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ATTORNEYS AT LAW

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AFFILIATE OFFICE
GREENSFELDER, HEMKER & GALE
BELLEVILLE, ILLINOIS

August 26, 1999

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

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

TA 2000-191

FILED²
AUG 26 1999
Missouri Public
Service Commission

Dear Mr. Roberts,

Enclosed please find two (2) separate sets of an original and fourteen (14) copies of the Application for Certificate of Service Authority and for Competitive Classification each filed on behalf of Fidelity Communication Services I, Inc., and Fidelity Cablevision, Inc., respectively. In addition, I have included an extra copy of each 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 these Applications, please contact the undersigned.

Yours very truly,

GREENSFELDER, HEMKER & GALE, P.C.

By 
Sheldon K. Stock

SKS/kka
Enclosures
336665.1

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

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

AUG 26 1999

Missouri Public
Service Commission

Case No.

TA 2000-191

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

APPLICATION FOR CERTIFICATE OF SERVICE AUTHORITY
AND FOR COMPETITIVE CLASSIFICATION

Comes now Fidelity Communication Services I, 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 I, Inc.
60 North Clark
Sullivan, Missouri 63080

A copy of the Applicant's Certificate of Incorporation is attached hereto as **Appendix 1**.
A copy of the Applicant's current good standing certificate from the Missouri Secretary of State is attached hereto as **Appendix 2**.

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 Sprint/United Telephone Company (United). The specific United 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 **Appendix 3**. Applicant also possesses the necessary financial resources. A copy of Applicant's balance sheet and income statement is attached as **Appendix 4**.

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	

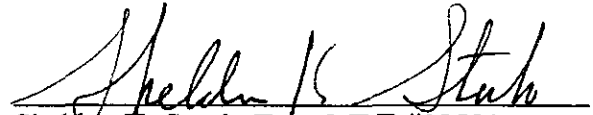
9. Applicant further requests a temporary waiver of 4 CSR 240-2.060(4)(H). This rule requires that an application for a certificate of service authority to provide interexchange, local exchange or basic local exchange service shall include a proposed tariff with a forty-five day effective date. Applicant 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 I, 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 APPENDICES

Appendix 1	Certificate of Incorporation
Appendix 2	Missouri Good Standing Certificate
Appendix 3	Managerial Expertise
Appendix 4	Financial Information

STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

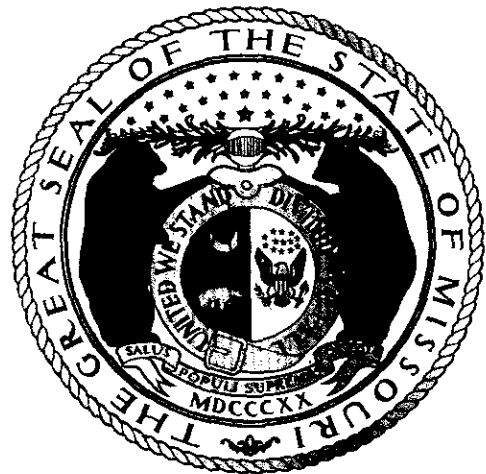
CORPORATION DIVISION
CERTIFICATE OF CORPORATE RECORDS

FIDELITY COMMUNICATION SERVICES I, 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 6TH DAY OF AUGUST, 1999.

Rebecca McDowell Cook
Secretary of State





REBECCA McDOWELL COOK
SECRETARY OF STATE

STATE OF MISSOURI
OFFICE OF SECRETARY OF STATE
JEFFERSON CITY 65102

ST. LOUIS OFFICE
111 N. 7TH, ROOM 225
ST. LOUIS, MO 63101
314-340-7490

Dear Corporation:

We have enclosed the Certificate of Incorporation/Authority and Articles of Incorporation/Application for Authority which have been filed in this office. We wish you every success in the new business enterprise.

The law requires that an annual registration report and a franchise tax report be completed and returned to this office by the 15th day of the fourth month from the date of incorporation/qualification. Some corporations will be exempt from filing the franchise tax report if their outstanding shares and surplus at the date of incorporation/qualification is less than \$200,000. These reports will be sent to the corporation's registered agent within the next few weeks.

The officers of the corporation may wish to familiarize themselves with the Missouri Uniform Securities Act (Chapter 409 RSMO). The act defines a security and provides that it is unlawful for any person to offer or sell any security in the State of Missouri unless it is registered under the Act or the security or transaction is exempted under Section 409.402 of the Act. Additionally, the Act provides that unless the transaction in which a security is offered for sale or sold is exempt from registration, or the person is excluded by definition, such person must be registered as a Securities Agent. This requirement does not apply to nonprofit corporations.

Please feel free to contact our Corporation or the Securities Division if we can be of any further assistance to you. DIRECT ALL MAILINGS TO: SECRETARY OF STATE, CORPORATIONS DIVISION, P.O. BOX 778, JEFFERSON CITY, MO 65102, 573-751-2359.

Sincerely,

REBECCA McDOWELL COOK
SECRETARY OF STATE

ARTICLES OF INCORPORATION

OF

FIDELITY COMMUNICATION SERVICES I, INC.

FILED AND CERTIFICATE OF
INCORPORATION ISSUED

AUG 06 1999

Rebecca McDowell Cook
SECRETARY OF STATE

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 I, 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

ARTICLE SIX

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.

FILED AND CERTIFICATE OF
INCORPORATION ISSUED

AUG 06 1999

ARTICLE EIGHT

The corporation is formed for the following purpose:

Rebecca McDonnell Cook
SECRETARY OF STATE

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.

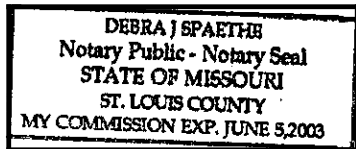
Sheldon K. Stock
Sheldon K. Stock, Incorporator

STATE OF MISSOURI
COUNTY 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

(SEAL)



STATE OF MISSOURI



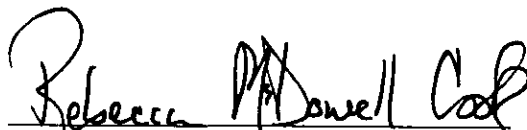
Rebecca McDowell Cook
Secretary of State

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 I, 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 6TH DAY OF AUGUST, 1999.


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 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, 1998 and 1997

IBDO

BDO Seidman, LLP
Accountants and Consultants



Consolidated Financial Statements
Years Ended December 31, 1998 and 1997



BDO Seidman, 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, 1998 and 1997, 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

BDO Seidman, LLP

St. Louis, Missouri
March 10, 1999

**Consolidated Financial
Statements**



<i>December 31,</i>	1998	1997
Assets		
Current		
Cash	\$ 5,202,930	\$ 2,367,400
Subscriber and trade receivables, less allowance for doubtful accounts of \$58,469 in 1998 and \$30,577 in 1997	1,141,389	1,154,806
Other accounts receivable	1,240,880	1,125,923
Inventories	660,856	653,888
Refundable income taxes	-	394,530
Prepaid expenses	70,028	49,690
Deferred income taxes (Note 9)	54,170	107,476
Total Current Assets	8,370,253	5,853,713
Investments and Long-term Receivables		
Investment in limited partnership (Note 8)	6,746,258	4,974,383
Cash value of life insurance	157,339	136,056
Other long-term investments	200,000	200,000
	7,103,597	5,310,439
Property, Plant and Equipment (Notes 2 and 4)		
Less accumulated depreciation	45,705,238	42,096,711
	19,560,195	17,209,505
Net Property, Plant and Equipment	26,145,043	24,887,206
Other		
Deposits	4,898	4,898
Excess of cost over fair value of net assets acquired, net of amortization (Note 7)	582,404	427,894
Deferred long-term debt issuance expense, net of amortization	236,883	247,139
Organization costs, net of amortization	1,518	1,518
Franchise costs, net of amortization	906,567	1,017,939
	1,732,270	1,699,388
	\$43,351,163	\$37,750,746

Fidelity Communications Co.

Consolidated Balance Sheets

<i>December 31,</i>	1998	1997
Liabilities and Stockholders' Equity		
Current		
Accounts payable	\$ 1,645,662	\$ 1,386,810
Accrued expenses	815,710	729,956
Customer deposits	45,821	58,756
Deferred revenue	25,414	25,105
Income taxes payable	730,899	-
Current maturities of obligation under capital lease (Note 6)	772,136	798,276
Current maturities of long-term debt (Note 4)	63,116	63,116
Total Current Liabilities	4,098,758	3,062,019
Obligation under Capital Lease, less current maturities (Note 6)	1,543,656	2,290,270
Long-term Debt, less current maturities (Note 4)	4,868,698	4,931,814
Deferred Credits and Other Liabilities		
Deferred income taxes (Note 9)	4,294,235	4,156,534
Unamortized investment tax credits	88,110	118,401
Total Deferred Credits and Other Liabilities	4,382,345	4,274,935
Minority Interest in Consolidated Subsidiary (Note 10)	58,700	58,700
Total Liabilities	14,952,157	14,617,738
Commitments and Contingencies (Notes 5, 6 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	243	243
Class B-1 – Common stock, \$.01 par value; 1,500,000 shares authorized; 2,724.7524 shares issued and outstanding, at stated value	757	757
Paid-in capital	296,657	296,657
Retained earnings	28,101,349	22,835,351
Total Stockholders' Equity	28,399,006	23,133,008
	\$43,351,163	\$37,750,746

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

Fidelity Communications Co.

Consolidated Statements of Income

<i>Years Ended December 31,</i>	1998	1997
Operating Revenues		
Local network service	\$ 3,302,410	\$ 2,261,862
Network access service and long-distance service	13,385,323	12,056,632
Cable television revenues	2,196,476	2,175,527
Natural gas revenues	1,082,566	1,002,341
Sales, lease and repair income	1,063,511	776,967
Other	902,007	1,019,849
Write-off of uncollectible accounts	(449,607)	(168,156)
Total Operating Revenues	21,482,686	19,125,022
Operating Expenses		
Cost of products and service	8,249,289	7,216,929
Selling, general and administrative	6,025,983	4,818,302
Depreciation and amortization (Note 2)	2,976,602	2,973,926
Total Operating Expenses	17,251,874	15,009,157
Net Operating Income	4,230,812	4,115,865
Other Expense		
Interest, net	(208,901)	(112,522)
Other	(169,505)	(332,449)
Minority interest (Note 10)	(3,251)	(3,259)
Total Other Expense	(381,657)	(448,230)
Income before Equity in Earnings of Limited Partnership	3,849,155	3,667,635
Equity in Earnings of Limited Partnership (Note 8)	4,820,875	1,643,644
Income before Taxes on Income	8,670,030	5,311,279
Taxes on Income (Note 9)	3,315,205	1,953,916
Net Income	\$ 5,354,825	\$ 3,357,363

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

Fidelity Communications Co.

Consolidated Statements of Retained Earnings

<i>Years Ended December 31,</i>	1998	1997
Balance, beginning of year	\$22,835,351	\$19,566,876
Net income	5,354,825	3,357,333
Dividends	(88,827)	(88,858)
Balance, end of year	\$28,101,349	\$22,835,351

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

Fidelity Communications Co.

Consolidated Statements of Cash Flows

<i>Years Ended December 31,</i>	1998	1997
Operating Activities		
Net income	\$ 5,354,825	\$ 3,357,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,976,602	2,973,927
Amortization of investment tax credits	(30,291)	(33,932)
Loss on disposal of property and equipment	146,448	-
Equity in earnings of limited partnership	(4,820,875)	(1,643,644)
Deferred income taxes	191,007	633,598
Changes in assets and liabilities:		
Subscriber and trade receivables	13,417	(28,343)
Other accounts receivable	(114,957)	(36,265)
Inventories	(6,968)	(51,242)
Refundable income taxes	394,530	(394,530)
Prepaid expenses	(20,338)	(1,521)
Deposits	-	1,200
Accounts payable and accrued expenses	344,606	(664,908)
Customer deposits	(12,935)	(3,837)
Deferred revenue	309	5,776
Income taxes payable	730,899	(80,876)
Cash Provided by Operating Activities	5,146,279	4,032,766
Investing Activities		
Increase in cash value of life insurance	(21,283)	(22,176)
Distributions from investment in limited partnership	3,049,000	874,000
Construction and capital expenditures	(4,114,769)	(3,031,303)
Business acquisition	(299,000)	(500,000)
Cash Used in Investing Activities	(1,386,052)	(2,679,479)

Fidelity Communications Co.

Consolidated Statements of Cash Flows

<i>Years Ended December 31,</i>	1998	1997
Financing Activities		
Dividends paid	(88,827)	(88,858)
Repayment of long-term debt	(63,116)	(1,247,386)
Principal payments on capital lease obligations	(772,754)	(772,138)
Purchase of preferred stock	-	(200)
Cash Used in Financing Activities	(924,697)	(2,108,582)
Increase (Decrease) in Cash	2,835,530	(755,295)
Cash, beginning of year	2,367,400	3,122,695
Cash, end of year	\$5,202,930	\$2,367,400

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

Fidelity Communications Co.

Summary of Accounting Policies

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: Bourbeuse Telephone Company; 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. 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

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 \$30,291 and \$33,932 for 1998 and 1997, respectively.

Fidelity Communications Co.

Summary of Accounting Policies

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.

Fidelity Communications Co.

Notes to Consolidated Financial Statements

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 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, 1998 and 1997 consisted of the following:

<i>Years Ended December 31,</i>	1998	1997
Regulated plant and equipment:		
In-service	\$ 38,497,513	\$ 39,383,348
Less accumulated depreciation	(15,750,741)	(15,667,670)
	<u>22,746,772</u>	<u>23,715,678</u>
Non-regulated plant and equipment:		
Telephone, paging and computer equipment	7,207,725	2,713,363
Less accumulated depreciation	(3,809,454)	(1,541,835)
	<u>3,398,271</u>	<u>1,171,528</u>
	<u>\$ 26,145,043</u>	<u>\$ 24,887,206</u>

Total depreciation expense was \$2,814,484 and \$2,782,798 for 1998 and 1997, respectively.

3. Lines of Credit

The Company has a \$1,000,000 unsecured line of credit agreement with a bank that expires on September 7, 1999. Interest on outstanding borrowings is at prime. There were no outstanding borrowings at December 31, 1998 and 1997.

The Company also has a \$5,000,000 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 (7.88% at February 1998). The Company's

Fidelity Communications Co.

Notes to Consolidated Financial Statements

shareholders' 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, 1998 and 1997.

4. Long-term Debt

Long-term debt consists of:

<i>Years Ended December 31,</i>	1998	1997
8% note with Show-Me Power Electric Cooperative, payable in one installment of \$126,232 and eight annual installments of \$63,116 plus interest, maturing in July 2005	\$ 441,814	\$ 504,930
6.5% 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.	4,490,000	4,490,000
Total	4,931,814	4,994,930
Less current maturities	(63,116)	(63,116)
Total long-term debt	\$4,868,698	\$4,931,814

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

<i>Year Ending December 31,</i>	
1999	\$63,116
2000	63,116
2001	63,116
2002	63,116
2003	63,116
Thereafter	4,616,234
	\$4,931,814

Fidelity Communications Co.

Notes to Consolidated Financial Statements

5. Employee Retirement Benefits

Employee Stock Ownership Plan

Fidelity Communications Co. (FCC) has an Employee Stock Ownership Plan (ESOP) for all eligible employees not covered by a retirement plan pursuant to a collective-bargaining agreement. 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 contribution to the plan for 1998 and 1997 was \$698,491 and \$618,242, respectively.

On June 15, 1987, Commerce Bank of St. Louis, N.A. loaned the ESOP \$2,750,000. The loan bears interest at the rate of 95% of the bank's prime rate. Semi-annual principal payments began January 4, 1988, with the final scheduled payment due on December 31, 1999. There is also provision for limited prepayments. As of December 31, 1998, the loan balance was \$204,235.

The loan agreement contains covenants for the Company to maintain certain financial ratios and tangible net worth above defined amounts. It also limits the amount of capital expenditures, additional borrowings and dividends. The loan is secured by the stock held by the ESOP and the personal guarantee of the Company's principal stockholders, who have pledged their FCC stock as collateral.

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 \$10,845 and \$15,141 for 1998 and 1997, respectively.

Fidelity Communications Co.

Notes to Consolidated Financial Statements

Defined Contribution Plan

All union employees of Fidelity Telephone Company were covered by The Communication Workers of America AFL-CIO Pension Plan after completing six months of service. The Plan is a defined contribution plan. In accordance with the Company's union contract the contribution rate is 5.25% of eligible wages in 1997, with a minimum of \$.50 per hour. Total contributions were \$-0- and \$12,218 for 1998 and 1997, respectively. This plan was terminated on April 7, 1997.

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 \$3,978,685 with related accumulated depreciation of \$647,705 at December 31, 1998. Depreciation expense recorded in 1998 and 1997 for this equipment was \$261,443 and \$257,508, respectively.

Future minimum lease payments under the capital lease, together with the present value of the minimum lease payments at December 31, 1998, are as follows:

1999	\$ 853,956
2000	853,956
2001	853,338
<hr/>	
Total minimum lease payments	2,561,250
Less amount representing interest	245,458
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Present value of minimum lease payments	\$2,315,792

7. Business Acquisition

On August 6, 1997, the Company acquired substantially all of the assets of Meramec Valley Broadcasting Co. and Four Rivers Broadcasting Co. The Company also obtained certain licenses, permits and authorizations issued by the Federal Communications Commission for the operation of two radio stations. The purchase

Fidelity Communications Co.

Notes to Consolidated Financial Statements

price for these assets was \$500,000. The acquisition has been accounted for using the purchase method of accounting. The excess of the cost of the Company's investment in the acquired assets over the fair value of the assets at the date of acquisition is \$396,120 and has been included in "excess of cost over fair value of net assets acquired" in the accompanying consolidated balance sheet.

8. 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.

Partnership income will be allocated equally, however, SBMS will absorb and be allocated 100% of any partnership losses during the initial three years of operations.

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 (\$5,624,000 at December 31, 1998 and 1997) 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 \$281,004 for 1998 and 1997.

Fidelity Communications Co.

Notes to Consolidated Financial Statements

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

<i>Years Ended December 31,</i>	1998	1997
Current assets	\$ 7,539,000	\$ 2,579,000
Property, plant and equipment, net of accumulated depreciation	8,287,000	9,994,000
Other assets, net of accumulated amortization	4,560,000	4,748,000
Total	\$20,386,000	\$17,321,000
Current liabilities	\$ 1,153,000	\$ 1,070,000
Partners capital	19,233,000	16,251,000
Total	\$20,386,000	\$17,321,000
Net revenues	\$20,620,000	\$15,607,000
Net income	\$ 9,080,000	\$ 2,725,000

9. 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>	1998	1997
Federal income taxes		
Current	\$2,731,842	\$1,162,375
Deferred	164,274	544,956
Amortization of investment tax credits	(30,291)	(33,932)
	2,865,825	1,673,399
State income taxes:		
Current	422,647	191,875
Deferred	26,733	88,642
	449,380	280,517
	\$3,315,205	\$1,953,916

Fidelity Communications Co.

Notes to Consolidated Financial Statements

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, 1998 and 1997 are as follows:

<i>December 31,</i>	1998	1997
Total deferred income tax assets	\$ 54,170	\$ 107,476
Total deferred income tax liabilities	(4,294,235)	(4,156,534)
	<u>\$(4,240,065)</u>	<u>\$(4,049,058)</u>

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.

**10. Minority Interest
in Consolidated
Subsidiary**

As of December 31, 1998 and 1997, the minority interest reported in the consolidated balance sheets of \$58,700 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 \$3,251 in 1998 and \$3,259 in 1997 and are deducted on the consolidated statements of income.

**11. Supplemental
Cash Flow
Information**

The Company paid interest of \$413,789 and \$373,323 in 1998 and 1997, respectively, and paid income taxes of \$2,029,059 and \$1,649,442 in 1998 and 1997, respectively.

Fidelity Communications Co.

Notes to Consolidated Financial Statements

12. 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.

**13. Year 2000 Issues
(Unaudited)**

Like other companies, Fidelity Communications Co. could be adversely affected if the computer systems we, our 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. At this time, because of the complexities involved in the issue, management cannot provide assurances that the Year 2000 issue will not have an impact on the Company's operations.