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GREENSFELDER, HEMKER & GALE
BELLEVILLE, ILLINOIS

April 28, 2000

FILED

MAY 1 2000

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
301 West High Street, Room 530
Jefferson, City, MO 65102

Missouri Public
Service Commission

TA-2000-712

**Re: Application for Certificate of Service Authority
and for Competitive Classification**

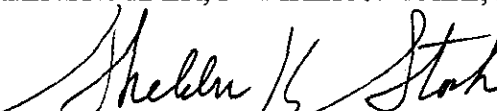
Dear Mr. Roberts,

Enclosed please find a set of an original and fourteen (14) copies of the Application for Certificate of Service Authority and for Competitive Classification filed on behalf of Fidelity Communication Services III, Inc. In addition, I have included an extra copy of the Application which I request be file stamped and returned to me in the enclosed self-addressed envelope.

In the event you need any additional information or have any questions concerning any of the information set forth in this Application, please contact the undersigned.

Yours very truly,

GREENSFELDER, HEMKER & GALE, P.C.

By 
Sheldon K. Stock

SKS/kka
Enclosures
389037.1

cc: Office of Public Counsel
Mr. John T. Davis

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

MAY 1 2000

Missouri Public
Service Commission

In the matter of the Application of)
Fidelity Communication Services III, Inc.)
for a certificate of service authority)
provide Basic Local Telecommunications)
Service in portions of the State of)
Missouri and to classify said services and)
the company as competitive)

Case No. TA-2000-712

APPLICATION FOR CERTIFICATE OF SERVICE AUTHORITY
AND FOR COMPETITIVE CLASSIFICATION

Comes now Fidelity Communication Services III, Inc. ("Applicant"), by its undersigned counsel, and hereby applies pursuant to Sections 392.361, 392.420, and 392.430 RSMo 1994, 392.410, 392.450 RSMo Supp. 1996, the federal Telecommunications Act of 1996, and 4 CSR 240-2.060, for authority to provide basic local telecommunications service in portions of the State of Missouri and to classify said service and company as competitive. In support of this application Applicant states as follows:

1. Applicant is a corporation duly organized and existing under and by virtue of the laws of the State of Missouri. The principal place of business of Applicant is:

Mr. John T. Davis, President
Fidelity Communication Services III, Inc.
60 North Clark
Sullivan, Missouri 63080

A copy of the Applicant's Certificate of Incorporation is attached hereto as **Exhibit I**. A copy of the Applicant's current good standing certificate from the Missouri Secretary of State is attached hereto as **Exhibit II**.

2. All inquiries, correspondence, communications, pleadings, notices, orders and decisions relating to the case should be addressed to:

Sheldon K. Stock, Esq., MBE #18581
Greensfelder, Hemker & Gale, P.C.
10 South Broadway, Suite 2000
St. Louis, Missouri 63102-1774

3. Applicant proposes to provide basic local exchange telecommunications service on a facilities and resold basis throughout all exchanges currently served by the incumbent local exchange telecommunication company of Southwestern Bell Telephone Company (SWBT). The specific SWBT exchanges within which Applicant proposes to offer service are listed in the incumbent provider's local exchange tariffs. Applicant may seek authority to provide this service in other areas of the state in a subsequent proceeding.

4. Pursuant to this application Applicant seeks to offer and provide all forms of basic local telecommunications service and long distance telephone services and high speed Internet access by leasing inter-exchange and local facilities from local carriers and by constructing the facilities necessary to provide the proposed services.

5. Applicant possesses the technical and managerial expertise and experience necessary to provide the services it proposes. Description of backgrounds of Applicant's management, which demonstrate the extensive experience and expertise, are attached hereto and incorporated herein by reference as **Exhibit III**. Applicant also possesses the necessary financial resources. A copy of Applicant's balance sheet and income statement is attached as **Exhibit IV**.

6. Applicant seeks classification of itself and its services as competitive.

7. Applicant will offer basic local telecommunications service as a separate and distinct service in accordance with applicable law. Applicant will give consideration to equitable access of all Missourians, regardless of where they might reside or their income, to affordable

telecommunications services in Applicant's proposed service areas in accordance with applicable law.

8. Applicant is willing to comply with all applicable Commission rules and is willing to meet all relevant service standards, including, but not limited to billing, quality of service, and tariff filing and maintenance. Consistent with the Commission's treatment of other certificated competitive local exchange telecommunications companies, Applicant requests that the following statutes and regulations be waived for Applicant and its basic local exchange service offerings:

<u>Statutes</u>	<u>Missouri Public Service Commission Rules</u>
392.210.2	4 CSR 240-10.020
392.270	4 CSR 240-30.040
392.280	4 CSR 240-35
392.290.1	
392.300.2	
392.310	
392.320	
392.330	
392.340	

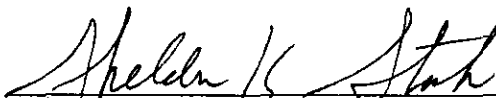
9. Applicant further requests a temporary waiver of 4 CSR 240-2.060(4)(H). This rule requires that an application for a certificate of service authority to provide interexchange, local exchange or basic local exchange service shall include a proposed tariff with a forty-five day effective date. Applicant finds it impossible at this time to develop tariffs to fully comply with this rule since Applicant has not yet executed or received Commission approval of any resale agreements with incumbent local exchange companies. At such time as all facts necessary for the development of such tariffs are known to Applicant, it will promptly file said tariffs bearing no less than a 30 day effective date with the Commission in a manner consistent with recent Commission practice in similar cases.

10. Applicant is willing to comply with all applicable Commission rules and is willing to meet all relevant service standards including, but not limited to, quality of service, billing, and tariff filing and maintenance.

11. Applicant submits that the public interest will be served by Commission approval of this application because Applicant's proposed services will create and enhance competition and expand customer service options consistent with the legislative goals set forth in the federal Telecommunications Act of 1996 and Chapter 392 RSMo. Prompt approval of this application also will expand the availability of innovative, high quality, and reliable telecommunications services within the State of Missouri.

WHEREFORE, Applicant, Fidelity Communication Services III, Inc. respectfully requests that the Commission grant it a certificate of service authority to provide basic local telecommunications services as herein requested, classify Applicant and its proposed services as competitive, and grant a waiver of the aforesaid statutes and regulations.

Respectfully submitted,



Sheldon K. Stock, Esq., MBE #18581
Greensfelder, Hemker & Gale, P.C.
10 South Broadway, Suite 2000
St. Louis, Missouri 63102

ATTORNEY FOR APPLICANT

ATTACHED EXHIBITS

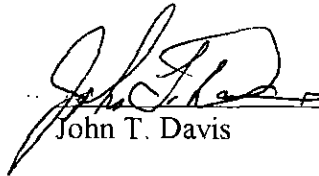
Exhibit I	Certificate of Incorporation
Exhibit II	Missouri Good Standing Certificate
Exhibit III	Managerial Expertise
Exhibit IV	Financial Information

AFFIDAVIT

Before me, the undersigned authority, personally appeared John T. Davis, who, being by me duly sworn, deposed as follows:

My name is John T. Davis, I am the President of Fidelity Communication Services III, Inc. and of sound mind, capable of making this affidavit, and personally acquainted with the facts herein stated:

1. Fidelity Communication Services III, Inc., a Missouri corporation, is in good standing and is authorized to conduct the business proposed in this application.
2. The undersigned has reviewed the above Application and certifies that the information set forth therein is true, accurate and complete, to the best of his knowledge and belief.

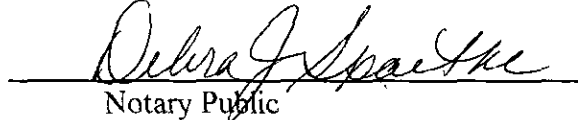


 John T. Davis

STATE OF MISSOURI)
)
 COUNTY OF ^{St. Louis} ~~CRAWFORD~~) ss.

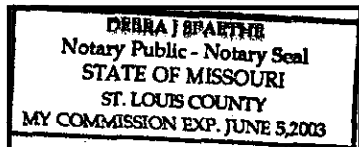
On this 28th day of April, 2000, before me personally appeared John T. Davis, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.



 Notary Public

My term expires:



No. 00472767

STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION

CERTIFICATE OF CORPORATE RECORDS

FIDELITY COMMUNICATION SERVICES III, INC.

I, REBECCA McDOWELL COOK, Secretary of State of the State of Missouri and Keeper of the Great Seal thereof, do hereby certify that the annexed pages contain a full, true and complete copy of the original documents on file and of record in this office.

IN TESTIMONY WHEREOF, I have set my hand and imprinted the GREAT SEAL of the State of Missouri, on this, the 25th day of APRIL, 2000.

Rebecca McDowell Cook
Secretary of State



STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION
CERTIFICATE OF INCORPORATION

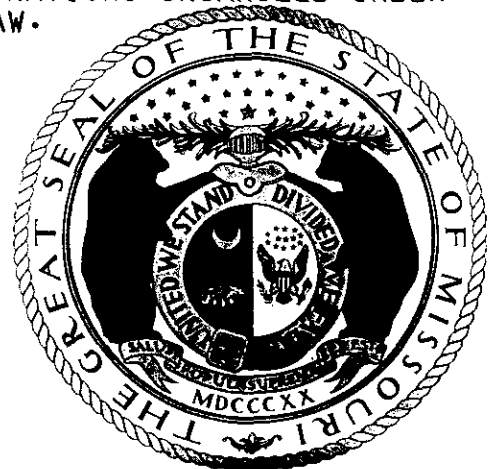
WHEREAS, DUPLICATE ORIGINALS OF ARTICLES OF INCORPORATION OF FIDELITY COMMUNICATION SERVICES III, INC.

HAVE BEEN RECEIVED AND FILED IN THE OFFICE OF THE SECRETARY OF STATE, WHICH ARTICLES, IN ALL RESPECTS, COMPLY WITH THE REQUIREMENTS OF GENERAL AND BUSINESS CORPORATION LAW;

NOW, THEREFORE, I, REBECCA MCDOWELL COOK, SECRETARY OF STATE OF THE STATE OF MISSOURI, BY VIRTUE OF THE AUTHORITY VESTED IN ME BY LAW, DO HEREBY CERTIFY AND DECLARE THIS ENTITY A BODY CORPORATE, DULY ORGANIZED THIS DATE AND THAT IT IS ENTITLED TO ALL RIGHTS AND PRIVILEGES GRANTED CORPORATIONS ORGANIZED UNDER THE GENERAL AND BUSINESS CORPORATION LAW.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE 6TH DAY OF AUGUST, 1999.

Rebecca McDowell Cook
Secretary of State



\$58.00

FILED AND CERTIFICATE OF
INCORPORATION ISSUED

ARTICLES OF INCORPORATION

AUG 06 1999

OF

~~FILED~~

~~AUG 06 1999~~

~~Rebecca McDowell Cook
SECRETARY OF STATE~~

Rebecca McDowell Cook
SECRETARY OF STATE

FIDELITY COMMUNICATION SERVICES III, INC.

The following Articles of Incorporation are adopted by the undersigned natural person of the age of eighteen (18) years or more for the purpose of forming a Corporation under The General and Business Corporation Law of Missouri:

ARTICLE ONE

The name of the Corporation is Fidelity Communication Services III, Inc.

ARTICLE TWO

The address, including street and number, of the Corporation's initial registered office in this State is 64 North Clark, Sullivan, Missouri 63080, and the name of its initial Registered Agent at said address is John T. Davis.

ARTICLE THREE

The aggregate number, class, and par value of shares which the Corporation has authority to issue is as follows:

Thirty Thousand (30,000) shares of Common Stock at One Dollar (\$1.00) par value

ARTICLE FOUR

No holder of shares of stock of the Corporation shall be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock, or securities convertible into stock, of any class whatsoever, whether now or hereafter authorized, and whether issued for cash, property, services, by way of dividends, or otherwise.

ARTICLE FIVE

The name and place of residence of the sole incorporator is as follows:

Sheldon K. Stock
7120 Wydown Boulevard
St. Louis, Missouri 63105

FILED AND CERTIFICATE OF INCORPORATION ISSUED

FILED AUG 06 1999

AUG 06 1999

ARTICLE SIX

Rebecca McDowell-Cook
SECRETARY OF STATE

The number of Directors to constitute the first Board of Directors shall be three (3). Thereafter, the number of Directors to constitute the Board of Directors of the Corporation shall be as fixed by, or as determined in the manner provided in, the Bylaws of the Corporation. Any change in such number shall be reported to the Secretary of State of Missouri within thirty (30) days after such change becomes effective.

ARTICLE SEVEN

The duration of the Corporation is perpetual.

ARTICLE EIGHT

The corporation is formed for the following purpose:

To engage in any lawful activity for which a corporation may be organized under The General and Business Corporation Law of Missouri.

ARTICLE NINE

The Board of Directors shall have power to adopt, repeal, or amend the Bylaws of the Corporation and to adopt new or additional Bylaws, subject to the paramount right of the shareholders to limit or divest such power and to assume such power to the exclusion of the Board of Directors as the shareholders may determine.

IN WITNESS WHEREOF, these Articles of Incorporation have been signed the 5th day of August, 1999.

Sheldon K. Stock
Sheldon K. Stock, Incorporator

STATE OF MISSOURI)
CITY OF ST. LOUIS) ss.

I, Debra J. Spaethe, a notary public, do hereby certify that on the 5th day of August, 1999, before me personally appeared Sheldon K. Stock; and who, being by me first duly sworn, declared that he is the person who signed the foregoing document as incorporator, and that the statements therein contained are true.

DEBRA J. SPAETHE
Notary Public - Notary Seal
STATE OF MISSOURI
ST. LOUIS COUNTY
MY COMMISSION EXP. JUNE 5, 2003

Debra J. Spaethe
Notary Public

(SEAL)

No. 00472767

STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION

CERTIFICATE OF CORPORATE GOOD STANDING

I, REBECCA McDOWELL COOK, Secretary of State of the State of Missouri, do hereby certify that the records in my office and in my care and custody reveal that

FIDELITY COMMUNICATION SERVICES III, INC.

was incorporated under the laws of this State on the 6th day of AUGUST, 1999, and is in good standing, having fully complied with all requirements of this office.

IN TESTIMONY WHEREOF, I have set my hand and imprinted the GREAT SEAL of the State of Missouri, on this, the 27th day of APRIL, 2000.



Rebecca McDowell Cook
Secretary of State

JOHN T. DAVIS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

John T. Davis is President and Chief Executive Officer of all Fidelity Corporations and acts as general manager of all of the Company's affairs. Mr. Davis and his family own all of the Company's common stock except for 25% which is owned by an Employee Stock Ownership Plan. Mr. Davis literally grew up in the telephone business as his parents owned and operated the Company during his childhood and they saw to it that he began helping out at the Company in various capacities starting at a very early age.

Mr. Davis attended Drury College in Springfield, Missouri and for a time was involved in the oil and gas business as a corporate owner before assuming control of the daily operations as President of Fidelity in 1986.

Since becoming President he has led the Company through a period of aggressive growth and diversification. Early in his tenure as President, he invested heavily in a complete modernization of the technologies employed by the Companies and in 1996 installed yet another generation of updated equipment to properly utilize emerging technological developments and meet competitive challenges.

JOHN E. COLBERT
VICE PRESIDENT – FINANCE

John E. Colbert is Senior Vice President – Finance for all Fidelity Companies. He is responsible for all financial and accounting affairs of the Companies including financial reporting, budgeting, acquisitions/mergers and securing financing. Through subordinate staff, he ensures compliance with professional accounting practices, state and federal telecommunications reporting and governmental regulations.

Mr. Colbert has over 11 years experience in the communications industry which includes telephone, cable TV, cellular (wireless) and as an Internet service provider. In addition, he has worked on numerous acquisition projects in the communications field including international.

Mr. Colbert is a Certified Public Accountant and earned a B.S. - Accountancy from University of Missouri-Columbia. He is a member of both the Missouri Society of CPA and the American Institute of CPA's. He has been with Fidelity for almost nine years and before that worked for a regional public accounting firm.

KENNETH L. REEVES
VICE PRESIDENT – HUMAN RESOURCES

Kenneth L. Reeves is Vice President – Human Resources for all Fidelity Companies. He is responsible for recruitment and selection, salary administration, safety, benefits, training, labor relations and fair employment. He also administers the Companies' risk management and insurance matters.

Mr. Reeves has been with Fidelity for over 12 years. Previously he worked in executive positions in the insurance industry. He graduated St. Louis University, St. Louis, Missouri with an A.B. – Political Science.

JIM CUNNINGHAM
VICE PRESIDENT – OPERATIONS

Jim Cunningham is Vice President – Operations for all Fidelity Companies. He is responsible for planning, coordinating, and directing outside plant including forecasting, design, engineering, construction and maintenance, plus central office additions.

Mr. Cunningham has over thirty years of telephone company experience, all with Fidelity, having worked his way through the various operation functions and earned the top operations management position in the Company. He has completed extensive training in nearly every aspect of telephony from basic electricity to future technologies.

SHELDON K. STOCK
ASSISTANT SECRETARY

Mr. Stock received his B.S./B.A. in Accounting in 1962 from Washington University and is J.D. in 1964 from Washington University. After graduation, he spent three years in the United States Marine Corps with his last post being Chief Defense Counsel for the 3rd Marine Division at Hue, RVN. In 1968, Mr. Stock was an attorney in the St. Louis County Counselor's Office, and he entered private practice in 1969. He has been a member of Greensfelder, Hemker & Gale, P.C. since 1986. Greensfelder is a 100 plus attorney firm located in St. Louis, Missouri with a satellite office in Belleville, Illinois.

Mr. Stock represents primarily privately held companies and provides assistance in virtually all areas of general business concerns including corporate structuring, financing arrangements, successor planning, and employee problems. He has served as a director of the American Bankers Association Law School and as director for 21 years of a publicly traded federal savings bank with assets of 8 billion dollars when it was sold.

In the communications field, Mr. Stock has dealt with acquisitions, reorganizations, and operations of telephone companies, cable TV companies, and related entities. He has negotiated and documented switch purchases, fiber optic leases, tower sites, billing agreements, Internet service provider documentation, channel leases and various other related types of transactions. He has worked on cellular licenses and joint venture agreements, equipment financing arrangements, regulatory issues, and copyright and system security problems. Mr. Stock is a director of Fidelity Communications Co. and its related subsidiaries. He has also participated in negotiations to establish cellular systems in Poland, the Ukraine, and China.

Mr. Stock is a member of the Missouri Bar (Chairman – Property Law Committee 1986 and 1987), the American Bar Association (Member – Section of Business Law, Section of Real Property, Probate and Trust Law, and the Section of Public Utility, Communications and Transportation Law), and the St. Louis County Bar Association (President – 1978; Award as Outstanding Young Lawyer, 1973), and the Forum of Franchising.



Consolidated Financial Statements
Years Ended December 31, 1999 and 1998



BDO Seidman, LLP
Accountants and Consultants



Consolidated Financial Statements

Years Ended December 31, 1999 and 1998

Fidelity Communications Co.

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BDO Seldman, LLP
Accountants and Consultants

720 Olive Street, Suite 2300
St. Louis, Missouri 63101-2387
Telephone: (314) 231-7575
Fax: (314) 621-6891

Independent Auditors' Report

Board of Directors
Fidelity Communications Co.
Sullivan, Missouri

We have audited the accompanying consolidated balance sheets of Fidelity Communications Co. as of December 31, 1999 and 1998, and the related consolidated statements of income, retained earnings 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 Fidelity Communications Co. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

BDO Seldman, LLP

St. Louis, Missouri
March 17, 2000

**Consolidated Financial
Statements**

<i>December 31,</i>	1999	1998
Assets		
Current		
Cash	\$ 5,323	\$ 5,203
Subscriber and trade receivables, less allowance for doubtful accounts of \$155 in 1999 and \$58 in 1998	999	1,141
Other accounts receivable	1,182	1,241
Inventories	1,208	661
Refundable income taxes	1,215	-
Prepaid expenses	53	70
Deferred income taxes (Note 8)	62	54
Total Current Assets	10,042	8,370
Investments and Long-term Receivables		
Investment in limited partnership (Note 7)	5,237	6,746
Other long-term investments	-	200
	5,237	6,946
Property, Plant and Equipment (Notes 2 and 4)		
Property, Plant and Equipment	49,686	45,705
Less accumulated depreciation	19,740	19,560
Net Property, Plant and Equipment	29,946	26,145
Other		
Deposits	8	5
Cash value of life insurance	237	158
Excess of cost over fair value of net assets acquired, less accumulated amortization of \$117 and \$66	534	582
Deferred long-term debt issuance expense, less accumulated amortization of \$20 and \$10	227	237
Organization costs, less accumulated amortization of \$1	47	2
Franchise costs, less accumulated amortization of \$875 and \$764	795	906
	1,848	1,890
	\$47,073	\$43,351

Fidelity Communications Co.

Consolidated Balance Sheets (Dollars in Thousands)

<i>December 31,</i>	1999	1998
Liabilities and Stockholders' Equity		
Current		
Accounts payable (Note 5)	\$ 2,600	\$ 1,646
Accrued expenses	604	816
Customer deposits	69	46
Deferred revenue	25	25
Income taxes payable	-	731
Current maturities of obligation under capital lease (Note 6)	772	772
Current maturities of long-term debt (Note 4)	576	63
Total Current Liabilities	4,646	4,099
Obligation under Capital Lease, less current maturities (Note 6)	770	1,543
Long-term Debt, less current maturities (Note 4)	9,303	4,869
Deferred Credits and Other Liabilities		
Deferred income taxes (Note 8)	4,700	4,294
Unamortized investment tax credits	61	88
Total Deferred Credits and Other Liabilities	4,761	4,382
Minority Interest in Consolidated Subsidiary (Note 9)	59	59
Total Liabilities	19,539	14,952
Commitments and Contingencies (Notes 5, 6, 7, 10 and 11)		
Stockholders' Equity (Notes 3 and 5)		
Class A-1 – Common stock, \$.01 par value; 1,500,000 shares authorized; 976.9249 shares issued at stated value	-	-
Class B-1 – Common stock, \$.01 par value; 1,500,000 shares authorized; 2,724.7524 shares issued and outstanding, at stated value	1	1
Paid-in capital	297	297
Retained earnings	33,505	28,101
Treasury stock (976.9249 shares at cost at December 31, 1999)	(6,269)	-
Total Stockholders' Equity	27,534	28,399
	\$47,073	\$43,351

See accompanying summary of accounting policies and notes to consolidated financial statements.

Fidelity Communications Co.

Consolidated Statements of Income (Dollars in Thousands)

<i>Years Ended December 31,</i>	1999	1998
Operating Revenues		
Local network service	\$ 4,110	\$ 3,302
Network access service and long-distance service	10,973	13,385
Cable television revenues	2,408	2,197
Natural gas revenues	1,051	1,083
Sales, lease and repair income	1,679	1,064
Other	773	902
Write-off of uncollectible accounts	(330)	(450)
Total Operating Revenues	20,664	21,483
Operating Expenses		
Cost of products and service	8,959	8,249
Selling, general and administrative	7,148	6,026
Depreciation and amortization (Note 2)	2,900	2,977
Total Operating Expenses	19,007	17,252
Net Operating Income	1,657	4,231
Other Expense		
Interest, net	34	209
Other	196	170
Minority interest (Note 9)	3	3
Total Other Expense	233	382
Income before Equity in Earnings of Limited Partnership	1,424	3,849
Equity in Earnings of Limited Partnership (Note 7)	6,590	4,821
Income before Taxes on Income	8,014	8,670
Taxes on Income (Note 8)	2,560	3,315
Net Income	\$ 5,454	\$ 5,355

See accompanying summary of accounting policies and notes to consolidated financial statements.

Fidelity Communications Co.

Consolidated Statements of Retained Earnings (Dollars in Thousands)

<i>Years Ended December 31,</i>	1999	1998
Balance, beginning of year	\$28,101	\$22,835
Net income	5,454	5,355
Dividends	(50)	(89)
Balance, end of year	\$33,505	\$28,101

*See accompanying summary of accounting policies
and notes to consolidated financial statements.*

Fidelity Communications Co.

Consolidated Statements of Cash Flows (Dollars in Thousands)

<i>Years Ended December 31,</i>	1999	1998
Operating Activities		
Net income	\$ 5,454	\$ 5,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,900	2,977
Amortization of investment tax credits	(27)	(30)
Loss on disposal of property and equipment	-	182
Loss on write-off of long-term investment	200	-
Equity in earnings of limited partnership	(6,590)	(4,821)
Deferred income taxes	398	191
Changes in assets and liabilities:		
Subscriber and trade receivables	167	13
Other accounts receivable	59	(115)
Inventories	(547)	(7)
Refundable income taxes	(1,215)	394
Prepaid expenses	16	(20)
Deposits	(3)	-
Accounts payable and accrued expenses	743	345
Customer deposits	23	(13)
Income taxes payable	(731)	731
Cash Provided by Operating Activities	847	5,182
Investing Activities		
Increase in cash value of life insurance	(80)	(21)
Proceeds on sale of fixed assets	160	-
Distributions from investment in limited partnership	8,099	3,049
Construction and capital expenditures	(6,663)	(4,450)
Organizational costs	(45)	-
Cash Provided by (Used in) Investing Activities	1,471	(1,422)

Fidelity Communications Co.

Consolidated Statements of Cash Flows (Dollars in Thousands)

<i>Years Ended December 31,</i>	1999	1998
Financing Activities		
Dividends paid	(50)	(89)
Repayment of long-term debt	(105)	(63)
Principal payments on capital lease obligations	(774)	(773)
Purchase of ESOP shares	(1,269)	-
Cash Used in Financing Activities	(2,198)	(925)
Increase in Cash	120	2,835
Cash, beginning of year	5,203	2,368
Cash, end of year	\$ 5,323	\$ 5,203

*See accompanying summary of accounting policies
and notes to consolidated financial statements.*

Fidelity Communications Co.

Summary of Accounting Policies (Dollars in Thousands)

Principles of Consolidation

The consolidated financial statements include the accounts of Fidelity Communications Co. (FCC) and Fidelity Telephone Company and the wholly-owned subsidiaries of FCC: Fidelity Long Distance; Fidelity Systems Plus, Inc.; Cellutel, Inc.; Fidelity Networks, Inc.; Fidelity Communications International, Inc.; Fidelity Cablevision, Inc.; Fidelity Natural Gas, Inc.; Fidelity Energy, Inc. and Fidelity Broadcasting, Inc. Three entities were formed during 1999: Fidelity Communication Services I; Fidelity Communication Services II and Fidelity Communication Services III. All significant intercompany accounts and transactions have been eliminated in consolidation.

Regulatory Accounting

The financial statements have been prepared in accordance with generally accepted accounting principles, including certain accounting practices prescribed by the Federal Communications Commission, the Missouri Public Service Commission and the Federal Energy Regulatory Commission.

Investment in Limited Partnership

The Company's 50% interest in a limited partnership is accounted for using the equity method of accounting and is stated at amortized cost plus equity in the partnership's undistributed net income since acquisition.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of additions to utility plant includes contracted work, direct materials and labor, allocable overheads, interest on funds used during construction and certain other related costs.

The cost of maintenance and repairs to plant and the cost of replacing minor items, not affecting substantial betterments, are charged to operating expense.

Depreciation expense for financial reporting purposes for the telephone and natural gas companies is computed using the straight-line method at rates established by the Missouri Public Service Commission. Non-regulated property is depreciated on a straight-line basis over estimated useful lives.

Fidelity Communications Co.

Summary of Accounting Policies (Dollars in Thousands)

The telephone and natural gas companies utilize mass asset accounting for depreciation charges, plant additions and retirements. When an asset is retired, the gross book value is charged against the accumulated depreciation account.

Inventories

Regulated telephone and natural gas material and supply inventories are valued at the lower of specific cost or market. Inventories of the deregulated subsidiaries are valued at the lower of cost or market with cost determined on a FIFO (first-in, first-out) basis.

Taxes on Income

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

Intangibles

The excess of the purchase price of net assets acquired in business combinations over their fair value is being amortized on a straight-line basis over 15 years.

Deferred long-term debt issuance costs are being amortized on a straight-line basis over the terms of the related note obligations. Franchise costs are amortized on a straight-line basis over the terms of the related franchise agreement. Licensing costs and corporate organization costs are being amortized on a straight-line basis over five years.

Investment Tax Credits

Investment tax credits are accounted for under the deferral method, whereby tax credits are amortized to income over the estimated service lives of the related property. Amortization of deferred investment tax credits was \$27 and \$30 for 1999 and 1998, respectively.

Fidelity Communications Co.

Summary of Accounting Policies (Dollars in Thousands)

Use of Estimates

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain items in the 1998 financial statements have been reclassified to conform to the 1999 presentation. These reclassifications had no effect on results of operations.

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

1. Business

Fidelity Communications Co. (the Company) is a holding company whose subsidiaries operate in the communications service industry, operate a cable television system in Rolla, Missouri and Sullivan, Missouri and provide natural gas distribution to the City of Sullivan, Missouri. The Company's largest subsidiary, Fidelity Telephone Company, provides telecommunication services in and around the community of Sullivan, Missouri. The Company generally extends unsecured credit to its customers.

2. Property, Plant and Equipment

Property, plant and equipment at December 31, 1999 and 1998 consisted of the following:

<i>Years Ended December 31,</i>	1999	1998
Regulated plant and equipment:		
In-service	\$ 39,288	\$ 38,498
Less accumulated depreciation	(15,175)	(15,751)
	24,113	22,747
Non-regulated plant and equipment:		
Telephone, paging and computer equipment	10,398	7,208
Less accumulated depreciation	(4,565)	(3,810)
	5,833	3,398
	\$ 29,946	\$ 26,145

Total depreciation expense was \$2,728 and \$2,814 for 1999 and 1998, respectively.

Estimated costs to complete on construction work in progress at December 31, 1999 were \$1,470.

3. Lines of Credit

The Company has a \$1,000 unsecured line of credit agreement with a bank that expires on September 7, 2000. Interest on outstanding borrowings is at prime (8.5% at December 31, 1999). There were no outstanding borrowings at December 31, 1999 and 1998.

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

The Company also has a \$5,000 line of credit agreement secured by Fidelity Communications Co. stock that expires on February 1, 2000. Interest on outstanding borrowings is at a variable rate. The Company's stockholders have guaranteed repayment of all borrowings. The line of credit contains certain covenants requiring minimum levels of net worth and cash flows. There were no outstanding borrowings at December 31, 1999 and 1998.

4. Long-term Debt

Long-term debt consists of:

<i>Years Ended December 31,</i>	1999	1998
8.04% note with Commerce Bank payable in 59 monthly installments of \$42 plus interest and one final payment on the remaining principal plus interest, maturing on December 2, 2004	\$4,958	\$ -
6.50% bonds with Missouri Economic Development, Export and Infrastructure Board, maturing on June 1, 2022, interest payable on a semi-annual basis. Secured by substantially all assets of Fidelity Natural Gas, Inc.	4,490	4,490
8.00% note with Show-Me Power Electric Cooperative, payable in one installment of \$126 and eight annual installments of \$63 plus interest, maturing in July 2005	379	442
6.50% unsecured note, payable in four annual installments of \$13 plus interest, maturing on January 3, 2003	52	-
Total	9,879	4,932
Less current maturities	(576)	(63)
Total long-term debt	\$9,303	\$4,869

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

Aggregate annual maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	
2000	\$ 576
2001	576
2002	576
2003	576
2004	3,021
Thereafter	4,554
	<u>\$9,879</u>

5. Employee Retirement Benefits

Employee Stock Ownership Plan

Fidelity Communications Co. (FCC) has sponsored an Employee Stock Ownership Plan (ESOP) for all eligible employees not covered by a retirement plan pursuant to a collective-bargaining agreement through December 31, 1999. The Company makes contributions to the ESOP as determined by the Company's Board of Directors, limited to 25% of eligible employee compensation. Participants in the plan vest at the rate of 20% for each completed year of service starting with the third year of service. Also, regardless of years of service, 100% vesting occurs at age 60, permanent disability or death. Shares of FCC stock held by the ESOP are not distributed until employment is terminated. The total contributions to the plan for 1999 and 1998 were \$-0- and \$698, respectively.

During 1999, the Company amended the ESOP and formed the "FCC 401(k) Plan." Effective January 1, 2000, employees can begin making contributions through payroll deductions. In accordance with the amendment, the Company purchased the shares of common stock issued to the ESOP for \$6,269. See Note 11 for further discussion. The 401(k) plan covers substantially all employees of FCC, Fidelity Telephone Company, Fidelity Cablevision, Inc., Fidelity Natural Gas, Inc., and Fidelity Networks, Inc. The plan provides for matching contributions from the Company of 50% of the employee's first 6% of compensation.

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

In addition, the Company can elect to provide a profit sharing contribution on an annual basis. All employees as of December 31, 1999 are eligible. Employees hired after this date will be eligible to contribute and receive the Company match after completing one year of service in which they have worked 1,000 hours. In order to be eligible to receive the profit sharing contribution, employees must have completed 1,000 hours and be employed by the Company on the last day of the plan year (December 31). A discretionary contribution of \$583 was approved by the Company for the year ended December 31, 1999.

On June 15, 1987, Commerce Bank of St. Louis, N.A. loaned the ESOP \$2,750. The loan bears interest at the rate of 95% of the bank's prime rate. Semi-annual principal payments began January 4, 1988. As of December 31, 1998, the loan balance was \$204. During 1999, the loan balance of \$204 was paid by the Company and recorded as a dividend to the ESOP participants.

During 1999, the Company formed the "FCC Money Purchase Pension Plan," effective January 1, 2000, which covers the same employees as the FCC 401(k) Plan. The plan provides for employer contributions of 7.5% of the eligible employee's compensation. Employees will be eligible upon completion of one year of service in which they have worked 1,000 hours.

Deferred Compensation Plan

The Company has a nonqualified, unfunded deferred compensation plan for certain key employees providing for payments upon retirement, death or disability. Following retirement, certain employees will receive payments equal to the actuarial equivalent of their entire accrued benefit in the form of a single life annuity. The plan also provides for benefits upon death or disability. Deferred compensation expense was \$9 and \$11 for 1999 and 1998, respectively.

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

6. Capital Lease

The Company leases a switching unit and related equipment under a capital lease which expires in 2001. The switching unit and related equipment is reflected in "property, plant and equipment" in the accompanying consolidated balance sheets at a value of \$3,979 with related accumulated depreciation of \$913 at December 31, 1999. Depreciation expense recorded in 1999 and 1998 for this equipment was \$265 and \$261, respectively.

Future minimum lease payments under the capital lease, together with the present value of the minimum lease payments at December 31, 1999, are as follows:

2000	\$ 854
2001	852
Total minimum lease payments	1,706
Less amount representing interest	164
Present value of minimum lease payments	1,542
Less current maturities	772
	<u>\$ 770</u>

7. Investment in Limited Partnership

On August 25, 1989, Cellutel, Inc. entered into a limited partnership agreement with Southwestern Bell Mobile Systems, Inc. (SBMS) for the development of cellular telephone service in two areas comprising several counties each. Under the agreement, Cellutel transferred certain license rights to the partnership as satisfaction of its initial capital contribution. The agreement sets an agreed upon value for the license rights equal to the value of cash and tangible property contributed by SBMS for the construction of the cellular system and provision of cellular mobile telephone service during the initial three year period, which began April 4, 1991.

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

The Company's 50% interest in the partnership is accounted for using the equity method of accounting and is stated at amortized cost plus equity in the partnership's undistributed net income since acquisition. The equity in partnership net income is adjusted for the annual amortization of the difference between acquisition cost and the Company's proportionate share of the partnership's net assets. Amortization is computed on a straight-line basis over 20 years. Amortization was \$281 for 1999 and 1998.

The Company received a capital call regarding the limited partnership agreement stating that \$1,983 is payable and due March 31, 2000. As such, no liability is recorded at December 31, 1999.

Financial position and results of operations of the limited partnership are summarized below:

<i>Years Ended December 31,</i>	1999	1998
Current assets	\$ 4,037	\$ 7,539
Property, plant and equipment, net of accumulated depreciation	11,822	8,287
Other assets, net of accumulated amortization	5,755	4,560
Total	\$21,614	\$20,386
Current liabilities	\$ 5,962	\$ 1,153
Partners capital	15,652	19,233
Total	\$21,614	\$20,386
Net revenues	\$29,337	\$20,620
Net income	\$12,617	\$ 9,080

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

8. Taxes on Income

Provisions for federal and state income taxes in the consolidated statements of income are made up of the following components:

<i>Years Ended December 31,</i>	1999	1998
Federal income taxes		
Current	\$1,870	\$2,732
Deferred	343	164
Amortization of investment tax credits	(27)	(30)
	<u>2,186</u>	<u>2,866</u>
State income taxes:		
Current	319	422
Deferred	55	27
	<u>374</u>	<u>449</u>
	<u>\$2,560</u>	<u>\$3,315</u>

Deferred income taxes have been recorded as a result of temporary differences between financial statements carrying amounts and the tax basis of assets and liabilities.

Deferred income tax assets relate primarily to deferred revenue, accrued payroll and accrued vacation pay. Deferred income tax liabilities relate primarily to differences in depreciation and amortization of the Company's investment in the limited partnership. The Company's total deferred income tax assets and total deferred income tax liabilities at December 31, 1999 and 1998 are as follows:

<i>December 31,</i>	1999	1998
Total deferred income tax assets	\$ 62	\$ 54
Total deferred income tax liabilities	(4,700)	(4,294)
	<u>\$ (4,638)</u>	<u>\$ (4,240)</u>

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from providing for state income taxes and from deducting certain expenses for financial statement purposes but not for federal income tax purposes.

**9. Minority Interest
in Consolidated
Subsidiary**

As of December 31, 1999 and 1998, the minority interest reported in the consolidated balance sheets of \$59 represents 592 shares of 4.5% cumulative, nonvoting, nonparticipating, \$100 par value preferred stock of Fidelity Telephone Company. The dividends paid on the preferred stock totalled \$3 in 1999 and 1998 and are deducted on the consolidated statements of income.

**10. Supplemental
Cash Flow
Information**

The Company paid interest of \$444 and \$414 in 1999 and 1998, respectively, and paid income taxes of \$2,525 and \$2,029 in 1999 and 1998, respectively.

Year Ended December 31, 1999

The Company incurred long-term debt of \$5,000 in connection with the buyout of the ESOP. See Note 5 for further discussion.

The Company incurred long-term debt of \$52 in connection with the purchase of property in Sullivan, Missouri.

11. Litigation

The Company is a party to various legal proceedings, the outcome of which cannot be determined at this time. Management believes that the ultimate outcome of these legal matters will not have a material effect on the financial position of the Company.

Fidelity Communications Co.

Notes to Consolidated Financial Statements (Dollars in Thousands)

12. Year 2000 Issues (Unaudited)

Like other companies, Fidelity Communications Co. could be adversely affected if the computer systems the Company, its suppliers or customers use do not properly process and calculate date-related information and data from the period surrounding and including January 1, 2000. This is commonly known as the "Year 2000" issue. Additionally, this issue could impact non-computer systems and devices. While the Company's project to assess and correct Year 2000 related issues regarding the Year 2000 has been completed, and the Company has not experienced any significant Year 2000 related events, interactions with other Companies' systems make it difficult to conclude there will not be future effects. Consequently, at this time, management cannot provide assurances that the Year 2000 issue will not have an impact on the Company's operations.