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November 13, 2014

REDACTED – FOR PUBLIC INSPECTION

Via Electronic Filing

Notice of Ex Parte Presentation—
Supplemental Information
(Redacted Confidential Document)

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: WC Docket No. 12-375, Rates for Interstate Inmate Calling Services; Petition of Pay Tel Communications, Inc. for Extension of Waiver of Interim Interstate ICS Rates

Dear Ms. Dortch:

This Notice serves to supplement the Petition for Extension of Waiver of Interim Interstate ICS Rates filed October 31, 2014 in the above-referenced docket by Pay Tel Communications, Inc. ("Pay Tel") and is submitted in response to a request from the Commission staff for additional information regarding Pay Tel's overall financial condition.

Pay Tel previously represented in support of its Petition for Waiver of Interstate ICS Rates that its profit margin for 2012 was only 1.4%, based on the company's audited financial statements.[1] Furthermore, Pay Tel supported this assertion by supplying audited financial statements showing Pay Tel's financial results for years ending December 31, 2011 and 2012.[2]

By this filing, Pay Tel supplements its previous financial showing with its most recent audited financial statements, attached as Exhibit A hereto, showing Pay Tel's financial results for

[1] *See, e.g.*, Pay Tel Communications, Inc., Petition for Waiver of Interim Interstate ICS Rates, WC Docket No. 12-375 (Jan. 8, 2014), at Exhibit G (Declaration of Vincent Townsend).

[2] *See* Letter from Marcus W. Trathen, Counsel to Pay Tel, to Marlene H. Dortch, Secretary, FCC (Jan. 16, 2014), at attachments (Audited Financial Statements).

the year ending December 31, 2013. The attached financial statements are the most current audited financial results available to Pay Tel and they demonstrate results consistent with Pay Tel's prior showings. The attached materials show that Pay Tel's 2013 profit margin, prior to accounting for an unexpected extraordinary expense the company incurred, was just 1.3%. Factoring in that unexpected extraordinary expense further reduced the company's profit margin, to -0.8%. Moreover, the attached financial statements further illustrate the financial harm to Pay Tel that would be caused by application of the interim ICS rate caps on interstate calls to Pay Tel, as the demonstrated intrastate shortfall based on Pay Tel's current operations[3] would far exceed Pay Tel's net income, leading to an economically unsustainable deficit situation.

Pay Tel submits this *Notice of Ex Parte Presentation—Supplemental Information* and the attached audited financial statements pursuant to the Protective Order, DA 13-2434, released December 19, 2013 in this docket. Pay Tel asserts that such audited financial statements contain confidential and proprietary commercial, financial, and technical information and should be treated as exempt from disclosure under Exemption 4 of the Freedom of Information Act[4] and Section 0.457(d)[5] of the Commission's rules.

Please do not hesitate to contact the undersigned should any questions arise concerning this submittal.

Sincerely yours,

/s/ Marcus W. Trathen
Marcus W. Trathen

[3] *See* Letter from Marcus W. Trathen, Counsel to Pay Tel, to Marlene H. Dortch, Secretary, FCC (Nov. 11, 2014), at attachment (Updated Intrastate Shortfall Analysis).

[4] 5 U.S.C. § 552(b)(4).

[5] 47 C.F.R. § 0.457(d).

EXHIBIT A

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Pay Tel Communications, Inc.

FINANCIAL STATEMENTS
and Independent Auditor's Report

December 31, 2013 and 2012

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Pay Tel Communications, Inc. (an S Corporation), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2013 and 2012, 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, Kearns & Rumley, LLP

Greensboro, North Carolina
April 29, 2014

Pay Tel Communications, Inc.

BALANCE SHEETS
December 31, 2013 and 2012

Assets

	2013	2012
Current assets:	[redacted]	[redacted]
Cash		
Net accounts receivable		
Prepaid expenses and other receivables		
Notes receivable from related parties		
Total current assets		
Property and equipment, at cost:		
Inmate communications equipment		
Office furniture, equipment and software		
Leasehold improvements		
Vehicles		
Total property and equipment		
Less accumulated depreciation and amortization		
Net property and equipment		
Other assets:		
Notes receivable from related parties		
Net deferred contract costs and commissions		
Settlement reserve deposits		
Cash surrender value of Stockholder's life insurance		
Deposits and other noncurrent assets		
Total other assets		
Total Assets		

See notes to financial statements.

Pay Tel Communications, Inc.

BALANCE SHEETS
December 31, 2013 and 2012

Liabilities and Stockholders' Equity

	2013	2012
Current liabilities:	[redacted]	[redacted]
Working capital line of credit		
Current portion of equipment loans		
Current portion of capitalized lease		
Unearned revenues		
Accounts payable		
Accrued expenses and other liabilities		
Due to stockholder		
Total current liabilities		
Noncurrent liabilities:		
Noncurrent portion of equipment loans		
Noncurrent portion of capitalized lease		
Total noncurrent liabilities		
Total liabilities		
Stockholders' equity:		
Common stock, 1,000 voting shares and 99,000 nonvoting shares authorized, issued and outstanding		
Retained earnings		
Total stockholders' equity		
Total Liabilities and Stockholders' Equity		

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See notes to financial statements.

Pay Tel Communications, Inc.

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
For the Years Ended December 31, 2013 and 2012

	2013	2012
Net revenues	[redacted]	[redacted]
Costs of revenues		
Gross profit		
Selling, general and administrative expenses:		
Salaries and related expenses		
Depreciation and amortization		
Professional services		
Other		
Rents, maintenance and utilities		
Computer supplies and support		
Telephone and broadband		
Property taxes, licenses and insurance		
Research and development		
Total selling, general and administrative expenses		
Income from operations		
Other nonoperating expenses		
Net income before extraordinary item		
Extraordinary item - loss on notes receivable from related parties		
Net income (loss)		
Retained earnings at beginning of year		
Retained earnings at end of year		

See notes to financial statements.

Pay Tel Communications, Inc.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

Increase (Decrease) in Cash

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	2013	2012
Operating activities:	[redacted]	[redacted]
Net income (loss)		
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property and equipment		
Amortization of deferred contract costs		
Amortization of other noncurrent assets		
Allowance for doubtful accounts and other noncash activities		
Net loss on disposal of property and equipment		
Loss on notes receivable from related parties		
Cash surrender value of Stockholder's life insurance		
(Increase) decrease in related assets:		
Accounts receivable and settlement reserve deposits		
Prepaid expenses, deposits and other receivables		
Net deferred contract costs		
Increase (decrease) in related liabilities:		
Accounts payable		
Accrued expenses and other liabilities		
Unearned revenues		
Net cash provided by operating activities		
Investing activities:		
Purchases of property and equipment		
Net proceeds from sale of property and equipment		
Advances on notes receivable from related parties		
Net cash used in investing activities		

- *Continued* -

Pay Tel Communications, Inc.

STATEMENTS OF CASH FLOWS - CONTINUED
For the Years Ended December 31, 2013 and 2012

	2013	2012
Financing activities:	[redacted]	[redacted]
Net borrowings from (repayments to) working capital line of credit		
Borrowings from equipment loans		
Repayments on equipment loans		
Payments on capitalized lease		
Loan origination fees		
Net cash provided by (used in) financing activities		
Net increase in cash		
Cash at beginning of year		
Cash at end of year		

Supplemental Disclosures

Interest paid	[redacted]	

Noncash Investing and Financing Activities

During 2013, the Company had a noncash financing transaction relating to a capitalized lease on equipment totaling [redacted]

See notes to financial statements.

Pay Tel Communications, Inc.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

(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 that typically range from three to five years and expire at various times beginning in 2014. The Company services its customers throughout the United States from its headquarters in Greensboro, North Carolina.

(2) Summary of Significant Accounting Policies

(a) Revenue Recognition – Generally, revenues from automated calls from confinement facilities are recognized, net of unbillable returned call records and applicable sales taxes, at the time the call is completed. State and federal regulatory authorities govern certain rates the Company can charge customers for these services.

Generally, customers establish an electronic account through prepayments to the Company. When an electronic account becomes inactive, the Company either refunds the customer's unused balance or issues them a prepaid phone card that does not expire. At any time in the future, customers may use the prepaid phone card or return it to the Company for a refund. The Company recognizes into net revenues the balances of prepaid phone cards that show no activity for at least six months and which the Company believes, based upon historical redemption patterns, the likelihood of redemption by the customer is remote.

(b) Credit Risk - Cash and accounts receivable are financial instruments which potentially subject the Company to credit risk. 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 (see Notes 4 and 5).

[redacted]

(c) Advertising costs - The Company expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2013 and 2012 were approximately [redacted] and [redacted]

(d) Property and Equipment - Property and equipment are recorded at cost. Leasehold improvements are [redacted]

(e) Net Deferred Contract Costs and Commissions - Net deferred contract costs and commissions consist of payments to Company employees, inmate facilities and other third party providers related to certain inmate contracts. Deferred contract costs and commissions are amortized over the lives of the respective contracts. Accumulated amortization at December 31, 2013 and 2012 [redacted]

The estimated future amortization expenses related to these deferred costs are as follows:

For the year ending December 31, 2014	[redacted]
2015	
2016	
2017	
2018	
Total maturities	

(f) Income Taxes - The Company, with the consent of its stockholders ("Stockholders"), has elected under the Internal Revenue Code to be an S corporation. In general, pursuant to the election, taxable income is taxed to the Stockholders 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. The Company, by expiration of the statute of limitations, is generally no longer subject to federal or state income tax examinations by tax authorities for the years ending December 31, 2009 or earlier.

The Company has adopted the accounting guidance for uncertainty in income taxes using the provisions of FASB Accounting Standards Codification 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will not be sustained upon examination by the tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the positions and relevant facts. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of December 31, 2013 and 2012, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and has incurred no interest or penalties related to unrecognized tax liabilities.

(g) 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, 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.

(h) Reclassifications - Certain reclassifications have been made to prior year balances to conform to current year presentation.

Pay Tel Communications, Inc.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

(3) Notes Receivable from Related Parties and Extraordinary Item

[redacted]

(4) Billing and Collection Arrangements

The Company primarily utilizes its own internally developed and supported billing and collection system whereby customers establish an electronic account through prepayments to the Company. The accompanying balance sheets [redacted] at December 31, 2013 and 2012, respectively. These totals, which if unused are refunded, represent the net amounts prepaid by customers for the acceptance of future calls.

The Company has partnered with third party providers to administer a debit system at inmate facilities where an inmate can transfer funds from their facility trust account to their own telephone account in order to make calls. Generally, unused amounts are returned to the inmate's account upon release from the facility. Net accounts receivable in the accompanying balance sheets include [redacted] in amounts due from the third party providers at December 31, 2013 and 2012, respectively. Total allowances for doubtful accounts receivable accounts at December 31, 2013 and 2012 were [redacted]

The Company also utilizes the billing and collection services of various Local Exchange Carriers ("LECs"). The LECs bill and collect from the party that accepts the call under month-to-month contracts with the Company.

(5) Settlement Reserve Deposits and Letters of Credit

[redacted]

Pay Tel Communications, Inc.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

(6) Lines of Credit and Equipment Loan

[redacted]

The scheduled maturities of the equipment loans are as follows:

For the year ending December 31, 2014	[redacted]
2015	
2016	
Total maturities	

[redacted]

All lines of credit and equipment loans are secured by all the property, equipment and other assets, certain cash accounts, the personal guarantee of a certain Stockholder, the assignment of all confinement facility contracts and the assignment of a certain life insurance policy on a certain Stockholder. The lines of credit and equipment loans also contain various covenants pertaining to the maintenance of certain financial ratios.

- Continued -

Pay Tel Communications, Inc.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

(7) Capitalized Lease

The Company has a capital lease for equipment with a total cost of [redacted]. Payments of approximately [redacted]

Future minimum lease payments under the capitalized lease and the present value of the net minimum lease payments are as follows:

For the year ending December 31,	2014	[redacted]
	2015	
	2016	
	2017	
	2018	
Total minimum lease payments		
Less amount representing interest		
Present value of net minimum lease payments		

(8) Guarantee of Debt

[redacted]

(9) 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. [redacted]

Pay Tel Communications, Inc.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

(10) Operating Leases and License Agreements

[redacted]

Future minimum payments are due as follows:

	Office & Warehouse	Other	Total
For the year ending December 31, 2014	[redacted]		
2015			
2016			
2017			
2018			
Total future minimum payments due			

Total rental expense related to the operating leases for 2013 and 2012 was [redacted] respectively.

(11) Contingency

[redacted]

(12) Subsequent Events

Management has evaluated subsequent events through April 29, 2014, the date which the financial statements were available to be issued.