DSL
Fast Access to the World

Dakota Services, LTD.
Corporate Headquarters
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REC'D TN
REGULATORY AUTH.

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OFFICE OF THE
EXECUTIVE SECRETARY

February 15, 1999

Mr. David Waddell
Executive Secretqry
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Application for a Certificate of Convenience and Necessity in the State Of Tennessee, Docket No. 98-00779

Dear Mr. David Waddell:

Enclosed for filing please find one (1) original and thirteen (13) copies in response to the Tennessee Regulatory Authority regarding Dakota Services Limited's application for a Certificate of Convenience and Necessity in the State of Tennessee, Docket No. 98-00779.

Please acknowledge receipt of our application, by returning a copy of this correspondence stamped ("received") in the envelope provided. Thank you.

Sincerely,

Mary Jo Grant

Mary Jo Grant
Regulatory Compliance Administrator

ORIGINAL

RESPONSE TO TENNESSEE REGULATORY AUTHORITY
No. 98-00779

Date of Response: February 15, 1999

a) Why is the audit report of the independent auditors for the period ended May 31, 1998, still marked "preliminary", presented on plain (non-letterhead) paper and not signed?

> **Response:** Applicant's audit report by the independent auditors was not completed until December of 1998. Applicant therefore submitted a preliminary copy to the Tennessee Regulatory Authority. Please see **Exhibit "1" Audited Financial Statements**, signed by the independent auditors.

b) Why do the projected balance sheets prepared on November 12, 1998, not tie, at the appropriate date, to the supplemental balance sheet submitted for September 30, 1998?

> **Response:** The projected balance sheets were actually prepared in June of 1998. We did not change projected to actual. The date of November 12, 1998 on projected is the date we extended original projection worksheet to include June of 1999 through December of 2000.

c) The projected balance sheets show no additional equity capital through December 31, 2000. That is at variance with auditors note 2, at page 9. Please explain the variance.

> **Response:** Please see **Exhibit "2" Proforma**

d) The financial facility described in the auditors note 5, at page 12, reflects a line of credit significantly less than that projected on the balance sheets through December 31, 2000. Also significant balances are reflected in long debt. Please provide details of the sources of funding for the line(s) of credit agreement(s) and commitments for long term loans to support the projections. If the lines of credit or long term loans are from companies other than financial institutions, please provide copies of their latest audited financial statements.

> **Response:** Please see **Exhibit "2" Proforma**.

Submitted By: Mary Jo Grant, Regulatory Compliance Administrator
Dakota Services Limited
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e) Please discuss the auditors "going concern" discussion in note 2, at page 9.

Response: In the same note 2, at page 9, the auditors state: Company's ability to continue as a going concern is highly dependent near term on its ability to raise additional capital in equity and debt offerings, generate sufficient cash flow from operations, and other factors mentioned above to meet obligations. Applicant asks that the Commission review recent activity reflecting Applicant's current assets, liabilities and stockholders' equity. Please see **Exhibit 2 "Proforma"**.

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Exhibit "1" AUDITED FINANCIAL STATEMENTS

Submitted By: Mary Jo Grant, Regulatory Compliance Administrator
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Financial Statements

Dakota Services, Ltd.
(A Development Stage Enterprise)

For the period from inception,
March 10, 1997, through
May 31, 1998

ERNST & YOUNG LLP

Dakota Services, Ltd.
(A Development Stage Enterprise)

Financial Statements

For the period from inception, March 10, 1997, through May 31, 1998

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ERNST & YOUNG LLP

■ 111 East Kilbourn Avenue
Milwaukee, Wisconsin 53202

■ Phone: 414 273 5900
Fax: 414 273 6684

Report of Independent Auditors

The Board of Directors
Dakota Services, Ltd.

We have audited the accompanying balance sheet of Dakota Services, Ltd., a development stage enterprise (the Company) as of May 31, 1998, and the related statements of operations, stockholders' deficit, and cash flows for the period from inception, March 10, 1997, through May 31, 1998. 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 audit.

We conducted our audit 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 audit provides 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 the Company at May 31, 1998, and the results of its operations and its cash flows for the period from inception, March 10, 1997, through May 31, 1998, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company is a development stage enterprise, devoting substantially all of its efforts to recruiting an experienced management team, developing and executing a business plan, raising capital and designing the Company's Frame Relay network. Consequently, as shown in the accompanying financial statements, the Company has not realized significant revenues from product sales and services and has a cumulative net loss for the period from inception, March 10, 1997, through May 31, 1998, of $2,223,119, all of which raises substantial doubt about its ability to continue as a going concern. Accordingly, the Company's continued existence is dependent upon its ability to obtain additional financing to design and construct its Frame Relay network, market its products and services and attain successful future operations. Management's plans in regard to these matters, which include raising additional capital through equity and debt financing, are also described in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Ernst + Young LLP

August 27, 1998

Dakota Services, Ltd.
(A Development Stage Enterprise)

Balance Sheet

May 31, 1998

Assets	
Current assets:	
Cash and cash equivalents	$ 1,595,151
Accounts receivable	34,406
Prepaid expenses	23,976
Deposits	119,773
Total current assets	1,773,306
Deferred financing costs *(Note 5)*	29,455
Property and equipment, net of accumulated depreciation of $164,893 *(Note 4)*	1,192,591
Equipment not placed in service	5,106,064
Total assets	$ 8,101,416
Liabilities and stockholders' deficit	
Current liabilities:	
Accounts payable	$ 594,002
Accrued interest	17,747
Accrued vacation	27,623
Accrued common stock refund *(Note 9)*	31,056
Current maturities of long-term debt *(Note 5)*	2,707,444
Current maturities of capital lease obligations *(Note 6)*	115,993
Total current liabilities	3,493,865
Long-term debt, less current maturities, net of unamortized original issue discount, $242,430 at May 31, 1998 *(Note 5)*	5,173,898
Capital lease obligations, less current maturities *(Note 6)*	47,743
	5,221,641
Stockholders' deficit:	
Common stock, no par value, 25,000,000 shares authorized, 12,395,468 shares issued and 12,107,468 shares outstanding	1,177,549
Additional paid-in capital – warrants	297,529
Additional paid-in capital – stock options	163,951
Treasury stock (288,000 shares), at cost	(30,000)
Deficit accumulated during the development stage	(2,223,119)
Total stockholders' deficit	(614,090)
Total liabilities and stockholders' deficit	$ 8,101,416

See accompanying notes.

Dakota Services, Ltd.
(A Development Stage Enterprise)

Statement of Operations

For the period from inception, March 10, 1997, through May 31, 1998

Net sales	$ 83,505
Cost of goods sold	48,459
Gross margin	35,046
Operating expenses:	
General and administrative, including development and marketing	1,969,840
Depreciation	164,893
	2,134,733
Operating loss	2,099,687
Other expenses (income):	
Interest income	(3,015)
Interest expense	111,019
Loss on disposal of assets	15,428
Net loss	$2,223,119

See accompanying notes.

Dakota Services, Ltd.
(A Development Stage Enterprise)

Statement of Cash Flows (continued)

For the Period from Inception, March 10, 1997
through May 31, 1998

Acquisition of leased property and equipment:	
Cost of leased equipment acquired	$ 306,279
Capital lease obligations incurred	(306,279)
	$ -
Founders of the Company received 4,080,000 shares of common stock for their contribution of technology and intellectual capital to the Company. The stock and intangible assets were recorded at the investor's basis in the assets—$0.	$ -
Supplemental information -	
Cash paid during the period for -	
Interest	$ 93,272

See accompanying notes.

Dakota Services, Ltd.
(A Development Stage Enterprise)

Notes to Financial Statements

May 31, 1998

1. Organization of Business

Dakota Services, Ltd. (the Company) is a licensed CLEC (Competitive Local Exchange Carrier) in the states of Wisconsin, Illinois, Indiana and Montana. The Company has obtained a National CLEC status by filing with the FCC an IXC Interstate tariff which allowed the Company to file and obtain Interconnection Agreements with Bell Atlantic, Bell South, Ameritech, US West and SBC; National Master Interconnection Agreements were negotiated and executed (by state) with GTE and Sprint. The Company provides "last mile" delivery of broadband data transmission services to its customers over standard twisted pair copper telephone lines made possible due to new applications of technology known as RADSL (Rate Adaptive Asymmetric Digital Subscriber Line) services. The Company locates its equipment in ILEC (Incumbent Local Exchange Carriers) Central Offices (CO). The Company is creating its own private network (Backbone) connecting all of its locations by leasing lines through its Interconnection Agreements from various ILECs. The Company presently services segments of Milwaukee, Madison, Green Bay, Appleton, Eau Claire, Wausau, Neenah/Menasha and Oshkosh, Wisconsin.

2. Development Stage Company

The Company's activities to date principally have been conducting market research, securing capital and developing its proposed service and Frame Relay. In June 1997, the Company commenced construction of its Frame Relay network. Consequently, as shown in the financial statements, the Company has not realized any significant revenue from services and has a deficit accumulated during the development stage for the period from inception, March 10, 1997 through May 31, 1998 of $2,223,119. The Company will continue to be a development stage company, as defined in Statement of Financial Accounting Standards No. 7, "Accounting and Reporting by Development Stage Enterprises," until it generates significant revenue from its services.

The activities engaged in by the Company involve a high degree of risk and uncertainty. Successful implementation of the Company's strategy will depend upon many factors including, among others, the need for additional financing, the dependence on technology, the costs of and timely completion of the Second Generation ATM network build-out, acceptance and pricing of the Company's services and the competitive environment in the Company's marketplace. The Company's ability to develop its operations may be significantly impacted by uncertainties related to technological change and obsolescence, product development and competition.

2. Development Stage Company (continued)

The accompanying financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, because of the Company's accumulated deficit, such realization of assets and liquidation of liabilities is subject to significant uncertainty. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Furthermore, the Company's ability to continue as a going concern is highly dependent near term on its ability to raise additional capital in equity and debt offerings, generate sufficient cash flow from operations, and other factors mentioned above to meet obligations.

Management has taken steps to address the financial and operating condition of the Company which it believes will be sufficient to provide the Company with the ability to continue in existence, which include 1) reduction of administrative expenses with some reallocation of expense dollars to sales and network services efforts, 2) deferral of officer salaries when required and 3) obtaining bridge loan financing. The Company has intensified efforts to raise, through equity financing, the funds required to meet Fiscal 1999 operating and capital cash flow needs. The Company is concentrating its efforts to complete its original 100 CO deployment and the sale of the initial 9,800 ports available, while preparing for future expansion.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of 180 days or less at the time of purchase to be cash equivalents. At times, the Company maintains cash balances in excess of federally insured limits.

3. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost. The Company depreciates its equipment on a straight-line basis over the following estimated useful lives of the assets:

	Years
Frame Relay equipment	3
Computers and software	3
Furniture and fixtures	5
Leasehold improvements	5
Office equipment	5
Vehicle	3

Equipment not placed in service includes expenditures for equipment and the design of the Company's Frame Relay network. When the assets are placed in service, the Company will transfer the assets to the appropriate property and equipment category and depreciate these assets over their respective estimated useful lives.

Long-Lived Assets

The Company annually considers whether indicators of impairment of long-lived assets held for use (including intangibles) are present, determines that if such indicators are present whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amounts, and if so, would recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value. The Company evaluated the ongoing value of its property and equipment and other long-lived assets as of May 31, 1998. From this evaluation, the Company determined that there were no indications of impairment and as such, no impairment loss has been recognized for the period from inception, March 10, 1997, to May 31, 1998.

Deferred Financing Costs

The Company incurred costs to obtain financing under debt agreements and other borrowing facilities. The Company's policy is to amortize these costs over the life of the underlying indebtedness using the effective interest method.

3. Summary of Significant Accounting Policies (continued)

Organizational Costs

Organizational costs are expensed as incurred.

Income Taxes

The Company provides for deferred income taxes based on the temporary differences between the financial reporting and income tax basis of the Company's assets and liabilities. Deferred income taxes are measured using the currently enacted tax rates and laws for periods in which the temporary differences are expected to reverse. No income tax benefit has been recognized with respect to the accumulated net loss due to the uncertainty of its future realization.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Property and Equipment

Property and equipment consists of the following at May 31, 1998:

Frame Relay equipment in service	$ 891,690
Computers and software	321,327
Vehicles	17,705
Furniture and fixtures	78,626
Leasehold improvements	1,619
Office equipment	46,517
	1,357,484
Accumulated depreciation	164,893
	$1,192,591

Included in property and equipment are computers, phones and equipment financed through capital leases with a total cost of $306,279 and associated accumulated depreciation of $49,703.

5. Long-Term Debt and Note Payable

Long-term debt at May 31, 1998 consisted of the following:

Vendor financing, net of unamortized original issue discount, $242,430 at May 31, 1998	$7,863,637
Note payable due in 36 monthly installments of principal and interest of $559.68. Interest is at 8.5%	17,705
	7,881,342
Less current portion	2,707,444
	$5,173,898

The Company entered into a vendor financing agreement (the Facility) on March 27, 1998, with Ascend Communications, Inc. (Ascend), as agent and lender. The facility allows for borrowings of up to approximately $9 million, consisting of $3 million to be used for working capital and $6 million to be used for equipment purchases. The interest rate on the Facility is the prime rate (8.5% at May 31, 1998). All assets serve as collateral for the Facility. The Company is required to comply with certain nonfinancial covenants.

Principal payments on the Facility are due in 24 monthly installments beginning November 1998. Interest payments are due monthly. The Facility is subject to mandatory prepayment on the occurrence of the earlier of either the effective date of an Initial Public Offering or the date of a change in control of the Company.

In conjunction with execution of the Facility, the Company issued warrants for the purchase of 1,000,000 shares of common stock. The fair value of the warrants (original issue discount) was estimated to be $297,529 as of their issuance date. The Company has recorded $268,074 as the value of the original issue discount associated with the $8,106,065 borrowings against the Facility. The unamortized original issue discount, $242,433, net of amortization of $25,641, is presented in the accompanying balance sheet, net of the outstanding balance of the Facility. The remaining value of the original issue discount, $29,455, associated with the available balance of the Facility, is recorded as a deferred financing cost. The original issue discount is amortized using the effective interest method over the expected term of the Facility.

Scheduled aggregate maturities on long-term debt are as follows: 1999—$2,707,444; 2000—$4,058,931; and 2001—$1,357,397.

6. Capital Lease Obligation

The Company entered into various capital lease obligations to finance the purchase of equipment, phones and computers. These leases are payable in varying monthly installments through 2003.

Future minimum lease payments under capital leases are as follows:

Year ended May 31	
1999	$128,829
2000	14,561
2001	14,561
2002	14,561
2003	12,223
Total payments for capital leases	184,735
Less interest	20,999
Capital lease obligation	163,736
Less current portion	115,993
Long-term capital lease obligation	$ 47,743

7. Income Taxes

The components of the Company's deferred income tax assets and liabilities at May 31, 1998 are as follows:

Deferred income tax liabilities –	
Book basis of property and equipment in excess of tax basis	$ (17,000)
Deferred income tax assets:	
Accrued vacation	11,000
Stock based compensation	65,580
Start-up costs deferred for income tax purposes	514,000
Net operating loss carryforwards	314,000
	904,580
Net deferred tax asset before valuation allowance	887,580
Deferred tax asset valuation allowance	(887,580)
Net deferred tax asset	$ -

7. Income Taxes (continued)

As of May 31, 1998, the Company has net operating loss carryforwards for federal and state income tax purposes of approximately $786,000, which expire in varying amounts through 2013.

8. Commitments and Contingencies

The Company conducts its operations in leased facilities. The lease requires that the Company pay applicable property taxes, insurance and maintenance costs. Monthly payments of $8,575 will be paid through July 31, 1998.

In June 1998, the Company entered into a new facilities lease. The lease requires that the Company pay applicable property taxes, insurance and maintenance costs. The lease requires monthly payments of $19,023 through June 2002 and monthly payments of $20,545 from July 2002 through June 2005.

The Company leases communication lines. The leases, which expire through January 2003, vary in amount based on which equipment is used. Total lease payments for the period ended May 31, 1998 were $21,519 for access line charges and $6,076 for local loop charges.

The Company leases space in communication facilities. The leases, which expire through January 2001 with one-year renewable options, vary in aggregate monthly payments. Total lease payments for the period ended May 31, 1998 were $70,370.

The Company entered into an operating lease agreement to lease office furniture beginning June 15, 1998. The terms of the lease require 36 monthly payments of $1,471.

The Company leases office space under an operating lease. The lease requires monthly payments of $2,232 for 12 months beginning on July 1, 1998. Total rent expense for the period ended May 31, 1998 was $63,996.

As of May 31, 1998, the Company's future annual minimum lease payments under operating leases are as follows: 1999—$268,611; 2000—$248,164; 2001—$245,934; 2002—$228,275; 2003—$245,015 and $513,619 thereafter.

9. Stockholders' Equity

On September 3, 1997, January 29, 1998 and July 29, 1998, the Company's Board of Directors unanimously approved the declaration and distribution of a two-for-one stock split, six hundred-for-one stock split and two-for-one stock split, respectively, for shareholders on record as of the declaration dates. All common share data prior to the respective stock splits have been adjusted to reflect the stock splits declared.

The Company reports stock-based compensation expense under the intrinsic value-based method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." During the year, the Company recognized $163,951 as stock-based compensation expense under the intrinsic value method in connection with the vesting of issued variable stock options. The pro forma effect of applying the fair value based method under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to the Company's stock options outstanding would not have a material effect on the Company's net loss for the period from March 10, 1997 to May 31, 1998. Accordingly, such pro forma and certain other SFAS No. 123 disclosures have been omitted from these financial statements.

During the year, the Company authorized 2,000,000 stock options to be granted to certain key employees and nonemployees as designated by the Company pursuant to the "Non-Statutory Stock Option Plan" (the Plan). During the period, the Company granted stock options under the Plan to certain key employees. The Company granted stock options to purchase 1,959,000 shares of common stock at exercise prices of $.50 to $1.50 per share. The weighted average exercise price of options outstanding at May 31, 1998 was $.63 per share. At the date of grant, there was no difference between the fair value of the underlying shares and the exercise price. The options are exercisable upon the completion of certain milestones and/or employment anniversary dates which vary by employee. The options expire on the earlier of the termination of the Grantee's employment for reasons other than retirement, disability, or death; or twenty years from the date of grant. As of May 31, 1998, 342,600 stock options issued to employees are vested and exercisable, and 1,616,400 stock options are nonvested. As of May 31, 1998, all 1,959,000 options issued to key employees remain outstanding.

During the year, the Company granted 51,000 stock options to certain nonemployees. The Company granted stock options to purchase 51,000 shares of common stock at an exercise price of $.50 per share which approximates fair market value at the date of grant. The stock options expire 20 years from the date of grant. As of May 31, 1998, 21,000 stock options issued to nonemployees are vested and 30,000 stock options are nonvested. As of May 31, 1998, all 51,000 remain outstanding.

9. Stockholders' Equity (continued)

The Company issued warrants to purchase 1,000,000 shares of common stock at $5 per share exercisable through October 1, 2000 in conjunction with execution of the Facility (see Note 5).

During the year the Company purchased 288,000 shares of common stock from certain shareholders who elected to receive a full refund of their original investment in the Company of $30,000 and interest of $1,056. The reacquired shares are accounted for as treasury stock.

The Company has reserved 3.7 million common shares for potential future issuance upon exercise of the options and warrants.

10. Related Party

Certain related parties of the Company provide legal, accounting and consulting services to the Company. For the period from inception to May 31, 1998, the Company paid $164,935 for legal, accounting and consulting services to the related parties. The Company also paid $18,900 in the form of common stock to a related party for consulting services.

11. Year 2000 Issue (Unaudited)

The Company considers its information technology and critical data processing systems to be year 2000 compliant. The Company has received written notification from its vendors and suppliers that the Company's information technology and critical data processing systems are year 2000 compliant. As of May 31, 1998, the Company has not tested year 2000 compliance and has incurred minimal expenditures to remedy the year 2000 issue. While the Company believes the information technology and critical data processing systems of the Company and of other companies upon which the Company's systems and operations rely are year 2000 compliant, there can be no guarantee that these systems are compliant and will not have a material effect on the financial statements of the Company.

Exhibit "2" PROFORMA

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DAKOTA SERVICES, LTD.
PROFORMA CONDENSED BALANCE SHEET - (Amounts in 000's)
December 31, 1998

	ACTUAL	PRO FORMA
ASSETS		
CURRENT ASSETS:		
Cash	$ 64.0	$ 151,424.0
Accounts Receivable, less allowance for doubtful accounts	100.5	100.5
Other Current Assets	104.7	104.7
	269.2	151,629.2
PROPERTY AND EQUIPMENT:		
Networks and Communications Equipment	9,082.7	18,165.4
Furniture and Fixtures	980.9	980.9
Leasehold Improvements	51.0	51.0
Vehicles	17.7	17.7
	10,132.3	19,215.0
Less Accumulated Depreciation and Amortization	1,537.9	1,537.9
	8,594.4	17,677.1
OTHER ASSETS:		
Deposits	41.5	41.5
Deferred Debt Issuance Costs (Net)	197.1	197.1
Intangible Assets (Net)	1,119.7	43,400.0
	1,358.3	43,638.6
	$ 10,221.9	$ 212,944.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 2,242.6	$ 2,242.6
Notes Payable	77.1	77.1
Other Current Liabilities	107.9	107.9
Current Maturities of Capital Lease Obligations	117.8	117.8
Current Maturities of Long Term Debt	6,019.0	6,019.0
	8,564.4	8,564.4
LONG TERM LIABILITIES:		
Capital Lease Obligations, less current portion	42.5	42.5
Long Term Working Capital Debt, less current portion	3,581.7	4,941.7
Long Term Equipment Debt, less current portion	4,852.3	4,852.3
Subordinated Long Term Debt	-	100,000.0
	8,476.5	109,836.5
STOCKHOLDERS' EQUITY:		
Common Stock	1,234.3	1,234.3
Preferred Stock	-	50,000.0
Additional Paid in Capital	461.1	461.1
Treasury Stock (at cost)	(30.0)	(30.0)
Fair Market Value in Excess of Cost	-	51,363.0
Accumulated Deficit	(8,484.4)	(8,484.4)
	(6,819.0)	94,544.0
	$ 10,221.9	$ 212,944.9

CONFIDENTIAL

DAKOTA SERVICES, LTD.
PRO FORMA BALANCE SHEET ASSUMPTIONS
December 31, 1998

Dakota Services, Ltd. Has engaged Volpe Brown Whelan & Company, LLC to raise $50 million in permanent equity financing. It is anticipated that the transaction will close by May 1, 1999.

Simultaneously, Dakota Services, Ltd. Anticipates funding an additional $100 million in 10 year debt to further facilitate the network buildout.

CASH:

Reflects the anticipated increase due additional debt and equity funding as discussed above. Also, includes additional $1.36 million working capital funding available from an existing commitment.

NETWORK AND COMMUNICATIONS EQUIPMENT:

Assumes a value of two times original cost.

INTANGIBLE ASSETS:

Assumes a value of $43.4 million for the CLEC licenses, Interconnection Agreements, RBOC Central Office Sites, etc.

LONG TERM WORKING CAPITAL DEBT:

Reflects an additional $1.36 million in working capital draws on an existing commitment.

SUBORDINATED LONG TERM DEBT:

Reflects the anticipated raising of $100 million of subordinated debt.

PREFERRED STOCK:

Reflects the anticipated raising of $50 million of permanent equity.

FAIR MARKET VALUE IN EXCESS OF COST:

Reflects the excess of value over cost of the Data Network and Intangible Assets.

Exhibit "3" TESTIMONY

Submitted By: Mary Jo Grant, Regulatory Compliance Administrator
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Before the

TENNESSEE REGULATORY AUTHORITY

In reply to:	**Application of**	)	
	DAKOTA SERVICES LIMITED	)	
	of Wisconsin for a	)	**Docket No. 98-00779**
	Certificate of Public Convenience and	)	
	Necessity to Provide Local	)	
	Exchange Services	)	

DIRECT TESTIMONY

OF

THEODORE LASSER

ON BEHALF OF

DAKOTA SERVICES LIMITED

February 15, 1999

BEFORE THE

TENNESSEE REGULATORY AUTHORITY

DIRECT TESTIMONY OF

THEODORE LASSER

Q1. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A1. My name is Theodore Lasser. I am the President and CEO of DAKOTA SERVICES LIMITED (DSL). My business address is 20825 Swenson Drive, Suite 150, Waukesha, Wisconsin 53186.

Q2. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND BACKGROUND.

A2. I currently possess a BS in Management; several central office and networking certificates of completion in design and configuration of worldwide network development. My business experience has centered on Telco and IXC deployment in which I was responsible for multi-million dollar networks and the ongoing design and operational responsibility.

Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A3. The purpose of my testimony is to present evidence in support of DSL's petition for a Certificate of Public Convenience and Necessity to provide high-speed, data transmission and other data telecommunications services to business customers as a facilities-based competitive local exchange carrier. My testimony will also establish why the Commission should decline to exercise its jurisdiction in part over DSL and the services it proposes to provide. My testimony will establish that DSL has the corporate authority to provide the services for which it is requesting authority, that it has the financial, technical and

managerial ability to provide those services, and that it had adequately described the service area in which it proposes to provide such services.

Q4. PLEASE BRIEFLY DESCRIBE DSL AND THE SERVICES IT PROPOSES TO PROVIDE.

A4. DSL is a minority owned Wisconsin "for-profit" corporation with its principal offices located at 20825 Swenson Drive, Suite 150, Waukesha, Wisconsin 53186. A business in which DSL intends to engage in Tennessee, subject to the issuance of authority to do so by this Commission, is the provision of high-speed, data transmission and telecommunications services using DSL's xDSL network, which utilizes existing telephone lines and infrastructure, but allows for the transmission and receipt data at 50 to 200 times the speed of modems currently used in the marketplace. The xDSL network is strictly a data transfer network. It will allow customers who use the network to send and receive information to and from the Internet at a high rate of speed, and to link local area networks at various locations located nationwide to one another for the transfer of data. DSL's services will be available to any user of existing local telephone lines.

Q5. WHAT FINANCIAL RESOURCES DOES DSL HAVE TO UNDERTAKE THE BUSINESS WHICH IT REQUESTS THE COMMISSION TO AUTHORIZE?

A5. DSL has sufficient capital to establish, market, operate and maintain the services contemplated by DSL's petition for a Certificate of Public Convenience and Necessity. Additional equity or debt capital will be obtained as opportunities arise for provision of our proposed services. I am personally satisfied from my knowledge of this business that the financing necessary to provide adequate and reliable service to our customers is now and will be available. Venture and debt capital is readily available to competitive local exchange carriers, especially those with a proven track record. DSL has been providing these types of services in Wisconsin since July 1, 1997. DSL expects to focus its marketing efforts and provide services in a discrete area of Tennessee where there is a demand for

the kind of services we propose to offer and thus our financial requirements will be incremental in nature. Of course, because of the highly competitive environment in which we operate, it would be unnecessarily prejudicial to DSL's interests to specifically identify our prospective customers and customer service locations without reasonable protection from misuse of this highly confidential information. Also, because of the numbers of companies authorized to provide these services in a competitive market, our access to financing is less important than if we were proposing to offer monopoly services.

Q6. WHAT IS THE TERRITORIAL SCOPE OF THE AREA FOR WHICH YOU REQUEST A CERTIFICATE OF AUTHORITY TO SERVE?

A6. DSL requests authority to provide the proposed services throughout Tennessee. In order to be competitive with other "CLECs" already certified by this Commission for statewide authority, we need to have statewide authority and not have a restricted scope of authority which would prejudice our ability to compete with them, and to provide the proposed services to our customers with statewide locations and other businesses which may efficiently and economically use the services for which we seek authority to provide. DSL will examine various urban or rural markets to determine if there is sufficient market demand to justify installation of additional networks. Should one or more of such markets appear attractive enough to justify the capital investment, DSL would go forward with negotiating for use of lines with local telephone carriers and installation of our network facilities in the area. By virtue of a grant of statewide authority, DSL would not have to return to the Commission for additional authority each time it chose to make an additional investment and add additional service areas. We believe that this will conserve valuable Commission resources while also allowing DSL to avoid the delay inherent in securing each additional approval that may be required.

Q7. WHAT TECHNICAL AND MANAGERIAL QUALIFICATIONS DOES DSL HAVE TO PROVIDE THE TELECOMMUNICATIONS SERVICES IT PROPOSES?

A7. DSL has a highly qualified and experienced management and technical team. In addition to more than 20 years of business experience and education in information technology, DSL has at its disposal the following persons: DSL's technical management team is comprised of Theodore Lasser, President and CEO, Doug Zolnick, Vice-President of Research and Development, Jim Webb, Vice-President of Network Operations, Chris Brown, Director of Network Operations and Julie Ols, Director of Provisioning, all of which can be found in the Officers Profiles Exhibit "3" and 'Key Personnel Profiles Exhibit "4" of the application. DSL's corporate officers have both the technical and managerial experience and knowledge necessary to adequately and reliably provide the services it seeks authority from the Commission to provide in a competitive environment.

Q8. IS THE PUBLIC CONVENIENCE SERVED BY ISSUANCE OF THE CERTIFICATE WHICH DSL REQUESTS?

A8. Yes. DSL's xDSL network technology greatly enhances the way businesses communicate through the Internet and between and among computers. The governmental bodies regulating telecommunications services, including this Commission, have determined that a competitive environment is in the public interest. Everyone is keenly aware of the problems associated with the ever-increasing numbers of users of the Internet, and expanding the availability of advanced telecommunications and data transmission technology and services such as the xDSL which DSL proposes will further the public interest by providing consumers of telecommunications services in Tennessee with the option of selecting from a wide range of customized data services designed to meet specific customer needs which will in turn serve to materially enhance Tennessee's ability to develop economically. The presence of DSL in this competitive market will also increase

incentives for other telecommunications providers to operate more efficiently, offer more innovative services, reduce their prices, and improve their quality of service. The services that will be available from DSL will provide users with increased speed and efficiency, up to 200 times current modem speeds, and therefore overall reduced costs in data transmission.

Q9. WHAT DOES DSL BELIEVE TO BE THE APPROPRIATE EXTENT OF REGULATION TO BE ASSERTED BY THE COMMISSION OVER IT AND THE SERVICES IT PROPOSES TO PROVIDE?

A9. As a competitive local exchange carrier, DSL will comply with all applicable Tennessee regulations intended to protect public safety and convenience.

Q11. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

Q11. Yes, it does.

STATE OF WISCONSIN	)	
	)	**Certificate of Service**
COUNTY OF WAUKESHA	)	

The undersigned, Mary Jo Grant certifies that she is employed by Dakota Services Limited and that she has caused the pre-filed testimony of Theodore Lasser of Dakota Services Limited of Wisconsin in Docket 98-00779 to be served by placing such in the care and custody of UPS next day air, and addressed to the following on this 15th day of February, 1999.

David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Mary Jo Grant

Mary Jo Grant