Sprint
Mid Atlantic Telecom

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EXECUTIVE SECRETARY

Carolina Telephone
Centel-North Carolina
Centel-Virginia
United Telephone-Southeast

James B. Wright
Senior Attorney

AIR EXPRESS

96-01235

August 7, 1996

Mr. Eddie Roberson
Executive Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

#3

RE: Application of United Telephone-Southeast, Inc. for a Certificate of Convenience and Necessity to Provide InterLATA Interexchange Telephone Service

Dear Mr. Roberson:

Enclosed herewith for filing with the Commission are the original and ten copies of the application of United Telephone-Southeast, Inc. for a certificate of convenience and necessity to provide interLATA interexchange telephone service.

Also enclosed is a filing fee check in the amount of $25.00.

An extra copy of this filing is included for date stamping and return in the enclosed self-addressed envelope.

Please direct any inquiries on this matter to the undersigned counsel for United.

Very truly yours,

James B Wright
James B. Wright

JBW:mhh

Enclosures

CC: Steve Parrot
Laura Sykora
Bob Wallace

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#7938

14111 Capital Boulevard, Wake Forest, North Carolina 27587-5900
Telephone: (919) 554-7587 Fax: (919) 554-7913

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OFFICE OF THE
EXECUTIVE SECRETARY

BEFORE THE

TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

Application of United Telephone-Southeast, Inc. for a certificate of public convenience and necessity to provide interLATA, interexchange telephone service within Tennessee	)	Docket No. 96-01235

APPLICATION

United Telephone-Southeast, Inc. ("United" or the "Company") is authorized to do business in Tennessee as a public utility and provides local exchange telephone and other telecommunications services in various locations throughout Northeast Tennessee. United desires to furnish interLATA telecommunications service throughout Tennessee and to construct certain facilities in furtherance of that service. In support of this application, United states the following:

1. The name of the Applicant is United Telephone-Southeast, Inc. headquartered at 14111 Capital Boulevard, Wake Forest, North Carolina 27587. United's telephone number is (919) 554-7900.

2. United's common stock is wholly owned by Sprint Corporation ("Sprint"). Sprint's mailing address and telephone number are as follows: Sprint Corporation, 2330 Shawnee Mission Parkway, Westwood, Kansas 66205, telephone (913) 624-3000.

3. Correspondence concerning this Application should be directed to United's legal counsel, James B. Wright, United Telephone-Southeast, Inc. 14111 Capital Boulevard, Wake Forest, North Carolina 27587.

4. United is a public utility duly organized and existing under the laws of Virginia and is authorized to do business in

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Tennessee as a foreign corporation. United's Certificate of Incorporation is on file with the Authority.

5. United has sufficient financial, managerial, and technical abilities to provide the services covered in this Application as evidenced by the following:

A. Financial. United has strong financial capability to render interLATA, interexchange services, as evidenced by the Company's 1994 and 1995 financial statements, a copy of which is attached as Exhibit A. As a subsidiary of Sprint Corporation, United has access to additional capital resources as well as banking relationships that will permit it to provide the services requested in this application.

B. Managerial. United has the managerial ability to render interLATA, interexchange services. United or its predecessor companies have provided adequate and reliable telephone service in Tennessee since 1889. The Company currently provides local exchange and intraLATA interexchange service in Tennessee to 22 exchanges. A list of the exchanges is attached as Exhibit B. Attached to this application as Exhibit C is a listing of the applicant's principal corporate officers and a description of each officer's background and experience. As shown in Exhibit C, each of the officers of the company has substantial managerial experience in the telecommunications and other fields.

C. Technical. United has the technical ability to render interLATA, interexchange services. The Company's history of successful telecommunications operations demonstrates its technical ability to provide the services requested in this application.

6. The applicant is familiar with and will adhere to the Authority's rules, policies, and orders regarding the provisions of telecommunications service. The individual responsible for

Tennessee operations is: H. John Brooks, Vice President and General Manager-Sprint/Southeast TN/VA, 112 Sixth Street, Bristol, Tennessee 37620.

7. Approval of this application will serve the public interest by creating greater competition in the intrastate telecommunications market place. United anticipates that its proposed services will provide its subscribers with high quality services and enhanced features and will increase consumer choice through innovative, diversified, and reliable service offerings. The public will benefit directly and indirectly from the additional competition as a result of lower prices, innovative service offerings, and overall stimulus to the economy.

8. United does presently and will continue to keep its books in accordance with Generally Accepted Accounting Principles.

9. United is presently certified by the Authority as a local exchange telephone company and, therefore, has filed with the Authority a complete tariff of local and intraLATA long distance services. Following approval of this application, United will file similar tariffs pursuant to its authority as an interLATA interexchange carrier.

United intends to offer long distance service outside its present service area, primarily on a resale basis, but requests authority to offer facilities-based service when necessary or appropriate. At this time, United intends to charge the same rates for both facilities-based and interLATA interexchange resale telephone service.

WHEREFORE, United respectfully requests that the Authority:

a. Accept this application for filing; and

b. Grant a certificate of public convenience and necessity authorizing United to provide interLATA, interexchange service in Tennessee.

Respectfully submitted,

UNITED TELEPHONE-SOUTHEAST, INC.

Date: August 7, 1996

By ______________________
Vice President

James B. Wright
Senior Attorney
United Telephone-Southeast
14111 Capital Boulevard
Wake Forest, NC 27587-5900

#7875

EXHIBIT A

UNITED TELEPHONE - SOUTHEAST, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1995 AND 1994

WITH

REPORT OF INDEPENDENT AUDITORS

ERNST & YOUNG LLP

One Kansas City Place
1200 Main Street
Kansas City
Missouri 64105-2143

Phone: 816 474 5200

Report of Independent Auditors

The Board of Directors and Stockholder
United Telephone - Southeast, Inc.

We have audited the accompanying consolidated balance sheets of United Telephone - Southeast, Inc.(the Company), a wholly-owned subsidiary of Sprint Corporation, as of December 31, 1995 and 1994, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 1995 and 1994, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company discontinued accounting for its operations in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in 1995.

Ernst + Young LLP

January 24, 1996

UN ED TELEPHONE - SOUTHEAST NC.

CONSOLIDATED BALANCE SHEETS

December 31, 1995 and 1994

(In Thousands)

		1995		1994
Assets				
Current assets				
Cash and equivalents	$	31	$	28
Receivables, net of allowance for doubtful accounts of $435 ($211 in 1994)				
Customers and other		23,868		22,195
Interexchange carriers		4,901		5,567
Affiliated companies		7,894		13,502
Inventories		1,114		4,131
Deferred income taxes		3,849		7,633
Prepaid expenses and other		1,327		694
		42,984		53,750
Property, plant and equipment				
Land and buildings		35,683		34,864
Telephone network equipment and outside plant		528,164		494,467
Other		31,980		30,711
Construction in progress		7,614		8,412
		603,441		568,454
Less accumulated depreciation		351,605		261,812
		251,836		306,642
Deferred charges and other assets		17,756		27,856
	$	312,576	$	388,248

U TED TELEPHONE -SOUTHEAST, C.

CONSOLIDATED BALANCE SHEETS

December 31, 1995 and 1994

(In Thousands)

		1995		1994
Liabilities and Stockholder's Equity				
Current liabilities				
Outstanding checks in excess of cash balances	$	1,189	$	3,313
Current maturities of long-term debt		6,661		1,501
Accounts payable				
Vendors and other		4,584		4,012
Interexchange carriers		4,126		4,607
Affiliated companies		5,324		3,950
Accrued taxes		7,013		7,675
Accrued interest		3,018		3,047
Advance billings and customer deposits		5,675		7,109
Accrued vacation pay		2,487		3,521
Intrastate revenue reserve		2,637		12,163
Accrued rent		6,987		3,831
Other		2,966		4,258
		52,667		58,987
Long-term debt		99,887		106,702
Deferred credits and other liabilities				
Deferred income taxes		22,057		50,787
Deferred investment tax credits		58		2,512
Postretirement and other benefit obligations		13,124		10,590
Interstate revenue reserve		4,848		5,293
Deferred compensation		3,692		3,878
Other		1,954		9,684
		45,733		82,744
Common stock and other stockholder's equity				
Common stock, par value $10 per share, authorized 5,000,000 shares, issued and outstanding 4,457,621 shares		44,576		44,576
Capital in excess of par value		9,263		9,263
Retained earnings		60,450		85,976
		114,289		139,815
	$	312,576	$	388,248

See accompanying notes to consolidated financial statements.

UN ED TELEPHONE - SOUTHEAST, C.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1995 and 1994

(In Thousands)

	1995	1994
Operating Revenues		
Local service	$ 95,650	$ 90,922
Network access service	54,383	52,806
Long distance service	25,851	28,276
Other	36,927	22,841
	212,811	194,845
Operating Expenses		
Plant expense	61,644	58,211
Depreciation and amortization	37,343	36,503
Customer operations	26,930	24,989
Corporate operations	23,391	23,949
Restructuring costs	2,593	—
Other	7,406	4,282
Taxes		
Federal income		
Current	10,105	12,806
Deferred	2,756	(2,313)
Deferred investment tax credits	(993)	(1,289)
State, local and miscellaneous	9,653	8,720
	180,828	165,858
Operating Income	31,983	28,987
Interest expense		
Short-term borrowings and long-term debt	7,146	7,394
Other	1,486	1,007
	8,632	8,401
Other income		
Interest charged to construction	370	30
Other, net	1,448	535
	1,818	565
Income before extraordinary item	25,169	21,151
Extraordinary item		
Discontinuation of regulatory accounting principles, net	(37,855)	—
Net income (loss)	$ (12,686)	$ 21,151

See accompanying notes to consolidated financial statements.

UNITED TELEPHONE - SOUTHEAST, INC.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 1995 and 1994

(In Thousands)

	1995	1994
Balance at Beginning of Year	$ 85,976	$ 81,765
Net income (loss)	(12,686)	21,151
Cash dividends on common stock	(12,840)	(16,940)
Balance at End of Year	$ 60,450	$ 85,976

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1995 and 1994

(In Thousands)

	1995	1994
Operating Activities		
Net income	$ (12,686)	$ 21,151
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	37,343	36,503
Deferred income taxes and investment tax credits	1,863	(3,622)
Extraordinary item	37,855	—
Changes in operating assets and liabilities		
Receivables, net	4,601	(5,122)
Inventories and other current assets	2,384	(847)
Accounts payable, accrued expenses and other current liabilities	(11,480)	3,795
Other, net	2,396	3,609
Net cash provided by operating activities	62,276	55,467
Investing Activities		
Capital expenditures	(47,567)	(35,955)
Other, net	(211)	(243)
Net cash used by investing activities	(47,778)	(36,198)
Financing Activities		
Retirements of long-term debt	(1,655)	(5,311)
Dividends paid	(12,840)	(16,940)
Net cash used by financing activities	(14,495)	(22,251)
Increase (Decrease) in Cash and Equivalents	3	(2,982)
Cash and Equivalents at Beginning of Year	28	3,010
Cash and Equivalents at End of Year	$ 31	$ 28
Supplemental Cash Flows Information		
Cash paid for interest	$ 8,661	$ 8,145
Cash paid for income taxes	12,633	16,025
Noncash Activity		
Exchange of investment in affiliated partnership for investment in affiliated preferred stock	$ 3,448	$ —

See accompanying notes to consolidated financial statements.

UNITED TELEPHONE - SOUTHEAST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of United Telephone - Southeast, Inc. is presented to assist in understanding the accompanying consolidated financial statements. The consolidated financial statements and notes are representations of management, which is responsible for their integrity and objectivity. These accounting policies conform with generally accepted accounting principles and reflect practices appropriate to the industry in which United Telephone - Southeast, Inc. operates.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of United Telephone - Southeast, Inc. and its wholly-owned subsidiaries, United Telephone Long Distance, Inc. - Tennessee and UTLD, Inc. - Virginia and SC Three Company, collectively referred to as the "Company". All significant intercompany transactions have been eliminated. The Company is a wholly-owned subsidiary of Sprint Corporation (Sprint).

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts previously reported for prior periods have been reclassified to conform to the current period presentation in the accompanying consolidated financial statements. Such reclassifications had no effect on the results of operations or stockholder's equity as previously reported.

Operations

The Company is engaged in the business of providing communications services, principally local, network access and long distance services in Tennessee and Virginia. The Company adopted accounting principles for a competitive market place and discontinued accounting for the economic effects of regulation pursuant to Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" effective December 31, 1995 (see Note 2).

Cash and Equivalents

Cash equivalents generally include highly liquid investments with original maturities of three months or less and are stated at cost, which approximates market value.

As part of its cash management program, the Company utilizes controlled disbursement banking arrangements. Outstanding checks in excess of cash balances are reflected as a current liability on the balance sheet. The Company had sufficient funds available to fund these outstanding checks when they were presented for payment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories consist of materials and supplies, stated at average cost, and equipment held for resale, stated at the lower of average cost or market. The sales inventory balances were $72,000 and $1,150,000 at December 31, 1995 and 1994, respectively.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Retirements of depreciable property are charged against accumulated depreciation with no gain or loss recognized. Repairs and maintenance costs are expensed as incurred.

Depreciation

The cost of property, plant and equipment is depreciated generally on the composite group remaining life method of depreciation using straight-line composite rates. In connection with the discontinuation of SFAS No. 71, the Company began recording depreciation expense based on expected economic useful lives. Previously, such lives relating to regulated property, plant and equipment were those prescribed by regulatory commissions. Depreciation rate changes, special short-term amortizations and nonrecurring charges approved by regulatory commissions resulted in additional depreciation totaling $2,155,000 for 1995. There was no additional depreciation expense as a result of any depreciation rate changes for 1994. After the related effects on revenues and income taxes, these items reduced net income for 1995 approximately $838,000. Average annual composite depreciation rates were 6.5 percent for 1995 and 6.7 percent for 1994.

Income Taxes

Operations of the Company are included in the consolidated federal income tax returns of Sprint. Federal income tax is calculated by the Company on the basis of its filing a separate return.

Deferred income taxes are provided for certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Investment tax credits (ITC) have been deferred and are being amortized over the estimated useful life of the related assets.

2. ADOPTION OF ACCOUNTING PRINCIPLES FOR A COMPETITIVE MARKETPLACE

Effective December 31, 1995, the Company determined that it no longer met the criteria necessary for the continued application of the provisions of SFAS No. 71. As a result of the decision to discontinue the application of SFAS No. 71, the Company recorded a noncash, extraordinary charge of $37,855,000, net of income tax benefits of $26,031,000.

The Company's determination that it was no longer eligible for the continued application of the accounting required by SFAS No. 71 was based on changes in the regulatory framework, which continues to evolve from rate-base regulation to price regulation and the convergence of competition in the telecommunications industry. Based on these occurrences, the Company no longer believes that it can be assured that prices will be maintained at levels which will provide for the recovery of specific costs.

2. ADOPTION OF ACCOUNTING PRINCIPLES FOR A COMPETITIVE MARKETPLACE (continued)

The components of the extraordinary charge recognized as a result of the discontinued application of SFAS No. 71 are as follows (in thousands):

	Pre-Tax	After-Tax
Increase to the accumulated depreciation balance	$ 68,967	$ 42,139
Recognition of switch software asset	(5,424)	(3,314)
Elimination of other net regulatory assets	343	259
Total	$ 63,886	39,084
Tax-related net regulatory liabilities		(336)
Accelerated amortization of investment tax credits		(893)
Extraordinary charge		$ 37,855

The adjustment to the accumulated depreciation balance was determined by the completion of depreciation reserve and impairment studies. The depreciation reserve study analyzed, by individual plant asset categories, the impacts of regulator-prescribed depreciable asset lives compared to the Company's estimated economic lives. The results identified the cumulative under depreciation of certain asset categories. The impairment study, which validated the results of the depreciation study, estimated the impact on future revenues caused by price changes and developing industry competition, and the resulting effects on cash flows.

The following is a summary of the telecommunications plant in service asset balances and corresponding reserve adjustment (in thousands).

	Pre-Change				Post-Change
Category of Plant Asset	Plant in Service	Reserve	Net Plant	Reserve Adjustment	Revised Net Plant
Cable	$ 221,778	$ 108,044	$ 113,734	$ 42,857	$ 70,877
Circuit	79,017	36,318	42,699	14,465	28,234
Switching	146,506	57,428	89,078	10,835	78,243
Other	134,422	71,352	63,070	810	62,260
Total plant	$ 581,723	$ 273,142	$ 308,581	$ 68,967	$ 239,614

The following is a summary of lives before and after the discontinued application of SFAS No. 71.

Category of Plant Asset	Pre-Change Composite of Regulator-Approved Asset Lives	Post-Change Estimated Economic Asset Lives
Cable	20-28	15-20
Circuit	9-14	7-11
Switching	11-12	11-12

2. ADOPTION OF ACCOUNTING PRINCIPLES FOR A COMPETITIVE MARKETPLACE (continued)

The discontinued application of SFAS No. 71 also required the Company to eliminate from its consolidated balance sheet the effects of any actions of regulators that had been recognized as assets and liabilities pursuant to SFAS No. 71, but would not have been recognized as assets and liabilities by enterprises in general.

The tax-related adjustments were required to adjust deferred income tax amounts to the currently enacted statutory rates and to eliminate tax-related regulatory assets and liabilities. The Company uses the deferral method of accounting for investment tax credits and amortizes the credits as a reduction to tax expense over the life of the asset that gave rise to the tax credit. Since plant asset lives were shortened, the related investment tax credits were adjusted to reduce the unamortized balance by a corresponding amount.

3. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

Substantially all employees of the Company are covered by a noncontributory defined benefit pension plan sponsored by Sprint. For participants of the plan represented by collective bargaining units, benefits are based upon schedules of defined amounts as negotiated by the respective parties. For participants not covered by collective bargaining agreements, the plan provides pension benefits based upon years of service and participants' compensation.

The Company's policy is to make contributions to the plan each year equal to an actuarially determined amount consistent with applicable federal tax regulations. The funding objective is to accumulate funds at a relatively stable rate over the participants' working lives so that benefits are fully funded at retirement. As of December 31, 1995, the plan's assets consisted principally of investments in corporate equity securities and U.S. government and corporate debt securities.

Pension costs or credits are determined for each subsidiary of Sprint based on a direct calculation of service costs and projected benefit obligations and an appropriate allocation of unrecognized prior service costs, transition asset, and plan assets. Net periodic pension credits recorded by the Company for the years ended December 31, 1995 and 1994 were $1,996,000 and $1,567,000, respectively.

Defined Contribution Plans

Sprint sponsors defined contribution employee savings plans covering substantially all employees of the Company. Participants may contribute portions of their compensation to the plans. Contributions of participants represented by collective bargaining units are matched by the Company based upon defined amounts as negotiated by the respective parties. Contributions of participants not covered by collective bargaining agreements are also matched by the Company. For these participants, the Company provides matching contributions in Sprint common stock equal to 50 percent of participants' contributions up to 6 percent of their compensation and may, at the discretion of Sprint's Board of Directors, provide additional matching contributions based upon the performance of Sprint's common stock in comparison to other telecommunications companies. The Company's matching contributions aggregated $1,017,000, and $1,015,000 in 1995 and 1994, respectively.

Postretirement Benefits

Sprint sponsors postretirement benefits (principally health care benefits) arrangements covering substantially all employees of the Company. Employees who retired before specified dates are eligible for these benefits at reduced or no cost. Employees retiring after specified dates are eligible for these benefits on a shared cost basis. The Company funds the accrued costs as benefits are paid.

3. EMPLOYEE BENEFIT PLANS (continued)

Postretirement Benefits (continued)

Net postretirement benefit costs are determined for each subsidiary of Sprint based on a direct calculation of service costs and accumulated postretirement benefit obligations and an appropriate allocation of unrecognized prior service costs, unrecognized net gains and transition obligation. Net postretirement benefit costs recorded by the Company for the years ended December 31, 1995, and 1994 were $4,289,000, and $4,577,000, respectively.

Postemployment Benefits

Effective January 1, 1994, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Upon adoption, the Company recognized certain previously unrecorded obligations for benefits being provided to former or inactive employees and their dependents, after employment but before retirement. The resulting charge did not significantly impact the Company's financial statements. Such postemployment benefits offered by the Company include severance, disability and workers compensation benefits, including the continuation of other benefits such as health care and life insurance coverage.

4. INCOME TAXES

The components of federal and state income tax expense are as follows (in thousands):

		1995		1994
Current income tax expense				
Federal	$	10,105	$	12,806
State		1,866		2.249
		11,971		15,055
Deferred income tax expense (benefit)				
Federal		2,756		(2,313)
State		100		(20)
Amortization of deferred ITC		(993)		(1,289)
		1,863		(3,622)
Total income tax expense	$	13,834	$	11,433

In 1995 an income tax benefit of $26,031,000 associated with the extraordinary charge for the discontinuation of regulatory accounting principles was reflected as a reduction of such charge in the consolidated statement of income.

The primary differences which cause the effective income tax rate to vary from the statutory federal income tax rate of 35 percent are amortization of investment tax credit and the effect of the reversal of the deferred taxes provided at prior year rates.

The Company's principal temporary difference that gives rise to the deferred income taxes result from using different depreciable lives and methods with respect to its property, plant and equipment for financial statement and income tax purposes and from certain reserves and benefit plan accruals not deductible for income tax purposes until paid. The Company's total deferred tax assets at December 31, 1995 and 1994 were $20,798,000 and $27,430,000, respectively. Total deferred tax liabilities at December 31, 1995 and 1994 were $38,992,000 and $70,584,000, respectively.

5. LONG-TERM DEBT

Long-term debt as of December 31 is as follows (in thousands):

	1995			1994
	Amount	Weighted Average Interest Rate		Amount
First mortgage bonds, maturities 1996 to 2019	$ 104,801	6.72%		$ 105,763
Capital lease obligations, maturities 1996 to 1998	1,747	10.49		2,440
	106,548			108,203
Less current maturities	6,661			1,501
Long-term debt	$ 99,887			$ 106,702

Long-term debt maturities during each of the next five years are as follows (in thousands):

Year	Amount
1996	$ 6,661
1997	7,193
1998	13,386
1999	282
2000	33,882

The first mortgage bonds are secured by substantially all of the Company's property, plant and equipment.

The Company is in compliance with all restrictive or financial covenants relating to its debt arrangements at December 31, 1995.

6. COMMITMENTS AND CONTINGENCIES

Gross rental expense aggregated $4,678,000 and $3,335,000 in 1995 and 1994, respectively. Minimum rental commitments as of December 31, 1995 for non-cancelable operating leases are not significant.

The Company's planned capital expenditures for the year ending December 31, 1996 are approximately $44,973,000. Normal purchase commitments have been or will be made for these planned expenditures.

In February 1993, a class action suit was filed against the Company alleging violations of federal antitrust laws and state consumer protection laws, which laws permit trebling and punitive damages. Plaintiffs seek a refund of all payments for inside wire maintenance made after 1986 by all residential and certain business customers in Tennessee. In January 1996, a federal court ruled in favor of the Company and dismissed the federal civil action. Plaintiffs have appealed this ruling. Although the Company cannot predict the ultimate outcome of this litigation, it is not expected to have a material effect on the Company's consolidated financial position.

6. COMMITMENTS AND CONTINGENCIES (continued)

Various other suits arising in the ordinary course of business are pending against the Company. Management cannot predict the ultimate outcome of these actions but believes they will not result in a material effect on the Company's financial statements.

7. RELATED PARTY TRANSACTIONS

The Company purchases telecommunications equipment, construction and maintenance equipment, and materials and supplies from its affiliate, North Supply Company. Total purchases for 1995 and 1994 were $11,100,000 and $11,830,000 respectively.

Under an agreement with Sprint, the Company reimburses Sprint for data processing services, other data related costs and certain management costs which are incurred for the Company's benefit. Total charges to the Company aggregated $18,011,000 and $16,411,000 in 1995 and 1994, respectively.

The Company enters into cash advance and borrowing transactions with Sprint, generally, interest on such transactions is computed based on the prior month's thirty-day average commercial paper index, as published in the Federal Reserve Statistical Release H.15, plus 45 basis points. Interest expense on advances from Sprint was $388,000 and $11,000 in 1995 and 1994, respectively. Interest income on advances to Sprint was $222,000 and $283,000 in 1995 and 1994, respectively.

Sprint Publishing & Advertising, an affiliate, pays the Company a fee for the right to publish telephone directories in the Company's operating territory, a listing fee, and a fee for billing and collection services performed for Sprint Publishing & Advertising by the Company. For 1995 and 1994, Sprint Publishing & Advertising paid the Company a total of $5,954,000 and $5,744,000, respectively. The Company paid Sprint Publishing & Advertising $264,000 and $217,000 in 1995 and 1994, respectively, for its costs of publishing the white page portion of the directories.

The Company provides various services to Sprint's long distance division, such as network access, operator and billing and collection services and the lease of network facilities. The Company received $5,446,000 and $5,617,000 in 1995 and 1994, respectively, for these services. The Company paid Sprint's long distance division $3,612,000 and $4,378,000 in 1995 and 1994, respectively, for interexchange telecommunications services.

The Company receives services such as operator assistance from Carolina Telephone and Telegraph Company (an affiliate). The Company paid expenses of $3,238,000 and $2,482,000 during 1995 and 1994, respectively. The Company provides telemarketing services to four of its affiliates (United Telephone Company of the Carolinas, Central Telephone Company of Virginia, Carolina Telephone and Telegraph Company and Central Telephone Company). The Company recognized income of $1,960,000 and $809,000 in 1995 and 1994, respectively.

The Company reimburses affiliated companies for certain salaries and other costs which are incurred by the affiliates and for payments made by the affiliates for the Company's benefit. Also, the Company is reimbursed for charges incurred by the Company or payments made by the Company for the benefit of certain affiliated companies. The reimbursable charges approximate the cost of such items as determined by the Company and the affiliates. Such amounts reimbursed to the Company, net of reimbursements paid, aggregated $1,206,000 and $323,000 in 1995 and 1994, respectively.

7. RELATED PARTY TRANSACTIONS (continued)

In 1994, a management service company, Sprint Mid-Atlantic Telecom, Inc. (SMAT) was formed which provides services to the Company and four of its affiliates (United Telephone Company of the Carolinas, Carolina Telephone and Telegraph, Central Telephone Company of Virginia and Central Telephone Company - North Carolina Division). SMAT is reimbursed by the Company and these four affiliates for certain salaries and other costs incurred by SMAT on behalf of the Company and these affiliates. Similarly, the Company is reimbursed by SMAT for certain costs incurred by the Company on behalf of these affiliates. The reimbursements represent the cost of such items as determined by the Company and these affiliates. The net reimbursements to SMAT by the Company totaled $23,782,000 and $18,543,000 for 1995 and 1994 respectively.

Certain directors and officers of the Company are also directors or officers of banks at which the Company conducts borrowings and related transactions. The terms are comparable with other banks at which the Company has similar transactions.

In 1995, the Company transferred its investment in cellular Rural Service Areas to an affiliated company in exchange for preferred stock equivalent to the net book value of the investment. During 1995, the Company received $994,000 in dividends on the preferred stock.

8. ADDITIONAL FINANCIAL INFORMATION

Realignment and Restructuring Charge

During 1995, Sprint initiated a realignment and restructuring of its local communications services division, including the elimination of approximately 49 of the Company's positions. These actions resulted in a nonrecurring charge to the Company of $2,593,000, which reduced net income by $1,584,000.

Major Customer Information

Operating revenues from AT&T Corp. resulting primarily from network access, billing and collection services, and the lease of network facilities aggregated approximately $22,387,000 and $25,824,000 for 1995 and 1994, respectively.

The Company's customer and other accounts receivable are not subject to significant concentration of credit risk due to the large number of customers in the Company's customer base.

The principal industries in the Company's service area include health, business and other services, government and government enterprises, manufacturing, wholesale/retail trade and transportation and public utilities.

Financial Instruments Information

The Company estimates the fair value of its financial instruments using available market information and appropriate valuation methodologies. Accordingly, the estimates presented herein are not necessarily indicative of the values the Company could realize in a current market exchange. Although management is not aware of any factors that would affect the estimated fair value amounts presented as of December 31, 1995, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, estimates of fair value subsequent to that date may differ significantly from the amounts presented herein.

The Company's financial instruments consist of long-term debt, including current maturities, with a carrying amount as of December 31, 1995 and 1994 of $106,548,000 and $108,203,000, respectively, and an estimated fair value of $112,124,000 and $100,204,000, respectively. The fair values are estimated based on the present value of estimated future cash flows using a discount rate commensurate with the risks involved.

8. ADDITIONAL FINANCIAL INFORMATION (continued)

Financial Instruments Information (continued)

The carrying values of the Company's other financial instruments (principally cash equivalents) approximate fair value as of December 31, 1995 and 1994.

The Company has not invested in derivative financial instruments.

Exhibit C

UNITED TELEPHONE-SOUTHEAST, INC.
PRINCIPAL OFFICERS

Dwight W. Allen: Vice President-Regulatory Affairs and General Counsel for the Company and Sprint Mid-Atlantic Operations, with principal offices at 14111 Capital Boulevard, Wake Forest, N.C. Mr. Allen coordinates all legal and regulatory activities for the company, including interaction with federal and state regulatory bodies and the courts. Mr. Allen began his law career in private practice and served as an attorney with both the Commission and Public staffs of the N.C. Utilities Commission. In 1979, he was named general counsel for Sprint Carolina Telephone, and also became secretary in 1980. Mr. Allen was elected Vice President by the board of directors in 1983. In 1990, he assumed additional responsibilities for the Corporate Communications, Local Revenue Requirements, and Toll Revenues/Industry Relations departments for Sprint Carolina Telephone. In 1993, he was named to his current position.

Michael J. Clover: Vice President-Network Engineering and Construction (East) for the Company and Sprint Local Telecommunications Division. He is responsible for the Network Engineering and construction activities of the Company and Sprint's Florida Operations and Sprint's Mid-Atlantic Operations. Mr. Clover began his telephone career in 1974 with Michigan Bell, where he held positions in business research, installation and maintenance, operator services and business office operations. He joined Sprint in 1984 when he was named an area manager for Sprint United Telephone-Midwest, later being promoted to division staff manager and then director of Information Systems. Mr. Clover was named Assistant Vice President of Customer Service for Sprint Carolina Telephone in 1986, and Vice President of Customer Service in 1990. He was named Vice President-Customer Service for Sprint Mid-Atlantic Telecom in 1993.

Herbert Henderson: Vice President of Customer Services for the Company and Sprint Mid-Atlantic Operations. He manages operator, business office, network maintenance, installation and repair services for the Company and Mid-Atlantic Region's four states. Mr. Henderson's telephone career began with Sprint in 1979 and Sprint United Telephone-Southeast's Marketing Department. He held a series of increasingly responsible positions in marketing until 1986, when he became an area manager in Customer Services. In 1990, Mr. Henderson was named Sprint United Telephone's director of South Carolina operations, and later the same year was named Vice President of Human Resources for Sprint Carolina Telephone.

David Keller: Vice President/General Manager of the Company and Sprint's Mid-Atlantic Operations Business Marketing Organization. He is responsible for the marketing of telecommunications products and services to business customers in his organization's six-state area. The area includes New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee and Virginia. Mr. Keller's career with Sprint began in 1976 with Sprint United Telephone-North Carolina in Ohio, where he was name Assistant Vice President of Network in 1982. After working with Litel Telecom from 1985 to 1987, Keller returned to Sprint at United Telephone-Southeast in Bristol, Tenn., as Assistant Vice President of Marketing. He was named Vice President of Marketing in 1988 and Vice President of Engineering and Operations in 1990. In 1993, Mr. Keller was named Vice President of Network for Sprint's Mid-Atlantic Operations. He was appointed to current position in 1994.

William E. McDonald: President and Chief Executive Officer of the Company and Sprint Mid-Atlantic Operations. He has held the position since 1993, and was previously President and Chief Executive Officer for the United Telephone-Eastern in Carlisle, Pa. Mr. McDonald began working with Sprint in 1968 when he joined Sprint United Telephone-Southeast. He progressed through various management positions until 1980, when he was named Vice President-Revenue Requirements. In 1981, he became Vice President-Operations for Sprint United Telephone-Midwest in Kansas City, Mo. Mr. McDonald became President of Uninet in 1982, and in 1984 served as Senior Vice President-Network Development for what is now Sprint Long Distance. He was named President of Sprint United Telephone-Northwest in Hood River, Ore., in 1986, before becoming President of Sprint United Telephone-Eastern.

Thomas W. Sokol: Vice President-Human Resources for the Company and Sprint's Mid-Atlantic Operations. He is responsible for all employment, benefits, safety, health, labor relations, quality and technical training programs in the Mid-Atlantic Region's four states. Mr. Sokol was previously Vice President-External Affairs with the company. Mr. Sokol joined Sprint in 1984 as Sprint United Telephone Vice President-Finance. In 1987 he became Vice President-Administration, and was named Vice President-External Affairs with Sprint's Mid-Atlantic Operations in 1993. Prior to working with Sprint, Sokol held positions in finance with the National Exchange Carriers Association and with General Telephone.

William K. Smith: Vice President-Infrastructure Applications Development for the Company and Sprint's Mid-Atlantic Operations. Mr. Smith began his Sprint career in 1966 as an assistant engineer with Sprint Carolina Telephone. In 1978 he joined Sprint United Telephone-Southeast in Bristol, Tenn., where he held several positions of increasing responsibility, including Director of Planning, Budgeting and Information Systems and Director of Revenue Requirements. In 1985 Mr. Smith was promoted to Assistant Vice President of Network Services for Sprint United Telephone of Ohio in Mansfield. He served as Vice President and General Manager of the Texas Division of Sprint United Telephone-Midwest in Tyler, Texas, from 1987-1990. He returned to Bristol and was named President and Chief Executive Officer of Sprint United Telephone-Southeast. Mr. Smith was named Vice President-Operations for Sprint's Mid-Atlantic Operations in 1993, and to his current position on December 6, 1995.

Francis E. Westmeyer: Vice President-Finance for the Company and Sprint's Mid-Atlantic Operations. Mr. Westmeyer was a staff accountant with Arthur Young and Company before he joined Sprint United Telephone of Ohio in 1974 as Special Studies Manager. In 1977, he was named Data Coordinator. In 1979, Mr. Westmeyer became Sprint Carolina Telephone's treasurer, assuming responsibility for financial and budget matters. He was appointed controller with Sprint United Telephone of Texas in May, 1982, and became Sprint Carolina Telephone's Director-Finance and Controller in March, 1983. Mr. Westmeyer was named Vice President-Finance with Sprint Carolina Telephone in March, 1985. He was named to his current position with the formation of Sprint's Mid-Atlantic Operations in 1993.

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