaries. INET provides international long distance services to commercial and residential "affinity" groups. Headquartered in Los Angeles, California, INET markets international long distance services, primarily to French and Japanese speaking people in the U.S. INET provides a range of long distance services including 1+ direct dialing. Other telephone services include 1-800/888 numbers, calling card and prepaid debit card services, international callback, security codes, and access codes. For high volume customers, INET provides tailored services including customized billing, telemanagement reports, and call analysis.

In November 1998, we announced the formation of a joint venture, TelecomAlliance, with Profitec, Inc. TelecomAlliance is designed to enhance the growth and liquidity of entrepreneurial carriers. TelecomAlliance plans to develop and manage a new telecom network, combining voice and data transmission services, as well as back office services, e.g., billing, customer service and service provisioning. TelecomAlliance plans to provide its member companies with wholesale long distance and Internet services at new price points. TelecomAlliance intends to build a facilities-based network with its own switching equipment and co-location arrangements and intends to contract with nationwide carriers for communications routes. While we have no financing commitments to TelecomAlliance, we are committed to provide certain services and to provide switching equipment at prevailing market prices. TelecomAlliance is planned to be a self-funded operation. To date, TelecomAlliance has completed market research, marketing communications and network design. Our long distance service subsidiary, INET, has contracted to be a member of the alliance and is currently the sole member. TelecomAlliance is not yet processing traffic. Profitec, based in Wallingford, CT, provides billing, back office and financial services to the telecom reseller market.

The revenue generated from sales of switching equipment is \$36.6 million in fiscal 1999 with a gross margin of 37%. If the fiscal 1999 gross margin for the switching equipment were not impacted by the security deposits and profit deferral, the gross margin on revenue of \$36.6 million would be \$19.0 million, or 52%. The international long distance service subsidiaries that were acquired during fiscal 1999 generated a gross margin of \$0.9 million, or 13% of long distance service revenues.

The total gross margin for all lines of business for fiscal 1999 is \$14.6 million, or 34% of total revenues, as compared with the fiscal 1998 gross margin of \$2.0 million, or 38% of total revenues. In fiscal 1998, all of the revenues were derived from the sale of switching equipment systems.

Selling, general and administrative expenses for fiscal 1999 were \$17.4 million versus \$13.2 million for the same period last year. This increase is primarily related to the additional operating expenses incurred by the recently acquired long distance service provider subsidiaries and the increased sales commissions and expenses associated with the significant increase in switching equipment sales.

Engineering, research and development expenses for fiscal 1999 are \$9.5 million, or 22% of sales, as compared with \$5.0 million, or 92% of sales, for the prior fiscal year. We have continued to enhance product offerings to meet current and anticipated customer demand, including further refinement of our client/server architecture on our switch and the development of voice over Internet Protocol.

The operating loss for fiscal 1999 is \$12.4 million versus a fiscal 1998 loss of \$21.7 million. The improvement over the prior year is primarily the result of the increase in gross profit generated by the increase in revenues and partially offset by increased operating expenses, including engineering, research and development activity.

Interest expense for fiscal 1999 is \$1.9 million versus \$2.3 million for the prior year. The prior year included a \$1.9 million charge related to the discount from market value of the common stock issued upon conversion of the 8% convertible notes issued in principal amounts of \$2.5 million and \$5.0 million in July 1997 and December 1997, respectively. The 1999 fiscal year expense of \$1.9 million is comprised primarily of financing costs related to the operations of the international long distance service subsidiaries.

Non-operating income for fiscal 1999 is \$0.4 million versus the fiscal 1998 expense of \$0.1 million. The current year includes an expense of \$0.6 million associated with issuing warrants as part of securing financing and other charges of \$0.2 million. Offsetting the expense charges is a gain of \$0.9 million related to the sale of Concentric Network Corporation securities and interest income of \$0.3 million. Fiscal 1998 non-operating expense of \$0.1 million was primarily due to a loss on the sale of securities.

The net loss for continuing operations for fiscal 1999 is \$13.8 million versus the prior period net loss of \$34.2 million. The fiscal 1999 loss represents a basic and fully diluted loss per common share of \$1.41 versus a comparable loss of \$4.60 for the prior year. The loss from discontinued operations for fiscal 1999 is \$0.9 million and increases the basic and fully diluted per share loss to \$1.50. The fiscal 1998 loss of \$34.2 million included a non-cash expense of \$5.5 million related to potential conversion of Class A and B units and a non-cash expense of \$8.0 million for warrants anticipated to be issued in connection with securities litigation.

### **Results of Operations – Fiscal Year Ended March 31, 1998 versus March 31, 1997**

CTL had revenues of \$5.4 million in fiscal 1998, primarily from the sale of DSS Switches, compared to revenues of \$7.2 million in fiscal 1997. Revenues in fiscal 1998 included shipments to nine new customers. One of the sales contracts, which accounted for approximately 40% of the total revenue for fiscal 1998, involved INET, a company that was one of our potential acquisition targets and which we subsequently acquired. The sale, which involved a third party lessor, occurred in March 1998. We have deferred recognition of gross profit on this sale as if the potential acquisition target was an affiliate at the time of the sale (in effect, we eliminated profit on the



## Liquidity and Capital Resources

As of March 31, 1999, we had a negative working capital of \$0.7 million. In May 1999, as part of our efforts to provide additional working capital, we received \$10.2 million in net proceeds from a private placement. The placement agent received cash commissions of \$352,000 and commissions in the form of common stock aggregating 131,148 shares and five-year warrants to purchase 176,700 shares at \$6.00 per share. From the net proceeds of this placement, we paid \$4 million to redeem 100 shares of the 700 shares of 5% Series A Convertible Preferred Stock which were issued and outstanding as at March 31, 1999. In connection with the redemption, the conversion price of the remaining \$6 million of Convertible Preferred Stock was fixed at \$6.00 per share and we issued the holder of the Convertible Preferred Stock 18-month warrants to purchase 325,000 shares of common stock at \$6.00 per share.

In July 1999, we received an offer for a commitment for a stand-by credit facility from certain shareholders that would provide a funding commitment to us of \$3.5 million. This facility would be secured by the stock of INET, bear 12.5% interest on the outstanding principal balance and be repayable on March 31, 2000. We intend to enter into a definitive agreement only if these funds are needed to support the operation. The Company has also entered into an agreement to sell its shares of iCompression, Inc. for \$1.9 million. The agreement was consummated and we received \$1.9 million in July 1999.

In February 1999, we entered into definitive agreements with AMAC of Minnesota, Inc. for a loan to us of \$10.0 million. This loan was intended to be for a five-year term, bear interest at 8% per year and be secured by our common stock. Despite repeated assurances that the funding was forthcoming, AMAC has not fulfilled its commitment, the loan has not been received, is long overdue and there can be no assurance that it will be received. We are now considering what course of action to take.

We used cash from operating activities of \$6.1 million during fiscal 1999 compared to using \$8.5 million during fiscal 1998. This improvement in operating cash flow in fiscal 1999 is primarily due to the improvement in the operating profit generated by the 704% increase in revenues over fiscal 1998.

We used cash for investing activities of \$4.5 million during fiscal 1999 compared to \$14,000 provided from investing activities in fiscal 1998. Capital expenditures on equipment purchases and software of \$4.8 million in fiscal 1999 represented an increase of \$4.2 million above the prior fiscal year. Purchases were primarily for additional computer and test equipment required to support the switching equipment segment of the business and software for certain internet protocol and compression capabilities.

Net cash used in investing activities in fiscal 1999 also included cash paid in connection with increases in investment in affiliates and acquisitions of \$1.7 million. We gained \$0.9 million from the sale of investments in fiscal 1999. In fiscal 1999, we received net cash proceeds of \$6.3 million from the issuance of 700 shares of 5% Series A Convertible Preferred Stock and warrants, a portion of which we redeemed for \$4 million and warrants in fiscal 2000. (See Note 8 to the Consolidated Financial Statements).

As of March 31, 1999, we have notes payable of \$8.2 million. These notes are secured by certain of our assets and by 708,692 shares of our common stock and bear interest at the bank's prime rate (currently 7.75%) plus 1/2%. These notes were due on demand. In July 1999, the payment date was extended to December 2001. In addition, we have capital lease obligations of \$2.6 million at March 31, 1999, payable through 2004 and a note payable of \$0.4 million due February 2000.

We also have a \$2.2 million revolving line of credit secured against certain trade receivables. As at March 31, 1999, \$1.1 million has been drawn against the line, which bears interest at the bank's prime rate plus 4%. The line of credit expires on February 29, 2000. We have a long-term obligation in the amount of \$1.7 million in

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## RISK FACTORS

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### **We Have Only Recently Entered The Telecommunications Industry And Have A Limited Operating History In Such Industry; Therefore, We Expect To Encounter Risks Frequently Faced By New Entrants Into This Rapidly Evolving Market.**

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Although we were originally incorporated in 1961, we did not enter the telecommunications industry until 1994. Accordingly, we have a limited operating history in the telecommunications business upon which you can evaluate our current business and we are subject to the risks typically encountered in a relatively new business. In order to be successful, we must increase the level of sales of our products and services, and increase their acceptance in the marketplace. Some of the risks and uncertainties we face while we continue to develop our experience in this market relate to our ability to:

- sell our products and services;
- generate significant revenues from our sale of long distance minutes;
- integrate acquired businesses, technologies and services; and
- respond to rapidly changing technologies and competitors' development of similar products.

If we are unable to accomplish these objectives, it could have a material adverse effect on our business.

### **We Have Experienced And May Continue To Experience Operating Losses And Negative Cash Flow From Operations, And Our Future Profitability Remains Uncertain.**

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Our ability to achieve profitability and positive cash flow from operations is uncertain. We have incurred substantial costs in growing our business and by acquiring complementary businesses and technologies. For the last four fiscal years, we incurred losses from our continuing operations. Our net sales during the same period, \$264,000 in the 1996 fiscal year, \$7,154,000 in the 1997 fiscal year, \$5,387,000 in the 1998 fiscal year and \$43,318,000 in the 1999 year, did not offset our operating losses in each of these years. In addition, we experienced negative cash flow from operations of \$17,859,000, \$8,475,000 and \$6,125,000, in fiscal years 1997, 1998 and 1999, respectively. To achieve profitability and positive cash flow, we must increase the sales of our products and services. Even if we do achieve profitability and positive cash flow, we may not sustain or increase profitability and positive cash flow in the future.

### **We Have Negative Working Capital And Will Require Substantial Additional Financing To Carry Out Our Business Plan.**

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As of March 31, 1999, we had negative working capital of \$659,000. Although, available funds and cash flow from operations will enable us to meet our anticipated working capital needs over the next 12 months our current business plan contemplates growth through acquisitions, which would require substantial additional financing and we cannot assure you that the required additional financing will be available to us on favorable terms or at all. If we are unable to obtain adequate funds at all or on acceptable terms, we may have to reduce the scope of our planned expansion of operations; we may also be unable to take advantage of acquisition opportunities, develop or enhance services or respond to competitive or business pressures, all of which could have a material adverse effect on our business, results of operations and financial condition.

In addition, until we achieve higher sales and more favorable operating results, our ability to obtain funding from outside sources of capital could be restricted. Although our short-term liquidity has improved recently, we

- retain the 30 million minutes of communications traffic it had letters of intent for at the time of our agreement in September 1998;
- obtain additional commitments for minutes of communications traffic; and
- translate those minutes and commitments into successful operations and cash flows.

We will not deliver any additional equipment to Crescent unless it first obtains third party financing. We cannot control the development of Crescent or its business and we may not receive any additional revenue from sales of our equipment to Crescent through Comdisco or another third party, or from sales of our services directly to Crescent.

**Our Operating Results Vary Significantly, Which Could Adversely Affect Our Ability To Manage Our Expenses In Any Given Period And Could Also Affect Our Stock Price.**

Our quarterly operating results have fluctuated and may continue to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. As a result, we believe that period-to-period comparisons of our operating results may not be meaningful, especially as indicators of our future performance. In addition, it is difficult for us to predict the occurrence of factors which may lead to such fluctuation. Because we base our expense levels in part on expectations regarding future sales, we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in sales. A significant shortfall in demand relative to our expectations, or a material delay in customer orders, could have a material adverse effect on us. Some of the factors which cause fluctuation include:

- fluctuations in the volume of calls, particularly in regions with relatively high per-minute rates;
- the addition or loss of a major customer;
- the loss of economically beneficial routing options for our traffic;
- pricing pressure resulting from increased competition;
- market acceptance of new or advanced versions of our products;
- technical difficulties or failures with portions of our network;
- fluctuations in the rates charged by carriers for our traffic and in other costs associated with obtaining rights to switching and other transmission facilities; and
- changes in the staffing levels of our sales, marketing and technical support and administrative personnel.

Changes in or difficulties experienced by our customers in fulfilling their business plans, economic conditions and related financing have caused some of our customers to not meet previously announced estimated purchase requirements. In addition, some of our contracts contemplate the purchase of additional equipment or the provision by us of maintenance and other services, which are dependent on our customers installing their equipment, placing it into service and otherwise fulfilling their business plans, which may not occur on a timely basis or at all.



## **Our Products May Become Obsolete Or Incompatible With Emerging Technologies.**

Our potential customers, including other telecommunications companies, may choose to buy other emerging products that use different technologies but serve the same purposes as our products. Our products may also be technologically incompatible with the systems of our potential customers. The telecommunications industry and its technology are evolving rapidly, and new products and services are constantly being introduced into the marketplace which may render our products technology obsolete. Products which involve the use of the Internet for international voice and data communications are among the new products which compete with ours, including our Carrier IP Gateway. If we are unable to conform our operations, products and services to new technological developments and compete with other sellers of telecommunications products, our product sales could decrease or we may be unable to sell our products.

## **The Telecommunications Industry Is Highly Competitive And We May Not Be Able To Compete Successfully.**

We sell our products, including our DSS Switch and our Carrier IP Gateway, in competition with several other sellers of similar telecommunications equipment. Some of our competitors include Nortel, Cisco Systems, Lucent Technologies, Newbridge Networks and Digital Switch Corporation. Many of our competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. In addition, it is possible that large telecommunications companies with significantly greater financial resources than ours, including AT&T Corporation, MCI Worldcom Communications and Sprint, could begin selling products similar to our DSS Switch and Carrier IP Gateway. Such potential competitors have the financial and other resources necessary to engage in prolonged price competition to gain market share, which could force us to lower our prices and reduce the profitability of sales. This could have a material adverse effect on our business, results of operations and financial condition.

The international telecommunications industry is also intensely competitive and subject to rapid change. American Gateway Telecommunications' competitors in the international wholesale long distance market and INET's competitors in the retail international long distance market include:

- multinational corporations;
- service providers in the U.S. and overseas that have emerged as a result of deregulation;;
- switchless and switch-based resellers of international long distance services;
- joint ventures and alliances among such companies;
- dominant telecommunications operators that previously held various monopolies established by law over the telecommunications traffic in their countries; and
- U.S. based and foreign long-distance providers that have the authority from the Federal Communications Commission to resell and terminate international telecommunications services.

In addition, consolidation in the telecommunications industry could not only create even larger competitors with greater financial and other resources, but could also affect us by reducing the number of potential customers for our services.

International competition also may increase as a result of the competitive opportunities created by a new Basic Telecommunications Agreement concluded by members of the World Trade Organization in April 1997. Under the terms of such agreement, starting February 1998, the United States and more than 65 countries have committed to

**If The Protection Of Our Intellectual Property Rights Is Inadequate Or If Third Parties Subject Us To Claims Of Infringement, Our Business May Be Materially And Adversely Affected.**

We rely on a combination of trade secrets, confidentiality and non-compete agreements to protect our products and their specific features. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Competitors may also independently develop technologies that are substantially equivalent or superior to ours. Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which we market our products and services. Our failure to protect our intellectual property rights and proprietary information could enable others to build products comparable or superior to ours.

We cannot assure you that the steps taken by us will prevent misappropriation of our technology or that the agreements entered into for that purpose will be enforceable. Litigation may be necessary to enforce or protect our intellectual property rights or to defend against claims of infringement. Litigation for these purposes could be costly and could divert the attention of our management from day-to-day operations, which could have a material adverse effect on our business, results of operations and financial condition. A negative outcome in intellectual property litigation could cost us our proprietary rights, subject us to significant liabilities, require us to seek licenses from third parties (which they may not be willing to grant) or prevent us from manufacturing or selling our products, all of which could have a material adverse affect on our business, results of operations and financial condition. We are currently involved in litigation to defend a claim that our use of the name "Coyote" infringes on the rights of the plaintiff. We cannot assure you that we will prevail in this litigation.

**We Have Historically Made Equipment Sales To A Limited Number Of Customers And The Loss Of One Or More Major Customers Could Materially And Adversely Affect Our Business.**

We made shipments of our products to 16 customers in fiscal year 1999, seven of which accounted for approximately 93% of our total equipment revenues. Customers accounting for 10% or more of total equipment revenues were Crescent Communications, Inc. (30%), Dakota Carrier Services (19%), Wireless USA, Inc. (17%) and DTA/I:COMM Networks (11%). In fiscal year 1998, we made shipments to 12 customers. One customer, INET Interactive Network System, Inc., accounted for approximately 40% of our total revenues and Apollo Telecom, Inc. accounted for 20% of total revenues. In fiscal year 1997, 94% of our revenues came from sales to Concentric Network. We expect that our dependence on sales to a limited number of customers will continue, and the loss of one or more of our major customers could have a material adverse effect on our business, results of operations and financial condition.

**Our Future Success Depends On Our Ability To Effectively Manage Our Growth And Retain Skilled Personnel.**

We have experienced growth in the number of our employees and the scope of our operations. To manage potential future growth of our operations, we must improve our operational, financial and management information systems. We will also be required to expand, train, motivate and manage our employee base on a timely basis. We face intense competition in the market for qualified technical, sales, marketing, network operations and management personnel and our success will depend on our ability to attract and retain them. We have in the past experienced delays in filling sales and engineering positions. We may not be able to achieve or manage growth, and our inability to do so could delay our development of new products and our enhancement of existing products, which could have a material adverse effect on our business, results of operations and financial condition.

**We Do Not Anticipate Paying Cash Dividends.**

We have not paid cash dividends on our common stock to stockholders in the last six years. Payment of dividends on our common stock is within the discretion of our Board of Directors and will depend upon our earnings, capital



- adoption of new accounting standards affecting the telecommunications industry;
- changes in recommendations and estimates by securities analysts; and
- general market conditions and other factors.

These fluctuations may adversely affect the market price of our common stock which could affect our ability to use such stock as consideration for acquisitions and to raise financing.

#### **Options, Warrants, Convertible Securities And Other Commitments To Issue Common Stock May Dilute The Value Of The Common Stock.**

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As of August 31, 1999, we had outstanding warrants and options to issue up to 6,102,818 shares of common stock, convertible securities convertible into up to 1,000,000 shares of common stock, and 708,692 treasury shares pledged to PrinVest Financial Corporation, one of our lenders, which may become outstanding upon a default under the loan. If the common stock underlying such options, warrants, convertible securities and commitments were issued, it could dilute the book value per share, earnings per share and voting power of outstanding capital stock.

#### **Existing Stockholders May Be Able To Exercise Significant Control Over Us.**

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As of August 31, 1999, our officers and directors, as a group, beneficially owned 7.4% of our outstanding common stock. In addition, according to filed Schedules 13D and 13G, as of the dates of such filings, Alan J. Andreini beneficially owned 9.0% and the Kiskiminetas Springs School owned 8.0% of our common stock. Additionally, Richard L. Haydon beneficially owned 11.5% of our common stock, JNC Opportunity Fund beneficially owned 4.999% of our common stock and Ardent Research Partners beneficially owned 4.5% of our common stock. Such stockholders may have significant influence on us, including influence over the outcome of any matter submitted to a vote of the stockholders, including the election of directors and the approval of significant corporate transactions.

#### **If Our Products, Software, Computer Technology And Other Systems Are Not Year 2000 Compliant, Our Business Will Be Materially And Adversely Affected.**

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The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. In other words, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of operations, including, among others, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

We have completed a comprehensive assessment of our principal products operating systems and our internal systems to identify those that may be affected by the Year 2000 issue. Based on our testing, we believe that our customer products and our internal computer systems are Year 2000 compliant. However, if we are not Year 2000 compliant, it could impair our ability to process and deliver customer orders, manufacture compliant equipment and perform other critical business functions, which could have a material adverse effect on our business, results of operations and financial condition. We could also be subjected to claims against us for the non-compliance of our products. The costs of defending and settling such claims could have a material adverse affect on our financial condition.

Because we believe that we are currently Year 2000 compliant, we do not have a formal contingency plan in the event that an area of our operation does not become Year 2000 compliant. We will adopt a formal plan if we believe that a part of our internal systems or those of a critical third party will be non-compliant. If we are wrong, our failure to prepare a contingency plan will likely exacerbate the problem. Our Year 2000 due diligence

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**ITEM 7a. QUALITATIVE AND QUANTITATIVE MARKET RISK DISCLOSURES**

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Our primary market risk exposure is interest rate risk related to our borrowings on notes payable and under our revolving line of credit.

**Interest Rate Sensitivity Model**

The table below presents the principal (or notional) amounts and related interest of our borrowings by expected maturity dates. The table presents the borrowings that are sensitive to changes in interest rates and the effect on interest expense of future hypothetical changes in such rates.

	<b><u>Year Ending March 31</u></b>			
	<b>(U.S. Dollars – Thousands)</b>			
	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>
Notes payables	\$8,180	\$6,000	\$3,000	\$ ---
Interest expense (A)	675	495	248	---
Interest expense (B)	---	555	278	---
Interest expense (C)	---	435	218	---
Line of credit borrowings	1,133	1,000	500	500
Interest expense (A)	133	118	59	59
Interest expense (B)	---	128	64	64
Interest expense (C)	---	108	54	54

- The borrowings bear interest at the bank's prime rate plus ½% and 4% for the notes payable and line of credit, respectively.
- The interest expense shown for line (A) is based upon the actual bank's prime rate at March 31, 1999 of 7.75%.
- The interest expense shown for line (B) is based upon a hypothetical increase of one percentage point in the bank's prime rate to 8.75%.
- The interest expense shown for line (C) is based upon a hypothetical decrease of one percentage point in the bank's prime rate to 6.75%.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of  
Coyote Network Systems, Inc.

We have audited the accompanying consolidated balance sheet of Coyote Network Systems, Inc. (a Delaware corporation and formerly, The Diana Corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Coyote Network Systems, Inc. and its subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP  
Los Angeles, California  
July 13, 1999

**COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(Dollars in Thousands)

<b>Assets</b>	<b>March 31, 1999</b>	<b>March 31, 1998</b>
Current assets:		
Cash and cash equivalents	\$ 1,225	\$ 3,746
Marketable securities	---	16
Receivables, net of allowance of \$402 and \$480 at March 31, 1999 and 1998, respectively	12,292	715
Inventories	2,130	2,122
Notes receivable – current	2,367	4,596
Other current assets	<u>4,323</u>	<u>1,409</u>
Total current assets	22,337	12,604
Property and equipment, net	8,192	2,391
Capitalized software development	1,604	---
Intangible assets, net	5,620	3,542
Net assets of discontinued operations	234	909
Notes receivable – non-current	871	1,170
Investments	1,550	750
Other assets	<u>620</u>	<u>609</u>
	<b><u>\$ 41,028</u></b>	<b><u>\$21,975</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Lines of credit	\$ 1,133	\$ ---
Accounts payable	8,161	1,920
Deferred revenue and customer deposits	7,811	1,900
Accrued loss reserve	---	2,200
Accrued professional fees and litigation costs	676	805
Other accrued liabilities	3,900	1,130
Current portion of long-term debt and capital lease obligations	<u>1,315</u>	<u>141</u>
Total current liabilities	22,996	8,096
Notes payable	8,183	---
Long-term debt	1,534	5,349
Capital lease obligations	1,830	---
Other liabilities	428	470
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock - \$.01 par value: authorized 5,000,000 shares, 700 issued, liquidation preference of \$10,000 per share	7,000	---
Common stock - \$1 par value: authorized 30,000,000 shares, issued 11,167,456 and 9,151,920 shares	11,167	9,152
Additional paid-in capital	109,649	102,360
Accumulated deficit	(116,002)	(97,695)
Treasury stock at cost	<u>(5,757)</u>	<u>(5,757)</u>
Total Shareholders' equity	<u>6,057</u>	<u>8,060</u>
	<b><u>\$ 41,028</u></b>	<b><u>\$21,975</u></b>

*See notes to consolidated financial statements.*

**COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(Dollars in Thousands)

	Preferred Stock Amount	COMMON STOCK			Accumulated Deficit	Unrealized Loss on Marketable Securities	TREASURY STOCK		Total Shareholders' Equity
		Number of Shares	Par Value	Additional Paid in Capital			Number of Shares	Cost	
<b>Balance at March 30, 1996</b>	\$ ---	5,526,282	\$5,526	\$59,456	\$ (34,776)	\$ (876)	877,692	\$ (4,644)	\$ 24,686
Net loss	---	---	---	---	(21,018)	---	---	---	(21,018)
5% stock dividend	---	250,893	251	7,474	(7,746)	---	---	---	(21)
Realized loss on securities	---	---	---	---	---	876	---	---	876
Acquisition of SCC minority interest, net	---	---	---	385	---	---	35,000	(2,203)	(1,818)
Issuance of common stock	---	230,000	230	12,630	---	---	(200,000)	1,058	13,918
Other	---	---	---	179	---	---	(4,000)	32	211
<b>Balance at March 31, 1997</b>	---	6,007,175	6,007	80,124	(63,540)	---	708,692	(5,757)	16,834
Net loss	---	---	---	---	(34,155)	---	---	---	(34,155)
Exercise of stock options	---	442,956	443	1,812	---	---	---	---	2,255
Amendment of A & B units convertible to common stock	---	---	---	5,522	---	---	---	---	5,522
Issuance of common stock, net	---	1,880,750	1,881	1,481	---	---	---	---	3,362
Common stock issued on debt conversion	---	821,039	821	2,734	---	---	---	---	3,555
Non-cash expense	---	---	---	10,687	---	---	---	---	10,687
<b>Balance at March 31, 1998</b>	---	9,151,920	9,152	102,360	(97,695)	---	708,692	(5,757)	8,060
Net loss	---	---	---	---	(14,743)	---	---	---	(14,743)
5% stock dividend	---	497,623	497	2,859	(3,359)	---	---	---	(3)
Exercise of stock options	---	105,713	106	352	---	---	---	---	458
B Unit conversions	---	73,500	73	(73)	---	---	---	---	---
Common stock issued on debt conversion	---	1,068,750	1,069	2,337	---	---	---	---	3,406
Issuance of common stock, net	---	269,950	270	1,716	---	---	---	---	1,986
Issuance of 700 preference shares, net	7,000	---	---	(655)	---	---	---	---	6,345
Preferred share dividend	---	---	---	---	(205)	---	---	---	(205)
Non-cash warrant expense	---	---	---	753	---	---	---	---	753
<b>Balance at March 31, 1999</b>	<b>\$7,000</b>	<b>11,167,456</b>	<b>\$11,167</b>	<b>\$109,649</b>	<b>\$ (116,002)</b>	<b>\$ ---</b>	<b>708,692</b>	<b>\$ (5,757)</b>	<b>\$ 6,057</b>

*See notes to consolidated financial statements*

**COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 1999**

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**Basis of Presentation and Principles of Consolidation**

The consolidated group (hereafter referred to as the "Company") included the following companies during the past three years:

**Coyote Network Systems, Inc. ("CNS"), formerly The Diana Corporation**

CNS and its wholly owned non-operating subsidiaries are included in the consolidated group for all three fiscal years. CNS's activities historically consisted primarily of corporate administrative and investing activities.

**Coyote Technologies, LLC ("CTL"), formerly Sattel Communications, LLC**

Since fiscal 1997, CNS has owned 100% of Coyote Technologies, Inc. ["CTI", fka, Sattel Communications Corp. ("SCC")] (see Note 3). CTI, through its subsidiary CTL, is a provider of telecommunication switches and IP gateways. CTI has an ownership interest in CTL, a limited liability company, of approximately 80% and certain additional preferential rights (see Note 3). Its activities consist primarily of development, production and sale of scalable telecommunications switches and Internet protocol based gateway systems to telecommunications service providers.

**Coyote Gateway, LLC ("CGL" dba American Gateway Telecommunications)**

On April 16, 1998, the Company established Coyote Gateway, LLC, a Colorado limited liability company. The Company owns 80% of CGL, and American Gateway Telecom, Inc., a Texas corporation ("AGT") owns 20%. Its principal activities consist of the wholesaling of long distance services.

**INET Interactive Network System, Inc. ("INET")**

On September 30, 1998, the "Company" completed the acquisition of INET Interactive Network System, Inc. ("INET"), through the merger of INET into a wholly owned subsidiary of the Company. INET is a provider of international long distance services to commercial and residential "affinity" groups. INET markets international long distance services to primarily French and Japanese affinity groups.

**Coyote Communications Services, LLC ("CCS")**

Formed in January 1999, CCS provides customer support and consulting services including network integration, network design, switch provisioning, outsourcing, on-site technical support, remote monitoring, 7x24 customer support, billing administration and help desk support.

**TelecomAlliance**

Formed in November 1998, TelecomAlliance is a joint venture between CNS and Profitec. TelecomAlliance plans to offer its customers an alternative to traditional capital-intensive private network provisioning, with a national multi-service Internet-Protocol based platform that can be leased by a carrier to extend or supplement their current network, or to build a new network from scratch. As of March 31, 1999, TelecomAlliance was still in the organizational phase and had not commenced operations.

Investments in 20-50% owned subsidiaries in which management has the ability to exercise significant influence are accounted for using the equity method of accounting. Accounts and transactions between members of the consolidated group are eliminated in the consolidated financial statements.

Certain prior year balances have been reclassified in order to conform to current year presentation.

## Non-Marketable Securities

Non-marketable securities are accounted for on a lower of cost or market basis. A write-down to market is recognized on the determination that a permanent impairment of value has occurred.

## Inventories

Inventories are stated at the lower of cost or market with cost determined using the first-in, first-out method. Inventories consist of the following (in thousands):

	<u>March 31, 1999</u>	<u>March 31, 1998</u>
Raw materials and work-in-progress	\$2,645	\$ 2,376
Finished goods	253	152
Consigned and with customers	1,074	994
Allowance for excess and obsolete inventory	<u>(1,842)</u>	<u>(1,400)</u>
	<u>\$2,130</u>	<u>\$2,122</u>

## Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation are computed on the straight-line method for financial reporting purposes over the estimated useful lives of the assets which range from three to eighteen years. Depreciation for income tax purposes is computed on accelerated cost recovery methods. Expenditures which substantially increase value or extend asset lives are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Property and equipment consist of the following (in thousands):

	<u>March 31, 1999</u>	<u>March 31, 1998</u>
Land	\$ 0	\$ 50
Fixtures and equipment	<u>10,249</u>	<u>3,151</u>
	10,249	3,201
Less accumulated depreciation	<u>(2,057)</u>	<u>(810)</u>
	<u>\$8,192</u>	<u>\$2,391</u>

## Intangible Assets

Intangible assets, net of amortization, consist of the following (in thousands):

	<u>March 31, 1999</u>	<u>March 31, 1998</u>
Intellectual property rights	\$3,316	\$3,519
Goodwill	2,167	---
Other	<u>137</u>	<u>23</u>
	<u>\$5,620</u>	<u>\$3,542</u>

## **Product Warranty**

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Estimated product warranty costs are charged to operations at the time of shipment. Warranty costs to date have been insignificant.

## **Research and Development Costs**

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Engineering, research and development costs include all engineering charges related to new products and product improvements, and are charged to operations when incurred. Software development costs are capitalized once technological feasibility is established.

## **Income Taxes**

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The Company accounts for income taxes using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes".

## **Loss Per Common Share**

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The basic loss per common share is determined by using the weighted average number of shares of common stock outstanding during each period. Diluted loss per common share is equal to the basic loss per share. Because of the net losses in fiscal 1997, 1998 and 1999, the effect of options and warrants are not included in the calculations of loss per common share. Loss per share amounts for the years ended March 31, 1997 and 1998 have been restated to reflect the effect of the Company's 5% stock dividend on November 4, 1998.

## **Use of Estimates**

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The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

## **Statement of Cash Flows**

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For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash equivalents.



As of June 18, 1999, the Company had collected all cash related to the sale of discontinued operations except \$410,000 due under a note and the only asset of discontinued operations was real estate related to the land and buildings of the discontinued APC operation. The real estate is listed for sale. Based upon an estimate of the current market value of the real estate, the Company took an additional charge of \$900,000 in the second quarter of fiscal 1999. The asset book value as of March 31, 1999 was \$234,000, net of mortgages and reserves applicable to the property.

Operating results, net of minority interest, relating to the discontinued operations for fiscal year 1997 through the measurement date of November 20, 1996 are as follows (in thousands):

	<u>Fiscal Year Ending March 31, 1997</u>			
	<u>Meat and Seafood</u>	<u>Telecomm- unications Equipment</u>	<u>Wire Installation and Service</u>	<u>Total</u>
Net sales	<u>\$188,853</u>	<u>\$ 19,750</u>	<u>\$ 11,540</u>	<u>\$220,143</u>
Earnings (loss) from discontinued operations	<u>\$ (584)</u>	<u>\$ (51)</u>	<u>\$ 10</u>	<u>\$ (625)</u>

As a result of the Company's Restructuring, its continuing operations are only those of CTL. The Conversion Rights discussed above provided the Class B Unit holders with an approximately comparable ownership interest in the Company as they have in CTL.

In September 1997, the Board of Directors authorized an amendment to certain Class B Units owned by directors and employees of CNS and CTL at June 30, 1997, to provide for the elimination of the minimum pre-tax profits measure requirement discussed above and the conversion into Company common stock at the option of the holder. Consequently, there is a compensation charge of \$4,016,000 recorded in the second quarter of fiscal 1998. This charge is based on the value at September 4, 1997 of 630,000 shares of Company common stock at \$6.375 per share that will be issuable to Class B Unit Holders. Assuming that Class A Units, other than those held by SCC, are convertible on the same basis as a result of the Board of Directors' authorization discussed above, an additional charge of \$1,506,000 was also recorded in the second quarter of fiscal 1998 based on 236,250 shares of Company common stock and a per share price of \$6.375.

In fiscal 1999, certain Class B Unit holders converted a total of 138 Units into shares of Company common stock in accordance with the amended terms for conversion. Certain current and former employees of CTL continue to collectively own 1,369 Class B Units, representing all of the Class B Units currently outstanding. The following table reflects the current ownership of the Class B Units by the management of CTL and others as of June 15, 1999:

<u>Name</u>	<u>Class B Units</u>
James J. Fiedler	350
Daniel W. Latham	212
David Held	250
Bruce Thomas	250
Others	<u>307</u>
	<u>1,369</u>

considers the likelihood to be remote, no earnout stock has been provided as of March 31, 1999. In connection with the acquisition of INET, the Company recorded goodwill of \$2.6 million. (See Note 1 – Intangible Assets).

### Crescent

In September 1998, the Company acquired a 19.9% equity position in Crescent Communications, Inc. ("Crescent"). Crescent is an early stage entity formed to provide primarily wholesale telecommunication services to select international markets. The Company acquired this minority interest for the sum of \$1.3 million represented by a cash payment of \$0.4 to Crescent and \$0.9 in the form of a discount granted on switching equipment sold to Crescent (through a third-party lessor) in September 1998, this investment is accounted for using the cost method. As of March 31, 1999, Crescent was not yet running telecommunications traffic through its switching equipment and the Company recorded a \$0.5 realization reserve on this investment.

### Apollo

In February 1999, the Company entered into an agreement, subject to certain conditions, to acquire Apollo Telecom, Inc. ("Apollo"). Apollo subsequently was unable to meet the stipulated conditions and the Company withdrew its offer in April 1999. During the negotiations and in connection with the proposed acquisition, the Company advanced funds to Apollo in part secured by a Class II Telecommunications License to originate and terminate traffic in Tokyo, Japan. The total funding advanced to Apollo as at March 31, 1999 was \$1.1 million. In April 1999, subsequent to the withdrawal of the Company's acquisition offer, Apollo filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. The Company subsequently obtained the Japanese license which has an estimated market value of \$220,000. The Company recorded an expense charge of \$0.9 million to fully provide for the loss in the fourth quarter of fiscal 1999.

Provisions were made for expenses of \$2.2 million in fiscal 1998 for losses in connection with failed acquisitions, including funds advanced, costs of professional services, due diligence expenses, financial consulting fees and losses. The Company has an accrual for this amount, as Accrued Loss Reserve, in the accompanying Balance Sheet. In fiscal 1999, the Company had similar expenses of approximately \$1.5 million which were offset by recoveries on prior year provisions. These provisions and recoveries are included in selling and administrative expenses in the accompanying financial statements.

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### **NOTE 5      OTHER CURRENT ASSETS**

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At March 31, 1999, the Company had deposits with long distance carriers of \$5.2 million. In the fourth quarter of fiscal 1999, the Company recorded a reserve of \$2.0 million related to various deposits made with long distance carriers. The financial viability of some of the carriers has raised concern regarding the ultimate realization of the deposits. This provision is included in general and administrative expenses in the accompanying financial statements.

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**NOTE 7      COMMITMENTS AND CONTINGENCIES**

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The Company leases its facilities and various equipment under non-cancelable lease arrangements for varying periods. Leases that expire generally are expected to be renewed or replaced by other leases. Total rental expense under operating leases in fiscal 1999, 1998 and 1997 was \$931,000, \$310,000, \$279,000, respectively.

Future minimum payments under non-cancelable operating leases with initial terms of one year or more for fiscal years subsequent to March 31, 1999 are as follows (in thousands):

2000 .....	\$1,169
2001 .....	1,097
2002 .....	1,110
2003 .....	1,053
2004 .....	441
	<u>\$4,870</u>

Coyote Network Systems, Inc. (The Diana Corporation) Securities Litigation (Civ. No. 97-3186)

The Company was a defendant in a consolidated class action, In re The Diana Corporation Securities Litigation, that was pending in the United States District Court for the Central District of California. The Consolidated Complaint asserted claims against the Company and others under Section 10(b) of the Securities Exchange Act of 1934, alleging essentially that the Company was engaged, together with others, in a scheme to inflate the price of the Company's stock during the class period, December 6, 1994 through May 2, 1997, through false and misleading statements and manipulative transactions.

On or about February 25, 1999, the parties executed and submitted to the court a formal Stipulation of Settlement, dated as of October 6, 1998. Under the terms of the settlement, all claims asserted or that could have been asserted by the class are to be dismissed and released in return for a cash payment of \$8.0 million (of which \$7.25 million was paid by the Company's D&O insurance carrier on behalf of the individual defendants and \$750,000 was paid by Concentric Network Corporation, an unrelated defendant) and the issuance of three-year warrants to acquire 2,225,000 shares of the Company's common stock at per share prices increasing from \$9 in the first year, \$10 in the second year and \$11 in the third year. The cash portion of the settlement was previously paid into an escrow fund pending final court approval. The warrants were fully reserved by the Company in fiscal 1998.

On June 9, 1999, the Court rendered its Final Judgment and Order approving the settlement set forth in the Stipulation of Settlement. No objections to the approval of the settlement were filed.

The Company is also involved with other proceedings or threatened actions incident to the operation of its businesses. It is management's opinion that none of these matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Nasdaq and Securities Exchange Commission

On December 9, 1998, TheStreet.com, an Internet publication, published articles questioning the Company's reported equipment sale through Comdisco, Inc. to Crescent Communications (see Notes 4 and 12). The articles implied that Crescent Communications, Inc. did not exist, leading to the conclusion that the sale was not valid. The article also discussed a Form S-3 Registration Statement, indicating that numerous insiders were "poised to sell huge chunks" of their holdings. Immediately following the publication of these articles, the trading volume in the Company's common stock reached approximately 2.2 million shares, a number significantly in excess of historical trading level, and the common stock price declined more than 50%. As a result of the articles and the significant trading in the Company's common stock, The Nasdaq National Market suspended trading in the Company's common stock on Thursday, December 10, 1998. After the Company

**Options and Warrants**

The Company has plans under which options to acquire up to 3,090,463 shares of the Company's common stock may be granted to directors, officers, key employees, consultants and non-employee directors of the Company and its subsidiaries. At March 31, 1999, options for 1,256,926 shares were available for grant under these plans. These plans are administered by the Company's Board of Directors, which is authorized, among other things, to determine which persons receive options under each plan, the number of shares for which an option may be granted, and the exercise price and expiration date for each option. The term of options granted shall not exceed 11 years from the date of grant of the option or from the date of any extension of the option term.

The following table summarizes the transactions for the option plans as well as for warrants issued for the last three fiscal years:

	<u>Options</u>	<u>Option Price Per Share</u>	<u>Warrants</u>	<u>Warrant Price Per Share</u>
<b>Outstanding at March 30, 1996</b>	971,158	\$ 1.95 - 19.05	---	---
5% stock dividend	53,119	---	---	---
Granted	135,024	5.00 - 27.00	---	---
Cancelled	<u>(320,941)</u>	19.05	---	---
<b>Outstanding at March 31, 1997</b>	838,360	\$ 1.95 - 27.00	---	---
Revalued - cancelled	(81,838)	19.05 - 27.00	---	---
Revalued - granted	81,838	3.00	---	---
Granted	284,250	3.00 - 7.72	2,329,198	\$2.14 - 6.86
Exercised	(442,956)	1.95 - 5.55	---	---
Cancelled	<u>(175,680)</u>	5.53 - 27.00	---	---
<b>Outstanding at March 31, 1998</b>	503,974	\$ 1.95 - 19.05	2,329,198	2.14 - 6.86
5% stock dividend	62,238	---	149,045	---
Granted	1,054,994	3.42 - 16.00	651,667	2.86 - 8.33
Exercised	(105,713)	2.86 - 9.00	---	---
Cancelled	<u>(205,625)</u>	2.86 - 19.05	---	---
<b>Outstanding at March 31, 1999</b>	1,309,868	\$1.95 - 16.00	3,129,910	\$2.14 - 6.86
<b>Exercisable at March 31, 1999</b>	305,997		3,129,910	

<u>Option Price Per share</u>	<u>Outstanding Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Exercisable Options</u>	<u>Weighted Average Exercise Price</u>
\$1.86	25,526	\$1.86	2.76	25,526	\$1.86
2.86 - 3.93	637,268	3.49	5.07	206,091	3.06
3.99 - 6.01	268,790	5.00	4.27	60,551	4.63
6.13 - 7.38	291,182	6.66	4.43	13,829	6.18
7.56 - 16.00	<u>87,102</u>	8.71	4.60	---	---
	<u>1,309,868</u>	\$4.82	4.69	<u>305,997</u>	\$3.41

originally capitalized in other assets and amortized over the term of the debt as non-cash interest expense. Upon conversion, the unamortized portion was credited to additional paid in capital.

During fiscal 1997, the Company made a commitment to issue a warrant to an investment banker for services provided in connection with the Restructuring to purchase 100,000 shares of the Company's common stock at \$22.63 per share (see Note 2). The warrant can be exercised at any time through February 2000. The Company recorded the fair value of the warrant within discontinued operations (see Note 2). The fair value of the warrant of \$800,000 was estimated using the Black-Scholes option-pricing model.

In fiscal 1998, the Company issued two warrants to an investment banker for services provided in connection with the Restructuring to purchase a total of 324,000 shares of the Company's common stock at \$2.25 per share. The Company recorded the fair value of the warrants of \$503,000 as an expense in fiscal 1998. The fair value of the warrants of \$503,000 was estimated using the Black-Scholes option-pricing model.

In March 1998, the Company issued a warrant to a leasing company for services provided in connection with customer financing to purchase 38,800 shares of the Company's common stock at \$4.00 per share. The Company recorded a fair value of the warrants as an expense in the fourth quarter ended March 31, 1998 of \$123,000 using the Black-Scholes option-pricing model.

In fiscal 1999, the Company issued two five-year term warrants to a leasing company for services provided in connection with customer financing to purchase 75,000 shares and 70,000 shares of the Company common stock at \$8.75 per share and \$8.50 per share, respectively. The Company recorded a fair value of the warrants of \$485,000 as an expense in fiscal 1999. The fair value was estimated using the Black-Scholes option-pricing model.

Through June 19, 1999, none of the above warrants have been exercised.

At March 31, 1999, the Company had 3,940,285 shares of common stock reserved and available for warrants and for the conversion of Class A and B Units as described in Note 12 - Related Party Transactions.

As described in Note 7 above, an agreement has been reached to settle the claims against the Company and its subsidiaries in The Diana Securities Litigation. Under the terms of the agreement, the Company anticipates that it will issue warrants for 2,225,000 shares of the Company common stock with an expected life of three years from date of issuance. Such warrants will have an exercise price of \$9.00 per share if exercised during the first year from date of issue and an exercise price of \$10.00 per share or \$11.00 per share if exercised during the second year or third year, respectively. The Company recorded the fair value of the warrants of \$8,000,000 as an expense in fiscal 1998. The fair value was estimated using the Black-Scholes option-pricing model. These warrants are not included in the above table.

### **Convertible Preferred Stock and Warrants**

In September 1998, the Company entered into a private placement agreement and issued 700 shares of 5% Series A Convertible Preferred Stock, par value \$.01, with a liquidation value of \$10,000 per share. The total cash received by the Company was \$6,345,000 after payment of \$655,000 for fees and expenses associated with the issue. The preferred stock has no voting rights and is convertible, subject to certain limitations and restrictions, into shares of common stock, after a minimum holding period of 120 days, based upon a per share common stock price that will be the lesser of the initial conversion price as defined in the contract or 87% of the average of the three lowest per share market values during the ten trading day period prior to an applicable conversion date. The holders of Preferred Stock are entitled to receive 5% cumulative dividends per annum. No dividends can be paid or declared on any Common Stock unless full cash dividends, including past dividends declared, have been paid on the Preferred Stock. During fiscal 1999, the Company declared and paid cash dividends of \$205,000 on the Preferred Stock.

22, 1997. Interest is payable semi-annually in arrears in the form of Company common stock based on the above-described conversion price.

As of June 9, 1998, the full value of notes and accrued interest to the date of conversion had been converted into Company common stock. Common stock totaling 1,404,825 shares was issued in connection with conversions of \$5,133,000 of convertible notes and accrued interest.

In October 1998, the Board of Directors approved the declaration of a 5% common stock dividend. Based upon an established record date of October 21, 1998, the Company issued 497,623 shares of common stock on November 4, 1998. Certain contractual anti-dilution provisions reduced conversion and warrant exercise prices by a minor amount.

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## NOTE 9 INCOME TAXES

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A reconciliation of the income tax credit and the amount computed by applying the statutory federal income tax rate (34%) to loss from continuing operations before extraordinary items, minority interest and income tax credit for the last three fiscal years is as follows (in thousands):

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Credit at statutory rate	\$ (3,097)	\$(11,613)	\$ (4,604)
Settlements of liabilities of unconsolidated subsidiary	(1)	(10)	(5)
Tax effect of net operating loss not benefited	3,076	11,600	4,500
Refund of federal income taxes paid in a prior year	---	---	(836)
Other, net	<u>22</u>	<u>23</u>	<u>109</u>
Income tax credit	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ (836)</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The components of the Company's deferred tax assets and liabilities of continuing operations are as follows (in thousands):

	<u>March 31, 1999</u>	<u>March 31, 1998</u>
Federal net operating loss carryforwards	\$ 16,818	\$ 17,814
State net operating loss carryforwards	729	1,367
Reserve for loss on discontinued operations	819	745
Federal capital loss carryforward	4,758	646
Excess and obsolete inventory reserve	337	560
Capitalized interest in CNS debentures	168	225
General business credit	490	145
All others	<u>314</u>	<u>261</u>
Total deferred tax assets	24,433	21,763
Valuation allowance for deferred tax assets	<u>(21,879)</u>	<u>(19,396)</u>
Net deferred tax assets	2,554	2,367
Intangible assets (net)	1,407	1,407
All others	<u>1,147</u>	<u>960</u>
Total deferred tax liabilities	2,554	2,367
Net deferred taxes	<u>\$ ---</u>	<u>\$ ---</u>

The Company has approximately \$50,000,000 in both federal and state net operating loss carryforwards. These carryforwards expire at various dates through fiscal 2014. The Tax Reform Act of 1986 imposed substantial restrictions on the utilization of net operating losses in the event of an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986. Subsequent to March 31, 1999, due to the Company's continuing

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**NOTE 11 EXTRAORDINARY ITEMS**

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On October 4, 1996, APC refinanced its revolving line of credit with a new lender. In connection with the refinancing, APC incurred expenses of \$227,000, which are reflected in the fiscal 1997 Consolidated Statement of Operations as an extraordinary item.

In February 1997, APC sold a majority of its assets and used part of the proceeds to repay its revolving line of credit (see Note 2). APC incurred expenses of \$281,000 in connection with the early repayment which are reflected in the fiscal 1997 Consolidated Statement of Operations as an extraordinary item.

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**NOTE 12 RELATED PARTY TRANSACTIONS**

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On November 11, 1996, the Company loaned \$300,000 each to James J. Fiedler and Daniel W. Latham. Mr. Fiedler is the Company's Chairman and Chief Executive Officer and Mr. Latham is the Company's President and Chief Operating Officer. Messrs. Fiedler and Latham both executed unsecured Promissory Notes due November 1, 1999 which provide interest at 6.07% per annum compounded on the anniversary date and payable on November 1, 1999. In addition, each person agreed to surrender previously awarded options they each held to purchase 150,000 shares of the Company's common stock.

The Promissory Notes provide for full repayment prior to November 1, 1999 in the event of the following: (a) upon any transfer of Messrs. Fiedler's or Latham's Class B Units in CTL (other than to a Permitted Transferee, as defined in the Agreement Regarding Award of Class B Units (the "Award Agreement")), or by any such Permitted Transferee (including without limitation certain transfers contemplated by the Award Agreement) or (b) upon any exchange or conversion of Class B Units for or into securities registered under the Securities Exchange Act of 1934, as amended, in accordance with the Award Agreement. In connection with the employment agreements with Messrs. Fiedler and Latham entered into on September 4, 1997, the Company's Board of Directors agreed to forgive the notes. Under the employment agreements, equal one third portions of the notes were forgiven at September 4, 1997 and, if their respective employments are renewed, will be forgiven at each of the next two anniversaries of the date of the employment agreements, provided that each individual remains as an employee of the Company at each such forgiveness date.

Messrs. Fiedler and Latham used the proceeds of the loan to each purchase 100 non-forfeitable Class B Units of CTL from Mark Jacques, a former officer of CTL, for an aggregate purchase price of \$600,000. On November 12, 1996, CTL entered into a settlement agreement with Mr. Jacques whereby Mr. Jacques (i) agreed to the assignment to the Company of the employment agreement between him and CTL and (ii) retained his remaining 250 Class B Units of CTL. Mr. Jacques was terminated as an employee of the Company in January 1997. The Company has accounted for the loans to Messrs. Fiedler and Latham and their purchase of Class B Units from Mr. Jacques as a settlement with Mr. Jacques and recorded an expense of \$600,000 during the third quarter of fiscal 1997.

The Company entered into Separation Agreements, dated November 20, 1996 (the "Separation Agreements"), with each of Richard Y. Fisher, Sydney B. Lilly and Donald E. Runge (the "Departing Officers") that provide for termination of employment and resignation from all offices and directorships in the Company and its subsidiaries by the Departing Officers, except for Mr. Lilly's directorship of the Company. The Separation Agreements provide for payment by the Company, as of November 29, 1996, of \$186,000 and \$749,000, respectively, to Mr. Runge and Mr. Fisher, in settlement of deferred compensation previously earned and payments of \$343,000 to Mr. Fisher and \$83,000 to each of Mr. Runge and Mr. Lilly as severance settlements resulting in total payments to the Departing Officers of \$1,444,000. In accordance with provisions of the Amended and Restated Employment Agreements entered into by the Company and each of the Departing Officers on April 2, 1995, each Departing Officer shall be entitled to have all medical, dental, hospital, optometrical, nursing, nursing home and drug expenses for themselves and their spouses paid by the Company for life, or in the case of Mr. Lilly, until March 31, 2000. The Separation Agreement for Mr. Fisher provides that he shall repay in full a promissory note dated April 11, 1988, in the amount



Comdisco, Inc., a technology services and finance company, is the beneficial owner of approximately 6% of the Company's common stock including 515,400 shares purchased by Comdisco on the open market and 192,990 warrants issued in connection with lease financing provided by Comdisco to the Company's end-user customers. During fiscal 1998 and fiscal 1999, Comdisco has provided financing in a total amount of \$24.0 million to four of the Company's customers.

In fiscal 1999, the Company sold 71,650 shares of common stock for \$300,000 to System. (See Note 4).

PrinVest Corporation, a financing and leasing corporation, has a minority interest of approximately 4% of the Company's subsidiary Coyote Gateway, LLC (dba AGT). During fiscal 1999, PrinVest has provided financing to AGT (\$8.2 million at March 31, 1999) in connection with deposits required to be made by AGT to other long distance telecommunications carriers and for working capital. The Company has pledged 708,692 shares of common stock as collateral on the notes payable to PrinVest. PrinVest has also provided lease financing of the Company's equipment to the Company's end-user customers. In 1999, PrinVest provided lease financing in the total amount of \$15.0 million to four of the Company's customers.

In November 1997, the Company completed the sale of C&L Communications, Inc. ("C&L") to the management of C&L (See Note 2). During the years ended March 31, 1998 and 1999, the Company had the following transactions with C&L.

	<u>1999</u>	<u>1998</u>
Purchases from C&L	\$9,498,000	\$0
Sales to C&L	\$0	\$304,000
Redemption of Preferred Stock by C&L	\$1,500,000	\$0

The purchases from C&L consist primarily of compression equipment manufactured by Newbridge Networks. C&L is a Newbridge dealer and the Company is not.

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**NOTE 14 STATEMENTS OF CASH FLOWS**

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Supplemental cash flow information relating to continuing operations for the last three fiscal years is as follows (in thousands):

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Change in current assets and liabilities:			
Trade receivables	\$(10,486)	\$ 3,879	\$ (4,540)
Inventories	(8)	815	(1,850)
Other current assets	6,071	(735)	294
Accounts payable	2,472	(640)	2,076
Other current liabilities	<u>8,158</u>	<u>5,170</u>	<u>856</u>
	<u>\$ 6,207</u>	<u>\$ 8,489</u>	<u>\$ (3,164)</u>
Non-cash transactions:			
Expense charge on conversion of A & B units	\$ ---	\$ 5,522	\$ ---
Convertible debt expense associated with conversion to common stock below market price	(382)	1,875	---
Acquisitions purchased with common stock	1,686	---	1,818
Conversion of promissory note and accrued interest into CNC preferred stock	---	---	5,072
Conversion of debt to common stock	3,789	---	---
Securities litigation warrant expense	---	8,000	---
Dividend paid in common stock	3,359	---	7,725
Sales discount granted for investment in affiliate	(900)	---	---
Amounts paid directly by lender	(7,921)	---	---

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**NOTE 15 LIQUIDITY AND CAPITAL RESOURCES**

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**Fiscal 1999 – Year Ended March 31, 1999**

After the restructuring, the Company's operations are similar to those of an early-stage enterprise and are subject to all the risks associated therewith. These risks include, among others, uncertainty of markets, ability to develop, produce and sell profitably its products and services and the ability to finance operations. Management believes that it has made significant progress on its business plan in fiscal 1999 and to date in fiscal 2000. Significant actions in this progress include increasing sales in fiscal 1999, commencing operations of AGT and INET, resolving the class action lawsuit (See Note 7) and recently raising additional equity investment (see Notes 8 and 16). However, the Company remains constrained in its ability to access outside sources of capital until such time as the Company is able to demonstrate higher levels of sales and more favorable operating results. Management believes that it will be able to continue to make progress on its business plan and mitigate the risks associated with its business, industry and current lack of working capital.

In fiscal 1999, the Company raised \$6.3 million, net of fees, from the issuance of 700 shares of 5% Series A Convertible Preferred Stock (see Note 8). These funds, together with operating cash on hand at the end of the prior fiscal year and increases in short-term borrowings, were sufficient to finance the Company's growth in operating activities experienced during fiscal 1999. However, the increases in short-term debt and other current liabilities required to support the operations resulted in a deficiency in current working capital as at March 31, 1999 of \$0.7 million.

need to be funded either with funds generated through operations or with additional debt or equity financing. If the Company's operations do not provide funds sufficient to fund its operations and the Company seeks outside financing, there can be no assurance that the Company will be able to obtain such financing when needed, on acceptable terms or at all.

The Company is seeking buyers for C&L and Valley. It is anticipated that the proceeds of the sales of these businesses and assets will be used to fund a portion of the Company's capital and operating requirements in fiscal 1998. Restrictions in the revolving lines of credit of C&L and Valley prevent the Company from presently accessing funds from these subsidiaries. Such restrictions in C&L's revolving line of credit may also initially limit the Company's access to the total proceeds from a sale of Valley prior to any ultimate sale of C&L given the existing ownership structure of Valley.

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**NOTE 16      SUBSEQUENT EVENTS**

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On May 27, 1999, the Company sold, pursuant to Rule 506 under Regulation D, 1,767,000 shares of common stock at \$6.00 per share in a private placement with new and existing domestic and international institutional investors. The placement agent received cash commissions of \$352,000 and commissions in the form of common stock aggregating 131,148 shares and five-year warrants to purchase 176,700 shares at \$6.00 per share. The net proceeds of approximately \$10.2 million are to be used for working capital and to redeem \$4 million of the outstanding Convertible Preferred Stock. In connection with this redemption, the conversion price of the remaining \$6 million of Convertible Preferred Stock was fixed at \$6.00 per share and the Company issued the holder of the Convertible Preferred Stock 18-month warrants to purchase 325,000 shares of common stock at \$6.00 per share. These warrants may be exercised at any time until December 30, 2000.

The Company has agreed to use its best efforts to file a registration statement as to the common stock issued in the private placement and underlying the warrants and Convertible Preferred Stock referred to above.

In July 1999, the Company received an offer for a commitment for a stand-by credit facility from certain shareholders that would provide a funding commitment to the Company of \$3.5 million. This facility would be secured by the stock of INET, bear 12.5% interest on the outstanding principal balance and be repayable on March 31, 2000.

In July 1999, the Company entered into an agreement to sell its shares of iCompression, Inc. (See Note 4) for \$1.9 million.

- (1.1) Errors, including instances of failure to properly consider, with respect to our policy, the effect of non-standard contract provisions on revenue recognition.
- (1.2) Need for a more structured approach by which to thoroughly complete and document a review of relevant terms and conditions for all contracts consistent with our revenue recognition policy/procedure and required revenue recognition criteria.

Upon further review by us it was determined that certain sales transactions at our Sattel Communications ("Sattel") operation were not consistent with the Sattel policy and procedure and the criteria required to support revenue recognition in accordance with generally accepted accounting principles. These errors resulted in revisions to previously reported unaudited financial information with respect to the second and third quarters of fiscal 1997. These revisions, which were included and reported in Note 16 Quarterly Results of Operations (Unaudited) of Form 10-K filed in respect of the fiscal year 1997, were as follows:

<b>FISCAL YEAR ENDED MARCH 31, 1997</b>				
<b>(In Thousands, Except Per Share Amounts)</b>				
<b>12 Weeks Ended</b>				
	<b>October 12, 1996</b>		<b>January 4, 1997</b>	
	<b>Originally Reported</b>	<b>Revised</b>	<b>Originally Reported</b>	<b>Revised</b>
Net Sales	\$ 4,046	\$ 3,666	\$ 4,337	\$ 2,552
Gross profit (loss)	3,034	2,775	3,057	1,842
Net loss	\$ (4,598)	\$ (4,737)	\$ (4,001)	\$ (5,936)
Net loss per common share	\$ (.87)	\$ (.90)	\$ (.76)	\$ (1.12)

The per share amounts presented above do not reflect our November 4, 1998 stock dividend.

- (2) In addition to the matter reported in (v)(1) above, it was also noted that internal control weaknesses existed, which did not result in revisions to previously reported financial information, relative to insufficient identification and control surrounding Sattel's maintenance of detailed historical cost and accumulated depreciation information by individual asset, and that the timeliness and quality of account reconciliations and supporting analysis requires improvement in order to ensure that procedures are in place to support expected increases in transaction volumes anticipated by us.

The following actions are being taken by our management to correct the identified weaknesses:

- Strengthening of our financial organization to increase the number of personnel qualified to address revenue recognition issues and to improve the timeliness and quality of account reconciliations and analysis.
- Implementation of a more timely and diligent review and resolution by management of all non-standard contract terms and conditions.
- Development and implementation of a comprehensive system to identify and properly address relevant revenue recognition considerations.
- Implementation of an enhanced fixed assets accounting and control system.

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**PART III.**

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**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY**

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**Identification of Directors**

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The Board of Directors is divided into three classes of directors consisting of three classes of two members each or six members in the aggregate. The election of directors is staggered so that the term of only one class of directors expires each year. Generally, the term of each class is three years. Currently, the Board of Directors has one vacant position. The Board of Directors consists of the following members:

**Directors with Terms Expiring in 1999**

**Jack E. Donnelly**, age 64, has been a director of the Company since November 1991. Since 1986, he has been a principal of Bailey & Donnelly Associates, Inc., an investment company.

**Daniel W. Latham**, age 51, has been a director of the Company since November 1996. He has been President and Chief Operating Officer of the Company since November 1996 and President of Coyote Technologies, LLC ("CTL") since September 1995. Prior to his association with CTL, Mr. Latham was the President of Frontier Communications Long Distance Company.

**Directors with Terms Expiring in 2000**

**James J. Fiedler**, age 53, has been a director of the Company since August 1996. He has been Chairman and Chief Executive Officer of the Company since November 1996 and Chairman and Chief Executive Officer of CTL since September 1995. Previously, Mr. Fiedler was a principal in the consulting firm of Johnson & Fiedler. From November 1992 to September 1994, Mr. Fiedler was Vice President of Sales and Marketing and subsequently President and Director of Summa Four, Inc., a telecom switching company. From June 1989 to July 1992, Mr. Fiedler was Executive Vice President and Chief Operating Officer of Timeplex, a subsidiary of Unisys Corporation, engaged in the business of manufacturing data and telecommunications equipment. Prior to June 1989, Mr. Fiedler held executive positions with Unisys Corporation and Sperry Corporation (subsequently acquired by Unisys Corporation). He has been a director of Entrée Corporation since November 1996.

**Stephen W. Portner**, age 47, has been a director of the Company since August 1997. He has been the Managing Director of European Projects for JMJ Associates, a global management consulting company, and has served in various capacities at JMJ Associates from January 1994 to the present. From December 1991 to January 1994, Mr. Portner held positions in plant and project management and was Director of Quality at Air Products Incorporated, an industrial chemicals company.

**Director with Term Expiring in 2001**

**J. Thomas Markley**, age 66, has served as an advisor to the Company's Board of Directors and was appointed as director in September 1999. Mr. Markley is President of JTM, Inc., a consulting firm specializing in senior management consulting for telecommunications, data communications and electric utilities. Previously, Mr. Markley was President of Raytheon Worldwide, a leading diversified technology company, as well as Corporate Vice President and President of Raytheon Data Systems. Prior to Raytheon, Mr. Markley was Deputy Program Manager of NASA's Apollo Program. Mr. Markley has served on the President's Science Advisory Council, as a member of the Space Defense Initiative Committee and as an examiner for the Malcolm Baldrige National Quality Award. Mr. Markley also was Senior Vice President Telecommunication Operation and Planning for Salient, Communications, Inc., a telecom equipment company.

**ITEM 11. EXECUTIVE COMPENSATION**

All shares and per share numbers included herein have been retroactively adjusted to give effect to a 5% stock dividend which was paid on November 4, 1998 to holders of record as of October 21, 1998.

The following table sets forth, for the three fiscal years ended March 31, 1999, the total annual compensation paid to, or accrued by the Company for the account of, James J. Fiedler, Daniel W. Latham and Brian A. Robson (the "Named Executives") serving as such at March 31, 1999 and one former executive officer:

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation
		Salary	Bonus	Other Annual Compensation <sup>(5)</sup>	Restricted Stock Award(s)	Securities Underlying Options	Long-term Incentive Plan Layouts	
James J. Fiedler <sup>(1)</sup> Chairman, CEO and Director	1999	\$ 300,000	\$ 9,335	\$20,000	---	94,500 <sup>(6)</sup>	---	\$ 7,200 <sup>(8)</sup>
	1998	\$ 200,000	\$ 19,746	\$15,000	---	---	---	\$ 7,200 <sup>(8)</sup>
	1997	\$ 200,000	---	\$ 3,720	---	---	---	---
Daniel W. Latham <sup>(2)</sup> President, COO and Director	1999	\$ 300,000	\$ 9,335	\$20,000	---	94,500 <sup>(6)</sup>	---	\$ 7,200 <sup>(8)</sup>
	1998	\$ 175,000	\$ 19,746	\$15,000	---	---	---	\$ 7,200 <sup>(8)</sup>
	1997	\$ 175,000	---	\$ 3,750	---	---	---	\$170,197 <sup>(9)</sup>
Brian A. Robson <sup>(3)</sup> Executive Vice President CFO and Secretary	1999	\$ 152,487	\$ 12,875	---	---	98,125 <sup>(7)</sup>	---	---
	1998	\$ 139,907	---	---	---	2,100	---	\$ 21,921 <sup>(10)</sup>
	1997	\$ 56,250	---	---	---	11,250	---	\$ 13,041 <sup>(10)</sup>
Edward Beeman <sup>(4)</sup>	1999	\$ 79,526	---	---	---	---	---	\$ 53,548 <sup>(11)</sup>

- (1) On November 29, 1996, Mr. Fiedler was appointed Chairman and Chief Executive Officer of the Company. Mr. Fiedler also remained as Chairman and Chief Executive Officer of CTL (see Employment Agreements).
- (2) On November 29, 1996, Mr. Latham was appointed President and Chief Operating Officer of the Company. Mr. Latham also remained as President of CTL (see Employment Agreements).
- (3) On October 31, 1996, Mr. Robson was appointed Vice President and Controller of the Company. On December 15, 1998, Mr. Robson was appointed Executive Vice President, Chief Financial Officer and Secretary of the Company.

**Aggregated Option Exercises During the Fiscal Year  
Ended March 31, 1999 and Fiscal Year End Option Values**

The table below provides information regarding the value of the in-the-money stock options held by the Named Executives at March 31, 1999. The Named Executives did not exercise any stock options during the fiscal year.

	<u>Number of Unexercised Options at March 31, 1999</u>		<u>Value of Unexercised In-the- Money Options at March 31, 1999<sup>(1)</sup></u>	
	<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
James J. Fiedler	---	94,500	---	\$ 195,615
Daniel W. Latham	---	94,500	---	\$ 195,615
Brian A. Robson	4,375	106,875	\$13,212	\$ 52,412

- (1) Value based on the closing price of \$5.88 of the common stock on The Nasdaq National Market on March 31, 1999, less the option exercise price. Does not include, as to Messrs. Fiedler and Latham, an aggregate of 376,000 options each, which they are entitled to be granted over the next four years pursuant to their respective employment agreements. If such options were added, the value of unexercisable in-the-money options would not increase, as the exercise prices of such grants will range from \$7.62 to \$19.05.

**Stock Option Plans**

On December 11, 1986, the Board of Directors adopted the Company's 1986 Non-Qualified Stock Option Plan (the "1986 Plan"). The 1986 Plan, as amended, provides for the grant of options to purchase up to 832,963 shares of Common Stock to executive officers, key officers, employees, directors and consultants of the Company and its subsidiaries. In February 1998, the Board of Directors adopted the Company's Non-Employee Director Stock Option Plan (the "Director Plan"). The Director Plan provides for the grant of options to purchase up to 157,500 shares of Common Stock to non-employee directors of the Company. In March 1996, the Board of Directors adopted the Employees Non-Qualified Stock Option Plan of CTL (the "CTL Plan"). The CTL Plan provides for the grant of options to purchase up to 2,100,000 shares of Common Stock to executive officers, key employees, directors, consultants and advisors of the Company, its affiliates and subsidiaries.

As of March 31, 1999, options to purchase 592,463, 63,000 and 1,178,074 shares of Common Stock have been granted under the 1986 Plan, the Director Plan and the CTL Plan, respectively. As of March 31, 1999, 442,956, 0 and 105,713 shares of Common Stock have been issued pursuant to the exercise of options under the 1986 Plan, the Director Plan and the CTL Plan, respectively. Any unexercised options that expire or terminate upon a director's resignation or an employee's ceasing to be employed by the Company, its affiliates or subsidiaries become available again for issuance under the 1986 Plan, the Director Plan or the CTL Plan, as the case may be.

In April 1998, stock options to purchase 10,500 shares of the Company's common stock were granted to each of the non-employee members of the Board of Directors pursuant to the Director Plan. These options have an exercise price of \$3.42 per share.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information as of August 31, 1999 regarding the beneficial ownership of the Company's Common Stock by (a) each person known by the Company to own beneficially more than 5% of the Company's Common Stock, (b) each director and officer of the Company, including Messrs. Fiedler, Latham and Robson, and (c) all directors and executive officers of the Company as a group. Except as otherwise indicated and subject to community property laws where applicable, the persons named in the table below have sole voting and dispositive power with respect to the shares of Common Stock shown as beneficially owned by them. Information as to Alan J. Andreini and Kiskiminetas Springs School was derived from the Schedules 13D and 13G filed by each such stockholder. Information as to Richard L. Haydon was derived from the Schedule 13D filed by Mr. Haydon on July 28, 1997, as well as information provided to the Company by Mr. Haydon. Information as to JNC Opportunity Fund was derived from information provided to the Company by JNC. Except for the percentage of ownership, the information set forth below reflects the information contained in the Schedule 13G and/or 13D as of the date such Schedule 13G or 13D was filed.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percent of Outstanding Shares</u>
Jack E. Donnelly <sup>(1)</sup> .....	42,245 <sup>(2)</sup>	*
James J. Fiedler <sup>(1)</sup> .....	642,288 <sup>(3)</sup>	5.0%
Daniel W. Latham <sup>(1)</sup> .....	232,312 <sup>(4)</sup>	1.8 %
J. Thomas Markley <sup>(1)</sup> .....	21,000 <sup>(5)</sup>	*
Stephen W. Portner <sup>(1)</sup> .....	47,250 <sup>(6)</sup>	*
Brian A. Robson <sup>(1)</sup> .....	13,125 <sup>(7)</sup>	*
Alan J. Andreini <sup>(8)</sup> .....	1,134,335 <sup>(9)</sup>	9.0%
JNC Opportunity Fund <sup>(10)</sup> .....	663,142 <sup>(11)</sup>	4.999%
Richard L. Haydon <sup>(12)</sup> .....	1,528,400 <sup>(13)</sup>	11.5%
Kiskiminetas Springs School <sup>(14)</sup> .....	1,010,210 <sup>(15)</sup>	8.0%
All directors and executive officers of the Company as a group (5 persons).....	998,220 <sup>(2)(3)</sup> <sup>(4)(5)(6)(16)</sup>	7.5%

\* Less than 1%

- (1) The address of the stockholder is: c/o Coyote Network Systems, Inc., 4360 Park Terrace Drive, Westlake Village, CA 91361.
- (2) Includes 33,763 shares of Common Stock issuable upon exercise of stock options which are currently exercisable.
- (3) Includes 94,500 shares of Common Stock issuable upon exercise of stock options and 183,750 shares of Common Stock issuable upon exercise of warrants which are currently exercisable. Includes 192,938 shares of Common Stock received by the stockholder upon conversion of Class B Units of Coyote Technologies, LLC ("CTL") on June 24, 1999. Does not include 94,500 shares of Common Stock issuable upon exercise of stock options not currently exercisable.
- (4) Includes 94,500 shares of Common Stock issuable upon exercise of stock options which are currently exercisable. Includes 21,000 shares of Common Stock received by the stockholder upon conversion of Class B Units of CTL on July 7, 1999. Includes 95,812 shares of Common Stock issuable upon conversion of



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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

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In January 1998, the Board of Directors of the Company approved an interest-free loan to Daniel W. Latham for a maximum amount of \$500,000 to be used solely for the purpose of providing partial down payments on his purchase of a residence in California. The funding is to be secured by the residential property and is for a five-year term unless specifically extended by the Board of Directors. Earlier repayment of the loan will be demanded in the event of either (1) sale or refinancing of the property; (2) termination of Mr. Latham's employment by the Company either voluntarily or for cause; or (3) sale by Mr. Latham of all, or substantially all, of his stock in the Company. As of March 31, 1999, \$421,000 was funded to Mr. Latham under this agreement. In October 1998, the Company amended the terms of the loan, and in agreement with Mr. Latham established an annual interest rate of 6.5% to be applied to the loan and which is payable at the completion of the term.

Comdisco, Inc., a technology services and finance company, was the beneficial owner of approximately 6% of our common stock including 515,400 shares purchased by Comdisco on the open market and 192,990 warrants issued in connection with lease financing provided by Comdisco to our end-user customers. During fiscal 1998 and fiscal 1999, Comdisco has provided lease financing in a total amount of \$24.0 million to four of the Company's customers. In August 1999, Comdisco filed a Schedule 13G disclosing that its beneficial ownership as of August 23, 1999 consisted solely of the 192,990 warrants and that Comdisco had ceased to be a beneficial owner of more than 5% of our common stock.

(c) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1	Stock Acquisition by Merger Agreement, dated as of September 30, 1998, among Coyote Network Systems, Inc., INET Acquisition, Inc., INET Interactive Network System, Inc., Claude Buchert, Helene Legendre and First Rock Trustees, Limited, a Gibraltar corporation, trustee of the Guirmauve Trust, a Gibraltar trust dated September 1, 1994 (incorporated herein by reference to Exhibit 2.1 of Registrant's Form 8-K filed on October 15, 1998).
3.1	Restated Certificate of Incorporation, as amended September 1, 1992 (incorporated herein by reference to Exhibit 4.1 of Registrant's Registration Statement on Form S-8 Reg. No. 333-63017).
3.2	By-Laws of Registrant, as amended March 7, 1997.
4.1	Loan and Security Agreement between C&L Communications, Inc. and Sanwa Business Credit dated January 2, 1996 (incorporated herein by reference to Exhibit 10.1 of Registrant's Registration Statement on Form S-3 Reg. No. 333-1055).
4.2	First Amendment to Loan and Security Agreement and Waiver Agreement between C&L Communications, Inc. and Sanwa Business Credit Corporation dated June 27, 1996 (incorporated herein by reference to Exhibit 4.2 of Registrant's Form 10-K/A for the year ended March 30, 1996).
4.3	Loan and Security Agreement by and between Valley Communications, Inc. and Sanwa Business Credit Corporation dated March 14, 1996 (incorporated herein by reference to Exhibit 4.1 of Registrant's Form 10-Q for the period ended July 20, 1996).
4.4	Certain other long-term debt as described in Note 6 of Notes to Consolidated Financial Statements which do not exceed 10% of the Registrant's total assets on a consolidated basis. The Registrant agrees to furnish to the Commission, upon request, copies of any instruments defining the rights of holders of any such long-term debt.
4.5	Second Amendment to Loan and Security Agreement and Waiver Agreement between C&L Communications, Inc. and Sanwa Business Credit Corporation dated July 10, 1997.
4.6	First Amendment to Loan and Security Agreement by and between Valley Communications, Inc. and Sanwa Business Credit Corporation dated May 29, 1997.
4.7	Form of Subscription Agreement (incorporated herein by reference to Exhibit 4.1 of Registrant's Form 8-K filed on July 31, 1997).
4.8	Form of Note (incorporated herein by reference to Exhibit 4.2 of Registrant's Form 8-K filed on July 31, 1997).
4.9	Form of Registration Rights Agreement (incorporated herein by reference to Exhibit 4.3 of Registrant's Form 8-K filed on July 31, 1997).
4.10	Form of Offshore Warrant Subscription Agreement (incorporated herein by reference to Exhibit 4.4 of Registrant's Form 8-K filed on July 31, 1997).

- 10.8 1996 Sattel Communications LLC Employees Nonqualified Stock Option Plan (incorporated herein by reference to Exhibit 10.13 of Registrant's Form 10-K for the year ended March 30, 1996).
- 10.9 Memorandum of Understanding between Coyote Network Systems, Inc., Sattel Communications Corp. and Sattel Technologies, Inc. dated May 3, 1996 (incorporated herein by reference to Exhibit 10.15 of Registrant's Form 10-K for the year ended March 30, 1996).
- 10.10 Second Supplemental Agreement Relating to Joint Venture and Exchange Agreement Reformation between Coyote Network Systems, Inc., Sattel Technologies, Inc. and D.O.N. Communications Corp. dated May 3, 1996 (incorporated herein by reference to Exhibit 10.16 of Registrant's Form 10-K for the year ended March 30, 1996).
- 10.11 Third Supplemental Agreement Relating to Joint Venture between The Diana Corporation and Sattel Technologies, Inc. dated October 14, 1996 (incorporated herein by reference to Exhibit 10.3 of Registrant's Amendment No. 2 to Form S-3 filed October 21, 1996).
- 10.12 Operating Agreement of Sattel Communications, LLC (incorporated herein by reference to Exhibit 10.17 of Registrant's Form 10-K/A for the year ended March 30, 1996).
- 10.13 Amendment to the Operating Agreement of Sattel Communications LLC (incorporated herein by reference to Exhibit 10.18 of Registrant's Form 10-K/A for the year ended March 30, 1996).
- 10.14 Second Amendment to the Operating Agreement of Sattel Communications LLC (incorporated herein by reference to Exhibit 10.19 of Registrant's Form 10-K/A for the year ended March 30, 1996).
- 10.15 Asset Purchase Agreement dated January 31, 1997 by and among Atlanta Provision Company, Inc. and Colorado Boxed Beef Company (incorporated herein by reference to Exhibit 10.1 of Registrant's Form 8-K filed March 3, 1997).
- 10.16 Agreement Regarding Class A Units dated October 2, 1996 by and between Sydney B. Lilly and Sattel Communications LLC (incorporated herein by reference to Exhibit 10.2 of Registrant's Form 8-K filed March 3, 1997).
- 10.17 Amended and Restated Agreement Regarding Award of Class B Units dated November 11, 1996 by and between James J. Fiedler and CTL Communications LLC (incorporated herein by reference to Exhibit 10.3 of Registrant's Form 8-K filed March 3, 1997).
- 10.18 Amended and Restated Agreement Regarding Award of Class B Units dated November 11, 1996 by and between Daniel W. Latham and Sattel Communications LLC (incorporated herein by reference to Exhibit 10.4 of Registrant's Form 8-K filed March 3, 1997).
- 10.19 Amendment to Stock Option Agreements dated November 20, 1996 by and between Coyote Network Systems, Inc. and Richard Y. Fisher (incorporated herein by reference to Exhibit 10.5 of Registrant's Form 8-K filed March 3, 1997).
- 10.20 Separation Agreement dated November 20, 1996 by and between The Diana Corporation and Richard Y. Fisher (incorporated herein by reference to Exhibit 10.6 of Registrant's Form 8-K filed March 3, 1997).

- 10.33 Stockholder Protection Rights Agreement dated as of September 10, 1996 between Coyote Network Systems, Inc. and ChaseMellon Shareholder Services, L.L.C. as Rights Agent (incorporated herein by reference to Exhibit 1 of Registrant's Form 8-A filed September 11, 1996).
- 10.34 1998 Non-Employee Director Stock Option Plan dated February 19, 1998 (incorporated herein by reference to Exhibit 10.34 of Registrant's Form 10-K filed July 14, 1998).
- 10.35 Merger Agreement dated November 19, 1997, by and among Coyote Network Systems, Inc.; Soncainol, Inc.; and Michael N. Sonaco, James G. Olson and William H. Cain (incorporated herein by reference to Exhibit 10.1 of Registrant's Form 8-K filed December 5, 1997).
- 10.36 Stock Purchase Agreement dated March 31, 1998, between C&L Acquisitions, Inc. and Technology Services Corporation (incorporated herein by reference to Exhibit 99.1 of Registrant's Form 8-K filed June 19, 1998).
- 10.37 Employment Agreement effectively dated April 1, 1998, by and between Coyote Network Systems, Inc. and James J. Fiedler (incorporated herein by reference to Exhibit 10.1 of Registrant's Form 10-Q filed August 14, 1998).
- 10.38 Employment Agreement effectively dated April 1, 1998, by and between Coyote Network Systems, Inc. and Daniel W. Latham (incorporated herein by reference to Exhibit 10.2 of Registrant's Form 10-Q filed August 14, 1998).
- 10.39 Non-Compete Agreement between C&L Acquisitions, Inc. and Technology Services Corporation, dated March 31, 1998 (incorporated herein by reference to Exhibit 99.2 of Registrant's Form 8-K filed June 19, 1998).
- 10.40 Convertible Preferred Stock Purchase Agreement between the Company and JNC Opportunity Fund, dated August 31, 1998 (incorporated herein by reference to Exhibit 10.3 of Registrant's Form 10-Q filed November 16, 1998).
- 10.41 Amendment to Separation Agreement between the Company and Sydney B. Lilly effective September 30, 1998.
- 16.1 Letter dated November 5, 1997 from Price Waterhouse LLP, (incorporated herein by reference to Form 8-K/A (Amendment No. 2) filed on November 5, 1997). The disclosures included in Item 9(a) of this Annual Report on Form 10-K/A (Amendment No. 2) were derived from Item 4(a) of the Company's October 15, 1997 Form 8-K/A (Amendment No. 2) as referenced in the letter dated November 5, 1997 from Price Waterhouse LLP.
- 21 Subsidiaries of Registrant
- 23 Consent of Independent Accountants
- 27 Financial Data Schedule

**COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES**  
**Schedule I - Condensed Financial Information of Registrant (Continued)**  
**Statements of Cash Flows**  
(In Thousands)

	<u>Fiscal Year Ended</u> <u>March 31,</u> <u>1997</u>
Operating activities:	
Loss before extraordinary items	\$ (20,510)
Adjustments to reconcile loss to net cash used by operating activities:	
Equity in loss of unconsolidated subsidiaries	17,558
Other	(595)
Changes in current assets and liabilities	<u>1,231</u>
Net cash used by operating activities	<u>(2,316)</u>
Investing activities:	
Proceeds from sales of marketable securities	1,353
Changes in investments in and advances to unconsolidated subsidiaries	(15,945)
Other	<u>100</u>
Net cash used by investing activities	<u>(14,492)</u>
Financing activities:	
Repayments of long-term debt	(141)
Common stock funding	13,918
Extraordinary items	<u>(508)</u>
Net cash provided by financing activities	<u>13,269</u>
Decrease in cash	(3,539)
Cash at the beginning of the year	<u>3,567</u>
Cash at the end of the year	<u>\$ 28</u>
Non-cash transactions:	
Purchase of minority interest with common stock	1,818

*See notes to condensed financial information and notes to consolidated financial statements.*

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**SIGNATURES**

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Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 20<sup>th</sup> day of September, 1999.

**COYOTE NETWORK SYSTEMS, INC.**

By /s/ James J. Fiedler  
James J. Fiedler, Chairman of  
the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of and the in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James J. Fiedler</u> James J. Fiedler	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	September 20, 1999
<u>/s/ Daniel W. Latham</u> Daniel W. Latham	President, Chief Operating Officer and Director	September 20, 1999
<u>/s/ Brian A. Robson</u> Brian A. Robson	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	September 20, 1999
<u>/s/ Jack E. Donnelly</u> Jack E. Donnelly	Director	September 20, 1999
<u>/s/ J. Thomas Markley</u> J. Thomas Markley	Director	September 20, 1999
<u>/s/ Stephen W. Portner</u> Stephen W. Portner	Director	September 20, 1999

Coyote Metro, LLC

EXHIBIT II

Management Profiles



**Coyote Metro, LLC  
Management Profiles**

Claude Buchert - President and Chief Executive Officer

Mr. Buchert is President and CEO of Coyote Metro. His duties include full P&L responsibilities for Coyote Metro and INET Interactive Network Systems, Inc. INEC, a long distance telephone company headquartered in Los Angeles, California, is a subsidiary of Coyote Network Systems. Mr. Buchert received his BS from the University of Paris, France, and his postgraduate training from one of the major business schools in Paris (Institut des Hautes Etudes Commerciales).

Brian Robson - Chief Financial Officer

Mr. Robson is the Chief Financial Officer of Coyote Metro. Mr. Robson brings a wealth of global experience in business strategy, financial management and previous controller positions and is well versed in the manufacturing of telecommunications systems. Mr. Robson joined the Company from Ascom Timeplex, a subsidiary of Ascom A.G. (Switzerland). He has also held positions as Controller for multiple international operations within Northern Telecom. Mr. Robson is a graduate of the Metropolitan College, St. Albans UK (ACCA).

Helen Legendre - Executive Vice President

Helen Legendre is the Executive Vice President of Coyote Metro. She has over twenty-five years of management experience and over six years telecommunications experience. Her responsibilities include finance, cash flow and other accounting responsibilities, Human Resources and administration. She holds a BA from the University of Paris.

Janice W. Gordon - Vice President

Ms. Gordon is Vice President of Sales and Marketing for Coyote Metro. She has over twenty years of marketing experience and has spent the last twelve years in telecommunications sales and marketing. She has worked in all areas of international telecommunications including corporate sales, international call back and carrier sales. Most recently, as Vice President of Sales and Marketing for Cyberlight International, Inc. she was responsible for prepaid calling cards, with annual sales in excess of \$40,000,000. She holds a BS degree in Business from the University of Southern California.

**Coyote Metro, LLC  
Management Profiles**

Stan Alvidrez - Carrier Relations and Product Development Manager

Mr. Alvidrez is the Carrier Relations and Product Development Manager for Coyote Metro. He has over twenty-five years management experience and over six years of telecommunications experience. His responsibilities include carrier relations and rate management, new product development, regulatory and contract negotiation and management. He was most recently with EDS as a regulatory manager. He holds a BA from California State Univeristy, Northridge.

Tarek Jamal - Operations Manager

Mr. Jamal is the Operaitons Manager and brings to that position over five years of management experience and two years of experience in telecommunications. His responsibilities include the integrity and development of the company's network, managing a staff responsible for local long distance, debit card switching and the provisioning of new accounts for service. In addition, his responsibilities include the development of interface procedures with the ILECs. Mr. Jamal holds a BS degree from the University of Damascus.

Shelby G. Deal - Customer Service Manager

Ms. Deal is the Customer Service Manager for Coyote Metro. She joined the firm in July of 1998. She has six years of management experience with three and one half years specific to customer service management in telecommunications as a customer service manager. Her duties include the handling of all calls requiring the attention of the department manager, the hiring and staff development of the customer service department, and acting as a liaison between customer service and all departments. She has been responsible for ten customer service representatives that are mutli-lingual. She also performed as project leader to obtain a CLEC license in California for both Pacific Bell and GTE.

Coyote Metro, LLC

EXHIBIT III

Secretary of State Registration



**FLORIDA DEPARTMENT OF STATE**  
**Katherine Harris**  
**Secretary of State**

January 27, 2000

**INET LOCAL PHONE SERVICE**  
**1640 S SEPULVEDA BLVD SUITE 320**  
**LOS ANGELES, CA 90025**

**Subject: INET LOCAL PHONE SERVICE**

**REGISTRATION NUMBER: G00027900099**

This will acknowledge the filing of the above fictitious name registration which was registered on January 27, 2000. This registration gives no rights to ownership of the name.

Each fictitious name registration must be renewed every five years between January 1 and December 31 of the expiration year to maintain registration. Three months prior to the expiration date a statement of renewal will be mailed.

**IT IS THE RESPONSIBILITY OF THE BUSINESS TO NOTIFY THIS OFFICE IN WRITING IF THEIR MAILING ADDRESS CHANGES.** Whenever corresponding please provide assigned Registration Number.

Should you have any questions regarding this matter you may contact our office at (850) 486-8000.

Public Assistance  
Division of Corporations

Letter No. 200A00003888

**Division of Corporations - P.O. BOX 6327 -Tallahassee, Florida 32314**

APPLICATION FOR REGISTRATION OF FICTITIOUS NAME

APPROVED AND FILED

00 JAN 27 AM 11:48

SECRETARY OF STATE TALLAHASSEE, FLORIDA

**Section 1:**

1. DIET Local Phone Service  
Fictitious Name to be Registered

2. 640 S. Sepulveda Blvd Ste 320  
Mailing Address of Business  
Los Angeles, CA 90025  
City State Zip Code

3. Florida County of principal place of business:  
Multiple Counties

4. FEI Number: 95-4720839

This space for office use only

**Section 2:**

**A. Owner(s) of Fictitious Name if individual(s): (Use an attachment if necessary):**

1. Last First M.I. Address City State Zip Code

2. Last First M.I. Address City State Zip Code

**B. Owner(s) of Fictitious Name if other than individual(s): (Use attachment if necessary):**

1. Coyote Metro, LLC  
Entity Name  
1640 S. Sepulveda Blvd Ste 320  
Address  
Los Angeles, CA 90025  
City State Zip Code  
Florida Registration Number: 1796-255  
FEI Number: 95-4720839  
 Applied for  Not Applicable

2. Entity Name Address City State Zip Code Florida Registration Number FEI Number  Applied for  Not Applicable

**Section 3:**

I (we) the undersigned, being the sole (all the) party(ies) owning interest in the above fictitious name, certify that the information indicated on this form is true and accurate. I (we) further certify that the fictitious name shown in Section 1 of this form has been advertised at least once in a newspaper as defined in chapter 900, Florida Statutes, in the county where the applicant's principal place of business is located. I (we) understand that the signature(s) below shall have the same legal effect as if made under oath. (At Least One Signature Required)

JAN 17, 2000  
Signature of Owner Date  
Phone Number: 966 2330

**Section 4:**

FOR CANCELLATION COMPLETE SECTION 4 ONLY:  
FOR FICTITIOUS NAME OR OWNERSHIP CHANGE COMPLETE SECTIONS 1 THROUGH 4:

I (we) the undersigned, hereby cancel the fictitious name \_\_\_\_\_ which was registered on \_\_\_\_\_ and was assigned registration number \_\_\_\_\_

Signature of Owner Date Signature of Owner Date

Mark the applicable boxes  Certificate of Status - \$10  Certified Copy - \$50  
Filing Fee: \$60  
Note: Acknowledgements/certificates will be sent to the address in Section 1 only.

CR45-001 (4/99)

**TITLE PAGE**

Florida Price List No. 2

OF

**Coyote Metro, LLC**

**d/b/a**

**INET Local Phone Service**

This Price List No. 2 contains the descriptions, regulations, service standards and rates applicable to the furnishing of service and facilities for telecommunications services provided by Coyote Metro, LLC d/b/a INET Local Phone Service with principal offices at 1640 S. Sepulveda, Suite 320, Los Angeles, CA 90025. This Price List No. 2 applies to services provided within the State of Florida. This Price List No. 2 is on file with the Florida Public Service Commission and copies may be inspected, during normal business hours, at the Company's principal place of business.

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Issued: May 11, 2000

Effective:

Issued by: Claude Buchert, President and Chief Executive Officer  
Coyote Metro, LLC  
1640 S. Sepulveda, Suite 320  
Los Angeles, CA 90025

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**CHECK SHEET**

The sheets of this Price List No. 2, as listed below, are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original Price List No. 2 and are currently in effect as of the date at the bottom of this page.

Sheet	Revision	Sheet	Revision	Sheet	Revision
1	Original *	26	Original *	51	Original *
2	Original *	27	Original *	52	Original *
3	Original *	28	Original *	53	Original *
4	Original *	29	Original *	54	Original *
5	Original *	30	Original *	55	Original *
6	Original *	31	Original *	56	Original *
7	Original *	32	Original *	57	Original *
8	Original *	33	Original *	58	Original *
9	Original *	34	Original *		
10	Original *	35	Original *		
11	Original *	36	Original *		
12	Original *	37	Original *		
13	Original *	38	Original *		
14	Original *	39	Original *		
15	Original *	40	Original *		
16	Original *	41	Original *		
17	Original *	42	Original *		
18	Original *	43	Original *		
19	Original *	44	Original *		
20	Original *	45	Original *		
21	Original *	46	Original *		
22	Original *	47	Original *		
23	Original *	48	Original *		
24	Original *	49	Original *		
25	Original *	50	Original *		

\* Included with this filing.

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**SYMBOLS**

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

- D** Delete Or Discontinue
- I** Change Resulting In An Increase To A Customer's Bill
- M** Moved From or To Another Price List No. 2 Location
- N** New
- R** Change Resulting In A Reduction To A Customer's Bill
- T** Change in Text Or Regulation But No Change In Rate Or Charge

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**PRICE LIST FORMAT**

- A. Sheet Numbering** - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the Price List No. 2. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between Sheets 14 and 15 would be 14.1.
- B. Sheet Revision Numbers** - Revision numbers also appear in the upper right corner of each sheet. These numbers are used to determine the most current sheet version on file with the FPSC. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. that the FPSC follows in their Price List No. 2 approval process, the most current sheet number on file with the Commission is not always the Price List No. 2 sheet in effect. Consult the Check Sheet for the sheet currently in effect.
- C. Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
  - 2.1.
  - 2.1.1.
  - 2.1.1.A.
  - 2.1.1.A.1.
  - 2.1.1.A.1.(a).
  - 2.1.1.A.1.(a).I.
  - 2.1.1.A.1.(a).I.(i).
  - 2.1.1.A.1.(a).I.(i).(1).
- D. Check Sheets** - When a Price List No. 2 filing is made with the FPSC, an updated check sheet accompanies the Price List No. 2 filing. The check sheet lists the sheets contained in the Price List No. 2, with a cross reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (\*). There will be no other symbols used on this sheet if these are the only changes made to it (i.e., the format, etc., remains the same, just revised revision levels on some sheets). The Price List No. 2 user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the FPSC.

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**EXCHANGE SERVICE LIST**

Coyote Metro, LLC d/b/a INET Local Phone Service ("INET") has included all of the exchanges in the BellSouth, GTE and Sprint-Florida (United Telephone and Centel) local exchange territory in Florida as the potential areas where alternative local exchange service is planned.

BellSouth exchanges (and corresponding BellSouth rate group number):

Archer (5)	Fernandina Beach (3)	Lynn Haven (5)
Baldwin (9)	Flagler Beach (3)	Marathon (3)
Bell Glade (3)	Ft. George (9)	Maxville (9)
Big Pine Key (E)	Ft. Lauderdale (12)	Melbourne (7)
Boca Raton (10)	Ft. Pierce (5)	Miami (12)
Boynton Beach (10)	Gainesville (6)	Micanopy (5)
Bronson (E)	Geneva (7)	Middleburg (9)
Brooksville (5)	Graceville (3)	Milton (6)
Bunnell (3)	Green Cove Springs (3)	Munson (6)
Cantonment (6)	Gulf Breeze (6)	Newberry (5)
Cedar Keys (1)	Havana (6)	New Smyrna Beach (4)
Century (6)	Hawthorne (5)	North Dade (12)
Chiefland (3)	Hobe Sound (6)	North Key Largo (3)
Chipley (3)	Holley-Navarre (6)	Oak Hill (4)
Cocoa (7)	Hollywood (12)	Old Town (2)
Cocoa Beach (7)	Homestead (12)	Orange Park (9)
Coral Springs (12)	Islamorada (4)	Orlando (11)
Cross City (2)	Jacksonville (10)	Oviedo (11)
Daytona Beach (6)	Jacksonville Beach (9)	Pace (6)
DeBary (5)	Jay (E)	Pahokee (3)
Deerfield Beach (12)	Jensen Beach (6)	Palatka (4)
Deland (5)	Julington (9)	Palm Coast (3)
DeLeon Springs (4)	Jupiter (9)	Panama City (5)
Delray Beach (8)	Key Largo (4)	Panama City Beach (5)
Dunnellon (6)	Keystone Heights (3)	Pensacola (7)
East Orange (11)	Key West (4)	Perrine (12)
Eau Gallie (7)	Lake City (4)	Pierson (4)

E - See BellSouth General Subscriber Service Tariff.

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**EXCHANGE SERVICE LIST, CONT'D.**

BellSouth exchanges (and corresponding BellSouth rate group number) - (continued):

Pomona Park (4)	Sebastian (6)	Vero Beach (5)
Pompano Beach (12)	Stuart (6)	Weekiwachee Springs (5)
Ponte Vedra Beach (9)	Sugarloaf Key (4)	Welaka (4)
Port St. Lucie (6)	Sunny Hills (3)	West Palm Beach (10)
St. Augustine (4)	Titusville (5)	Yankeetown (4)
St. Johns (11)	Trenton (E)	Youngstown-Fountain (5)
Sanford (8)	Vernon (3)	Yulee (9)

GTE exchanges (and corresponding GTE rate group number)

Bartow (4)	Mulberry (3)	Tampa - Central Area (5)
Bradenton (4)	Myakka (4)	Tampa - North Area (5)
Clearwater (5)	New Port Richey (3)	Tampa - East Area (5)
Englewood (2)	North Port (3)	Tampa - South Area (5)
Frostproof (1)	Palmetto (3)	Tampa - West Area (5)
Haines City (3)	Plant City (5)	Venice (4)
Hudson (3)	Polk City (3)	Winter Haven (4)
Indian Lake (1)	Sarasota (5)	Zephyrhills (2)
Lakeland (4)	St. Petersburg (5)	
Lake Wales (3)	Tarpon Springs (5)	

Sprint-Centel exchanges (and corresponding Sprint-Centel rate group number)

Alford (1)	Glendale (1)	Panacea (6)
Baker (2)	Grand Ridge (2)	Ponce de Leon (2)
Bonifay (1)	Greenville (6)	Reynolds Hill (1)
Cherry Lake (1)	Greenwood (2)	St. Marks (6)
Cottondale (2)	Kingsley Lake (2)	Santa Rosa Beach (4)
Crawfordville (6)	Lawtey (2)	Seagrove Beach (1)
Crestview (2)	Lee (1)	Shalimar (5)
DeFuniak Springs (2)	Madison (1)	Sneeds (2)
Destin (5)	Malone (2)	Sopchoppy (6)
Fort Walton Beach (5)	Marianna (3)	Starke (2)
Freeport (2)	Monticello (6)	Tallahassee (6)
	Valparaiso (5)	Westville (1)

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**EXCHANGE SERVICE LIST, CONT'D.**

Sprint-United exchanges (and corresponding Sprint-United rate group number)

Apopka (6)	Howey-in-the-Hills (4)	Punta Gorda (3)
Arcadia (1)	Immokalee (1)	Reedy Creek (6)
Astor (4)	Inverness (3)	Saint Cloud (3)
Avon Park (1)	Kenansville (3)	Salt Springs (4)
Bellevue (4)	Kissimmee (3)	San Antonio (2)
Beverly Hills (3)	LaBelle (1)	Sanibel-Captiva Islands (5)
Boca Grande (1)	Lady Lake (5)	Sebring (2)
Bonita Springs (5)	Lake Placid (1)	Silver Springs Shores (4)
Bowling Green (1)	Leesburg (4)	Spring Lake (2)
Bushnell (1)	Lehigh Acres (4)	Tavares (4)
Cape Coral (5)	Marco Island (4)	Trilachoochee (2)
Cape Haze (2)	Montverde (6)	Umatilla (4)
Clermont (6)	Moore Haven (1)	Wachula (1)
Clewiston (1)	Mount Dora (4)	West Kissimmee (3)
Crystal River (3)	Naples (4)	Wildwood (1)
Dade City (2)	North Cape Coral (5)	Wilist (1)
Eustis (4)	North Fort Myers (5)	Windermere (6)
Everglades (1)	North Naples (4)	Winter Garden (6)
Forest (4)	Ocala (4)	Winter Park (6)
Fort Meade (3)	Ocklawaha (4)	Zolfo Springs (1)
Fort Myers (5)	Okeechobee (1)	
Fort Myers Beach (5)	Orange City (3)	
Groveland (4)	Pine Island (5)	
Homosassa Springs (3)	Port Charlotte (3)	

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**SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS**

**Access Line** - An arrangement from a local exchange telephone company or other common carrier, using either dedicated or switched access, which connects a Customer's location to Carrier's location or switching center.

**Advance Payment** - Part or all of a payment required before the start of service.

**Authorization Code** - A numerical code, one or more of which may be assigned to a Customer, to enable Carrier to identify the origin of service of the Customer so it may rate and bill the call. All authorization codes shall be the sole property of Carrier and no Customer shall have any property or other right or interest in the use of any particular authorization code. Automatic numbering identification (ANI) may be used as or in connection with the authorization code.

**Authorized User** - A person, firm or corporation authorized by the Customer to be an end-user of the service of the Customer.

**Automatic Numbering Identification (ANI)** - A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

**Commission** - The Florida Public Service Commission.

**Common Carrier** - An authorized company or entity providing telecommunications services to the public

**Company** - Coyote Metro, LLC d/b/a INET Local Phone Service, issuer of this tariff.

**Customer** - The person, firm or corporation that orders service and is responsible for the payment of charges and compliance with the terms and conditions of this tariff.

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**SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS, CONT'D.**

**Customer Premises** - A location designated by the Customer for the purposes of connecting to the Company's services.

**Customer Terminal Equipment** - Terminal equipment provided by the Customer.

**End Office** - The LEC switching system office or serving wire center where Customer station loops are terminated for purposes of interconnection to each other and/or to trunks.

**End-User Premises** - A location designated by the Customer for the purposes of connecting to the Company's services.

**Holiday** - New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day.

**INET** - Coyote Metro, LLC , d/b/a INET Local Phone Service, issuer of this tariff.

**Interruption** - The inability to complete calls due to equipment malfunctions or human errors. Interruption shall not include, and no allowance shall be given for service difficulties such as slow dial tone, circuits busy or other network and/or switching capability shortages. Nor shall Interruption include the failure of any service or facilities provided by a common carrier or other entity other than the Carrier. Any Interruption allowance provided within this Tariff by Carrier shall not apply where service is interrupted by the negligence or willful act of the Customer, or where the Carrier, pursuant to the terms of this Tariff, terminates service because of non-payment of bills, unlawful or improper use of the Carrier's facilities or service, or any other reason covered by this Tariff or by applicable law.

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**SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS, CONT'D.**

**LATA** - A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4, or its successor tariff(s).

**LEC** - Local Exchange Company refers to the dominant, monopoly local telephone company in the area also served by the Company.

**Measured Charge** - A charge assessed on a per minute basis in calculating a portion of the charges due for a completed interexchange call.

**Message Toll Service** - A service that provides facilities for telecommunications between different local calling areas of the same LATA in accordance with the regulations and schedule of rates specified in this tariff. The rates specified in this tariff are in payment for all services furnished between the calling and called stations.

**MOU** - Minutes of Use

**Recurring Charges** - Monthly charges to the Customer for services, and equipment, which continues for the agreed upon duration of the service.

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**SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS, CONT'D.**

**Service** - Any means of service offered herein or any combination thereof.

**Service Order Form** - The written request for Company services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order Form by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff.

**Station** - The network control signaling unit and any other equipment provided at the Customer's premises which enables the Customer to establish communications connections and to effect communications through such connections.

**Telecommunications** - The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission of data, facsimile, signaling, metering, or other similar communications.

**Term Agreement** - An agreement between the Company and the Customer for a fixed term of months.

**Terminal Equipment** - Any telecommunications equipment other than the transmission or receiving equipment installed at a Company location.

**Transmission Speed** - Transmission speed or rate, in bits per second (bps), as agreed to by Company and Customer for each circuit.

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**SECTION 2 - REGULATIONS**

**2.1 Undertaking of the Company**

- 2.1.1 Service is furnished for telecommunications originating and terminating within the State of Florida under the terms and conditions of this tariff.
- 2.1.2 INET's voice services will involve the resale of the basic local exchange services of the incumbent local exchange telephone companies. Service quality will be at a level equivalent to the service provided to the Company by the incumbent local exchange company.
- 2.1.3 Carrier's services are available for use twenty-four hours per day, seven days per week.

**2.2 Use of Services**

- 2.2.1 Carrier's services may be used for any lawful purpose consistent with the transmission and switching parameters of the telecommunications facilities utilized in the provision of services.
- 2.2.2 The use of Carrier's services without payment for service or attempting to avoid payment for service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards is prohibited.
- 2.2.3 The Carrier does not transmit messages pursuant to this tariff, but its services may be used for that purpose.
- 2.2.4 The Carrier's services may be canceled for nonpayment of uncontested bill charges or for other violations of this Tariff.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.3 Liability of the Company**

- 2.3.1** Because the Customer has exclusive control of its communications over the services furnished by the Company, and because interruptions and errors incident to these services are unavoidable, the services, functions, and products the Company furnishes are subject to the terms, conditions, and limitations specified in this tariff and to such particular terms, conditions, and limitations as set forth in the special regulations applicable to the particular services, functions, and products furnished under this tariff. These limitations shall not limit any right the Company may have to be indemnified, defended, or held harmless against any amounts payable to a third person, including any losses, costs, fines, penalties, criminal or civil judgments or settlements, expenses (including attorney's fees), and consequential damages of such third persons.
- 2.3.2** The liability of the Company for damages arising directly or indirectly out of the furnishing of these services, functions, or products, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services, functions, or products or arising out of the failure to furnish the service, function, or product, whether caused by acts of commission or omission, shall be limited to the extension of allowances for interruption. The extension of such allowances for interruption shall be the sole remedy of the Customer or Authorized User and the sole liability of the Company. The Company will not be liable for any indirect, special, consequential, exemplary or punitive damages a Customer may suffer, including lost business, revenues, profits, or other economic loss, whether or not caused by the intentional acts or omissions or negligence of the Company's employees or agents, whether or not foreseeable, and regardless of notification by any party of the possibility of such damages.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.3 Liability of the Company, Cont'd.**

- 2.3.3** The Company shall not be liable for any failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or any civil or military authority, national emergencies, insurrections, riots, wars, unavailability of rights-of-way or materials, or strikes, lock-outs, work stoppages, or other labor difficulties.
- 2.3.4** The Company shall not be liable for any act or omission by any entity furnishing to the Company or to the Company's Customers services or equipment used for or with the services the Company offers.
- 2.3.5** The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer-provided services or equipment.
- 2.3.6** The Company shall not be liable for the claims of vendors supplying equipment to Customers of the Company which may be installed at premises of the Company, nor shall the Company be liable for the performance of said vendor or vendor's equipment.
- 2.3.7** The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of any installation so provided.
- 2.3.8** The Company is not liable for any defacement of or damage to the premises of a Customer or end-user (or Authorized User) resulting from the furnishing of services or equipment on such premises or the installation or removal thereof.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.3 Liability of the Company, Cont'd.**

- 2.3.9** The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays.
- 2.3.10** The Company shall not be liable for any damages whatsoever to persons or property resulting from the installation, maintenance, repair or removal of equipment and associated wiring.
- 2.3.11** The Company shall not be liable for any damages whatsoever associated with service, facilities, products, or equipment which the Company does not furnish or for any act or omission of the Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with service.
- 2.3.12** The Company shall not incur any liability, direct or indirect, to any person who dials or attempts to dial the digits "9-1-1" or to any other person who may be affected by the dialing of the digits "9-1-1".
- 2.3.13** The Company makes no warranties or representations, express or implied either in fact or by operation of law, statutory or otherwise, including warranties or merchantability and fitness for a particular use, except those expressly set forth herein.
- 2.3.14** The Customer and any Authorized Users, jointly and severally, shall indemnify and hold the Company harmless from claims, loss, damage, expense (including attorney's fees and court costs), or liability for patent or trademark infringement or other infringement of intellectual property rights arising from (1) combining (or using in connection) Company-provided services and equipment with any facilities, services, functions, or products provided by the Customer or Authorized User or (2) use of services, functions, or products the Company furnished in a manner the Company did not contemplate and over which the Company exercises no control; and from all other claims, loss, damage, expense (including attorneys fees and court costs), or liability arising out of any commission or omission by the Customer or Authorized User in connection with the service, function, or product. In the event that any such infringing use is enjoined, the Customer or Authorized User at its expense, shall obtain immediately a dismissal or stay of such injunction, obtain a license or other agreement so as to extinguish the claim of infringement, terminate the claimed infringing use, or modify such combination so as to avoid any such infringement. In addition and without limitation, the Customer or Authorized User shall defend, on behalf of the Company and upon request by the Company, any suit brought or claim asserted against the Company for any such infringement, damages, or other claims.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.3 Liability of the Company, Cont'd.**

**2.3.15** The Customer releases, indemnifies and holds harmless the Company from any and all loss, claims, demands, suits or other action or any liability whether suffered, made instituted or asserted by the Customer or by any other person, caused or claimed to have been caused directly or indirectly by the publication of a nonpublished telephone number or the disclosure or nondisclosure of said number to any person. If any action of the Company results in the publication of the unauthorized disclosure of a nonpublished number, the Company will, at the customer's request, change the number without charge and refund any nonpublished number charges for the period of time during which the number was disclosed. For the purposes of this Tariff, nonpublished information is defined to include the name, address and telephone number of nonpublished Customers.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.4 Prohibited Uses**

- 2.4.1** The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all governmental approvals, authorizations, licenses, consents and permits required to be obtained by the Customer with respect thereto.
- 2.4.2** The Company may, without obtaining any further consent from the Customer, assign any rights, privileges, or obligations under this tariff. The Customer or Authorized User may not assign or transfer in any manner the service or any rights associated with the service without the written consent of the Company.
- 2.4.3** A Customer or Authorized User shall not represent in its advertising, marketing or sales collateral that its services are provided by the Company, or otherwise indicate to its Customers that its provision of services is jointly with the Company, without the consent of the Company. The relationship between the Company and Customer shall not be that of partners or agents for one or the other, and shall not be deemed to constitute a partnership or agency agreement.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.5 Limitation of Service**

- 2.5.1** Service is offered subject to the availability of the necessary facilities and/or equipment and subject to the provisions of this tariff. The Company may decline applications for service to or from a location where the necessary facilities or equipment are not available. The Company may discontinue furnishing service in accordance with the terms of this tariff.
- 2.5.2** The Company reserves the right to discontinue or limit service when necessitated by conditions beyond its control, or when service is used in violation of provisions of this tariff or the law.
- 2.5.3** The Company does not undertake to transmit messages, but offers the use of its service when available, and, as more fully set forth elsewhere in this tariff, shall not be liable for errors in transmission or for failure to establish connections.
- 2.5.4** The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities, services or equipment and is limited to the capacity of the Company's services and equipment, as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.6 Application for Services**

**2.6.1** A Customer desiring to obtain service may do so based on an oral or written agreement. In order to initiate service, the Customer must provide the following information: an address to which the Company shall mail or deliver all notices and other communications, except that the Customer may also designate a separate address to which the Company's bills for service shall be mailed.

**2.6.2** Cancellation of Application for Service

Where installation of service has been started prior to the cancellation, a cancellation charge equal to the costs incurred by the Company may apply.

**2.6.3** Cancellation of Service

The Customer may have service discontinued upon verbal or written notice to the Company. The Company shall hold the Customer responsible for payment of all bills for service furnished until the cancellation date specified by the Customer or until the date that the written cancellation notice is received, whichever is later. A termination liability charge applies to early cancellation of a term agreement.

**2.7 Assignment or Transfer**

**2.7.1** All service provided under this tariff is directly or indirectly controlled by the Company, and the Customer may not transfer or assign the use of service without the express prior written consent of the Company. Such transfer or assignment shall only apply where there is no interruption of the use or location of service. All terms and conditions contained in this tariff and in the Term Agreement and/or other contract between the Company and the Customer shall apply to all such permitted transferees or assignees.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.8 Deposits**

- 2.8.1** Prior to, or at any time after the provision of a service to the Customer, INET may require the Customer to make a deposit to be held as a guarantee of the payment of rates and charges. Such deposit may not exceed the actual or estimated rates and charges for the service for a two (2) month period plus the amount of any termination charges attributable to the service. The fact that a deposit has been made in no way relieves the Customer from complying with requirements as to payment of bills.
- 2.8.2** When the Customer has been provided notice that a deposit is required prior to the provisioning of a service or facility, such deposit amount shall be paid in full prior to INET's activation of the service or facility. In the event where a service or facility is currently operational and INET determines a deposit is required, INET will provide notice to the Customer of such a deposit request, identifying the amount of deposit being requested and the reason for such action by the Company. In this instance, the Company's request for a deposit will be based solely on the Customer's payment history for the applicable service provided by the Company. The Customer will be required to remit the deposit in full within thirty (30) calendar days of INET's deposit request and shall be subject to all other requirements and actions regarding payments to INET.
- 2.8.3** When the provision of service to the Customer is terminated, the amount of the deposit will be credited to the Customer's account and any credit balance that may remain will be refunded. The Customer will receive interest in accordance with applicable Florida law.

**2.9 Advance Deposits**

The Company does not require deposits for intrastate services.

**2.10 Taxes and Fees**

The Company reserves the right to bill any and all applicable taxes in addition to normal telecommunications charges, including, but not limited to: Federal Excise Tax, State Sales Tax, Municipal Taxes, and Gross Receipts Tax. Such taxes will be itemized separately on Customer invoices and are not included in the quoted rates.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.11 Notices**

**2.11.1** Any notice the Company may give to a Customer shall be deemed properly given when delivered, if delivered in person, or when deposited with the U.S. Postal Service, postage prepaid, addressed to the Customer's billing address. Any notice the Customer may give the Company shall be deemed properly given when delivered, if delivered in person, or when deposited with the U.S. Postal Service, postage prepaid, addressed to the Company at the address provided in the most recently revised tariff pages.

**2.12 Billing and Payment**

**2.12.1** The Customer is responsible for payment of all charges for services furnished, including charges for services originated or charges accepted at the Customer's station. Services which are fraudulently obtained without the Customer's involvement will be investigated and the Carrier and the Customer will cooperate in the resolution of such charges. Upon nonpayment of any regulated sum due or upon a violation of any of the conditions governing the furnishing of service, the Carrier may discontinue furnishing said service, as provided for in this tariff and in accordance with Commission rules, without incurring any liability.

**2.12.2** Bills are rendered monthly and are due upon receipt of the bill. Payment is considered delinquent 30 days after the bill is rendered.

**2.12.3** The Carrier shall promptly investigate all disputed charges and shall report its findings and disposition to the Customer. Nothing in this Section limits the Customer's right as provided by statute to contest charges. Bills are rendered monthly with local exchange service billed in advance of the month service is rendered. Toll charges are billed in arrears.

**2.12.4 Recurring Monthly Charges**

- .1 Recurring monthly charges will be billed one month in advance of service or in the current month and will reflect the rates in effect as of the date of the invoice.
- .2 For the purpose of computing partial month's charges, a month is considered to consist of thirty (30) days.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.13.1 Discontinuance or Interruption of Service by the Carrier**

Without incurring any liability, the Carrier may, under the following conditions, discontinue or interrupt service that is being furnished:

- 2.13.1 For noncompliance with or violation of any applicable State, municipal or Federal law, ordinance or regulation, or noncompliance with or violation of any Commission regulation.
- 2.13.2 For noncompliance with any of the provisions of this tariff governing service.
- 2.13.3 In the event of the Customer's use of service in such a manner as to adversely affect the Carrier's equipment or service to others.
- 2.13.4 In the event of unauthorized or fraudulent use of service.
- 2.13.5 By reason of any order or decision of a court or other government authority having jurisdiction that prohibits the Carrier from furnishing service to the Customer.
- 2.13.6 In order to perform tests and inspections necessary to insure compliance with tariff regulations or the proper installation, operation, and maintenance of the Carrier's equipment and facilities.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.13 Discontinuance or Interruption of Service by the Carrier, Cont'd.**

- 2.13.7** The Carrier reserves the right to limit the duration of a connection or the provision of service when necessary because of a shortage of service components caused by emergency conditions as defined in the Rules and Regulations of the Alabama Public Service Commission.
- 2.13.8** Discontinuance of service shall be in accordance with the Rules and Regulations of the Alabama Public Service Commission.
- 2.13.9** The Carrier may suspend service without notice if it deems such action necessary to protect the public, Carrier personnel, agents, suppliers, facilities or services from damages or injury of any kind to any party. The Carrier may suspend service after notice to the Customer of noncompliance with any provision of this tariff if such noncompliance is not corrected within thirty (30) days following the receipt of notice.
- 2.13.10** The Carrier may discontinue service for nonpayment of any regulated sum due the Carrier for more than 30 days beyond the rendition of the bill for such service pursuant to the Rules and Regulations of the Alabama Public Service Commission.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.14 Service Connections and Equipment on Customer's Premises**

- 2.14.1** The Customer or Authorized User shall allow the Company continuous access and right-of-way to the premises of the Customer or Authorized User to the extent reasonably determined by the Company to be appropriate to the provision and maintenance of services and equipment relating to this tariff.
- 2.14.2** The Company undertakes to use reasonable efforts to make available services to a Customer, on or before a particular date subject to the provisions of and compliance by the Customer with the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.
- 2.14.3** The Company undertakes to use reasonable efforts to maintain only the services and equipment that it furnishes to the Customer. The Customer or Authorized User may not, and may not permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise tamper with any of the services or equipment installed by the Company, except upon the consent of the Company.
- 2.14.4** Title to all components of the service provided by the Company, including equipment on Customer's Premises or End-User's Premises, shall remain with the Company, unless otherwise specifically agreed with the Customer. The operating personnel, and the electric power consumed by such equipment on the premises of Customer shall be provided by and maintained at the expense of the Customer.
- 2.14.5** The Company shall not be responsible for the installation, operation, or maintenance of any communications equipment provided by the Customer or Authorized User, except as the Company determines is necessary for proper operation in connection with the Company's services and equipment. Where such equipment is connected to the services or equipment furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of services and equipment offered under this tariff and to the maintenance and operation of such services and equipment; subject to this responsibility the Company shall not be responsible for the transmission or reception of signals by equipment provided by the Customer or Authorized User, or for the quality of, or defects in, such transmission or reception.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.14 Service Connections and Equipment on Customer's Premises, Cont'd.**

**2.14.6** The Customer shall be responsible for the payment of service charges as set forth herein and for visits by the Company's agents or employees to the premises of the Customer or Authorized User when the service difficulty or trouble report results from the use of services and equipment by the Customer or Authorized User.

**2.14.7** The Company is responsible for operating Company-provided equipment. In the event that Customer attempts to operate any Company-provided equipment, other than as authorized by the Company, without first obtaining the Company's approval, in addition to any other remedies of the Company for a breach by the Customer of the Customer's obligations hereunder, the Customer shall pay the Company for any damage to the Company-provided equipment caused or related to the Customer's improper operation of the Company-provided equipment upon receipt by the Customer of a Company invoice therefor. In no event shall the Company be liable to the Customer or any other person for interruption of the service or for any other loss, cost or damage caused or related to the Customer's improper use of Company-provided equipment.

**2.14.8** The Customer agrees to allow the Company to remove all Company-provided equipment from Customer's premises:

- A. upon termination, interruption or suspension of the service in connection with which the equipment was used; and
- B. for repair, replacement or otherwise as the Company may determine is necessary or desirable.

At the time of such removal, such equipment shall be in the same condition as when delivered to Customer or installed in Customer's premises, normal wear and tear only excepted. The Customer shall reimburse the Company for any loss, cost, or damage beyond normal wear and tear. The Company shall have the right to obtain such reimbursement from the Customer deposit, if any.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.14 Service Connections and Equipment on Customer's Premises, Cont'd.**

**2.14.9** The Customer or Authorized User is responsible for ensuring that any Customer-provided equipment connected to the Company's services and equipment is compatible with such Company services and equipment. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company provided equipment and wiring or injury to the Company's employees or to other persons. The Customer will submit to the Company a complete manufacturer's specification sheet for each item of equipment that is not provided by the Company and which shall be directly attached to the Company's services and equipment. The Company shall approve the use of such item(s) of equipment unless such item is technically incompatible with the Company's services or equipment. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

**2.14.10** Any special interface equipment necessary to achieve compatibility between the services and equipment of the Company used for furnishing services or equipment of others shall be provided at the Customer's expense.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.15 Obligations of the Customer**

The Customer shall be responsible for:

- 2.15.1** The payment of all applicable charges as set forth in this tariff.
- 2.15.2** Damage or loss of the Company's services or equipment caused by the acts or omissions of the Customer or Authorized User, or the noncompliance by the Customer or Authorized User with these regulations, or by fire or theft or other casualty on the premises of the Customer or Authorized User, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- 2.15.3** Providing as specified from time to time by the Company any needed personnel, equipment, space and power to operate Company services and equipment installed on the premises of the Customer or Authorized User and the level of power, heating and air conditioning necessary to maintain the proper environment on such premises;
- 2.15.4** Obtaining, maintaining, and otherwise having full responsibility for rights-of-way and conduit necessary for installation of equipment to provide service to the Customer or Authorized User from the cable building entrance or the property line of the land on which the structure in which the Customer's Premise or End-User's Premise is located to the applicable Premise. Any and all costs associated with the obtaining and maintaining of the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided service or equipment, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.15 Obligations of the Customer, Cont'd.**

- 2.15.5** Providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's services and equipment. The Customer may be required to install and maintain Company services and equipment within a hazardous area if, in the Company's opinion, injury to Company employees or property might result from installation or maintenance by the Company.
- 2.15.6** Complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company services and equipment in any Customer or End-User Premise or the rights-of-way for which the Customer or Authorized User is responsible, and obtaining permission for Company agents or employees to enter the Customer or End-User Premise at any reasonable hour for the purpose of installing, inspecting, repairing, or, upon termination of service as stated herein, removing the services and equipment of the Company;
- 2.15.7** Making Company services and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes;
- 2.15.8** Keeping the Company's services and equipment located on the Customer's or End-User's Premise or rights-of way obtained by the Customer free and clear of any liens or encumbrances relating to the Customer's use of the Company's services or to the locations of such services and equipment.
- 2.15.9** Customer-provided equipment on the Customer or End-User Premises, the operating personnel there, and the electric power consumed by such equipment, shall be provided by and maintained at the expense of the Customer or Authorized User. Conformance of Customer-provided equipment with part 68 of the FCC Rules is the responsibility of the Customer.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.15 Obligations of the Customer, Cont'd.**

- 2.15.10** The Customer or Authorized User is responsible for ensuring that Customer-provided equipment connected to Company services and equipment is compatible with such services and equipment. The magnitude and character of the voltages and currents impressed on Company provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or other persons.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.16 Customer Liability for Unauthorized Use of the Network**

Unauthorized use of the network occurs when a person or entity that does not have actual, apparent, or implied authority to use the network, obtains the Company's services provided under this tariff.

**2.16.1 Customer Liability for Fraud and Unauthorized Use of the Network**

- .1 The Customer is liable for the unauthorized use of the network obtained through the fraudulent use of a Company PIN, or an accepted credit card, provided that the unauthorized use occurs before the Company has been notified.
- .2 A Company PIN is a unique identifier issued by the Company at the Customer's request, which enables the Customer or user(s) authorized by the Customer to place calls over the Network and to have the charges for such calls billed to the Customer's account.

An accepted credit card is any credit card that a cardholder has requested or applied for and received, or has signed, used, or authorized another person to use to obtain credit. Any credit card issued as a renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

- .3 The Customer must give the Company written or oral notice that an unauthorized use of a Company PIN or an accepted credit card has occurred or may occur as a result of loss, and/or theft.
- .4 The Customer is responsible for payment of all charges for services furnished to the Customer or to users authorized by the Customer to use service provided under this tariff, unless due to the negligence of the Company. This responsibility is not changed due to any use, misuse, or abuse of the Customer's service or Customer-provided equipment by third parties, the Customer's employees, or the public.

The liability of the Customer for unauthorized use of the Network by credit card fraud will not exceed the lesser of fifty dollars (\$50.00) or the amount of money, property, labor, or services obtained by the unauthorized user before notification to the Company.

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**SECTION 2 - REGULATIONS, CONT'D.**

**2.17 Maintenance and Testing**

**2.17.1** Upon suitable notice, the Company may make such tests, adjustments, and inspections as may be necessary to maintain the Company's services and equipment in satisfactory operating condition.

**2.17.2** Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer or Authorized User is complying with the requirements set forth above for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring, in the connection of Customer-provided facilities and equipment to Company-provided services and equipment. If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its services, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten (10) days of receiving this notice, the Customer must take such action. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its services, equipment, and personnel from harm.

**2.18 Nonroutine Installation**

At the Customer's request, installation and/or maintenance will be performed by the Company at additional charges for non-routine situations, including but not limited to, outside regular business hours or in hazardous locations. In such cases, charges based on the Company's customary charges for similar effort and materials will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

**2.19 Contracts**

Contracts will be used in special circumstances for Individual Case Basis ("ICB") service offerings. The terms and conditions of each contract offering are subject to the agreement of both the Customer and the Company. Any specific contract will be made available to similarly situated Customers in substantially similar circumstances. Contracts are available to any similarly situated Customer that places an order within 30 days of their effective date. ICB contracts are subject to Commission review.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS**

**3.1 General**

INET is a reseller of local exchange service company providing basic local exchange communications services throughout Florida.

INET's rates and services are based on the rates and services of the large incumbent local exchange carriers. This tariff documents the rates and services for INET's provision of local exchange service.

Customers are billed based on their use of INET's network and services. Charges may vary by service offering, class of service, CLASS/custom calling feature(s), class of call, time of day, day of week, and/or call duration.

The Company provides access to operator services, "911" services, and relay services for the hearing impaired, as required in Chapter 364.337(2), Fla. Statutes.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.2 Calculation of Distance**

Usage charges for all mileage sensitive services are based on the airline distance between the rate centers associated with the originating and terminating points of the call.

The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal coordinates associated with the rate centers involved. INET uses the rate centers and associated vertical and horizontal coordinates that are produced by Bell Communication Research in their NPA-NXX V&H Coordinates Tape and Bell's NECA No 4.

The distance between the originating and terminating points is calculated by using the "V" and "H" coordinates of the rate centers as defined by BellCore (Bell Communications Research), in the following manner:

**Step 1:** Obtain the "V" and "H" coordinates for the rate center or network access point serving the Customer's location and the called/calling station.

**Step 2:** Obtain the difference between the "V" coordinates. Obtain the difference between the "H" coordinates.

**Step 3:** Square the differences obtained in Step 2.

**Step 4:** Add the squares of the "V" difference and "H" difference obtained in Step 3.

**Step 5:** Divide the sum of the square obtained in Step 4 by ten (10). Round to the next higher whole number if any fraction results from the division.

**Step 6:** Obtain the square root of the whole number obtained in Step 5. Round to the next higher whole number if any fraction is obtained. This is the distance between the originating and terminating locations of the call.

**Formula:**

$$\sqrt{\frac{(V_1 - V_2)^2 + (H_1 - H_2)^2}{10}}$$

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.3 Rate Periods for Time of Day Sensitive Services**

3.3.1 For time of day, usage sensitive services, the following rate periods apply unless otherwise specified in this tariff:

	MON	TUES	WED	THUR	FRI	SAT	SUN
8:00 AM TO 5:00 PM*	DAYTIME RATE PERIOD						
5:00 PM TO 11:00 PM*	EVENING RATE PERIOD						EVE
11:00 PM TO 8:00 AM*	NIGHT/WEEKEND RATE PERIOD						

\* Up to, but not including.

3.3.2 Calls are billed based on the rate in effect for the actual time period(s) during which the call occurs. Calls that cross rate period boundaries are billed the rates in effect in that boundary for each portion of the call, based on the time of day at the Customer location.

3.3.3 For services subject to holiday discounts, the following are Company recognized national holidays, determined at the location of the calling station. The evening rate is used on national holidays, unless a lower rate normally would apply.

New Year's Day	January 1
Memorial Day	As Federally Observed
Independence Day	July 4
Thanksgiving Day	As Federally Observed
Christmas Day	December 25

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.4 Call Timing for Usage Sensitive Services**

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

- 3.4.1 Calls are measured in durational increments identified for each service. All calls which are fractions of a measurement increment are rounded-up to the next whole unit.
- 3.4.2 Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s).
- 3.4.3 Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.
- 3.4.4 Calls originating in one time period and terminating in another will be billed in proportion to the rates in effect during different segments of the call.
- 3.4.5 All times refer to local time.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.5 INET Services**

**3.5.1 INET Service 1**

INET Service 1 is provided to business and residential customers for inbound and outbound calling within a local exchange calling area. Service is offered on a prepaid basis only. All charges must be paid prior to activation. Monthly charges must be paid in order for service to continue uninterrupted.

This service allows Customers unlimited calling each month within the local exchange calling area, including calls to 411 and 911 services. All access lines are toll restricted. In addition, lines are blocked from originating 700, 900, 950, 976, 10XXX/101XXX and all 0+ and 00+ operator assisted calling. Calls from some locations that do not have screening capabilities may not be capable of blocking. In that case, Customers will be responsible for any charges for non-blockable services that are used or assessed via the Customer's lines.

Service is provided on a month-to-month, prepaid basis only. The minimum service term period for this service is one (1) month. Service will terminate automatically at the end of the prepaid term unless the Customer prepays for an additional term.

Customers are billed a one-time activation charge for each Prepaid Account and a monthly recurring charge for usage. A monthly Notice to Replenish will be sent advising Customers that the next month's payment is due. If payment is not received prior to the start date of the next month service Customers will be charged a \$10.00 late fee and service will be suspended for 10 days. A new Service Establishment charge applies if prepayment for the additional month's service is not received within 10 days after service is suspended.

Monthly Service Fee includes all taxes and surcharges.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.5 INET Services, Cont'd.**

**3.5.2 INET Service 2**

INET Service 2 is provided to business and residential customers as a package of telecommunications services. There are several packages to choose from depending upon a Customers' calling patterns. All packages include local and long distance calling. Service is offered on a prepaid basis only. All charges must be paid prior to activation. monthly charges must be paid in order for service to continue uninterrupted.

Service is provided on a month-to-month, prepaid basis only. The minimum service term period for this service is one (1) month. Service will terminate automatically at the end of the prepaid term unless the Customer prepays for an additional term.

Customers are billed a one-time activation charge for each Prepaid Account and a monthly recurring charge for usage. A monthly Notice to Replenish will be sent advising Customers that the next month's payment is due. If payment is not received prior to the start date of the next month service Customers will be charged a \$10.00 late fee and service will be suspended for 10 days. A new Service Establishment charge applies if prepayment for the additional month's service is not received within 10 days after service is suspended.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.7 Custom Calling Features**

The following Custom Calling Features are only available where facilities permit. Priority Ringing, Repeat Dialing, Call Return and Call Screening will only operate when both the caller and the call recipient are served from capable switches within the same local calling area.

1. **Call Waiting:** Notifies the Customer, engaged in a call, of an incoming call through a tone signal. Customers may place the first call on hold and answer the waiting call by operation of the switchhook, and may alternate between the two calls. A three-way conference cannot be established through this service.
2. **Call Forwarding:** Permits the Customer to automatically transfer all incoming calls to another telephone number of their choice and restore it to normal operation at their discretion. Calls may only be forwarded to other telephone numbers within the same local exchange calling area.
3. **Speed Dialing:** Permits the Customer to dial selected numbers by means of an abbreviated code. This feature is available in either an 8 number or a 30 number capacity. The Speed Calling List can only accommodate a number consisting of 15 digits or less.
4. **Three-Way Calling:** Allows the addition of a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The initiator of the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. This feature may be used on both incoming and outgoing calls.
5. **Priority Ringing:** Differentiates incoming calls from up to ten preselected telephone numbers by signaling with a distinctive ringing pattern.
6. **Repeat Dialing:** Allows calls to be automatically redialed when the first attempt reaches a busy number. The line is checked every 45 seconds for up to thirty (30) minutes and alerts the originating telephone line with a distinctive ringing pattern when the busy number and the originating line are free.
7. **Call Screening:** Allows the automatic blocking of incoming calls from up to ten preselected telephone numbers. The listing of numbers can be changed at any time. Callers whose numbers have been blocked will hear a recorded message.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.7 Custom Calling Features, Cont'd.**

8. Call Return: Allows the return of a call to the last incoming call whether answered or not. Upon activation it will redial the number automatically and continue to check the number every 45 seconds for up to 30 minutes if the number is busy. A distinctive ringing pattern signals when the busy number is free. When answered the call is then completed. The calling party's number is not delivered or announced to the call recipient.
9. Anonymous Call Rejection; Allows the automatic blocking of incoming calls from callers who have blocked the transmission of Caller ID signaling. Callers whose calls are blocked will hear a recorded message.
10. Remote Access to Call forwarding requires a preassigned ten digit telephone number access code per switch capable of provisioning the service and a PIN which must be a minimum of four digits. The PIN is fixed by the Service Order.
11. Remote Access to Call Forwarding is available only in conjunction with Call Forwarding and allows the Customer to remotely and automatically transfer all incoming calls to another telephone number of their choice and restore it to normal operation at their discretion. Calls may only be forwarded to other telephone numbers within the same local exchange calling area.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.8 Listing Services**

For each Customer of Company-provided Exchange Service(s), the Company shall arrange for the Listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the area at no additional charge. At a Customer's option, the Company will arrange for additional Listings for an additional charge.

**3.8.1 Free Listings**

The following listings are provided at no additional charge to the Customer:

one listing for each individual line service, auxiliary line or PBX system.

**3.8.2 Non-Published Service**

This optional service provides for suppression of printed and recorded directory Listings. A Customer's name and number do not appear in printed directories or Directory Assistance Bureau records.

**3.8.3 Non-Listed Service**

This optional service provides for suppression of printed directory Listings only. Parties may still obtain the Customer's number by calling the Directory Assistance Bureau.

**3.8.4 Additional Listing**

The rates and charges for additional listings apply to listings requested by the Customer over and above those free listings provided for in Section 3.8.1.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.9 Directory Assistance**

Provides for identification of telephone directory numbers, via an operator or automated platform. Customers are provided with a maximum of 2 Listings per each call to Directory Assistance. Residential and Business Customer will receive three (3) free directory assistance calls during each billing cycle. No credit will be given for any unused portion of the customer's allowance. No credit will be given for requested telephone numbers that are not found in the directory. Customers may reach Directory Assistance by dialing direct or by having the call billed to a calling card or third number.

**3.10 Directory Assistance Call Completion**

Directory Assistance Call Completion (DACC) is a service that provides customers the option of having their local or intraLATA calls automatically completed when they request a telephone listing from the Directory Assistance operator. The call may be completed automatically or by the Directory Assistance operator.

The DACC portion of the call may either be billed in the same manner as the DA portion or alternately billed by using a calling card, billing to a third number, or collect.

There are no allowances for DACC, however, the Directory Assistance portion of the call is still governed by the appropriate call allowance as stated in Section 3.9.

**3.11 National Directory Assistance Service**

National Directory Assistance Service is provided to customers of the Company for the purpose of requesting telephone numbers of individuals or businesses who are located outside the customer's local Directory Assistance service area.

There are no call allowances or exemptions for National Directory Assistance.

A maximum of two(2) requested telephone numbers are allowed per call.

This service may be alternately billed by using a calling card, billing to a third number, or collect. Operator-handled charges, as specified in this tariff, apply as appropriate.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.12 Telecommunications Relay Service**

For intrastate toll calls received from the relay service, call charges shall be discounted by 50% from the otherwise applicable usage rate for a voice non-relay call, except that where the calling or called party indicates that either party is both hearing and visually impaired, the call shall be discounted 60 percent. The above discounts apply only to time-sensitive elements of a charge for the call and shall not apply to per call charges such as a credit call surcharge.

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**SECTION 3 - BASIC SERVICE DESCRIPTIONS, CONT'D.**

**3.13 Discounts for Hearing Impaired Customers**

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

**3.14 Emergency Call Exemptions**

The following calls are exempted from all charges: Emergency calls to recognizable authorized civil agencies including police, fire, ambulance, bomb squad and poison control. INET will only handle these calls if the caller dials all of the digits to route and bill the call. Credit will be given for any billed charges pursuant to this exemption on a subsequent bill after verified notification by the billed Customer within thirty (30) days of billing.

**3.15 Emergency Services Calling Plan**

Access (at no additional charge) to the local operator or emergency services bureau by dialing 0- or 9-1-1 is offered at no charge to the Customer. 9-1-1 service will be maintained during temporary disconnections for nonpayment of a residential subscriber's local exchange service.

Message toll telephone calls, to governmental emergency service agencies as set forth in (A) following, having primary or principal responsibility with respect to the provision of emergency services to persons and property in the area from which the call is made, meeting the definition and criteria of an emergency call as set forth in (B) following are offered at no charge to Customers:

- A. Governmental fire fighting, Florida State Highway Patrol, police, and emergency squad service (as designated by the appropriate governmental agency) qualify as governmental emergency service agencies provided they answer emergency service calls on a personally attended (live) twenty-four (24) hour basis, three hundred sixty-five (365) days a year, including holidays.
- B. An emergency is an occurrence or set of circumstances in which conditions pose immediate threat to human life, property, or both and necessitate that prompt action be taken. An emergency call is an originated call of short duration to a governmental emergency services agency in order to seek assistance for such an emergency.

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**SECTION 4 - RATES**

**4.1 INET Services, Cont'd.**

**4.1.1 Rates and Charges**

There is a Service Establishment Charge per line, per order to process an order for service. In addition, there is a charge per Custom Calling Feature ordered. The \$10.00 per feature ordering charge is waived if features are ordered at the time of initial order. Descriptions of additional customer calling features are as described in Section 3.7.

1. INET 1 Service:

Service Establishment:	\$69.95
Monthly Charge	\$49.95
Custom Calling Features:	
Call Waiting	No additional charge

2. INET 2 Service - Basic Plan:

Service Establishment:	\$49.95
Monthly Charge	\$49.95
Custom Calling Features:	None

3. INET 2 Service - Plan 1: A prepaid service plan which includes Call Waiting and 100 minutes of intrastate toll calling. An additional two Custom Calling Features may be added for an additional fee.

Service Establishment:	\$89.95
Monthly Charge:	\$69.95
Custom Calling Features:	
Call Waiting	No additional charge
Choice of any two	\$12.00

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**SECTION 4 - RATES, CONT'D.**

**4.1 INET Services, Cont'd.**

**4.1.1 Rates and Charges, Cont'd.**

4. INET 2 Service - Plan 2: A Prepaid Local Exchange Service II plan which includes Call Waiting and 200 minutes of intrastate toll calling. The Customer may choose any additional Custom Calling Features for an additional charge per feature, per month.

Service Establishment:	\$99.95
Monthly Charge:	\$89.95
Custom Calling Features:	
Call Waiting	No additional charge
Any two additional:	\$12.00

5. INET 2 Service - Plan 3: A Prepaid Local Exchange Service II plan which includes Call Waiting and 300 minutes of intrastate toll calling. An additional two Custom Calling Features may be added for an additional fee.

Service Establishment:	\$69.95
Monthly Charge:	\$89.95
Custom Calling Features:	
Call Waiting	No additional charge
Each additional feature:	\$5.00

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**SECTION 4 - RATES, CONT'D.**

**4.2 Custom Calling Features**

**4.2.1 Features Offered on a Usage Sensitive Basis**

The features in this section are made available to Residential and Business Customers on a per use basis. All features are provided subject to availability. Customers may utilize each feature by dialing the appropriate access code. The Customer will be billed the per feature activation charge shown in the table below each time a feature is used by the Customer. Transmission levels for calls forwarded or calls placed or received using optional calling features may not be acceptable for all some uses in some cases.

**A. Rates**

<b>Optional Calling Features</b>	<b>Business</b>	<b>Residential</b>
Three-Way Calling	\$0.75	\$0.75
Call Return	\$0.75	\$0.75
Busy Connect	\$0.75	\$0.75
Repeat Dialing	\$0.75	\$0.75
Calling Number Delivery Blocking, Per Call	\$0.75	No Charge

Denial of per call activation for Three-Way Calling, Call Return and Repeat Dialing from any line or trunk is available to Customers upon request at no additional charge.

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**SECTION 4 - RATES, CONT'D.**

**4.3 Listing Services**

**4.3.1 Rates and Charges**

**A. Residential**

	<b>Incumbent Local Exchange Area</b>			
	<b>Bell</b>	<b>GTE</b>	<b>Centel</b>	<b>UTF</b>
Non-Published Number, per line	\$1.65	\$2.00	\$2.30	\$2.30
Non-Listed Number, per line	\$0.70	\$1.10	\$0.95	\$0.95
Additional Listing, per Listing	\$1.20	\$0.95	\$1.25	\$1.25

**B. Business**

	<b>Incumbent Local Exchange Area</b>			
	<b>Bell</b>	<b>GTE</b>	<b>Centel</b>	<b>UTF</b>
Non-Published Number, per line	\$1.65	\$2.00	\$2.30	\$2.30
Non-Listed Number, per line	\$0.70	\$1.10	\$0.95	\$0.95
Additional Listing, per Listing	\$1.20	\$1.25	\$1.25	\$1.25

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**SECTION 4 - RATES, CONT'D.**

**4.4 Directory Assistance**

**4.4.1 Rates**

**A. Basic Directory Assistance**

	<b>Incumbent Local Exchange Area</b>			
	<b>Bell</b>	<b>GTE</b>	<b>Centel</b>	<b>UTF</b>
Directory Assistance, per call	\$0.25	\$0.40	\$0.45	\$0.45

**B. Directory Assistance Call Completion**

Per completed call \$0.45

**C. National Directory Assistance**

Direct dialed \$0.95

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## SECTION 5 - MISCELLANEOUS SERVICES

### 5.1 Operator Services

Operator Handled Calling Services are provided to Customers and Users of Company-provided Exchange Access Services, and to Customers and Users of exchange access lines.

#### 5.1.1 Definitions

Collect Billing - A billing arrangement whereby the originating caller may bill charges for a call to the called party, provided the called party agrees to accept the charges. The terms and conditions of the called party's local exchange company apply to payment arrangements.

Person-to-Person: Calls completed with the assistance of a Company operator to a particular person, station, department, or PBX extension specified by the calling party. Charges may be billed to the Customer's commercial credit card and/or LEC calling card, calling station, called station, or a designated third-party station. Calls may be dialed with or without the assistance of a Company operator.

Station-to-Station Card: Refers to calls other than person-to-person calls billed to either the end user's commercial credit card and/or nonproprietary calling card. Calls may be dialed with or without the assistance of a Company operator. Collect calls to coin telephones and transfers of charges to third telephones which are coin telephones will not be accepted.

Operator Dialed Charge: The end user places the call without dialing the destination number, although the capability to do it himself exists. The end user will dial "0" for local calls and "00" for long distance calls and then request the operator to dial the called station.

Third Party Billing - A billing arrangement by which the charges for a call may be billed to a telephone number that is different from the calling number and the called number. The terms and conditions of the third party's local exchange company apply to payment arrangements.

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**SECTION 5 - MISCELLANEOUS SERVICES, CONT'D.**

**5.1 Operator Services, Cont'd.**

**5.1.1 Definitions**

Operated Dialed Surcharge: Station-to-Station operator assisted or Person-to-Person operator assisted calls (excluding those billed to calling cards) where the operator dials the terminating number. Operator Dialed Surcharge is in addition to any applicable Billing Surcharge. The following Operator Assisted Local Calls are exempted from the service charge:

- (1) Calls to designated Company numbers for official telephone business;
- (2) Emergency calls to recognizable authorized civil agencies;
- (3) Those cases where a Company operator provides assistance to:
  - (a) Re-establish a call which has been interrupted after the calling number has been reached.
  - (b) Reach the calling telephone number where facility problems prevent customer dial completion.
  - (c) Place a sent-paid call for a calling party who identifies himself as being handicapped and unable to dial the call because of his handicap.

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**SECTION 5 - MISCELLANEOUS SERVICES, CONT'D.**

**5.2 Local Operator Service**

**5.2.1 Service Charges**

Local exchange calls may be placed on an Operator Assisted basis. Service charges for Operator Assisted calls are detailed below. These charges are in addition to, if any, usage rates.

	<u>Per Call</u>
Station-to-Station Card	\$0.75
Operator Calling Card	\$1.52
3rd Number Billing	\$2.98
Collect Calls	\$2.98
Person to Person	\$2.98
Operator Dialed Surcharge	\$0.60

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**SECTION 5 - MISCELLANEOUS SERVICES, CONT'D.**

**5.2 Local Operator Service, Cont'd.**

**5.2.3 Busy Line Verify and Line Interrupt Service**

Upon request of a calling party the Company will verify a busy condition on a called line.

- A. The operator will determine if the line is clear or in use and report to the calling party.
- B. The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.
- C. A charge will apply when:
  - 1) The operator verifies that the line is busy with a call in progress.
  - 2) The operator verifies that the line is available for incoming calls.
  - 3) The operator verifies that the called number is busy with a call in progress and the customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.
- D. No charge will apply when the calling party advises that the call is to or from an official public emergency agency.
- E. Business Verification and Interrupt Service is furnished where and to the extent that facilities permit.
- F. The Customer shall identify and hold the Company harmless against all claims that may arise from either party to the interrupted call or any person.

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**SECTION 5 - MISCELLANEOUS SERVICES, CONT'D.**

**5.2 Local Operator Service, Cont'd.**

**5.2.3 Busy Line Verify and Line Interrupt Service, Cont'd.**

**G. Rates**

Busy Line Verify Service	\$0.95 (each request)
Busy Line Verify and Busy Line Interrupt Service	\$0.50 (each request)

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**SECTION 5 - MISCELLANEOUS SERVICES, CONT'D.**

**5.3 Carrier Presubscription**

**5.3.1 General**

Carrier Presubscription is a procedure whereby a Customer designates to the Company the carrier which the Customer wishes to be the carrier of choice for intraLATA and interLATA toll calls. Such calls are automatically directed to the designated carrier, without the need to use carrier access codes or additional dialing to direct the call to the designated carrier. Presubscription does not prevent a Customer who has presubscribed to an IntraLATA or InterLATA toll carrier from using carrier access codes or additional dialing to direct calls to an alternative long distance carrier on a per call basis.

**5.3.2 Presubscription Options** - Customers may select the same carrier or separate carriers for intraLATA and interLATA long distance. The following options for long distance Presubscription are available:

**Option A:** Customer select the Company as the presubscribed carrier for IntraLATA and InterLATA toll calls subject to presubscription.

**Option B:** Customer may select the Company as the presubscribed carrier for IntraLATA calls subject to presubscription and some other carrier as the presubscribed carrier for interLATA toll calls subject to presubscription.

**Option C:** Customer may select a carrier other than the Company for intraLATA toll calls subject to presubscription and the Company for interLATA toll calls subject to presubscription.

**Option D:** Customer may select the carrier other than the Company for both intraLATA and interLATA toll calls subject to presubscription

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**SECTION 5 - MISCELLANEOUS SERVICES, CONT'D.**

**5.3 Carrier Presubscription, Cont'd.**

**5.3.2 Presubscription Options, Cont'd**

**Option E:** Customer may select two different carriers, neither being the Company for intraLATA and interLATA toll calls. One carrier to be the Customers' primary intraLATA interexchange carrier. The other carrier to be the Customer's primary interLATA interexchange carrier.

**Option F:** Customer may select a carrier other than the Company for no presubscribed carrier for intraLATA toll calls subject to presubscription which will require the Customer to dial a carrier access code to route all intraLATA toll calls to the carrier of choice for each call.

**5.3.3 Rules and Regulations**

Customers of record will retain their primary interexchange carrier(s) until they request that their dialing arrangements be changed.

Customers of record or new Customers may select either Options A, B, C, D, E or F for intraLATA Presubscription.

Customers may change their selected Option and/or presubscribed toll carrier at any time subject to charges specified in 9.4.5 below:

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**SECTION 5 - MISCELLANEOUS SERVICES, CONT'D.**

**5.3 Carrier Presubscription, Cont'd.**

**5.3.4 Presubscription Procedures**

A new Customer will be asked to select intraLATA and interLATA toll carriers at the time the Customer places an order to establish local exchange service with the Company. The Company will process the Customer's order for service. All new Customers' initial requests for intraLATA toll service presubscription shall be provided free of charge.

If a new Customer is unable to make selection at the time the new Customer places an order to establish local exchange service, the Company will read a random listing of all available intraLATA and interLATA carriers to aid the Customer in selection. If selection is still not possible, the Company will inform the Customer that he/she will be given 90 calendar days in which to inform the Company of his/her choice for primary toll carrier(s) free of charge. Until the Customer informs the Company of his/her choice of primary toll carrier, the Customer will not have access to long distance services on a presubscribed basis, but rather will be required to dial a carrier access code to route all toll calls to the carrier(s) of choice. Customers who inform the Company of a choice for toll carrier presubscription within the 90 day period will not be assessed a service charge for the initial Customer request.

Customers of record may initiate a intraLATA or interLATA presubscription change at any time, subject to the charges specified below. If a Customer of record inquires of the Company of the carriers available for toll presubscription, the Company will read a random listing of all available intraLATA carriers to aid the Customer in selection.

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**SECTION 5 - MISCELLANEOUS SERVICES, CONT'D.**

**5.3 Carrier Presubscription, Cont'd.**

**5.3.5 Presubscription Charges**

**A. Application of Charges**

After a Customer's initial selection for a presubscribed toll carrier and as detailed in above, for any change thereafter, an Presubscription Change Charge, as set for the below will apply. Customers who request a change in intraLATA and interLATA carriers with the same order will be assessed a single charge per line.

**B. Nonrecurring Charges**

Per business or residence line, trunk, or port

Initial Line, or Trunk or Port	\$1.49
Additional Line, Trunk or Port	\$1.49

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May 10, 2000

**Overnight**

Blanca Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oaks Boulevard  
Tallahassee, FL 32399-0870

DEPOSIT

D2 93

DATE

(MAY 12 2000)

000576 -TX

RE: **Initial Alternative Local Exchange Carrier Application of  
Coyote Metro, LLC d/b/a INET Local Phone Service**

Dear Ms. Bayo:

Enclosed for filing are the original and six copies of the above referenced application of Coyote Metro, LLC d/b/a INET Local Phone Service to provide Alternative Local Exchange Carrier Service in Florida. The company primarily offers bundled local and long distance services and has simultaneously filed an application and tariff for interexchange service.

The company has filed for interexchange authority under a separate application and submitted the \$250 filing fee at that time. Questions pertaining to this application or tariff should be directed to my attention at (407) 740-8575.

Please acknowledge receipt of this filing by returning, file-stamped, the extra copy of this cover letter in the self-addressed, stamped envelope enclosed for this purpose.

Thank you for your assistance.

Sincerely,

Monique Bynes  
Consultant to  
Coyote Metro, Inc.

cc: H. Legendre, Coyote  
file: Coyote - FL  
tms: fil0000

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:

W.S.



210 N. Park Ave.  
Winter Park, FL  
32789

P.O. Drawer 200  
Winter Park, FL  
32790-0200

Tel: 407-740-8575  
Fax: 407-740-0613  
tmi@tminc.com

May 10, 2000

**Overnight**

Blanca Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oaks Boulevard  
Tallahassee, FL 32399-0870

DEPOSIT  
D293

DATE  
MAY 12 2000

000576-TX

RE: Initial Alternative Local Exchange Carrier Application of  
**Coyote Metro, LLC d/b/a INET Local Phone Service**

Dear Ms. Bayo:

Enclosed for filing are the original and six copies of the above referenced application of Coyote Metro, LLC d/b/a INET Local Phone Service to provide Alternative Local Exchange Carrier Service in Florida. The company primarily offers bundled local and long distance services and has simultaneously filed an application and tariff for interexchange service.

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Thank you for your assistance.

TECHNOLOGIES MANAGEMENT, INC.

P.O. BOX 200  
WINTER PARK, FL 32790-0200  
(407) 740-8575

BANK OF AMERICA  
WINTER PARK, FL 32789  
63-27/631

26229

5/9/2000

PAY TO THE ORDER OF Florida Public Service Commission

\$ \*\*250.00

Two Hundred Fifty and 00/100\*\*\*\*\*

Florida Public Service Commission  
Records & Reporting  
2540 Shumard Oaks Blvd.  
Tallahassee, FL 32302-1500

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MEMO florida Public Service Commission

TECHNOLOGIES MANAGEMENT, INC.

0026229

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MP