

NETWORK COMMUNICATIONS, INC.

BUSINESS PLAN

October, 1986

Introduction

The breakup of the Bell System on January 1, 1985 created many changes in the field of telecommunications. In the past, one company provided the equipment, local exchange and long distance service. This monopoly was initially challenged in the business environment by new manufacturers offering key and PBX equipment. Later low-cost long distance services were offered. The companies who offered the initial service either leased W.A.T.S. (Wide Area Telephone Service) lines from the Bell System and re-sold the service to customers or used alternative means such as a microwave link. Local service provided by the Bell Companies continues to be regulated.

The breakup of the Bell System has resulted in economic opportunities in the telecommunications industry. Many new companies are successfully making telephone equipment or offering long distance services. To date, these opportunities have created competition for both AT&T and each of the Bell Operating Companies (BOC). The competition is mainly for the office or residence equipment and for long distance services.

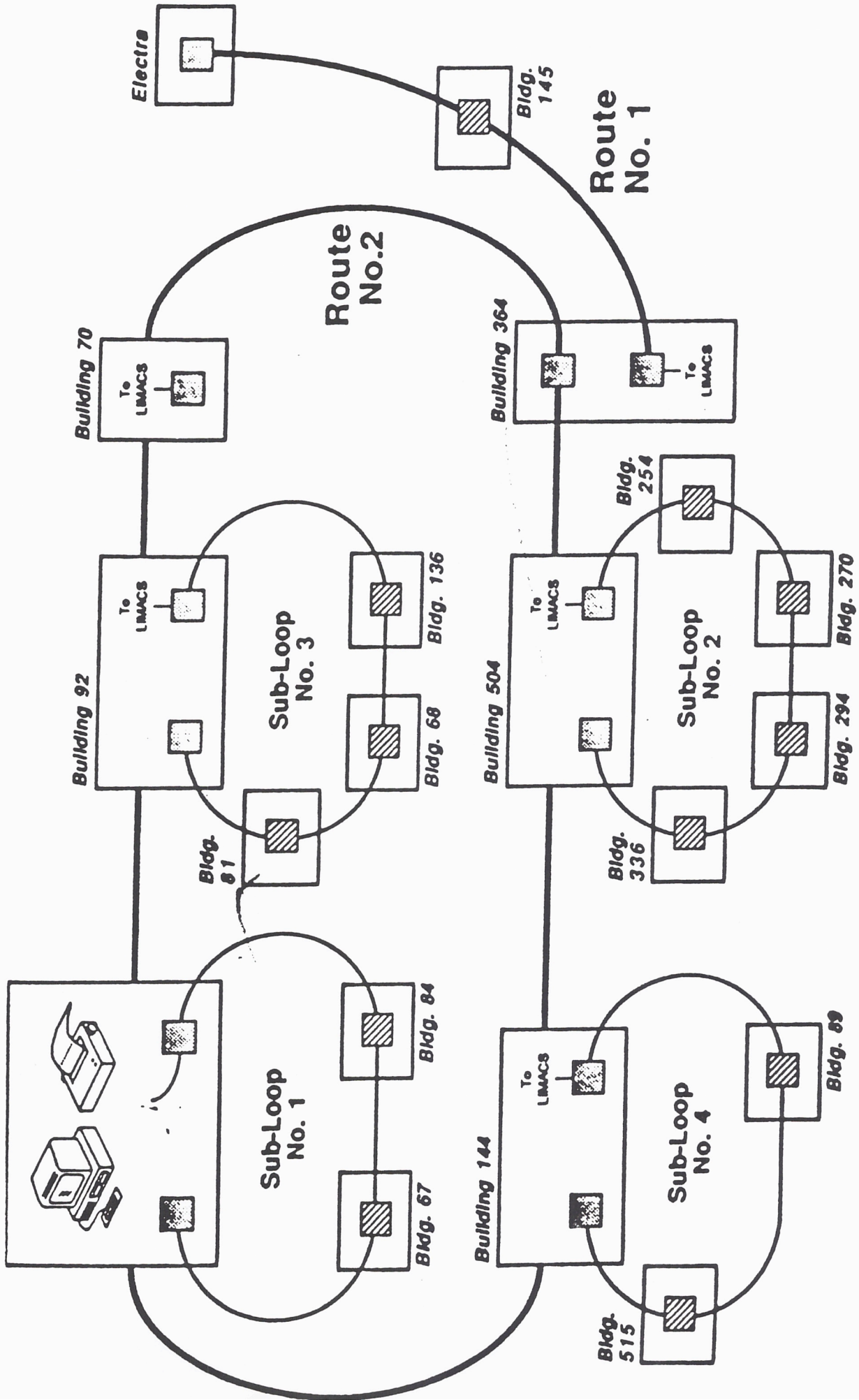
The Bell Operating Companies have no effective competition for their local service. The term "local" means a major metropolitan area. The cost of local service is based on tariffs (rates) filed with the Federal Communication Commission with certain modifications made by state or local regulatory agencies. Historically, the cost of the rate has been lowest for residential customers and highest for business customers. Business customers who receive more than one in-coming

that Network Communications, Inc. will not be regulated by the P.U.C. This request is based on discussions with rate analysts and counsel of the P.U.C. The discussions have concluded that no state regulation would apply.

Network Communications, Inc. is presently preparing engineering specifications, while the evaluation and selection of experienced telecommunications personnel has begun. Personnel selection will be based on experience and knowledge of the tariff positions of the local Bell Operating Companies, the service offered by the Bell Operating Companies, and fiber optic technology. All other staff requirements for key marketing and financial personnel are also being addressed.

Summary

Businesses are aware of the growing demands for improved voice and data capabilities to conduct business efficiently. The larger the company is; the larger the demand. The cost of voice and data systems and the communication link between these systems is a major concern of any large corporation. There is a tremendous incentive to drop the local Bell Operating Company (BOC) and use an independent supplier of service at a more competitive rate. The long distance specialized common carriers (OCC) such as MCI, Sprint and others were the first to offer alternative services. More recently, fiber optical, microwave, and satellite networks have been installed across the USA to compete with AT&T long distance lines. The last monopoly in place is the local loop from the customer premises to the central office of the BOC who switches them to the OCC of choice such as MCI, Sprint, or AT&T Communications. This can be the single largest component of the customer's communications bill each month. The demand for local loop service is increasing because the need to communicate both voice and data between different buildings or locations within the same company is increasing drastically as local area and wide area networks are implemented.



CITY OF HOUSTON ORDINANCE NO. 87-666

AN ORDINANCE GRANTING TO NETWORK COMMUNICATIONS, INC., A TEXAS CORPORATION, ITS SUCCESSORS AND ASSIGNS, THE RIGHT, PRIVILEGE AND FRANCHISE TO USE THE PRESENT AND FUTURE STREETS, AVENUES, ALLEYS, ROADS, HIGHWAYS, SIDEWALKS, EASEMENTS AND OTHER PUBLIC RIGHTS OF WAY OF THE CITY OF HOUSTON FOR CONSTRUCTION AND OPERATION OF ITS COMMUNICATION SYSTEM FOR A PERIOD OF TEN (10) YEARS; REGULATING THE USE OF THE STREETS BY SAID COMPANY AND THE REPAIR AND RESTORATION OF STREETS DISTURBED BY CONSTRUCTION; PROVIDING FOR THE TEMPORARY REMOVAL, RAISING AND LOWERING OF CABLES AND OTHER EQUIPMENT AND MATERIAL; PROVIDING FOR COMPENSATION TO BE PAID TO THE CITY OF HOUSTON; PROVIDING FOR USE BY THE CITY OF CERTAIN POLE SPACE, MANHOLE AND CONDUIT SPACE; PROVIDING THAT THIS FRANCHISE SHALL NOT BE EXCLUSIVE; PROVIDING A SEVERABILITY CLAUSE; RESERVING ALL POWERS OF REGULATION; PROVIDING FOR INDEMNITY BY THE COMPANY TO THE CITY; MAKING MISCELLANEOUS PROVISIONS RELATIVE TO THIS GRANT OF FRANCHISE; PROVIDING FOR ACCEPTANCE BY THE COMPANY; AND PROVIDING AN EFFECTIVE DATE.

* * *

WHEREAS, Network Communications, Inc. ("Network Communications") a Texas corporation, has heretofore applied to the City Council for a franchise to build and operate a fiber optic communication system to serve businesses within the City of Houston; and

WHEREAS, it is hereby found and determined by the City Council of the City of Houston that it is in the best interest of City that a franchise be awarded to Network Communications to build and operate a fiber optic communication system to serve businesses within the City of Houston; and

WHEREAS, the City Council finds from Network Communication's application and representations that this Company fully meets all the legal, character, financial, and technical qualifications, as well as all other qualifications, necessary to assure that Network Communications will construct and operate a fiber optic communication system of the highest quality; NOW, THEREFORE,

* * *

Section 25. PASSAGE AND EFFECTIVE DATE.


This franchise, having been published as required by Article II, Section 17 of the City Charter shall take effect and be in force from and after thirty (30) days following its final passage and approval.

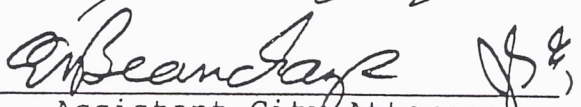
PASSED first reading this 21st day of January,
A.D. 1987.

PASSED second reading this 28th day of January,
A.D. 1987.

PASSED third reading this 18th day of February,
A.D. 1987.

APPROVED this 18th day of February, A.D.
1987.


Mayor of the City of Houston


Assistant City Attorney

CH (Prepared by Legal Dept.
(EWB:nc, 1/17/87)
(L. D. File No. 86-34005)
(Requested by William R. Brown, Director of)
(Finance and Administration)

Network Communications Inc.
(NCI)

Design for Connecting

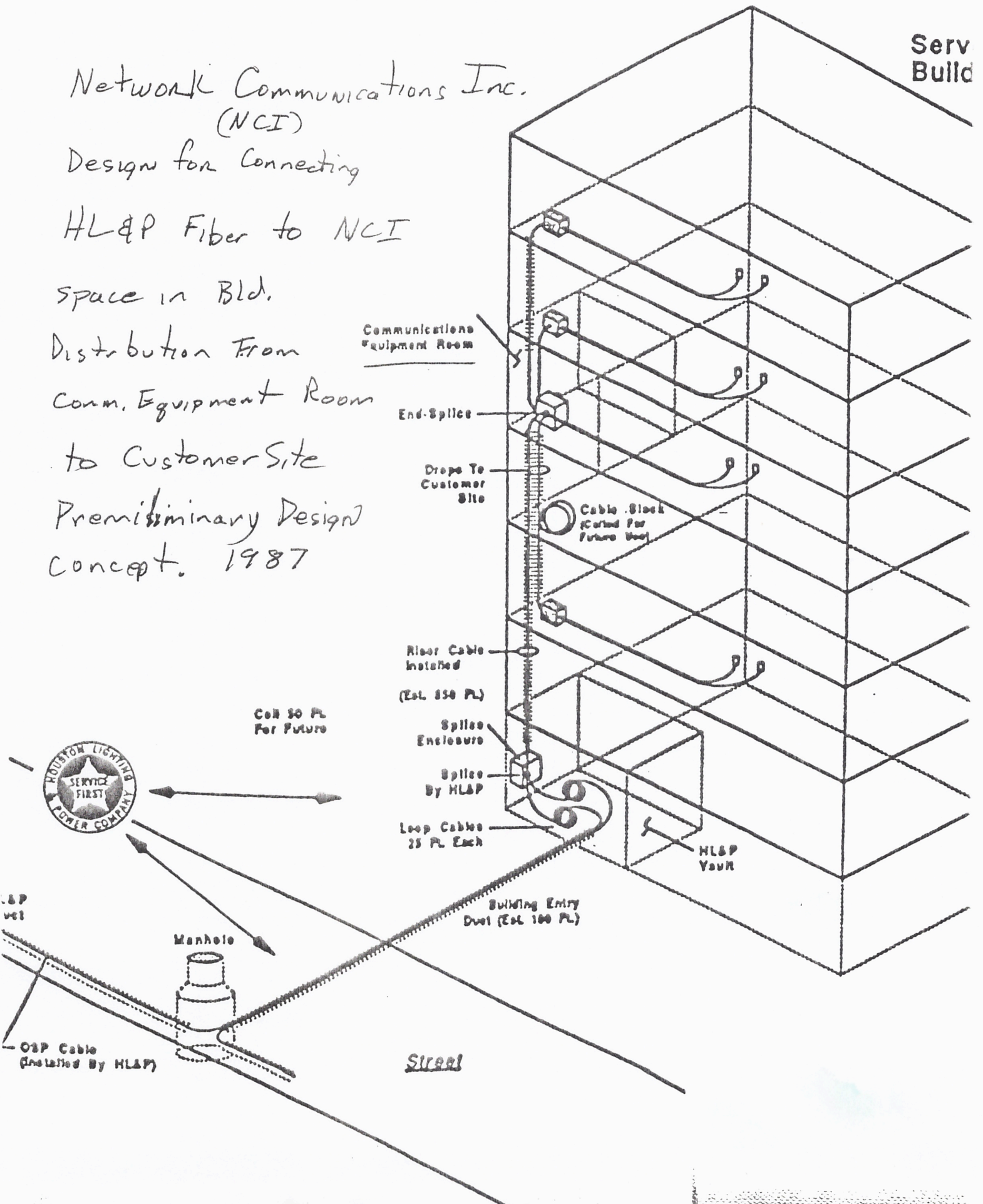
HL&P Fiber to NCI

space in Bld.

Distribution From
Comm. Equipment Room

to Customer Site

Preliminary Design
Concept. 1987



Call 50 PL
For Future

HL&P
vet

Manhole

OSP Cable
(Installed By HL&P)

Street

Building Entry
Duct (Est. 100 PL)

Riser Cable
Installed

(Est. 850 PL)

Splice
Enclosure

Splice
By HL&P

Loop Cables
25 PL Each

HL&P
Vault

Cable Block
(Cabled For
Future Use)

Drops To
Customer
Site

End-Splice

Communications
Equipment Room

Serv
Build