

**ORIGINAL NEW APPLICATION**  
**NOWALSKY, BRONSTON & GOTHARD**  
A Professional Limited Liability Company



0000118354

LEON L. NOWALSKY, JR.

Leon L. Nowalsky  
Benjamin W. Bronston  
Edward P. Gothard

Attorneys at Law  
1420 Veterans Memorial Blvd.  
Metairie, Louisiana 70005  
Telephone: (504) 832-1984  
Facsimile: (504) 831-0892

September 30, 2010

Via Overnight Mail

Arizona Corporation Commission  
Utilities Division  
1200 W. Washington Street  
Phoenix, Arizona 85007

RE: Pay Tel Communications, Inc.

T-20760A-10-0398

Dear Sir or Madam:

Enclosed please find an original and thirteen (13) copies of the Application for a Certificate of Convenience and Necessity to provide Alternative Operator Services on behalf of Pay Tel Communications, Inc.

An additional copy of this letter has been enclosed to be date stamped and returned in the envelope provided as evidence of the filing.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Leon Nowalsky

LLN/rph

Arizona Corporation Commission  
**DOCKETED**  
OCT -1 2010

DOCKETED BY *nr*

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

2010 OCT -1 P 3:23

RECEIVED

ARIZONA CORPORATION COMMISSION

Application and Petition for Certificate of Convenience and Necessity to Provide  
Intrastate Telecommunications Services

Mail original plus 13 copies of completed application to:

For Docket Control Only:  
(Please Stamp Here)

Docket Control Center  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007-2927

Please indicate if you have current applications pending  
in Arizona as an Interexchange reseller, AOS provider,  
or as the provider of other telecommunication services.

Type of Service: \_\_\_\_\_

Docket No.: \_\_\_\_\_ Date: \_\_\_\_\_ Date Docketed: \_\_\_\_\_

Type of Service: \_\_\_\_\_

Docket No.: \_\_\_\_\_ Date: \_\_\_\_\_ Date Docketed: \_\_\_\_\_

**A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION**

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and mark the appropriate box(s).

- Resold Long Distance Telecommunications Services (Answer Sections A, B).
- Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).
- Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).
- Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, C, D, E)
- Alternative Operator Services Telecommunications Services (Answer Sections A, B)
- Other \_\_\_\_\_ (Please attach complete description)

(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

Pay Tel Communications, Inc.  
4230 Beechwood Drive  
Greensboro, NC 27410  
Telephone: (336) 346-1678  
Facsimile: (336) 346-1127  
www.paytel.com

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2):

Not applicable

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

J. Vincent Townsend, President

4230 Beechwood Drive

Greensboro, NC 27410

Telephone: (336) 346-1678

Facsimile: (336) 346-1127

vtownesend@paytel.com

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

Leon Nowalsky, Esq.

Nowalsky, Bronston & Gothard, APLLC

1420 Veterans Blvd.

Metairie, LA 70005

Telephone: (504) 832-1984

Facsimile: (504) 831-0892

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Complaint Contact Person:

Debbie Jones, Customer Service Manager

4230 Beechwood Drive

Greensboro, NC 27410

Telephone: 1-866-729-8352 x 225

Facsmile: 1-336-246-1127

(A-7) What type of legal entity is the Applicant? Mark the appropriate box(s) and category.

- Sole proprietorship
- Partnership: \_\_\_\_\_ Limited, \_\_\_\_\_ General, \_\_\_\_\_ Arizona, \_\_\_\_\_ Foreign
- Limited Liability Company: \_\_\_\_\_ Arizona, \_\_\_\_\_ Foreign
- Corporation: \_\_\_\_\_ X "S", \_\_\_\_\_ "C", \_\_\_\_\_ Non-profit
- Other, specify: \_\_\_\_\_

(A-8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in Arizona.
2. A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify).
3. Indicate percentages of ownership of each person listed in A-8.2.

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).
5. The proposed fee that will be charged for returned checks (reference by Tariff page number).

(A-10) Indicate the geographic market to be served:

- Statewide. (Applicant adopts statewide map of Arizona provided with this application).
- Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.

4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

Not applicable.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

Not Applicable.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

Yes

No

(A-14) Is Applicant willing to post a Performance Bond? Please check appropriate box(s).

For Long Distance Resellers, a \$10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

Yes

No

If "No", continue to question (A-15).

For Local Exchange Resellers, a \$25,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

For Facilities-Based Providers of Long Distance, a \$100,000 bond will be recommended.

Yes

No

If "No", continue to question (A-15).

For Facilities-Based Providers of Local Exchange, a \$100,000 bond will be recommended.

Yes

No

If any box in (A-14) is marked "No", continue to question (A-15).

Note: Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If any box in (A-14) is marked "No", provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the Applicant's superior financial position limits any risk to Arizona consumers.

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the Applicant is requesting authority to provide service.

Note: For Resellers, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C" before Staff prepares and issues its report. Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication). For Facilities-Based Service Providers, the Hearing Division will advise the Applicant of the date of the hearing and the publication of legal notice. Do not publish legal notice or file affidavits of publication until you are advised to do so by the Hearing Division.

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in Arizona:

Yes  No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

AT&T and Verizon

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in Arizona:

Note: If the Applicant is currently approved to provide telecommunications services that the Applicant intends to provide in Arizona in less than six states, excluding Arizona, list the Public Utility Commission ("PUC") of each state that granted the authorization. For each PUC listed provide the name of the contact person, their phone number, mailing address including zip code, and e-mail address.

Applications have been approved in the states of Alabama, Arkansas, Connecticut, Delaware, Florida, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Ohio, Oregon, Rhode Island, South Carolina, South Dakota, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming.

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in Arizona.

Note: If the Applicant currently provides telecommunication services that the Applicant intends to provide in Arizona in six or more states, excluding Arizona, list the states. If the Applicant does not currently provide telecommunications services that the Applicant intends to provide in Arizona in five or less states, list the key personnel employed by the Applicant. Indicate each employee's name, title, position, description of their work experience, and years of service in the telecommunications services industry.

Same as above.

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

Not applicable

(A-21) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

- Decision # 64178 Resold Long Distance  
 Decision # 64178 Resold LEC  
 Decision # 64178 Facilities Based Long Distance  
 Decision # 64178 Facilities Based LEC

#### B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

Yes  No

If "No," explain why and give the date on which the Applicant began operations.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

Note: Make sure "most recent years" includes current calendar year or current year reporting period.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

Not applicable

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.
2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.
3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.
4. If the projected value of all assets is zero, please specifically state this in your response.
5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

See Attachment E

**C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES**

(C-1) Indicate if the Applicant has a resale agreement in operation,

Yes

No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

Not applicable

**D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES**

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

Yes  No

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in Arizona.
2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in Arizona.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in Arizona.

**E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES**

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59421:

Yes  No

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

Yes  No

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A):

Yes  No

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

J. Vincent Townsend  
(Signature of Authorized Representative)

9-20-10  
(Date)

J. Vincent Townsend  
(Print Name of Authorized Representative)

President  
(Title)

SUBSCRIBED AND SWORN to before me this 20th day of September, 2010

L. L. Nowalsky  
NOTARY PUBLIC

My Commission Expires AT DEATH

**LEON L. NOWALSKY**  
Notary Public, State of Arizona  
My Commission is issued for no.  
Notary Number: 4339

**Attachment A**

**1. Certificate of Good Standing**

**See Attached**

**2. Names of owners, partners, etc. and percentages of ownership**

**Officers:**

**Percentage of Ownership:**

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**J. Vincent Townsend, President**

**100%**

**4230 Beechwood Drive**

**Greensboro, NC 27410**

**Phone: (336) 346-1678**

**Rebecca H. Townsend, VP & Secretary**

**4230 Beechwood Drive**

**Greensboro, NC 27410**

**Phone: (336) 346-1678**

**Amy Reeves, Treasurer and Asst. Secretary**

**4230 Beechwood Drive**

**Greensboro, NC 27410**

**Phone: (336) 346-1678**

**Directors:**

J. Vincent Townsend  
4230 Beechwood Drive  
Greensboro, NC 27410  
Phone: (336) 346-1678

David Orr, Dir. Of Information Systems  
4230 Beechwood Drive  
Greensboro, NC 27410  
Phone: (336) 346-1678

Amy Reeves, VP Finance  
4230 Beechwood Drive  
Greensboro, NC 27410  
Phone: (336) 346-1678

Debbie Jones, Customer Service Mgr.  
4230 Beechwood Drive  
Greensboro, NC 27410  
Phone: (336) 346-1678

Mike Crews, VP Operations  
4230 Beechwood Drive  
Greensboro, NC 27410  
Phone: (336) 346-1678

John Tayloe, VP Sales  
4230 Beechwood Drive  
Greensboro, NC 27410  
Phone: (336) 346-1678

# STATE OF ARIZONA



Office of the  
**CORPORATION COMMISSION**  
CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Ernest G. Johnson, Executive Director of the Arizona Corporation Commission, do hereby certify that

**\*\*\*PAY TEL COMMUNICATIONS, INC.\*\*\***

a foreign corporation organized under the laws of North Carolina did obtain authority to transact business in the State of Arizona on the 24th day of July 2009.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation has not had its authority revoked for failure to comply with the provisions of the Arizona Business Corporation Act; and that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed an Application for Withdrawal as of the date of this certificate.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 29th Day of September, 2010, A. D.



Executive Director

By: \_\_\_\_\_ 522753

**Attachment B**

**Operator Services Tariff**

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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TITLE SHEET

ARIZONA INMATE TELECOMMUNICATIONS TARIFF

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of inmate telecommunications services provided by Pay-Tel Communications, Inc., with the principal offices at 4230 Beechwood Drive, Greensboro, N.C. 27410. This tariff applies to services furnished within the state of Arizona. This tariff is on file with the Arizona Corporation Commission, Utilities Division and may be inspected during normal business hours at the Company's principal place of business. A copy may also be obtained by visiting the Company's website, [www.paytel.com](http://www.paytel.com), or by writing the Company.

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Issued:

Effective:

John Vincent Townsend, President  
Pay-Tel Communications, Inc.  
P.O. Box 8179  
Greensboro, NC 27419  
1-866-729-8352 ext. 178  
[president@paytel.com](mailto:president@paytel.com)

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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CHECK SHEET

SHEETS 1 THROUGH 28, INCLUSIVE OF THIS TARIFF ARE EFFECTIVE AS OF THE DATES SHOWN AT THE BOTTOM OF THE RESPECTIVE SHEET(S). ORIGINAL AND REVISED SHEETS AS NAMED BELOW COMPRISE ALL CHANGES FROM THE ORIGINAL TARIFF AND ARE CURRENTLY IN EFFECT AS OF THE DATE ON THE BOTTOM OF THIS PAGE.

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<u>Sheet</u>	<u>Revision</u>
1	Original
2	Original
3	Original
4	Original
5	Original
6	Original
7	Original
8	Original
9	Original
10	Original
11	Original
12	Original
13	Original
14	Original
15	Original
16	Original
17	Original
18	Original
19	Original
20	Original
21	Original
22	Original
23	Original
24	Original
25	Original
26	Original
27	Original
28	Original

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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EXPLANATION OF SYMBOLS

**Page Numbering** – Page numbers appear in the upper right hand corner of the page. Pages are numbered sequentially. From time to time new pages may be added to the tariff. When a new page is added between existing pages a decimal is added to the preceding page number. For example, a new page added between pages 2 and 3 would be numbered 2.1.

**Explanation of Symbols** – When changes are made in any tariff sheet, a revised sheet will be issued cancelling the tariff sheet affected. Changes will be identified on the revised page(s) through the use of the following symbols:

- 
- |    |   |
|----|---|
| C- | To signify changed regulation                                   |
| D- | To signify discounted rate or regulation                        |
| I- | To signify increased rate                                       |
| N- | To signify new rate or regulation                               |
| R- | To signify reduced rates  |
| S- | To signify reissued matter                                      |
| T- | To signify a change in text but no change in rate or regulation |
| M- | To signify matter relocated without change                      |
| Z- | To signify a correction   |
| T- | Change in text or regulation                                    |

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 1 – DEFINITIONS

Access Line – An arrangement from a local exchange telephone company or other common carrier which connects an inmate telephone to a switching center.

Alternative Local Telephone Service Providers – Carriers such as CLEC, VOIP, or Wireless Carriers that do not provide billing and collection agreements for other carriers. When the Customer chooses to use an Alternative Local Telephone Service Provider, the Company will assist the Customer in establishing billing arrangements through Company Direct Bill or Prepaid Account Programs with multiple payment options through the Company or Third Party Payment Processors.

Automated Call Processing System – Equipment that automates the placement of collect calls, including recordation of billing information.

Automated Collect Inmate Telecommunications Services – Calls whereby an inmate in a Confinement Facility dials the called number and the call is billed to the called number (collect call) and where call placement and recording of billing information is performed without the assistance of a live operator.

Billed Party – The individual who accepts a collect call, is billed for the call, and responsible for the payment of the applicable charges.

Billing Limit – A dollar value of accepted collect call charges beyond which is deemed to be an at-risk collection.

Billing Service Company – A Company with billing and collection agreements with Local Exchange Carriers.

Called Party – The individual who receives an inmate collect call who can either accept or refuse the call.

Called Station – The terminating point of a call (i.e., the called number).

Calling Station – The originating point of a call (i.e., the calling number).

Client – The Confinement Facility Administration or the government entity with which the Company has contracted to provide service.

Collect Call – a Billing arrangement whereby the charge for a call may be billed to the called station, provided the called station accepts responsibility for such calls.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 1 – DEFINITIONS (continued)

Commission – Arizona Corporation Commission, Utilities Division.

Common Carrier – A company or entity providing telecommunications services to the public and subject to the jurisdiction of the Arizona Corporation Commission, Utilities Division.

Company – Pay-Tel Communications, Inc.

Completion of a Collect Call – A call is completed when the call is accepted at the call station.

Confinement Facility – A local, state, or federal facility that has authorized the Company to provide inmate telecommunications services.

Customer – The person or legal entity that enters into payment arrangements with the Company for telecommunications services to send or receive calls.

Debit Calls – A service where the inmate may place calls using funds transferred from the Inmate's Trust Account.

Direct Bill Customer Program - A program available to those Customers whose calls cannot be billed through their Local Exchange Carrier or provided to those Customers who accrue a threshold amount of charges. An account is established with the Company by a Customer who completes a credit application and receives a satisfactory credit score. A credit limit is established and calls are billed by the Company directly to the Customer each week.

Family Connection Calling Plan™ - A plan available for Customers who open a prepaid account with the Company. The plan provides a discount on every call depending on the amount of the payment made by the Customer.

Fixed Service Charge – A fee, in addition to the underlying local call rate or long distance measured charge, for providing services when using the inmate telephone.

Incomplete Call – Any call where transmission between the calling and called station is not established (e.g., busy, no answer, billing refused, etc.).

Inmate – The individual who uses the Company's telephones and the Company's services to place a call. An inmate may, pursuant to the Prepaid Calling Cards and/or Debit Calling through Confinement Facility Commissary offerings described herein, be a Customer of the Company.

Inmate Telephone – A coinless telephone instrument conforming with the Arizona Corporation Commission, Utilities Division Orders and Regulations governing such equipment.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 1 – DEFINITIONS (continued)

Inmate Trust Account – An Inmate Trust Account is an account established by the Facility where all funds belonging to an Inmate are placed and maintained.

Interexchange Carrier (IXC) – a company which furnishes interexchange telephone service.

Local Call – a call originated and terminated within a single exchange or extended service area.

Local Exchange Carrier (“LEC”) – A certified telecommunications company that provides local exchange service to customers in the State of Arizona.

Measured Charge – A distance-sensitive charge assessed on a per-minute basis in calculating a portion of the charge due for a completed call.

MoneyGram Payment Processing Fee – An undiscountable fee charged to a Customer by MoneyGram each time the Customer chooses to make a cash payment through MoneyGram for an account with the Company.

Phone Payment Processing Fee – An undiscountable fee charged to a Customer by the Third Party Phone Payment Processor when the Customer chooses to make a payment using credit card, check/debit card or check over the phone for an account with the Company.

Prepaid Customer Account Program – A program available to those Customers whose calls cannot be billed through their Alternative Local Telephone Service Provider or provided to those Customers who accrue a threshold amount of charges billed through their Local Exchange Carrier. An account is established with the Company by a Customer with an initial payment of \$25 or more. Charges for service provided by the Company are deducted on a per minute or per call real time basis from the Customer’s account.

Prepaid Card – A card issued by the Company which provides an inmate with a Prepaid Account, an Authorization Code, and instructions for accessing the Company’s network. An inmate purchases the prepaid card usage on a set prepaid basis from the Confinement Facility. Usage charges for Prepaid Card calls are deducted from the Prepaid Card on a real-time basis. Following release from a Confinement Facility, a Company Prepaid Card can be used to place additional prepaid calls until available funds are used or a refund can be requested by sending the card to the Company at the address printed on the card.

Regulatory Cost Recovery Fee – A charge, applied to a Billed Party’s bill during each billing period calls are billed, to recover costs associated with the Company’s administration, billing, collection and remittance of various government-mandated fees, surcharges and other amounts associated with the provision of services by the Company.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 1 – DEFINITIONS (continued)

Third Party Payment Processors – The Company has established multiple payment options for Customers who choose to open an account directly with the Company. These payment options are provided by Third Party Service Providers that charge an undiscountable fee to the Customer for processing Customer payments. The Company has negotiated the lowest possible fee with each of these Third Party Payment Processors, and receives no revenue in connection with any such fee. This fee is added to the Customer's payment amount by the Third Party Payment Processor, collected when the Customer makes payment, and paid to the Third Party Payment Processor. These Third Party Payment Processors are Western Union Prepaid Services, MoneyGram, a Phone Payment Processor, and a Website Online Payment Processor.

Toll Call – A call originating in one exchange and terminating in another that is not part of the exchange and is not a part of any extended area service arrangement. These calls can be either intraLATA or interLATA long distance calls.

Website Online Payment Processing Fee – An undiscountable fee charged to a Customer by the third party Website Online Payment Processor when the Customer chooses to make a payment online using a credit card, check/debit card or check for an account with the Company.

Western Union Prepaid Service Payment Processing Fee – An undiscountable fee charged to a Customer each time the Customer chooses to make a cash payment through Western Union for an account with the Company.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 2 – RULES AND REGULATIONS

2.1 Undertaking of the Company

The Company's inmate telephone services are furnished for communications originating in Confinement Facilities within the State of Arizona.

The Company installs, operates and maintains the communications services provided hereunder in accordance with the terms and conditions set forth under this Tariff. The Company furnishes its inmate telephone services for the benefit of Inmates housed in local, county, and state Confinement Facilities as well as for the benefit of the people Inmates call.

The Company's services are available twenty-four hours per day, seven days a week, subject to the rules of the Confinement Facility.

2.2 Limitations

2.2.1 Service is offered subject to the provisions of this tariff.

2.2.2 The Company reserves the right to discontinue furnishing service, or limit the use of service necessitated by conditions beyond its control or when a Customer, Calling Party, Called Party, Inmate or other person is attempting to steal service or is using service in violation of the law, the rules of the particular Confinement Facility or the provisions of this Tariff. The Company may prosecute those who use its services in violation of the law.

The Company may refuse, restrict, or interrupt service to Customers due to insufficient billing information, invalid telephone numbers, invalid commercial credit card numbers, refusal of a called party to accept responsibility for payment, or other circumstances which may prevent the Company from collecting the charges due. The Company may refuse or otherwise restrict the use of some or all billing methods for calling to or from certain parts of the United States or in circumstances where the Company reasonably believes such restrictions are necessary to prevent fraud and uncollectibles.

All equipment located onsite in the Confinement Facility or at the Company operations centers, and necessary to provide services is owned and operated by the Company.

Service is restricted to permit placement of outward only automated collect, prepaid, or debit calls to locations within the United States and Confinement Facility-requested foreign countries. All other call-types including direct dial, sent paid and calls charged to calling cards or third numbers are prohibited (other than as specifically set out herein).

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 2 – RULES AND REGULATIONS (continued)

Use of the Company's service is subject to any conditions or limitations imposed by Confinement Facilities. The Company may restrict or refuse service to any Inmate at the request of the Confinement Facility, and/or prohibit inmate access to certain telephone numbers as specified by the Confinement Facility. Service may be limited at the discretion of the Confinement Facility.

- 2.2.3 Calls to Company numbers and other numbers stipulated by Confinement Facility authorities will be blocked in the interest of public safety and to avoid harassment.
- 2.2.4 Calls dialed 10XXX+0, 950, 911, 900, 976, 700, 411 and other information calls are blocked. A copy of the current local directory shall be available upon request by Confinement Facility authorities for inmate use.
- 2.2.5 The Company will also block calls in the following circumstances, subject to provisions of this Tariff that provide Customers with alternative means for connecting calls:
- A. When the Customer's Local Exchange Carrier or Alternative Local Telephone Service Provider does not provide billing for collect calls;
  - B. When the telephone number in question lacks sufficient billing history or billing information;
  - C. When the Local Exchange Carrier identifies multiple lines at a particular address;
  - D. When the Local Exchange Carrier has a collect call block on the line;
  - E. When the amount of collect calls received by a particular phone number has reached the billing limits established with the Customer's or Billed Party's Local Exchange Carrier based on that carrier's uncollectible revenue history;
  - F. When a Prepaid Customer's account balance lacks available funds;
  - G. When a Customer's Direct Bill account balance is over the established credit limit.

When a Customer with one of the above circumstances receives a call from an inmate, the call will be connected and a one-minute courtesy call will be provided to the Customer. The Customer will be instructed to call the Company's 1-800 customer service number where they will be told why their number is blocked and they will be given an opportunity to open a Company account twenty-four hours a day, seven days a week.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 2 – RULES AND REGULATIONS (continued)

2.2.6 The Company will also block calls in the following circumstances and will not provide alternative means for connecting calls:

- A. When the Confinement Facility has placed a block on the phone number;
- B. When the Customer or telephone subscriber has requested a block on their phone number;
- C. When a Local Exchange Carrier notifies the Company that the subscriber owes past due Company charges to the Local Exchange Carrier;
- D. When a Customer account is in “collection status”, i.e. NSF check, invalid check, fraudulent credit card payment, etc.

2.2.7 Maximum call duration is limited to any maximum duration specified by the Confinement Facility, but otherwise is not limited to less than ten minutes.

2.3 Liability of the Company

2.3.1 The Company’s liability for damages arising out of mistakes, interruptions, omissions, delays, errors or defects in the transmission occurring in the course of furnishing service, and not caused by the negligence of its employees or its agents, in no event shall exceed the amount equal to the charge to the customer or called party for the period during which the aforementioned faults in the transmission occur. In no event will the Company be liable for consequential damages from any such interruptions of service.

The Company is not liable for damages to a Confinement Facility resulting from the furnishing of service including the installation and removal of equipment and associated wiring, unless the damage is caused by the Company’s negligence.

In addition, the Company shall not be responsible for interruptions of service resulting from the following: 1) when the parties stop talking without hanging up; 2) attempts to make a 3-way call; 3) attempts to answer Call Waiting; 4) attempts to put a call on hold; 5) attempts to transfer a call; 6) use of a cordless phone; and/or 7) use of a cell phone.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 2 – RULES AND REGULATIONS (continued)

- 2.3.2 The Company shall not be liable for and shall be indemnified and held harmless by Customers, Calling Parties, Inmates and/or Called Parties against:
- A. Claims for libel, slander, or infringement or copyright arising out of the material, data, information, or other content transmitted over the Company's facilities.
  - B. All loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted or assessed by Customer, Calling Party, Called Party, Inmate or any other party or person, or for any destruction of any property, whether owned by a Customer or others, caused by or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, condition, location or use of facilities or equipment provided by the Company which is not the direct result of the Company's negligence. No agents or employees of other carriers or companies shall be deemed to be agents or employees of the Company without written authorization.
  - C. All other claims arising out of any act or omission of the Customer, Called Party, Calling Party, or any other person in connection with any service or facility provided by the Company.
  - D. Violations of the provisions of this Tariff.

2.4 Taxes and Fees

All state and local taxes and any fee imposed by a governmental entity (e.g. sales tax, municipal utilities tax, telecommunications business license tax, USF assessment) are listed as separate line items and are not included in the rates and charges specified in Section 4.

2.4.1 Universal Service Fees

The Universal service Fees ("USF") on your phone bill are regulated by federal and state law. The USF is based on a specific percentage of the cost of the calls set by the federal government for interstate calls and set by state government for intra-state calls.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 2 – RULES AND REGULATIONS (continued)

2.5 Payment for Service

2.5.1 Disputed Charges

Charges billed directly by the Company are due upon receipt. Amounts not paid within 10 days of the invoice will be considered past due. For charges billed directly by the Company, notice from the Customer of a dispute must be received in writing within thirty (30) days after the date of the invoice. Otherwise, all charges will be considered correct and binding.

For charges billed through the Customer's LEC, notice from the Customer of disputed charges must be received in writing by the Company within ninety (90) days after the bill is issued. Otherwise, all charges will be considered correct and binding.

The Company will promptly investigate and advise all billed parties of its findings concerning disputed charges. Bill adjustments will be made to the extent that circumstances exist which reasonably indicate that such changes are appropriate.

A. Contact Customer Service: Customers with questions about billed charges may contact the Company directly at 1-800-729-8355 twenty-four hours a day. The Company's automated phone system can provide the Customer with account balance, call and payment activity, information on why an account is blocked, information on how to open an account and answer the most frequently asked questions.

A Customer wishing to speak to a Customer Service Representative can call 1-800-729-8355 Monday through Friday from 8:00 am to 8:00 pm and on Saturday from 9:00 am to 2:00 pm and follow the voice prompts to reach a Customer Service Representative.

Those persons who have not yet established an account with the Company nor received a call from the Company requesting the establishment of an account may contact the Company at 1-800-729-8355. The customer will be asked by an automated voice prompt to enter their phone number. When their number is not identified as an active account, the customer will be transferred to a Customer Service Representative.

The Customer can contact a Company Customer Service Representative via e-mail at [csr@paytel.com](mailto:csr@paytel.com), by fax at 1-800-776-8423, or by mail at the following address:

Pay-Tel Communications, Inc.  
Customer Service  
P.O. Box 19290  
Greensboro, NC 27419

All inquiries are addressed the day they are received during normal business hours.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 2 – RULES AND REGULATIONS (continued)

**B. Contact Customer Relations:** If the Customer is not satisfied with the Company's service or the resolution of any billing issue, the Customer can file a complaint with Customer Relations via e-mail at [customerrelations@paytel.com](mailto:customerrelations@paytel.com). All complaints are addressed by the Customer Relations Manager the day they are received during normal business hours Monday through Friday.

**C. Contact President:** If the Customer is not satisfied with the Company's service or the resolution of any billing issue, the Customer can contact the President of the Company via e-mail at [president@paytel.com](mailto:president@paytel.com). All inquiries are addressed by the President the day they are received during normal business hours Monday through Friday.

**D. Contact Better Business Bureau:** The Company is a member in good standing of the Better Business Bureau OnLine Reliability Program. ~~If the Customer is not satisfied with the Company's services, they can~~ use the BBB link on the Company's website home page to file a complaint with the BBB.. All complaints are addressed the day they are received during normal business hours.

**E. Contact Commission:** If the Customer is not satisfied with the resolution of intrastate billed charges by the Company, the Customer has the right to express its concerns to the Arizona Corporation Commission, Utilities Division:

Arizona Corporation Commission  
Utilities Division  
1200 West Washington St.  
Phoenix, AZ 85007-2996  
Telephone Number: 602-542-4251  
Toll Free Number 800-222-7000  
Fax Number: 602-542-2129  
Email: [mailmaster@azcc.gov](mailto:mailmaster@azcc.gov)  
Website: [www.cc.state.az.us](http://www.cc.state.az.us)

**2.5.2 Collection of Post-Billing Adjustments**

The Company will exercise its rights, (as set out in the truth-in-billing regulatory statements on the LEC's bill) to pursue collection on unpaid charges for Company services billed by a LEC and recoured to the Company. Upon receipt of post-billing adjustments from a LEC containing a Customer's past due charges for services provided by the Company, the Company will invoice the Customer for those amounts. If the Customer does not contact the Company within ten (10) days to dispute the validity of the charges, the charges will be presumed valid.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 2 – RULES AND REGULATIONS (continued)

2.6 Refusal or Discontinuance of Service by Company

2.6.1 With Notice:

- A. For failure to pay for service when it is due;
- B. For failure to make proper application for service;
- C. For violation and/or noncompliance with the Commission's Orders or regulations regarding service supplied by the Company;
- D. For violation of any of the Company's rules;
- E. Where there is probable cause to believe that there is illegal or willful misuse of the Company's service;
- F. In the event the validation process determines that the terminating carrier (e.g. an Alternative Local Telephone Service Provider cannot bill the collect call);
- G. In the event the validation process does not produce a bill name and address;
- H. In the event the validation process does not produce any satisfactory billing history.

2.6.2 Without Notice:

- A. In the event of a condition determined by the Company to be hazardous or dangerous;
- B. In the event of use of equipment in such a manner as to adversely affect the Company's service to others;
- C. In the event of unauthorized use of telephone service;
- D. In the event of fraudulent payment for service or other evidence of an attempt to steal services.

2.7 Returned Check Charge

The Company will charge a fee, not to exceed \$25.00 or the amount set out in Arizona Revised Statute 44-6852 (2003), for each check returned for insufficient funds.

2.8 Costs of Collection and Repair

Company shall be entitled to recover any and all costs incurred in the collection of monies owed the Company, including legal fees and accounting expenses. Company is also entitled to recover all costs and expenses required for repair or replacement of damaged equipment.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 3 – DESCRIPTION OF SERVICE

3.1 General

The Company provides telecommunications services to Inmates in local, county and state Confinement Facilities throughout the United States including Arizona. Service provided under this tariff is intrastate voice telecommunications service between points in the State of Arizona. Originating points of service are limited to Inmate telephones owned or operated by the Company in Confinement Facilities and made available for the use of Inmates.

Services are provided on an automated basis through Inmate telephones, automated call processors and over subscribed facilities of various telecommunications providers. These facilities include, but are not limited to, broadband access lines (e.g. T-1, DSL), MultiProtocol Label Switching (“MPLS”) equipment and services, Integrated Services Digital Network (“ISDN”), and payphone service provider access lines. The Company will choose appropriate facilities for the provision of its services based upon Confinement Facility requirements and the Company’s evaluation of cost, reliability, and network function.

Inmate telephone service consists of the provision of automated operator service by means of an Automated Call Processing System. To complete and arrange billing for calls, automated service is provided by means of a microprocessor which uses recorded voice prompts which prompt parties to the call through the process of completing the call. The microprocessor responds to the Called Party’s input of information by automatically processing and transmitting the information to establish a valid billing procedure for the call and to complete the call.

Consistent with applicable law governing the provision of telecommunications services to inmates in Confinement Facilities and restrictions based upon the provision of such services by Confinement Facilities, the Company’s inmate telecommunications services are provided as follows:

- a. Only automated collect calls and authorized Prepaid Card calls or Debit Calls through a Confinement Facility commissary may be placed.
- b. The automated voice prompts identify the Company, audibly and distinctly, to the Customer at the beginning of each call, and again before the Billed Party incurs any charge for the call.
- c. The Inmate and/or the Called Party receiving the call can terminate the call at no charge before the call is accepted.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 3 – DESCRIPTION OF SERVICE (continued)

- d. The Company shall disclose to the Customer, upon request and at no charge, a quote of its rates and charges for the call.
- e. The Company shall post notices in each Confinement Facility where the Company provides service containing the Company's contact information along with information on how the service is provided.

3.2 Timing of Calls

Charges begin once the Called Party accepts a collect call or when the prepaid Inmate call is accepted. After the system verifies acceptance, timing begins and a call detail record is generated from that moment until the call is concluded.

There shall not be a charge for unanswered and non-accepted collect calls. Upon receiving reasonable and adequate notification from Customer of a billing error for any such call, the Company or an authorized agent will issue a credit to the Customer in an amount equal to the charge for the call.

3.3 Monitoring and Recording of Inmate Calls

The Company installs and maintains call origination equipment (inmate telephone service systems) with monitoring and recording capabilities in Confinement Facilities that request and contract for such equipment. The Company has a Monitoring and Recording policy that prohibits any employee from recording, listening to or disclosing the contents of telephone recordings except as authorized in accordance with all applicable state and federal laws, including Title III of the Omnibus Crime Control and Safe Streets Act of 1968, as amended (the "Act"), 18 U.S.C.A. §2511 (c) and (d).

The Monitoring and Recording Policy provides the guidelines for law enforcement officials to monitor and record non-privileged inmate conversations. It also provides guidelines for company employees to respond to law enforcement investigations, analyze recordings for the purpose of quality control (voice and volume), and review recordings for the purpose of telephone fraud investigation.

Prior to recording any conversation, the Calling Party (the Inmate) and the Called Party are both notified that the call will be recorded and may be monitored. After the call is answered this notification is provided before and after the call is accepted. Calls between an Inmate and attorney are not recorded if the attorney provides their phone numbers to the Confinement Facility to block recording.

3.4 Rate Quotes

The Customer prior to accepting a collect call can receive a quote for the call by pressing a single digit. The Customer can also receive a rate quote by calling the Company's toll free customer service number twenty-four hours a day.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 3 – DESCRIPTION OF SERVICE (continued)

3.5 Inmate Customers

3.5.1 Prepaid Cards

Inmates may obtain Company Prepaid Cards (in various denominations) directly from the Confinement Facility. All monetary transactions involving Inmates take place between the Confinement Facility and the Inmate, and are under the direct and complete control of the Confinement Facility.

The Inmate obtains access to the Company's Prepaid Card Services via a toll-free number. The Inmate must input a valid Authorization Code to access an account. At the beginning of each call, the Inmate is informed of the remaining balance on the card. The Inmate then inputs the destination number. Network usage will be debited from the available funds on the card on a real time basis and in full minute increments as the call progresses. Call timing is rounded up to the nearest one (1) minute increment after the initial minimum period of one (1) minute. Inmate will be provided with an announcement when the account balance is one minute prior to exhaustion. The Inmate can transfer a balance from one card to another card. Prepaid cards will expire twelve months from date of initial use. The Called Party is provided the name of the Confinement Facility and the name of the Inmate calling prior to being offered the option to accept or refuse the incoming pre-paid call.

Following release from a Confinement Facility, a refund can be requested by sending the card to the Company at the address printed on the card. Refund requests must be submitted to the Company within twelve months from date of initial use. A refund will be issued to the Customer within ten to fifteen (10 – 15) business days from receipt of the Customer's card.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 3 – DESCRIPTION OF SERVICE (continued)

3.5.2 Debit Calls

When made available by the Confinement Facility, the Inmate may place debit calls using funds transferred from the Inmate's Trust Account. The Inmate selects the debit account option and inputs the destination number. At the beginning of the call the Inmate is informed of the remaining balance in the debit account. Network usage will be debited from the funds available in the debit account on a real time basis and in full minute increments as the call progresses. Call timing is rounded up to the nearest one (1) minute increment after the initial minimum period of one (1) minute. Inmates will be provided an announcement when the account balance is one minute prior to exhaustion.

The Called Party is provided the name of the Confinement Facility and the name of the Inmate calling prior to being offered the option to accept or refuse the incoming debit call.

At the time of release from a Confinement Facility, the debit account balance will be transferred to the Inmates Trust Account for refund.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 3 – DESCRIPTION OF SERVICE (continued)

3.6 Non-Inmate Customers

3.6.1 Validation, and Fraud Prevention Process

When an Inmate attempts to place a collect call to a prospective Customer, the Company will initiate a process whereby the prospective Customer is evaluated. This process is a necessary undertaking by the Company in order to protect the Company's ability to collect for the services provided (and similarly limit and prevent unbillable revenues and bad debt), and limit and prevent fraud.

Accordingly, the Company will validate its Customers' bill-to-number through available verification procedures and establish a maximum predetermined credit amount. Where the Customer's requested billing method cannot be validated, or a maximum credit amount cannot be established, the Company may refuse to provide service except through a Company Direct Bill and/or Prepaid Account basis as set out herein. Furthermore, the Company will use various methods to determine the likelihood of fraud associated with a particular Customer, and in the event the Company determines that such a likelihood exists, the Company may also refuse to provide service except on a Prepaid Account basis with payments only by money order, Western Union Prepaid Services, or MoneyGram.

3.6.2 Billing through the Customer's Local Exchange Carrier ("LEC")

This option is limited to those Customers who satisfy the Validation and Fraud Prevention procedures described above.

Accordingly, billing through the Customer's Local Exchange Carrier is not available when: the Customer's Local Exchange Carrier will not bill the Company's calls; the Customer has reached the local Exchange Carrier's billing limit for collect calls; the Company determines, based upon the review described in Section 3.6.1 above, the Customer is otherwise ineligible to have calls billed on the Local Exchange Carrier's bill; or the Customer accrues a threshold amount of charges as set out in Section 3.6.5 hereof.

3.6.3 Billing for Customers that use Alternative Local Service Providers

Alternative Local Service Providers such as CLECs, VOIP, and Wireless Carriers do not provide billing and collection agreements for other carriers. When the Customer chooses to use an Alternative Local Service Provider, the Company will assist the Customer in establishing billing arrangements through Company Direct Bill or Prepaid Account Programs with multiple payment options through Third Party Payment Processors.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 3 – DESCRIPTION OF SERVICE (continued)

3.6.4 Third Party Payment Processors

The Company has established multiple payment options for Customers who choose to open an account directly with the Company. These payment options are provided by Third Party Service Providers that charge an undiscountable fee to the Customer for processing Customer payments. The Company has negotiated the lowest possible fee with each of these Third Party Payment Processors, and receives no revenue in connection with any such fee. This fee is added to the Customer's payment amount by the Third Party Payment Processor, collected when the Customer makes payment, and paid to the Third Party Payment Processor. These Third Party Payment Processors are Western Union Prepaid Services, MoneyGram, a Phone Payment Processor, and a Website Online Payment Processor.

3.6.5 Direct Bill Customer Account Program

The Direct Bill Customer Account Program ("Program") is available to those Customers whose calls cannot be billed through their Alternative Local Telephone Service Provider. In addition, the Program is available to those Customers who accrue a threshold amount of charges billed through their Local Exchange Carrier within a thirty-to-ninety day period.

The Customer is provided a courtesy call to inform the Customer of the Company's Billing Limit for calls billed through the Local Exchange Carrier when total outstanding charges accrued within a thirty-day period reach \$50.00. Once the Customer has accrued \$75.00 or more of collect call charges within a ninety-day period, a second notification call is made to the Customer indicating placement in the Program. Billing treatment for Customers participating in the Program is as follows:

- A. To participate in the Direct Bill Program, the customer must complete a credit application and receive a satisfactory credit score. The credit application can be taken over the phone or completed on the Company website.
- B. If the customer receives a satisfactory credit score, all future billing will be by the Company directly to the Customer. The Company will obtain the address of the Customer and begin the billing process from the date the Customer is approved for the Direct Bill Program.
- C. With the first bill, the Customer is notified of the Billing Limit established by the Company's credit policies, and the Company's address and toll-free Customer Service telephone number. Information about the average cost of calls received from the Confinement Facility is also provided to assist the Customer in budgeting telecommunications expenses.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 3 – DESCRIPTION OF SERVICE (continued)

- D. Thereafter, Program Customers are billed on a weekly basis.
- E. If a Customer's bill exceeds the Billing Limit established by the Company, the Customer is notified and then the Customer's telephone number is blocked from receiving collect calls from Confinement Facilities served by the Company until payment on the account is received.

3.6.6 Prepaid Customer Account Program

The Prepaid Customer Account Program ("Program") is available to those Customers whose calls cannot be billed through their Alternative Local Telephone Service Provider. In addition, the Program is available to those Customers who accrue a threshold amount of charges billed through their Local Exchange Carrier within a thirty-to-ninety day period.

Customers who do not wish to complete a credit application or do not receive a satisfactory credit score can open a Prepaid Account.

- A. The Customer establishes a Prepaid Account with the Company by paying \$25 or more to the Company by one of the payment methods offered by the Company. Payments can be made over the phone or on the web via credit card, check card, or check. The Customer's account number is the ten digit phone number where they wish to receive calls. The Customer will also select a six digit Personal Identification Number or PIN to use in accessing their account information in the future.
- B. When the Customer receives a call, they are informed the call is from an Inmate and the Customer has the option to accept or decline the incoming call. All security measures associated with an Inmate collect call, as implemented by the Company and the Confinement Facility, will apply.
- C. Customers using this pre-payment option will receive a weekly statement listing their call activity, charges, call discounts, and notifying them of their remaining balance. Weekly statements are provided at no charge to the customer. The Customer can contact the Company's customer service toll-free number or visit the Company's website to obtain account balances information twenty-four hours a day. If the Customer's entire account balance is used, the Customer is notified and then the Customer's telephone number is blocked from receiving collect calls from the Confinement Facility served by the company until payment on the account is received. Customers may send the Company additional funds using a check or money order to receive more calls, or authorize payment of additional funds via credit card, check card, check by phone, echeck, MoneyGram, or Western Union Prepaid Services.

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Issued:

Effective:

John Vincent Townsend, President  
Pay-Tel Communications, Inc.  
P.O. Box 8179  
Greensboro, NC 27419  
1-866-729-8352 ext. 178  
[president@paytel.com](mailto:president@paytel.com)

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 3 – DESCRIPTION OF SERVICE (continued)

- D. The Company may apply pre-payments to past due charges billed to the Customer by the Local Exchange Carrier.
- E. The account remains open until one of the following events occurs: 1) the balance is depleted; or 2) the Customer requests that the account be terminated.
- F. Customers who prepay will receive a Family Connection Calling Plan™ discount on every call. This discount will be offered based upon the amount of prepayment, as outlined in Section 4.5 of this tariff.
- G. Refunds - Customers may request a refund of unused funds by sending a written request to cancel their account to the Company via email at [refunds@paytel.com](mailto:refunds@paytel.com), fax at 1-800-776-8423, or U.S. mail. The Company will endeavor to refund such monies, provided that no past due charges are owed by the Customer to its local exchange carrier or the Company, within ten to fifteen (10-15) business days from the receipt of the Customer's request. There is no charge for issuing a refund.
- H. All unused funds of the Customer will be maintained by the Company in conformance with the Uniform Disposition of Unclaimed Property Act, Arizona Revised Statute, Section 44-318.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 4 – RATES AND CHARGES

4.1 Intra-State Collect Call Rates.

This Section 4.1 applies to all Company intrastate calls. The Company provides all of its services via individual contracts with Confinement Facilities or applicable governmental entities. As such, these contracts may contain rates less than or equal to (but not higher than) the rates set out herein. The Company will make any of these contracts available to the Commission upon request.

4.1.1 Computation of Charges

~~Local calls shall consist of a Fixed Service Charge and the applicable local call rate. The total charges for~~ each toll call consists of two elements: a fixed service charge and a measured charge dependent on the duration of the call. The measured charge element is specified as a rate per minute which is applied to each minute, with fractional minutes rounded up to the nearest one full minute.

4.1.2 Chargeable Times

Chargeable time begins when a Called Party accepts the charges by positive acceptance through pressing the number “3” on a touch-tone phone. In the absence of acceptance, calls will be terminated and no charges incurred. Chargeable time ends when either the Calling Party or Called Party hangs up or when released by the automatic timing equipment in the telephone.

4.1.3 Local Collect Calls

The maximum rate for a local collect call is a \$1.45 Operator Surcharge plus the Local Call rate of \$.50.

4.1.4 IntraLATA Collect Calls

A. Operator Surcharge	\$2.30
B. Measured Charges	
Initial Minute	\$.25
Each Additional Minute	\$.25

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 4 – RATES AND CHARGES (continued)

4.1.5 InterLATA Collect Calls

A. Operator Surcharge                      \$3.00

B. Measured Charges

Initial Minute                              \$.30

Each Additional Minute                  \$.30

4.1.6 Taxes and Fees

All state and local taxes and any fee imposed by a government entity are listed as separate line items on the Customer's bill.

4.2 Prepaid Card Calls

Prepaid Card calls, as described in Section 3.5.1 hereof, will not exceed the collect call rate for the appropriate type call as listed in Section 4.1.

Following release from a Confinement Facility a refund can be requested by sending the card to the Company at the address printed on the card. Refund requests must be submitted to the Company within twelve months from date of initial use.

4.3 Debit Calls

Debit Calls, as described in Section 3.5.2 hereof, will not exceed the collect call rate for the appropriate type call as listed in Section 4.1.

At the time of release from a Confinement Facility, the debit account balance will be transferred to the Inmate's Trust Account.

4.4 Direct Bill Customer Account Program

Direct Bill calls, as described in Section 3.6.5 hereof will not exceed the collect call rate for the appropriate type of call as listed in Section 4.1.

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 ARIZONA INMATE TELECOMMUNICATIONS SERVICES
 

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SECTION 4 – RATES AND CHARGES (continued)4.5 Prepaid Customer Account Program

Prepaid Account Calls as described in Section 3.6.6 hereof, will receive a Family Connection Calling Plan™ discount on every call. The plan provides a discount on every call based on the amount of prepayment made by the Customer, as outlined below.

## Family Connection Calling Plan™ Discounts

<u>Payment</u>	<u>Discount</u>
\$25	4%
\$50	6%
\$100	8%
\$150	10%

To maximize the value of the discount, Customers can mail payments directly to the Company with a check money order, in order to avoid the payment processing fees charged when payments are made through Western Union, MoneyGram, the Website Online Payment Processor or the Phone Payment Processor.

The Family Connection Calling Plan™ is designed to provide rates for calls to friends and family members who need to stay in touch with inmates. Customers should make payment amounts that best fit their needs. When the Customer no longer needs the account, they can request a refund. There is no charge for issuing a refund.

See Section 3.6.6 G for information on how to request a refund.

4.6 Rate Quotes

The Customer prior to accepting a collect call can receive a quote for the call by pressing a single digit. The Customer can also receive a rate quote by calling the Company's toll free customer service number twenty-four hours a day.

4.7 Disputed Charges

Billed party bills shall display the Company toll free number whereby the billed party can contact the Company to resolve billing complaints. Disputed charges are subject to the conditions described in Section 2.5.1, above.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 4 – RATES AND CHARGES (continued)

4.8 Billing Entity Conditions

When billing functions on behalf of the Company are performed by billing agents (i.e., local exchange carrier, credit card companies, or other), the payment of charge conditions, tariffs, regulations of such companies and any regulations imposed upon these companies by regulatory bodies having jurisdiction apply, including any applicable tax, applicable interest, and/or late payment charge conditions.

4.9 Regulatory Cost Recovery Fee

A monthly charge of \$1.90 will be applied to a Billed Party's bill to recover costs associated with the Company's administration, billing, collection and remittance of various government-mandated fees, surcharges and other amounts associated with the provision of services by the Company.

4.10 Payment by Check or Money Order through the Mail

No additional fees will be charged to a Customer each time the Customer chooses to make a payment with a check or money order through the mail for an account with the Company.

4.11 Third Party Payment Processors

Third Party Payment Processors – The Company has established multiple payment options for Customers who choose to open an account directly with the Company. These payment options are provided by Third Party Service Providers that charge an undiscountable fee to the Customer for processing Customer payments. The Company has negotiated the lowest possible fee with each of these Third Party Payment Processors, and receives no revenue in connection with any such fee. This fee is added to the Customer's payment amount by the Third Party Payment Processor, collected when the Customer makes payment, and paid to the Third Party Payment Processor. These Third Party Payment Processors are Western Union Prepaid Services, MoneyGram, a Phone Payment Processor, and a Website Online Payment Processor.

4.11.1 Western Union Prepaid Services Payment Processing Fee

An undiscountable fee of \$5.95 will be charged to a Customer by Western Union each time the Customer chooses to make a cash payment through Western Union for an account with the Company. This fee is referenced in this tariff to advise the Customer of the charge. This fee will not be assessed on those Customers who mail a check or money order to the Company.

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ARIZONA INMATE TELECOMMUNICATIONS SERVICES

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SECTION 4 – RATES AND CHARGES (continued)

4.11.2 MoneyGram Payment Processing Fee

An undiscountable fee of \$5.50 will be charged to a Customer by MoneyGram each time the Customer chooses to make a cash payment through MoneyGram at Wal\*Mart for an account with the Company. This fee is referenced in this tariff to advise the Customer of the charge. This fee will not be assessed on those Customers who mail a check or money order to the Company.

4.11.3 Website Online Payment Processing Fee

An undiscountable fee of \$3.00 will be charged to a Customer by the Third Party Website Online Payment Processor each time the Customer chooses to make a payment using a credit card, check/debit card or check online for an account with the Company. This fee covers the expenses associated with third-party database verification, validation, fraud prevention services and payment processing available through the Website Online Payment Processor. This fee is referenced in this tariff to advise the Customer of the charge. This fee will not be assessed on those Customers who mail a check or money order to the Company.

4.11.4 Phone Payment Processing Fee

An undiscountable fee of \$3.00 will be charged to a Customer by the Third Party Phone Payment Processor each time the Customer chooses to make a payment using a credit card, check/debit card or check over the phone for an account with the Company. This fee covers the expenses associated with third party database verification, validation, fraud prevention services and payment processing available through the Phone Payment Processor. This fee is referenced in this tariff to advise the customer of the charge. This fee will not be assessed on those customers who mail a check or money order to the Company.

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Issued:

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**Attachment C**

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**NOTICE OF APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND  
NECESSITY TO PROVIDE COMPETITIVE RESOLD INTEREXCHANGE  
TELECOMMUNICATIONS SERVICE BY PAY TEL COMMUNICATIONS, INC.**

Pay Tel Communications, Inc. ("Applicant") has filed with the Arizona Corporation Commission ("Commission") an application for a Certificate of Convenience and Necessity ("Certificate") to provide competitive resold interexchange telecommunications services in the State of Arizona. Applicant will be required by the Commission to provide this service under the rates and charges and terms and conditions established by the Commission.

A.R.S. § 40-282 provides that the Commission may act on an application for a Certificate to provide resold telecommunications services without a hearing, or with a hearing, if one is requested by any party. Applicant or any other party must request a hearing within twenty (20) days of the date of this notice, or the Commission will rule on the application without a hearing.

The application, report of the Commission's Utilities Division Staff, and any written exceptions to the Staff report prepared by the application are available for inspection during regular business hours at the offices of the Commission located at 1200 West Washington Street, Phoenix, Arizona 85007, and at Applicant, 4230 Beechwood Drive, Greensboro, NC 27410.

Under appropriate circumstances, interested parties may intervene in the proceedings, and participate as a party. Intervention shall be in accordance with the A.A.C. R14-3-105, except that all motions to intervene must be filed on or within twenty (20) days of this notice. You may have the right to intervene in the proceedings, or you may make a statement for the record. If you have any comments, mail them to:

The Arizona Corporation Commission  
Attention Docket Control  
RE: Pay Tel Communications, Inc.  
Docket No. \_\_\_\_\_  
1200 West Washington Street  
Phoenix, Arizona 85007

All comments should be received within twenty (20) days of the date of this notice.

**Attachment D**

**Company Financials**

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**PAY TEL COMMUNICATIONS, INC.**  
**"UNAUDITED" INCOME STATEMENT**  
**DECEMBER 31, 2008**

Net revenues	\$ 21,216,567
Cost of revenues	<u>(15,386,411)</u>
Gross profit	5,830,156
Selling, general and administrative expenses	<u>(5,668,241)</u>
Earnings from operations	<u>161,915</u>
Other incomes (expenses)	
Net interest income	56,801
Net loss on sale of equipment	(13,442)
Amortization of deferred charges	<u>(10,000)</u>
Net other income (expenses)	<u>33,359</u>
Net earnings	195,274
Retained earnings at beginning of year	4,935,990
Stockholder's distributions	<u>(600,183)</u>
Retained earnings at end of year	<u>\$ 4,335,807</u>

**PAY TEL COMMUNICATIONS, INC.**  
**"UNAUDITED" BALANCE SHEET**  
**DECEMBER 31, 2008**

**Assets**

**Current assets:**

Cash	\$ 1,221,750
Net Accounts Receivable	799,262
Prepaid expenses and other receivables	669,381
<b>Total current assets</b>	<b><u>2,690,394</u></b>

**Property and equipment:**

Telephones and related equipment	8,703,028
Office furniture, equipment and software	3,499,561
Vehicles	518,777
Leasehold improvements	1,119,403
<b>Total property and equipment</b>	<b><u>13,840,769</u></b>

Less accumulated depreciation and amortization	(8,751,421)
<b>Net property and equipment</b>	<b><u>5,089,348</u></b>

**Other assets:**

Notes receivable from related parties	1,037,398
Net deferred contract costs	441,160
Settlement reserve deposits	347,484
Other intangible assets	262,433
Cash surrender value of stockholder's life insurance	4,868
Deposits and other noncurrent assets	-
Net deferred charges	-
<b>Total other assets</b>	<b><u>2,093,343</u></b>

<b>Total Assets</b>	<b><u>\$9,873,085</u></b>
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**Liabilities and Stockholder's Equity**

**Current liabilities:**

Accounts payable	2,266,672
Accrued expenses and other liabilities	3,051,832
<b>Total current liabilities</b>	<b><u>5,318,504</u></b>

Notes payable	-
---------------	---

<b>Total liabilities</b>	<b><u>5,318,504</u></b>
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**Stockholder's equity:**

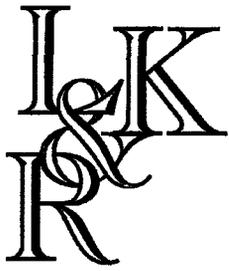
Common stock: 100,000 shares authorized: 10,000 shares issued and outstanding	22,500
Retained earnings	4,532,081
<b>Total stockholder's equity</b>	<b><u>4,554,581</u></b>

<b>Total Liabilities and Stockholder's Equity</b>	<b><u>\$9,873,085</u></b>
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**Pay Tel Communications, Inc.**

**FINANCIAL STATEMENTS  
and Independent Auditor's Report**

**December 31, 2007 and 2006**



**Leeper, Kean & Rumley, L.L.P.**  
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Stockholder  
Pay Tel Communications, Inc.  
Greensboro, North Carolina

We have audited the accompanying balance sheets of Pay Tel Communications, Inc. (an S Corporation) as of December 31, 2007 and 2006, and the related statements of earnings and 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pay Tel Communications, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Leeper, Kean & Rumley LLP*

May 2, 2008

# Pay Tel Communications, Inc.

## BALANCE SHEETS

December 31, 2007 and 2006

	<u>Assets</u>	
	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 2,997,852	1,497,041
Net accounts receivable	974,177	1,594,898
Prepaid expenses and other receivables	131,093	127,689
Total current assets	<u>4,103,122</u>	<u>3,219,628</u>
Property and equipment, at cost:		
Inmate communications equipment	8,008,936	7,782,033
Office furniture, equipment and software	2,098,440	1,577,843
Vehicles	512,652	477,631
Leasehold improvements	155,835	139,205
Total property and equipment	<u>10,775,863</u>	<u>9,976,712</u>
Less accumulated depreciation and amortization	<u>(7,844,402)</u>	<u>(7,083,419)</u>
Net property and equipment	<u>2,931,461</u>	<u>2,893,293</u>
Other assets:		
Settlement reserve deposits and collateral certificate of deposit	914,804	904,853
Notes receivable from related parties	919,243	851,334
Net deferred contract costs and commissions	507,878	476,605
Other intangible assets	256,433	172,683
Cash surrender value of stockholder's life insurance	43,247	39,532
Deposits and other noncurrent assets	16,830	24,279
Total other assets	<u>2,658,435</u>	<u>2,469,286</u>
Total Assets	<u>\$ 9,693,018</u>	<u>8,582,207</u>

See accompanying notes to financial statements.

# Pay Tel Communications, Inc.

## BALANCE SHEETS

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b><u>Liabilities and Stockholder's Equity</u></b>		
Current liabilities:		
Accounts payable	\$ 2,850,312	2,410,352
Accrued expenses and other liabilities	1,363,398	1,326,641
Unearned revenues	<u>520,820</u>	<u>322,182</u>
Total current liabilities	<u>4,734,528</u>	<u>4,059,175</u>
Stockholder's equity:		
Common stock; 100,000 shares authorized; 10,000 shares issued and outstanding	22,500	22,500
Retained earnings	<u>4,935,990</u>	<u>4,500,532</u>
Total stockholder's equity	<u>4,958,490</u>	<u>4,523,032</u>
 Total Liabilities and Stockholder's Equity	 <u>\$ 9,693,018</u>	 <u>8,582,207</u>

See accompanying notes to financial statements.

# Pay Tel Communications, Inc.

## STATEMENTS OF EARNINGS AND RETAINED EARNINGS For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Net revenues	\$ 22,321,676	22,801,477
Costs of revenues	<u>(16,521,309)</u>	<u>(17,947,448)</u>
Gross profit	5,800,367	4,854,029
Selling, general and administrative expenses	<u>(4,745,937)</u>	<u>(4,699,998)</u>
Earnings from operations	<u>1,054,430</u>	<u>154,031</u>
Other income (expenses):		
Net interest income	89,228	35,516
Net regulatory settlement and other income (expenses)	28,486	(37,500)
Net loss on sale of property and equipment	(43,810)	(5,197)
Amortization of deferred charges	<u>(10,000)</u>	<u>(10,000)</u>
Net other income (expenses)	<u>63,904</u>	<u>(17,181)</u>
Net earnings	1,118,334	136,850
Retained earnings at beginning of year	4,500,532	4,500,829
Stockholder's distributions	<u>(682,876)</u>	<u>(137,147)</u>
Retained earnings at end of year	<u>\$ 4,935,990</u>	<u>4,500,532</u>

See accompanying notes to financial statements.

# Pay Tel Communications, Inc.

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b><u>Increase (Decrease) in Cash</u></b>		
Operating activities:		
Net earnings	\$ 1,118,334	136,850
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	952,240	995,391
Amortization of deferred charges	10,000	10,000
Amortization of deferred contract costs	188,735	220,493
Allowance for doubtful accounts and other noncash activities	(75,560)	(19,878)
Net loss on sale of property and equipment	43,810	5,197
Cash surrender value of stockholder's life insurance	(3,715)	(7,095)
(Increase) decrease in related assets:		
Accounts receivable, settlement reserve deposits and collateral	686,330	758,866
Prepaid expenses, deposits and other receivables	(701)	(24,778)
Net deferred contract costs	(220,008)	(159,859)
Increase (decrease) in related liabilities:		
Accounts payable	439,960	(546,525)
Accrued expenses and other liabilities	36,755	263,977
Unearned revenues	198,638	244,546
Net cash provided by operating activities	<u>3,374,818</u>	<u>1,877,185</u>
Investing activities:		
Purchases of property and equipment	(1,044,940)	(869,267)
Advances on notes receivable from related parties	(67,909)	(44,409)
Payments for other intangible assets	(83,750)	(5,750)
Advances on notes and other receivables	-	(15,000)
Collections of notes and other receivables	10,946	10,840
Net proceeds from sale of equipment	10,722	-
Net cash used in investing activities	<u>(1,174,931)</u>	<u>(923,586)</u>
Financing activities:		
Payment of loan fees	(16,200)	(10,000)
Stockholder's distributions	(682,876)	(137,147)
Net cash used in financing activities	<u>(699,076)</u>	<u>(147,147)</u>
Increase in cash	1,500,811	806,452
Cash at beginning of year	<u>1,497,041</u>	<u>690,589</u>
Cash at end of year	<u>\$ 2,997,852</u>	<u>1,497,041</u>

See accompanying notes to financial statements.

# **Pay Tel Communications, Inc.**

## **NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006**

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### **(1) Nature of Business**

Pay Tel Communications, Inc. (the "Company") owns and operates automated telephone communication systems in confinement facilities for use by inmates under contracts with the confinement facilities for generally five years. The Company services the Southeastern United States from its office in Greensboro, North Carolina.

### **(2) Summary of Significant Accounting Policies**

(a) **Revenue recognition** – Revenues from automated collect calls from confinement facilities are recognized, net of unbillable returned call records, at the time the call is completed. State and Federal regulatory authorities govern certain rates the Company can charge customers for these services.

(b) **Credit Risk** - Cash and accounts receivable are financial instruments which potentially subject the Company to credit risk. Substantially all of the outstanding receivables are due from approximately a dozen Local Exchange Companies ("LEC's"), which are located within the same geographic region of the Southeastern United States. Management reviews outstanding receivable accounts on an ongoing basis, writes off the amounts deemed uncollectible and provides an additional reserve for uncollectible accounts based on past experience. Total allowances for doubtful accounts at December 31, 2007 and 2006 were \$25,000 and \$100,560, respectively.

At December 31, 2007, the Company had cash on deposit with a bank which exceeded the \$100,000 federally-insured limit.

(c) **Property and Equipment** - Property and equipment are recorded at cost. All property and equipment are depreciated over estimated useful lives (generally 5 to 10 years) using straight-line and accelerated methods for financial reporting purposes.

(d) **Other Intangible Assets** - The Company accounts for other intangible assets under FASB 142. Intangible assets with definite lives are capitalized and amortized over the periods estimated to be benefited. Intangible assets with an indefinite life are not amortized, but rather tested at least annually for impairment. Impairment exists when the carrying amount of the intangible assets exceeds the implied fair value. If impairment has occurred, the Company would recognize a current period charge against earnings at the time of impairment. At December 31, 2007 and 2006, no impairment reductions were recorded.

(e) **Net Deferred Contract Costs** - Net deferred contract costs consist of prepayments of commissions on certain inmate contracts. Deferred contract costs are amortized over the life of the contract, generally 5 years. Accumulated amortization at December 31, 2007 and 2006 was \$395,624 and \$807,774, respectively.

(f) **Net Deferred Charges** - Net deferred charges consist of various loan fees associated with obtaining the notes payable (Note 6) totaling \$16,200 and \$12,500 at December 31, 2007 and 2006, respectively. These costs are amortized over the lives of the notes payable. Accumulated amortization at December 31, 2007 and 2006 was \$6,434 and \$833, respectively.

# **Pay Tel Communications, Inc.**

## **NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006**

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- (g) **Income Taxes** - The Company, with the consent of its stockholder, has elected under the Internal Revenue Code to be an S corporation. In general, pursuant to the election, taxable income is taxed to the individual stockholder and is not taxed at the corporate level. Therefore, no provisions or liabilities for Federal or state income taxes have been included in these financial statements. It is the Company's policy to pay stockholder distributions sufficient to cover the individual taxes resulting from the pass through of the corporate taxable income.
- (h) **Management Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) **Notes Receivable from Related Parties**

The Company has notes receivable from various trusts established by the stockholder. No interest has been charged on the outstanding balance. When the cash surrender value of the underlying insurance policies that are funded by the Company exceed the cost of such insurance policies, interest will be charged at the prevailing rates.

(4) **Direct Billing and LEC Contracts**

Historically, the Company primarily utilized the billing and collection services of various LEC's. The LEC's bill and collect from the party that accepts the call, under contracts with the Company that expire at various times through July 2008. During 2006, the Company implemented a plan to shift more of the call volume from the LEC's to their own billing and collection system. The accompanying balance sheets include \$520,820 and \$322,182 in unearned revenues at December 31, 2007 and 2006, which represent the net amount prepaid by customers for the acceptance of future calls.

(5) **Settlement Reserve Deposits and Letter of Credit**

Certain LEC's have established settlement reserve deposits as specified in their contracts with the Company for payment of unbillable and/or uncollectible amounts owed to them upon termination of the contracts. These deposits have been established through a withholding of previous monthly remittances to the Company. During the term of the contracts, the LEC's reserve the right to adjust the minimum reserve required and may withhold additional amounts on future cash transmittals.

During 2006, the Company procured a letter of credit totaling approximately \$1,065,000 and received a refund of a portion of the settlement reserve totaling \$361,929. The letter of credit is collateralized by a CD in the amount of approximately \$567,000 and \$557,000 at December 31, 2007 and 2006 and is included in settlement reserve deposits and collateral certificate of deposit in the accompanying respective financial statements.

# Pay Tel Communications, Inc.

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

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### (6) Notes Payable and Other Letters of Credit

The Company has a working capital line of credit with a bank, with maximum borrowings of \$2,000,000. The line incurs interest on outstanding balances at the bank's prime rate (7.25% at December 31, 2007) plus ¼%. Interest only payments are due monthly through maturity in November 2008. No amounts were outstanding at December 31, 2007 and 2006.

The Company also has an equipment line of credit, with maximum borrowings of \$1,000,000. The equipment line may be used to make equipment purchases through November 2008 and may be termed out under a separate loan agreement and amortized over a period not to exceed thirty-six months. The equipment line and the resulting amortizable loans incur interest at the bank's prime rate plus ¼%. No amounts were outstanding at December 31, 2007 and 2006.

The Company must maintain certain financial ratios as established by the bank and may prepay any outstanding balances without penalty. The loan facilities are secured by all the property, equipment and intangibles, certain cash accounts, the personal guarantee of the stockholder, the assignment of all confinement facility contracts and the assignment of a certain life insurance policy on the stockholder.

The Company has additional outstanding letters of credit totaling approximately \$60,000 related to various inmate and LEC contracts at December 31, 2007 and 2006.

### (7) Operating Leases

The Company leases office equipment, an off-site storage facility and office and warehouse space under operating lease agreements.

The office and warehouse lease expires in January 2009. Future minimum rentals under this operating lease are as follows:

For the year ending December 31, 2008	\$ 118,500
2009	<u>9,875</u>
Total future minimum rentals	<u>\$ 128,375</u>

Total rent expense was \$119,145 and \$116,079 in 2007 and 2006, respectively.

### (8) Profit Sharing Plan

The Company has a retirement plan covering all employees who are at least 21 years of age and have at least one year of eligible service as defined in the plan. The retirement plan includes 401(k) and profit sharing features. Employees may contribute up to \$20,500 to the plan and the Company makes matching contributions equal to a discretionary percentage of the covered employees' contributions. Employees are fully vested in Company contributions after three years of eligible service. The Company made matching contributions of approximately \$53,000 and \$45,000 to the plan for 2007 and 2006, respectively.

# **Pay Tel Communications, Inc.**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

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**(9) Contingency**

The Company is engaged in a dispute with a telecommunications carrier vendor whereby the vendor claims the Company owes approximately \$400,000 in call delivery charges based on a higher casual dial retail rate. The Company contends that it only owes the vendor approximately \$20,000, based on the tariff required wholesale rate, and plans to vigorously defend itself against this claim. The accompanying financial statements only include management's estimated liability of \$20,000.

**Attachment E**

**Response to Section B-4**

- B-4.1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.**

*\$20,000*

- B-4.2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.**

*\$12,000*

- B-4.3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.**

*The projected net book value of all Arizona jurisdictional assets after the first twelve months is zero .*

- B-4.4. If the projected value of all assets is zero, please specifically state this in your response.**

*The projected value of all Arizona assets after the first twelve months is zero.*

- B-4.5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.**

*Not applicable.*