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Decision 98-03-067 March 26, 1998

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Investigation on the Commission's own motion into the operations, practices, and conduct of Inter Continental Telephone Corporation, to determine whether the company has complied with the laws, rules, regulations, and applicable tariff provisions governing the manner in which California consumers are switched from one long-distance carrier to another, and other requirements for long distance carriers.

**ORIGINAL**

197-01-011  
(Filed January 13, 1997)

**O P I N I O N**

**Summary**

This order approves the settlement agreement between Commission's Consumer Services Division and Inter Continental Telephone Corporation (ICT).<sup>1</sup> The settlement agreement provides for restitution to California consumers using a novel distribution methodology and removes ICT from the California long distance market for no less than three years.

**Procedural Background**

On January 13, 1997, the Commission initiated an investigation of ICT in response to allegations by its staff that ICT had transferred approximately 66,700 customers from their long distance carrier of choice to ICT's service. Inter Continental Telephone Corporation, I.97-01-011. If proven by staff, such actions would violate Public Utilities (PU) Code Section 2889.5, the "anti-slamming" statute.

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<sup>1</sup> "ICT" includes these affiliated corporations and individual: CTN Telephone Network, International Telecommunications Corporation, doing business as Total Communications Network, and Donald Blakstad.

On April 3, 1997, the assigned Administrative Law Judge (ALJ) convened a prehearing conference to set the procedural schedule for the investigation. At the prehearing conference (PHC), the parties indicated that they were beginning settlement negotiations and were optimistic about the prospects for a settlement agreement. The respondent also indicated that it was no longer marketing to California consumers and, by letter, stated that it would not transfer any customers to its service without giving the Commission 14 days notice of its intention to do so.

At the request of the parties, the Chief ALJ appointed ALJ Robert Ramsey to act as mediator in the parties' negotiations. Under ALJ Ramsey's guidance, the mediation was successful, resulting in the parties reaching agreement as to principles.

On November 1, 1997, the assigned ALJ held a second PHC to obtain a status report on the parties' progress towards a final agreement. The parties stated that such an agreement was imminent and indeed filed the Final Settlement Agreement on December 22, 1997. That Agreement is Attachment 1 to this decision.

#### **Description of the Settlement Agreement**

The major provisions of the settlement agreement are:

1. ITC shall make restitution to the consumers who allege that they were transferred to ITC's service without their authorization. The process by which this restitution will be paid is unique to this settlement agreement. Customers will be notified of their option to receive a full refund of all money paid to ITC. Customers choosing this option will receive a full refund of all amounts paid to ITC, less any credits already provided. The minimum restitution amount will be \$547,246.31. If this program does not generate sufficient consumer requests for the minimum amount, then the difference between the amount requested and the minimum amount shall be shared by all customers who did not request a full refund. Any unclaimed funds will be deposited by ITC in the State of California's General Fund.
2. ITC shall not market to California consumers and it shall withdraw its Certificates of Public Convenience and Necessity no later than 6 months after the effective date of the agreement.

3. ITC shall not reapply for a Certificate of Public Convenience and Necessity until three years have elapsed from the effective date of the order.
4. ITC will pay \$100,000 for consumer advisories to be published in major newspapers in California.

### Discussion

Commission's Rules of Practice and Procedure 51(e) requires that settlement agreements be (1) reasonable in light of the whole record, (2) consistent with the law, and (3) in the public interest to be approved by the Commission.

#### a. Reasonable in Light of the Whole Record

The record in this case reveals that ICT has been alleged to have violated PU Code 2889.5 on a widespread basis. Such allegations, if proven, harm not only the customers' right to choose their long distance carrier but also damage the competitive market for interexchange carriers through unfair competition.

The level of restitution paid by ITC, although pursuant to a novel methodology, is consistent with those approved by the Commission in other similar cases. This restitution will also allow customers to retrieve all sums paid to ITC, where it was not their carrier of choice.

Moreover, ITC will be removed from the California marketplace for no less than three years.

The funds for ITC's restitution will be secured by a security agreement and UCC-1 Financing Statement.

The burdens on ITC reasonably address the harms to which this proceeding was directed. ITC will comply with applicable statutes and regulations during the winding down of its operations. In this way, customers and competitors alike will no longer be threatened with unauthorized PIC changes by ITC. Consumers which have alleged unauthorized transfer will be fully compensated for all funds paid to ITC.

The settlement agreement will also serve an important public education function in providing public advisories regarding unauthorized carrier changes.

**b. Consistent with the Law**

None of the actions required by the settlement agreement are in violation of any statute or Commission rule or regulation.

**c. In the Public Interest**

The Commission is responsible for ensuring that the public is protected from unscrupulous practices by interexchange carriers. As the detailed settlement agreement reveals, significant monetary sanctions which will remove all benefits from any unauthorized transfer will be imposed on ITC for past acts and it will be removed from the California market for no less than three years. The settlement agreement will also protect other members of the public by providing information about unauthorized transfers.

For these reasons, the Commission finds that the settlement agreement is reasonable in light of the whole record, is consistent with the law, and is in the public interest. The agreement is approved pursuant to Rules 51 through 51.10 of the Commission's Rules of Practice and Procedure. (*See also San Diego Gas & Electric*, 46 CPUC2d 538 (1992)(rules for all-party settlements).)

**Findings of Fact**

1. The Commission opened this investigation on January 13, 1997.
2. The parties filed a proposed settlement agreement on December 24, 1997.
3. The settlement agreement resolves all matters relating to this proceeding.

**Conclusions of Law**

1. The settlement agreement is reasonable in light of the whole record, is consistent with the law, and is in the public interest.
2. The settlement agreement should be approved.

**O R D E R**

Therefore, **IT IS ORDERED** that:

1. The settlement agreement affixed hereto as Appendix A and made a part hereof is approved, and the parties are directed to comply with the terms set forth in the settlement agreement.

2. This proceeding is closed.

This order is effective today.

Dated March 26, 1998, at San Francisco, California.

**RICHARD A. BILAS**  
President  
**P. GREGORY CONLON**  
**JESSIE J. KNIGHT, JR.**  
**HENRY M. DUQUE**  
**JOSIAH L. NEEPER**  
Commissioners

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the operations, practices, and conduct of Inter Continental Telephone Corporation, to determine whether the company has complied with the laws, rules, regulations and applicable tariff provisions governing the manner in which California consumers are switched from one long-distance carrier to another, and other requirements for long distance carriers.

L 97-01-011  
(Filed January 13, 1997)

SETTLEMENT AGREEMENT

This Settlement Agreement is the final and complete expression of the agreement entered into as of the 28<sup>th</sup> day of August 1997, by and between the California Public Utilities Commission ("CPUC" or "the Commission") Consumer Services Division ("CSD" or "Staff") and Inter Continental Telephone Corporation ("ICT"), CTN Telephone Network ("CTN"), International Telecommunications Corporation, doing business as (dba) Total Communications Network ("TCN"), Donald Blakstad, predecessors and successors in interest, which, collectively, are the "Parties" to this Agreement. ICT, CTN, TCN and Donald Blakstad are referred to collectively as "Respondents."

WHEREAS, the Commission has before it a proceeding entitled, "Investigation on the Commission's own motion into the operations, practices, and conduct of Inter Continental Telephone Corporation, to determine whether the company has complied with the laws, rules, regulations and applicable tariff provisions governing the manner in which California consumers are switched from one long-distance carrier to another, and other requirements for long distance carriers," (hereinafter "Proceeding No. 1.97-01-011");

WHEREAS, this Agreement addresses CSD's investigation of ICT, CTN, TCN and Donald Blakstad related to possible violation of statutes and regulations regarding unauthorized switching of California consumers from one long-distance carrier to another (and other requirements for long distance carriers) during the calendar years 1994, 1995 and 1996, as described in public filings in Proceeding No 1.97-01-011.

WHEREAS, Respondents warrant that ICT voluntarily ceased actively marketing its long distance telephone services to California consumers on or before December 31, 1996, and blocked any consumer-initiated PIC change to ICT after December 31, 1996;

WHEREAS, Respondents warrant that CTN and TCN have never marketed or provided long distance telephone services to California consumers;

WHEREAS, Respondents warrant that Donald Blakstad has never held a ten percent or greater ownership interest in any long distance telephone service provider holding a Certificate of Public Convenience and Necessity other than ICT, CTN and TCN;

WHEREAS, the Parties agree that this Agreement does not constitute evidence, or an admission by any Party with respect to any issue of fact or law arising from or related to Proceeding No. I.97-01-011.

WHEREAS, the Parties dispute their respective rights and liabilities arising out of or relating to Proceeding No. I.97-01-011, and now mutually desire to reach a full and final compromise of all claims regarding the above controversy and all other potential controversies related in any way to Proceeding No. I.97-01-011, and further wish to avoid the delay, expense, uncertainty and inconvenience of protracted litigation of these claims;

WHEREFORE, in consideration of the mutual covenants, promises and warranties set forth herein, the Parties agree and contract as follows:

1. Definitions.

Unless the context otherwise indicates, whenever used in this Settlement Agreement, the following terms will have the meaning ascribed hereto in this section as follows:

a. "Additional Restitution Program" is the program under which ICT may be ordered to pay restitution over and above the amounts paid in the "Full Restitution Program" and the "Supplemental Restitution Program," as set forth more fully in paragraph 7.d. below.

b. "Credits" include all of the following amounts: (1) any sum ICT paid to a PIC Dispute Consumer or credited to a PIC Dispute Consumer's LEC account between January 1, 1994, and June 30, 1997; (2) a bad debt allowance or accounting write-off of amounts ICT billed to its PIC Dispute Consumers in the stipulated sum of \$200,000; and (3) all sums ICT paid to the PIC Dispute Consumers under the "Full Restitution Program," in accordance with paragraph 7.a. below, except checks mailed under the "Full Restitution Program," which are returned in the mail with no forwarding address or which otherwise remain uncashed 60 days after the date of issuance. Returned and uncashed checks issued under the "Full Restitution Program" shall not be included as "Credits." The Parties agree that the total amount of Credits ICT paid to PIC Dispute Consumers or credited to PIC Dispute Consumers' LEC accounts between January 1, 1994, and June 30, 1997, is the sum of \$588,973.69.

c. The "Effective Date of the Settlement" is the date on which the Commission adopts this Settlement Agreement.

d. "Full Restitution Program" is the program under which ICT will offer each PIC Dispute Consumer a full refund of money paid to ICT, as set forth more fully in paragraph 7.a. below.

e. "LEC" is the local exchange carrier.

f. The "Maximum Amount of Restitution" is the maximum aggregate amount ICT may be required to pay the PIC Dispute Consumers in accordance with the restitution provisions set forth in paragraph 7.a. and 7.b. below. This "Maximum Amount of Restitution" is the amount of money ICT received from the PIC Dispute Consumers, less Credits.

g. The "Minimum Restitution Amount" is the minimum aggregate amount ICT will pay the PIC Dispute Consumers or on their behalf in accordance with the restitution provisions set forth in paragraph 7.a. and 7.b. below. This "Minimum Amount of Restitution" is calculated by multiplying the number of PIC Disputes times \$20 per PIC Dispute, and subtracting from that sum all Credits, as defined in paragraph 1.b. above. The Minimum Amount of Restitution is \$547,246.31, which is calculated as follows:

66,811	PIC Disputes
x \$20.00	Per PIC Dispute
\$1,336,220.00	Restitution Before Credits
- 200,000.00	Less Bad Debt Allowance
- 588,973.69	Less Credits Paid to PIC Dispute Consumers
\$547,246.31	Minimum Amount of Restitution

h. "PIC" is the primary interexchange carrier.

i. "PIC Dispute" is a PIC change from ICT, which Pacific Bell reported as a Code 2229 during the period between January 1, 1994, through March 31, 1997, inclusive. The Parties agree that the total number of PIC Disputes for ICT between January 1, 1994, and March 31, 1997, is 66,811.

j. "PIC Dispute Consumer" is any ICT consumer whose PIC change to ICT Pacific Bell reported as a Code 2229 (i.e., "PIC Dispute") during the period between January 1, 1994, through March 31, 1997, inclusive. The Parties shall have the opportunity to review and audit any list of PIC Dispute Consumers before agreeing upon the final list for purposes of this Settlement Agreement. An audit shall include one or more meetings with appropriate representatives of Pacific Bell regarding the list of PIC Dispute Consumers.

k. "Supplemental Restitution Program" is the program under which ICT will pay the remaining portion of the "Minimum Restitution Amount" if the "Full Restitution Program" does not result in payment of the "Minimum Restitution Amount," as set forth more fully in paragraph 7.b. below.

## 2. Voluntary Cessation of Marketing to California Consumers.

Respondents shall not market long distance telephone services to California consumers under their current CPUC Certificates of Public Convenience and Necessity. Respondents shall block any consumer-initiated PIC changes to ICT, CTN or TCN. The provisions of this paragraph shall be effective until the withdrawals of the Certificates of Public Convenience and Necessity are accomplished under paragraph 4.



3. Compliance with California Law and the Commission's Rules, Regulations and Orders.

After the Effective Date of the Settlement and to the extent any of the Respondents serve California consumers pursuant to any reapplication for Certificates of Public Convenience and Necessity, Respondents shall comply fully with California law and the Commission's rules, regulations and orders. Respondents shall not engage in deceptive practices or conduct, including, but not limited to, untrue or deceptively incomplete representations about savings.

4. Voluntary Withdrawal of Certificates of Public Convenience and Necessity.

On or before June 1, 1998, or six months after the Effective Date of the Settlement, whichever is later, Respondents shall withdraw their Certificates of Public Convenience and Necessity. Long distance service to any remaining California customers of Respondents shall be terminated on or before such date.

The Parties understand that management of CTN and/or TCN presently contemplates possible sale of all or a substantial portion of the current ownership interest in the company(ies) to an unrelated third party. In the event such a sale is proposed, CTN and/or TCN may file a motion to seek relief from any order requiring the voluntary withdrawal of CTN's and/or TCN's Certificates of Public Convenience and Necessity. CSD reserves its right to oppose or otherwise address any such motion on its merits after the motion is filed.

5. Reapplication for Certificates of Public Convenience and Necessity.

ICT, CTN and/or TCN shall not reapply for CPUC Certificate(s) of Public Convenience and Necessity until three years after the Effective Date of the Settlement. As a condition of reapplication, the applicant agrees to provide the Commission with such information as the Commission requests, including information regarding the applicant's Certificates of Public Convenience and Necessity and enforcement actions in other jurisdictions. No company in which Donald Blakstad holds a 10 percent or greater ownership interest shall apply for a CPUC Certificate of Public Convenience and Necessity to provide long distance telephone service until three years after the Effective Date of the Settlement.

6. Termination of ICT's Long Distance Service for California Consumers.

ICT shall be allowed up to and including June 1, 1998, or six months after the Effective Date of the Settlement, whichever is later, to terminate all its long distance telephone services for California consumers. No later than February 28, 1998, or the end of the third month after the Effective Date of the Settlement, whichever is later, ICT shall cause to be delivered to its existing California consumers a notice in the form attached here as Exhibit A, advising them of the need to select another long distance telephone service provider because ICT will discontinue providing long distance telephone service to California consumers. No later than April 30, 1998, or the end of the fifth month after the Effective Date of the Settlement, whichever is later, ICT shall cause to be delivered to its existing California consumers a second notice in the form

attached here as Exhibit B, advising them of the need to select another long distance telephone service provider because ICT will discontinue providing long distance service to California consumers. The first and second notice will provide the existing ICT consumers in California the opportunity to select another long distance telephone service provider of the consumer's choice. All PIC changes for existing ICT consumers in California will comply with Public Utilities Code section 2889.5. No later than June 1, 1998, or six months after the Effective Date of the Settlement, whichever is later, ICT shall cease providing long distance telephone service to any remaining ICT consumers.

7. Restitution to ICT Consumers Identified as PIC Disputes.

ICT shall pay restitution to the PIC Dispute Consumers in accordance with the programs and procedures discussed below. Refund checks shall be valid for 60 days after the date of issuance and shall prominently display, on the front side, notice that the checks are negotiable for only 60 days from the date of the check. At ICT's sole cost and expense, CSD (or its designee) shall promptly send any and all restitution checks to the proper PIC Dispute Consumers via the United States Postal Service. At ICT's sole cost and expense, ICT shall provide appropriate personnel necessary to accomplish mailing the restitution checks. CSD may include with the restitution checks, at CSD's sole cost and expense, an explanatory letter from CSD's director in the form attached here as Exhibit C.

Before ICT's initial mailing to the PIC Dispute Consumers, ICT shall obtain from Pacific Bell, at ICT's sole cost and expense, available current address information for the PIC Dispute Consumers. ICT shall direct all mailings to the PIC Dispute Consumers to the current address obtained from Pacific Bell or, if the current address is unavailable, to the last known address in ICT's records. ICT shall not sell or distribute the PIC Dispute Consumer names, addresses or telephone numbers or otherwise use such information for any purpose, including marketing, other than to effectuate refunds under the restitution programs.

The Parties agree to modify the dates and deadlines for the Full Restitution Program (as set forth in paragraph 7.a. below) and the Supplemental Restitution Program (as set forth in paragraph 7.b. below), if such modification is necessary to obtain additional information from third parties, including, but not limited to, Pacific Bell. Any unresolved disagreement on modification of the dates and deadlines for the Full Restitution Program and the Supplemental Restitution Program shall be submitted by motion to Administrative Law Judge Maribeth A. Bushey for resolution.

At CSD's request and upon reasonable written notice, ICT shall make available to CSD accurate and timely reporting as to the status and progress of its restitution programs, including aggregate refund information, as well as the name, address, telephone number and refund amounts for each PIC Dispute Consumer. At CSD's request and upon five days' written notice, ICT shall make available to CSD for inspection all documents and records relating to the restitution programs, including, but not limited to, returned postcards and cashed and uncashed checks.

a. Full Restitution Program. Under the Full Restitution Program, no later than 30 days after the Effective Date of the Settlement, ICT shall send to each PIC Dispute Consumer (via the United States Postal Service) a letter, in the form attached here as Exhibit D. The letter will contain a postage-paid return postcard, in the form attached hereto as Exhibit E, which the PIC Dispute Consumer may use to request a full refund of money the PIC Dispute Consumer paid to ICT. If he or she decides to seek a refund under the Full Restitution Program, the PIC Dispute Consumer shall cause the completed postage-paid return postcard to be delivered to ICT no later than 60 days after the Effective Date of the Settlement. For each PIC Dispute Consumer who requests a full refund, within 60 days after receipt of the completed return postcard, ICT shall provide CSD a check payable to the PIC Dispute Consumer in the full amount the PIC Dispute Consumer paid to ICT, less any refund amount ICT previously paid to the PIC Dispute Consumer or credited to the PIC Dispute Consumer's LEC account. Regardless of the PIC Dispute Consumer's complaint about ICT, ICT shall have no discretion to decide whether the PIC Dispute Consumer's complaint is sufficient for a refund. If the PIC Dispute Consumer requests a refund and identifies some complaint, he or she will be entitled to a refund. Under the Full Restitution Program, refunds to the PIC Dispute Consumers shall be payable only for the amounts the PIC Dispute Consumers actually paid to ICT. In the event ICT previously made a full refund to the PIC Dispute Consumer, within 60 days after receipt of the completed return postcard, ICT will send (via the United States Postal Service) a letter explaining that ICT had previously paid a full refund to the PIC Dispute Consumer.

b. Supplemental Restitution Program: In the event the Full Restitution Program does not result in payment of the Minimum Restitution Amount, within 210 days after the Effective Date of the Settlement or within 30 days after all checks issued under the Full Restitution Program have expired, whichever is later, ICT shall provide CSD restitution checks payable to each PIC Dispute Consumer, who did not receive a full refund, in an amount representing an equal share of the remaining Minimum Restitution Amount, provided that each such restitution check is in the amount of \$5.00 or more. PIC Dispute Consumers who did not pay their LEC bill(s) or did not cash their Full Restitution Program refund checks shall be included in the group for payment under the Supplemental Restitution Program. Nevertheless, ICT shall not include in the group for payment under the Supplemental Restitution Program any PIC Dispute Consumer for whom ICT received undeliverable mail under the Full Restitution Program. If any checks issued under the Supplemental Restitution Program are not cashed by a PIC Dispute Consumer, within 30 days after all checks have expired, ICT will pay this remaining amount to the State of California General Fund or such other fund as agreed to by the Parties. If the individual refund checks under the Supplemental Restitution Program would be in an amount less than \$5.00, ICT shall not deliver individual Supplemental Restitution Program checks to CSD and shall instead deliver to CSD a single check for the remaining Minimum Restitution Amount payable to the State of California General Fund or such other fund as agreed to by the Parties. Should payment of the remaining Minimum Restitution Amount be by a single check to the District Attorney Consumer Education Fund, such payment shall be made on or before 210 days after the Effective Date of the Settlement or within 30 days after all checks issued under the Full Restitution Program have expired, whichever is later. Any payments to the State of California General Fund (or such other fund as agreed to by the Parties) shall be on behalf of and for the benefit of the general public.

c. Public Education Restitution Program: In addition to amounts paid under the Full Restitution Program and the Supplemental Restitution Program, ICT shall pay the sum of \$100,000 for consumer advisories to be published in major newspapers in the State of California, including the Wall Street Journal, California edition. CSD, in its sole discretion, shall be responsible for the content, timing and placement of such consumer advisories, but such consumer advisories shall not identify ICT, CTN, TCN or Donald Blakstad by name. CSD shall direct ICT either to pay the newspapers directly for the consumer advisories or to pay the Commission for the cost of the consumer advisories.

d. Additional Restitution Program: In the event of a material breach of this Settlement Agreement by ICT, CSD may move the Administrative Law Judge to impose upon ICT an additional restitution payment in an amount up to \$900,000. ICT shall be afforded adequate notice and an opportunity to be heard in opposition to such motion. The Administrative Law Judge shall determine whether ICT committed a material breach of the Settlement Agreement and what amount of additional restitution, if any, should be paid, up to \$900,000. The Administrative Law Judge shall determine the manner and timing of such additional restitution payment. If CSD has not moved to impose upon ICT any additional restitution payment before the time ICT completes its final payment under this Settlement Agreement, completes restitution to the PIC Dispute Consumers and withdraws its Certificate of Public Convenience and Necessity, CSD shall not seek any payment from ICT under the Additional Restitution Program. The Parties agree that the Additional Restitution Program does not provide the exclusive remedy available to CSD if ICT or its affiliates violate the terms of this Agreement. Among other remedies, CSD may seek to revoke ICT's Certificate of Public Convenience and Necessity.

8. Security for Payments

Contemporaneously with executing this Settlement Agreement, ICT shall sign a Security Agreement and UCC-1 Financing Statement, in the forms attached hereto as Exhibits F and G, respectively, which shall grant the Commission a security interest in ICT's accounts receivable as of August 28, 1997, in an amount equal to the Minimum Restitution Amount.

9. Joint Motion for Approval of Settlement

The Parties understand that CSD and the Commission may lack the power to prohibit consumers or other public agencies from pursuing their own claims, if any, against ICT in the courts or elsewhere. The Parties further understand that this settlement in no way affects any other cases or the jurisdiction of any court. Respondents agree that they will not seek the dismissal of any civil or criminal action filed against any of the Respondents on the ground that the Commission has primary jurisdiction over the issue of unauthorized PIC changes. Nothing in this paragraph shall prevent Respondents from seeking the dismissal of any civil or criminal action filed against any of the Respondents on the ground that ICT has offered to pay full restitution to all of the PIC Dispute Consumers and/or has paid full or partial restitution to each of the PIC Dispute Consumers or on their behalf. The Parties agree that this Settlement Agreement is designed to resolve, as much as practical, all alleged slamming claims brought by the public against ICT. CSD agrees the restitution amounts provided in paragraph 7.a. and 7.b. above are fair and sufficient to resolve issues raised in the Order Instituting Investigation and supporting

declarations in Proceeding No. I.97-01-011. For and in consideration of the provisions of this Settlement Agreement, the Parties hereby agree to file a joint motion for approval of the settlement in Proceeding No. I.97-01-011. CSD hereby agrees to use its best efforts to seek approval of this Settlement Agreement as a fair resolution of any claims on behalf of all affected rate payers in the State of California and on behalf of members of the general public.

10. Release.

Upon withdrawal of the Certificates of Public Convenience and Necessity pursuant to paragraph 4 above and payment of all required restitution amounts pursuant to paragraph 7 above, CSD and the Commission will release, and will be deemed to have released ICT, CTN, TCN and Donald Blakstad and their present or former employees, officers, directors, stockholders, agents, sub-agents, principals, representatives, parent, subsidiaries, successors, attorneys, and assigns from any and all liabilities, claims and expenses, of any nature whatsoever, whether known or unknown, foreseen or unforeseen, arising from, relating to, or in any way connected with, any and all acts, conduct or omissions mentioned or described in papers filed in Proceeding No. I.97-01-011, and the discovery related thereto.

Upon withdrawal of the Certificates of Public Convenience and Necessity pursuant to paragraph 4 and payment of all required restitution amounts pursuant to paragraph 7, CSD agrees to refrain from instituting any administrative or other claim or action against ICT, CTN, TCN and Donald Blakstad, and their present or former employees, officers, directors, stockholders, agents, sub-agents, principals, representatives, parent, subsidiaries, successors, attorneys, and assigns, relating to any and all acts, conduct or omissions mentioned or described in papers filed in Proceeding No. I.97-01-011, and the discovery related thereto.

11. Waiver of Claims.

Withdrawal of the Certificates of Public Convenience and Necessity pursuant to paragraph 4 and payment of all required restitution amounts pursuant to paragraph 7 is intended to effect a full and complete release and discharge of any and all claims CSD and/or the Commission may have against ICT, CTN, TCN and Donald Blakstad, and their present or former employees, officers, directors, stockholders, agents, sub-agents, principals, representatives, parent, subsidiaries, successors, attorneys, and assigns, based on acts, conduct or omissions mentioned or described in papers filed in Proceeding No. I.97-01-011, and the discovery related thereto.

12. Representations and Warranties.

The Parties acknowledge and confirm that they have received sufficient consideration for the settlement set forth in this Agreement, and represent and warrant that no promise or inducement has been made or offered to them except as set forth in this Agreement; that they are executing this Agreement without reliance upon any statement or representation by any person or Party released, except as set forth in this Agreement; that they are legally competent to make the settlement set forth in this Agreement and to execute this Agreement; that this Agreement sets forth the entire understanding of the Parties with respect to the terms and

conditions of their Agreement; that they have not assigned, transferred or conveyed, or purported to assign, transfer or convey, voluntarily, involuntarily or by operation of law, any or all of their respective rights or claims against the other, that they fully understand their right to discuss with their respective legal counsel any and all aspects of the settlement set forth in this Agreement; that they have availed themselves of that right to the extent they deem necessary; that they and their legal counsel carefully have read and fully understand all of the provisions of the settlement set forth in this Agreement; and that this Agreement cannot be modified except in writing signed by all Parties to the modification.

The Parties acknowledge and stipulate that this Agreement is fair and is not the result of any fraud, duress, or undue influence exercised by any Party upon the another Party or by any other person or persons upon either; that the provisions herein made are adequate, reasonable, and satisfactory to each of them; that they have arrived at the compromise that forms the basis of this Agreement after thorough bargaining, negotiation, and review of the applicable factual allegations and legal authorities and their settlement represents a final and mutually agreeable compromise of the matters set forth in this Agreement.

13. Applicable Law.

This agreement is to be governed and construed in accordance with the laws of the State of California applicable to settlement agreements either entered into or to be performed in the State of California.

14. Press Releases and Media Disclosure.

CSD agrees not to publicize the settlement (by press releases or posting information on any Internet Web page).

15. No Admission.

The giving of the consideration specified herein effects the settlement of Proceeding No. 1.97-01-011. Neither the giving of said consideration nor anything contained herein shall be construed as an admission by ICT, CTN, TCN, Donald Blakstad, their employees, officers, directors, stockholders, agents, principals, representatives, successors, and attorneys of the validity of the claims of the CSD and the Commission.

16. Further Assurances and Cooperation.

The Parties shall cooperate with one another to prepare appropriate documentation to memorialize and effectuate the terms of this Settlement Agreement. The Parties shall execute all such further and additional documents as may be reasonably necessary or appropriate to carry out the provisions of this Settlement Agreement.

The Parties shall seek the cooperation of Pacific Bell to enable the Parties to determine the number of PIC Disputes, the current addresses for the PIC dispute restitution and such other information as may be necessary for computations in connection with this Settlement Agreement.

17. Notice and Demands.

All notices, requests or demands herein provided to be given or made, or which may be given or made by either Party to the other, shall be given or made only in writing and shall be deemed to have been duly given: (a) when delivered personally to any Party to this Agreement; or (b) forty-eight hours after the time the same is deposited in the United States mail within the State of California, regular, certified or registered mail, properly addressed, and postage thereon prepaid, or (c) when sent by facsimile transmission to any Party using the facsimile number for such party set forth below in this section. The proper address to which notices, requests or demands may be given or made by either Party shall be the address for either party set forth as follows:

If to ICT: Inter Continental Telephone Corporation  
Att'n: Mr. Mike Fuller  
701 "B" Street, Suite 1450  
San Diego, CA 92101  
Fax No.: (619) 702-5477

with a copy to:

Charles L. Deem, Esq.  
Gray Cary Ware & Freidenrich  
401 "B" Street, Suite 1700  
San Diego, CA 92101-4297  
Fax No.: (619) 236-1048

If to CSD: California Public Utilities Commission  
Consumer Services Division  
Utility Investigations Unit  
Att'n: Mr. Richard C. Maniscalco, Special Agent #1006  
505 Van Ness Avenue  
San Francisco, CA 94401-3298  
Fax No.: (415) 703-5882

with a copy to:

Robert C. Cagen, Esq  
Staff Counsel  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94401-3298  
Fax No.: (415) 703-4592

Such address and fax numbers may be changed by written notice given by such Party to the other pursuant to this paragraph

18. Entire Agreement.

This written Settlement Agreement constitutes the entire agreement between the Parties pertaining to the subject matter contained in it. This Settlement Agreement supersedes all prior and contemporaneous representations and understandings of the Parties. No supplement, modification, or amendment of this Settlement Agreement shall be binding unless executed in a writing signed by the Parties hereto expressly stating that modification is intended.

19. Construction.

This Agreement is a negotiated agreement. Each Party has cooperated in the drafting of this Agreement. If any construction is to be made of any provision of this Agreement, it shall not be construed against any Party on the grounds that such Party was the drafter of the Agreement or any particular provision.

20. Interpretation.

Section titles in this Settlement Agreement are for convenience and do not define, limit, or extend any provision of this Settlement Agreement. In this document, where the context so requires, the masculine, feminine or neuter gender shall be deemed to include each other, and the singular to include the plural.

21. Non-Severable Terms.

No individual terms of this Agreement is assented to by any Party except in consideration of another Party's assent to all other terms. The terms of this Settlement Agreement are non-severable. Thus, the Agreement is indivisible, and each part is interdependent on each and all other parts. If this Settlement Agreement is adopted by the Commission with modifications, the modifications must be consented to by all Parties to this Settlement Agreement. Any Party may withdraw from this Agreement if the Commission modifies, deletes from, or adds to the disposition of the matters agreed to herein.



22. Counterparts.

This Agreement may be executed in any number of separate counterparts, each of which shall constitute an original, and all of which, when taken together, shall constitute one single agreement.

IN WITNESS WHEREOF, each Party has executed this Settlement Agreement as of the date first shown above.

CONSUMER SERVICES DIVISION  
PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

By William R. Schulte  
WILLIAM SCHULTE, Director

INTER CONTINENTAL TELEPHONE  
CORPORATION

By [Signature]  
DONALD BLAKSTAD, President

CTN TELEPHONE NETWORK

By [Signature]  
DONALD BLAKSTAD, President

INTERNATIONAL  
TELECOMMUNICATIONS CORPORATION

By [Signature]  
DONALD BLAKSTAD, President

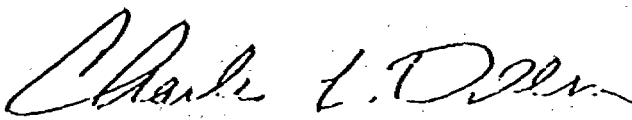
[Signature]  
DONALD BLAKSTAD

Approved as to form:

CONSUMER SERVICES DIVISION  
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

By:   
ROBERT C. CAGEN

GRAY CARY WARE & FREIDENRICH  
A Professional Corporation

By:   
CHARLES L. DEEM

Attorneys for Respondents  
INTER CONTINENTAL TELEPHONE  
CORPORATION, CTN TELEPHONE  
NETWORK, INTERNATIONAL  
TELECOMMUNICATIONS CORPORATION,  
and DONALD BLAKSTAD

## **EXHIBIT A**

Exhibit A

## Notice to ICT Customers

Inter Continental Telephone will discontinue long distance telephone service to its California customers effective                      (date). You will need to select another long distance telephone service provider before this date. To select another long distance carrier, contact Pacific Bell or the long distance carrier of your choice. We appreciate the opportunity to serve you and apologize for any inconvenience.

## EXHIBIT B

Exhibit B

[ICT Letterhead]

(Date)

[Name  
Street Address  
City, California Zip]

Dear ICT Long Distance Customer:

Inter Continental Telephone will discontinue long distance telephone service to its California customers effective                      [date]. You will need to select another long distance telephone service provider before this date. To select another long distance carrier, contact Pacific Bell or the long distance carrier of your choice. We appreciate the opportunity to serve you and apologize for any inconvenience.

Sincerely,

Inter Continental Telephone

## **EXHIBIT C**

Exhibit C

[CPUC CSD Letterhead]

[Letter to PIC Dispute Consumers under Full Restitution Program]

Dear Sir or Madame:

I am the Director of the Consumer Services Division, a staff division of the California Public Utilities Commission (CPUC). You have been identified as a consumer who made a complaint with Pacific Bell or the California Public Utilities Commission (CPUC) involving Inter Continental Telephone Corporation. The complaint indicates that your long distance telephone service may have been switched to another company without your authorization, and in violation of state law.

As a result of your complaint and others like it, the CPUC's Consumers Services Division investigated and brought charges against Inter Continental Telephone Corporation (ICT) for alleged violations of the state law prohibiting unauthorized telephone service switches. The CPUC approved a settlement which was reached between the CPUC's Consumer Services Division (CSD) and ICT.

Under the terms of the settlement, you are automatically entitled to receive a full refund of all the charges that you paid to ICT for long distance services. You indicated (on a postcard completed and returned by you) that you would like to receive a full refund of all monies remitted to ICT for long distance charges. Your full refund check is enclosed with this letter.

Your endorsement on and cashing of this restitution check will not result in any change in your current telephone service. This is not a solicitation of any kind to switch your telephone service provider. In addition, if you endorse and cash the restitution check, you will not be contacted to provide additional information to or otherwise verify your claim.

This restitution check is valid for 60 days from its date of issuance, so you must cash it within this period. Please contact CSD Special Agent Richard Maniscalco at 1-800-\_\_\_\_-\_\_\_\_ if you have any questions regarding this letter or refund check. Thank you.

Sincerely,

William R. Schulte  
Director, Consumer Services Division  
California Public Utilities Commission



Exhibit C

[CPUC CSD Letterhead]

[Letter to PIC Dispute Consumers under Supplemental Restitution Program]

Dear Sir or Madame:

I am writing you as the Director of the Consumer Services Division, a staff division of the California Public Utilities Commission (CPUC). The CPUC is charged with enforcing state laws which prohibit companies from switching your telephone service without authorization from the telephone subscriber.

You have been identified as a consumer who made a complaint with Pacific Bell or the California Public Utilities Commission (CPUC) involving Inter Continental Telephone Corporation. The complaint indicates that your long distance telephone service may have been switched to another company without your authorization, and in violation of state law.

As a result of your complaint and others like it, the CPUC's Consumers Services Division investigated and brought charges against Inter Continental Telephone Corporation (ICT) for alleged violations of the state law prohibiting unauthorized telephone service switches. The CPUC approved a settlement which was reached between the CPUC's Consumer Services Division (CSD) and ICT.

Under the terms of the settlement, you are entitled to receive a check for restitution from ICT for this unauthorized change. Your restitution check in the amount of \$\_\_\_\_ is enclosed with this letter.

Your endorsement on and cashing of this restitution check will not result in any change in your current telephone service. This is not a solicitation of any kind to switch your telephone service provider. In addition, if you endorse and cash the restitution check, you will not be contacted to provide additional information to or otherwise verify your claim.

This restitution check is valid for 60 days from its date of issuance, so be sure to cash it within this period. Please contact CSD Special Agent Richard Maniscalco at 1-800-\_\_\_\_ if you have any questions regarding this letter or refund check.

Sincerely,

William R. Schulte  
Director, Consumer Services Division  
California Public Utilities Commission

## **EXHIBIT D**

Exhibit D

{ICT Letterhead}

Dear Madam or Sir:

I am writing to you as Director of Marketing of Inter Continental Telephone, a long distance telephone provider. You have been identified as a consumer who made a complaint with Pacific Bell or the California Public Utilities Commission (CPUC) involving Inter Continental Telephone Corporation. We apologize and we ask that you complete the enclosed postage paid card and return the card to us. If you have not already been refunded all amounts paid by you to our company, we will refund you all such amounts.

To receive your refund, please indicate on the postcard the nature of the complaint that you had with ICT by checking one or more of the boxes and by signing, dating and mailing the postcard. Please return the postcard promptly. We expect to mail your refund check to you within approximately 90 days.

The California Public Utilities Commission is monitoring and participating in this refund. You may contact Special Agent Richard Maniscalco at 1-800-\_\_\_\_-\_\_\_\_ if you have any questions regarding this letter or postcard.

Your completion and mailing of this postcard will not result in any change in your current telephone service. This is not a solicitation of any kind to switch your telephone service provider. Thank you and we apologize for your inconvenience.

Sincerely,

Mike Fuller, Director of Marketing  
Inter Continental Telephone

## **EXHIBIT E**

Exhibit E

This is my complaint about Inter Continental Telephone:

- ☐ Inter Continental Telephone switched my long distance telephone carrier without my permission ("slamming").
- ☐ Inter Continental Telephone's long distance telephone rates were higher than promised.
- ☐ Other. Please explain: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

## **EXHIBIT F**

SECURITY AGREEMENT

COPY

This Security Agreement is entered into as of August 28, 1997, by and between Inter Continental Telephone Corporation, a Delaware corporation, ("Debtor"), and the California Public Utilities Commission ("Secured Party"). Debtor and Secured Party hereby agree as follows:

1. Grant of Security Interest. Subject to the terms and conditions of this Security Agreement, Debtor hereby grants to Secured Party a security interest in all of Debtor's accounts receivables as of August 28, 1997, ("Receivables," hereinafter sometimes referred to as "Collateral") to secure Debtor's timely and complete payment of the Minimum Restitution Amount pursuant to the terms of that certain Settlement Agreement, dated August 28, 1997, (the "Settlement Agreement") by and between Debtor and Secured Party's Consumer Services Division ("CSD").

2. Covenants of Debtor. Debtor covenants and agrees as follows:

2.1 Perfection of Security Interest. Debtor shall cooperate with Secured Party to ensure that Secured Party obtains and maintains a fully perfected security interest in the Collateral. Such cooperation shall include, without limitation, executing from time to time such documents and instruments, including such UCC-1 Financing Statements, if any, as may be requested by Secured Party to perfect, continue or protect the security interest created by this Security Agreement, or otherwise to achieve the purposes of this Security Agreement.

2.2 Collection of Receivables. So long as Debtor is not then in default hereunder, Debtor shall continue to collect, at its own expense, all amounts due or to become due Debtor in connection with the Receivables. In connection with such collections, Debtor may take such action as Debtor may deem necessary or appropriate to enforce collection of the Receivables.

2.3 Financial Statements. Upon request, Debtor shall provide Secured Party the most current available financial statement of Debtor.

3. Representations and Warranties of Debtor. Debtor represents and warrants, as follows:

3.1 Organization. Debtor is a Delaware corporation, validly existing and in good standing under the laws of the State of California.

3.2 Authority. The execution, delivery and performance by Debtor of this Security Agreement is within Debtor's powers, has been duly authorized by all necessary action, does not contravene (i) Debtor's articles of incorporation, or (ii) any law or any contractual restriction binding on or affecting Debtor, and does not result in or require the creation of any lien, security interest or other charge or encumbrance (other than pursuant hereto) upon or with respect to any of its properties.

3.3 Governmental Approval. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by Debtor of this Security Agreement.

3.4 Debtor's Ownership of Collateral. Debtor warrants that (a) Debtor owns the Collateral free and clear of all liens, encumbrances and security interests except the security interest granted herein, and other interests of record, if any, and (b) Debtor has the right to enter into this Security Agreement.

4. Secured Party's Filings. Secured Party shall have the right to file one or more financing statements in any and all states and jurisdictions, as Secured Party deems necessary or appropriate to perfect its security interest.

5. Duration of Security Interest and Default.

5.1 Duration. The grant of the security interest, and all other terms and conditions of this Security Agreement, as set forth herein, shall terminate upon the earlier of: (1) Debtor's complete payment of the Minimum Restitution Amount pursuant to the terms of the Settlement Agreement; or (2) Secured Party's decision not to adopt the Settlement Agreement or to adopt the Settlement Agreement with modifications unacceptable to Debtor.

5.2 Default. The occurrence of any one or more of the following is an Event of Default under this Security Agreement: failure of Debtor to make timely and complete payment of the Minimum Restitution Amount pursuant to the terms of the Settlement Agreement, or to perform any act or duty required by this Security Agreement; involvement of Debtor in bankruptcy or insolvency proceedings; or dissolution or other termination of the existence of Debtor.

5.3 Secured Party's Rights on Default. Upon the occurrence of any Event of Default, Secured Party shall have all the rights provided to a Secured Party in the California Uniform Commercial Code and all other rights available by law. Without in any way limiting the foregoing, upon the occurrence of any Event of Default, Secured Party shall have the right to notify the account debtors or obligors under any Receivables of the assignment of such Receivables to Secured Party and to direct such account debtors or obligors to make payment of all amounts due or to become due to Debtor thereunder directly to Secured Party. Upon such notification and at the expense of Secured Party, Secured Party shall have the right to enforce collection of any such Receivables, and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Debtor might have done. After delivery by Secured Party of notice to any one or more account debtors referred to above, with copy of such notice(s) to Debtor, all amounts and proceeds (including instruments) received by Debtor in respect of the Receivables shall be received in trust for the benefit of Secured Party, shall be segregated from other funds of Debtor and shall forthwith be paid over to Secured Party in the same form as so received (with any necessary endorsement) to be held as cash collateral and applied against payment of the Obligations. Any notice of sale, disposition or other intended action by Secured Party sent to Debtor at least ten (10) days prior to such action shall constitute reasonable notice to Debtor, and a private sale of the Collateral to a person not controlled by Secured Party shall be conclusively deemed to be commercially reasonable notwithstanding the



fact that a better price could have been obtained by a sale at a different time or different method. Upon any sale of the Collateral, Secured Party must account to Debtor for any surplus.

6. General Terms and Conditions.

6.1 No Waiver. The waiver of any default or Event of Default hereunder shall not be a waiver of any subsequent default or Event of Default. Secured Party's acceptance of partial or delinquent payments or Secured Party's failure to exercise any rights it may have shall not waive any obligation of Debtor or any rights of Secured Party or otherwise modify this Security Agreement, or waive any other similar matter.

6.2 Amendments, Etc. No amendment or waiver of any provision of this Security Agreement nor consent to any departure by Debtor herefrom shall in any event be effective unless the same shall be in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

6.3 Notices. Any written notice or other communication under this Security Agreement shall be treated as given when personally received by the party notified or upon the expiration of two (2) days from the date placed in the United States mail, certified or registered, postage prepaid, addressed to the party to be notified at the address set out below or at any address furnished to the notifying party with a written request for notice at that address. The addresses to which notice shall be given until changed in accordance with this section, are as follows:

Debtor:

Inter Continental Telephone Corporation  
701 B Street, Suite 1450  
San Diego, CA 92101  
Attn: Mr. Mike Fuller

With a copy to:

Gray Cary Ware & Freidenrich  
401 B Street, Suite 1700  
San Diego, CA 92101-4297  
Attn: Charles L. Deem, Esq.

Secured Party:

California Public Utilities Commission  
Consumer Services Division  
Utility Enforcement Unit  
505 Van Ness Avenue  
San Francisco, CA 94102  
Attn: Mr. Richard C. Maniscalco, Special Agent, #1006

With a copy to:

California Public Utilities Commission  
Legal Division  
505 Van Ness Avenue, Room 5030  
San Francisco, CA 94102  
Attn: Robert C. Cagen, Esq.

6.4 Miscellaneous. Time is of the essence of this Security Agreement and all its provisions. All rights of Secured Party hereunder shall inure to the benefit of its successors and assigns; all obligations of Debtor shall bind its heirs, executors, administrators, successors and assigns. Unless otherwise defined or provided herein, all words used in this Security Agreement shall have the meaning given to them in the California Uniform Commercial Code. Titles preceding any section of this Security Agreement are for convenience only. Debtor will execute any additional agreements, assignments or documents that may be deemed necessary or advisable by Secured Party to effectuate the purposes of this Security Agreement or to preserve and protect the Collateral and Secured Party's rights. Any corporation which signs this Security Agreement expressly warrants that the officer signing on behalf of the Corporation has authority to so sign by resolution of the Corporation's Board of Directors. The construction of this Security Agreement, and the rights and liabilities of the parties hereto, shall be governed by the laws of the State of California

IN WITNESS WHEREOF, Debtor and Secured Party have caused this Security Agreement to be executed as of the date first above written.

Debtor:

Inter Continental Telephone Corporation,  
a Delaware corporation

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

Donald G. Blakstad, President

COPY

Secured Party:

California Public Utilities Commission  
Consumer Services Division

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

COPY

## **EXHIBIT G**

COPY

**FINANCING STATEMENT — FOLLOW INSTRUCTIONS CAREFULLY**  
This Financing Statement is presented for filing pursuant to the Uniform Commercial Code and will remain effective, with certain exceptions, for 5 years from date of filing.

A. NAME & TEL. # OF CONTACT AT FILER (optional)		B. FILING OFFICE ACCT. # (optional)	
C. RETURN COPY TO: (Name and Mailing Address)			
TROY ZANDER, ESQ. GRAY CARY WARE & FREIDENRICH 401 B STREET, SUITE 1700 SAN DIEGO, CA 92101-4297			
D. OPTIONAL DESIGNATION IF APPLICABLE: <input type="checkbox"/> LESSOR/LESSEE <input type="checkbox"/> CONSIGNOR/CONSIGNEE <input type="checkbox"/> NON-UCF FILING			

**1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b)**

1a. ENTITY'S NAME INTER. CONTINENTAL TELEPHONE CORP., a Delaware corporation				
CA	1b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	S. FILE
1c. MAILING ADDRESS 701 B STREET, SUITE 1450		CITY SAN DIEGO	STATE CA	COUNTRY USA
21. SS. OR TAX ID #	OPTIONAL ADDITIONAL INFO RE ENTITY DEBTOR	22. TYPE OF ENTITY	23. ENTITY'S STATE OR COUNTRY OF ORGANIZATION	24. ENTITY'S ORGANIZATIONAL ID #, if any

**2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b)**

2a. ENTITY'S NAME				
CA	2b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	S. FILE
2c. MAILING ADDRESS		CITY	STATE	COUNTRY
21. SS. OR TAX ID #	OPTIONAL ADDITIONAL INFO RE ENTITY DEBTOR	22. TYPE OF ENTITY	23. ENTITY'S STATE OR COUNTRY OF ORGANIZATION	24. ENTITY'S ORGANIZATIONAL ID #, if any

**3. SECURED PARTY'S (ORIGINAL SP or ITS TOTAL ASSIGNEE) EXACT FULL LEGAL NAME - insert only one secured party name (3a or 3b)**

3a. ENTITY'S NAME CALIFORNIA PUBLIC UTILITIES COMMISSION, CONSUMER SERVICES DIVISION				
CA	3b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	S. FILE
3c. MAILING ADDRESS 505 VAN NESS AVENUE		CITY SAN FRANCISCO	STATE CA	COUNTRY USA
			POSTAL CODE 94102	

**4. THE FINANCING STATEMENT covers the following type or types of property:**

ALL OF DEBTOR'S ACCOUNTS RECEIVABLE AS OF AUGUST 28, 1997.

7. CHECK <input type="checkbox"/> THE FINANCING STATEMENT is signed by the Secured Party without the Debtor's consent to subject a security interest in the Debtor's real estate already subject to a security interest in and the jurisdiction wherein was brought into this state, or within the Debtor's location was changed to this state, or to be accorded with other statutory provisions additional data may be required.		7. If filed in Florida, indicate: <input type="checkbox"/> Commercial <input type="checkbox"/> Consumer or other	
8. <input type="checkbox"/> THE FINANCING STATEMENT is to be filed for record in the REAL ESTATE RECORDS. Attach Affidavit.		9. <input type="checkbox"/> THE FINANCING STATEMENT is to be filed for record in the REAL ESTATE RECORDS. Attach Affidavit.	

\*\*\*\*\* PLEASE SEE ATTACHMENT FOR

ATTACHMENT TO UCC-1 FINANCING STATEMENT

DEBTOR: INTER CONTINENTAL TELEPHONE CORP., a Delaware corporation  
SECURED PARTY: CALIFORNIA PUBLIC UTILITIES COMMISSION, CONSUMER  
SERVICES DIVISION

DEBTOR:

INTER CONTINENTAL TELEPHONE CORP.,  
a Delaware corporation

COPY

By: \_\_\_\_\_  
DONALD G. BLAKSTAD,  
President

SECURED PARTY:

CALIFORNIA PUBLIC UTILITIES COMMISSION,  
CONSUMER SERVICES DIVISION

COPY

By: \_\_\_\_\_  
RICHARD C. MANISCALCO  
Special Agent No. 1006  
Consumer Services Division  
Utility Enforcement Unit

SECURITY AGREEMENT

This Security Agreement is entered into as of August 28, 1997, by and between Inter Continental Telephone Corporation, a Delaware corporation, ("Debtor"), and the California Public Utilities Commission ("Secured Party"). Debtor and Secured Party hereby agree as follows:

1. Grant of Security Interest. Subject to the terms and conditions of this Security Agreement, Debtor hereby grants to Secured Party a security interest in all of Debtor's accounts receivables as of August 28, 1997, ("Receivables," hereinafter sometimes referred to as "Collateral") to secure Debtor's timely and complete payment of the Minimum Restitution Amount pursuant to the terms of that certain Settlement Agreement, dated August 28, 1997, (the "Settlement Agreement") by and between Debtor and Secured Party's Consumer Services Division ("CSD").

2. Covenants of Debtor. Debtor covenants and agrees as follows:

2.1 Perfection of Security Interest. Debtor shall cooperate with Secured Party to ensure that Secured Party obtains and maintains a fully perfected security interest in the Collateral. Such cooperation shall include, without limitation, executing from time to time such documents and instruments, including such UCC-1 Financing Statements, if any, as may be requested by Secured Party to perfect, continue or protect the security interest created by this Security Agreement, or otherwise to achieve the purposes of this Security Agreement.

2.2 Collection of Receivables. So long as Debtor is not then in default hereunder, Debtor shall continue to collect, at its own expense, all amounts due or to become due Debtor in connection with the Receivables. In connection with such collections, Debtor may take such action as Debtor may deem necessary or appropriate to enforce collection of the Receivables.

2.3 Financial Statements. Upon request, Debtor shall provide Secured Party the most current available financial statement of Debtor.

3. Representations and Warranties of Debtor. Debtor represents and warrants, as follows:

3.1 Organization. Debtor is a Delaware corporation, validly existing and in good standing under the laws of the State of California.

3.2 Authority. The execution, delivery and performance by Debtor of this Security Agreement is within Debtor's powers, has been duly authorized by all necessary action, does not contravene (i) Debtor's articles of incorporation, or (ii) any law or any contractual restriction binding on or affecting Debtor, and does not result in or require the creation of any lien, security interest or other charge or encumbrance (other than pursuant hereto) upon or with respect to any of its properties.

3.3 Governmental Approval. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by Debtor of this Security Agreement.

3.4 Debtor's Ownership of Collateral. Debtor warrants that (a) Debtor owns the Collateral free and clear of all liens, encumbrances and security interests except the security interest granted herein, and other interests of record, if any, and (b) Debtor has the right to enter into this Security Agreement.

4. Secured Party's Filings. Secured Party shall have the right to file one or more financing statements in any and all states and jurisdictions, as Secured Party deems necessary or appropriate to perfect its security interest.

#### 5. Duration of Security Interest and Default

5.1 Duration. The grant of the security interest, and all other terms and conditions of this Security Agreement, as set forth herein, shall terminate upon the earlier of: (1) Debtor's complete payment of the Minimum Restitution Amount pursuant to the terms of the Settlement Agreement; or (2) Secured Party's decision not to adopt the Settlement Agreement or to adopt the Settlement Agreement with modifications unacceptable to Debtor.

5.2 Default. The occurrence of any one or more of the following is an Event of Default under this Security Agreement: failure of Debtor to make timely and complete payment of the Minimum Restitution Amount pursuant to the terms of the Settlement Agreement, or to perform any act or duty required by this Security Agreement; involvement of Debtor in bankruptcy or insolvency proceedings; or dissolution or other termination of the existence of Debtor.

5.3 Secured Party's Rights on Default. Upon the occurrence of any Event of Default, Secured Party shall have all the rights provided to a Secured Party in the California Uniform Commercial Code and all other rights available by law. Without in any way limiting the foregoing, upon the occurrence of any Event of Default, Secured Party shall have the right to notify the account debtors or obligors under any Receivables of the assignment of such Receivables to Secured Party and to direct such account debtors or obligors to make payment of all amounts due or to become due to Debtor thereunder directly to Secured Party. Upon such notification and at the expense of Secured Party, Secured Party shall have the right to enforce collection of any such Receivables, and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Debtor might have done. After delivery by Secured Party of notice to any one or more account debtors referred to above, with copy of such notice(s) to Debtor, all amounts and proceeds (including instruments) received by Debtor in respect of the Receivables shall be received in trust for the benefit of Secured Party, shall be segregated from other funds of Debtor and shall forthwith be paid over to Secured Party in the same form as so received (with any necessary endorsement) to be held as cash collateral and applied against payment of the Obligations. Any notice of sale, disposition or other intended action by Secured Party sent to Debtor at least ten (10) days prior to such action shall constitute reasonable notice to Debtor, and a private sale of the Collateral to a person not controlled by Secured Party shall be conclusively deemed to be commercially reasonable notwithstanding the

fact that a better price could have been obtained by a sale at a different time or different method. Upon any sale of the Collateral, Secured Party must account to Debtor for any surplus.

6. General Terms and Conditions.

6.1 No Waiver. The waiver of any default or Event of Default hereunder shall not be a waiver of any subsequent default or Event of Default. Secured Party's acceptance of partial or delinquent payments or Secured Party's failure to exercise any rights it may have shall not waive any obligation of Debtor or any rights of Secured Party or otherwise modify this Security Agreement, or waive any other similar matter.

6.2 Amendments, Etc. No amendment or waiver of any provision of this Security Agreement nor consent to any departure by Debtor herefrom shall in any event be effective unless the same shall be in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

6.3 Notices. Any written notice or other communication under this Security Agreement shall be treated as given when personally received by the party notified or upon the expiration of two (2) days from the date placed in the United States mail, certified or registered, postage prepaid, addressed to the party to be notified at the address set out below or at any address furnished to the notifying party with a written request for notice at that address. The addresses to which notice shall be given until changed in accordance with this section, are as follows:

Debtor:

Inter Continental Telephone Corporation  
701 B Street, Suite 1450  
San Diego, CA 92101  
Attn: Mr. Mike Fuller

With a copy to:

Gray Cary Ware & Freidenrich  
401 B Street, Suite 1700  
San Diego, CA 92101-4297  
Attn: Charles L. Deem, Esq.



Secured Party:

California Public Utilities Commission  
Consumer Services Division  
Utility Enforcement Unit  
505 Van Ness Avenue  
San Francisco, CA 94102  
Attn: Mr. Richard C. Maniscalco, Special Agent, #1006

With a copy to:

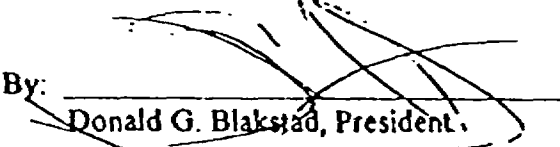
California Public Utilities Commission  
Legal Division  
505 Van Ness Avenue, Room 5030  
San Francisco, CA 94102  
Attn: Robert C. Cagen, Esq.

**6.4 Miscellaneous.** Time is of the essence of this Security Agreement and all its provisions. All rights of Secured Party hereunder shall inure to the benefit of its successors and assigns; all obligations of Debtor shall bind its heirs, executors, administrators, successors and assigns. Unless otherwise defined or provided herein, all words used in this Security Agreement shall have the meaning given to them in the California Uniform Commercial Code. Titles preceding any section of this Security Agreement are for convenience only. Debtor will execute any additional agreements, assignments or documents that may be deemed necessary or advisable by Secured Party to effectuate the purposes of this Security Agreement or to preserve and protect the Collateral and Secured Party's rights. Any corporation which signs this Security Agreement expressly warrants that the officer signing on behalf of the Corporation has authority to so sign by resolution of the Corporation's Board of Directors. The construction of this Security Agreement, and the rights and liabilities of the parties hereto, shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, Debtor and Secured Party have caused this Security Agreement to be executed as of the date first above written.

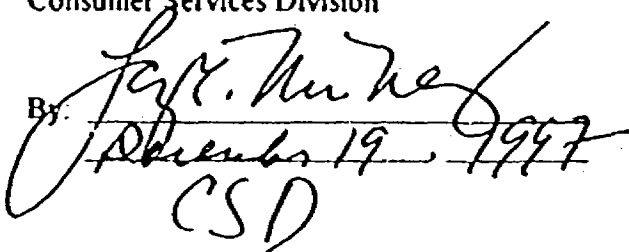
Debtor:

Inter Continental Telephone Corporation,  
a Delaware corporation

By:   
Donald G. Blakstad, President.

Secured Party:

California Public Utilities Commission  
Consumer Services Division

By:   
December 19, 1997  
CSD

**FINANCING STATEMENT — FOLLOW INSTRUCTIONS CAREFULLY**

This Financing Statement is prepared for filing pursuant to the Uniform Commercial Code and will remain effective, with certain exceptions, for 5 years from date of filing.

A. NAME & TEL. # OF CONTACT AT FILER (optional)	B. FILING OFFICE ACCT. # (optional)
C. RETURN COPY TO: (Name and Mailing Address)	
<p>TROY ZANDER, ESQ. GRAY CARY WARE &amp; FREIDENRICH 401 B STREET, SUITE 1700 SAN DIEGO, CA 92101-4297</p>	
D. OPTIONAL DESIGNATION IF APPLICABLE: <input type="checkbox"/> LESSOR/LESSEE <input type="checkbox"/> CONSIGNOR/CONSIGNEE <input type="checkbox"/> NON-UCC FILING	

**1. DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (1a or 1b)**

1a. ENTITY'S NAME INTER. CONTINENTAL TELEPHONE CORP., a Delaware corporation				
CR	1b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX
1c. MAILING ADDRESS 701 B STREET, SUITE 1450		CITY SAN DIEGO	STATE CA	COUNTRY USA
1d. S.S. OR TAX ID #	OPTIONAL ADD NL INFO RE ENTITY DEBTOR	1e. TYPE OF ENTITY	1f. ENTITY'S STATE OR COUNTRY OF ORGANIZATION	1g. ENTITY'S ORGANIZATIONAL ID #, if any <input type="checkbox"/> NONE

**2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (2a or 2b)**

2a. ENTITY'S NAME				
CR	2b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX
2c. MAILING ADDRESS		CITY	STATE	COUNTRY
2d. S.S. OR TAX ID #	OPTIONAL ADD NL INFO RE ENTITY DEBTOR	2e. TYPE OF ENTITY	2f. ENTITY'S STATE OR COUNTRY OF ORGANIZATION	2g. ENTITY'S ORGANIZATIONAL ID #, if any <input type="checkbox"/> NONE

**3. SECURED PARTY'S (ORIGINAL SP or ITS TOTAL ASSIGNEE) EXACT FULL LEGAL NAME - Insert only one secured party name (3a or 3b)**

3a. ENTITY'S NAME CALIFORNIA PUBLIC UTILITIES COMMISSION, CONSUMER SERVICES DIVISION				
CR	3b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX
3c. MAILING ADDRESS 505 VAN NESS AVENUE		CITY SAN FRANCISCO	STATE CA	COUNTRY USA
			POSTAL CODE 94102	

**4. This FINANCING STATEMENT covers the following item or items of property:**

ALL OF DEBTOR'S ACCOUNTS RECEIVABLE AS OF AUGUST 28, 1997.

CHECK <input type="checkbox"/> This FINANCING STATEMENT is signed by the Secured Party instead of the Debtor to perfect a security interest (a) in collateral already subject to a security interest in the jurisdiction in which it was brought into this state, or which the (b) Debtor's location was changed to this state, or (c) in accordance with other provisions above and additional data may be required.	7. If filed in Florida (check one) <input type="checkbox"/> Documentary stamp tax sale <input type="checkbox"/> Documentary stamp tax not applicable
8. REQUIRED SIGNATURE(S) ***** PLEASE SEE ATTACHMENT FOR REQUIRED SIGNATURES *****	8. <input type="checkbox"/> This FINANCING STATEMENT is to be filed (for record) (a) in the REAL ESTATE RECORDS Attach Addendum <input type="checkbox"/> If applicable 9. Check to REQUEST SEARCH CERTIFICATE(S) on Debtor's (ADDITIONAL FEE) <input type="checkbox"/> At County <input type="checkbox"/> On Debtor's <input type="checkbox"/> On Debtor's 2 (optional)

ATTACHMENT TO UCC-1 FINANCING STATEMENT

DEBTOR: INTER CONTINENTAL TELEPHONE CORP., a Delaware corporation  
SECURED PARTY: CALIFORNIA PUBLIC UTILITIES COMMISSION, CONSUMER  
SERVICES DIVISION

DEBTOR:

INTER CONTINENTAL TELEPHONE CORP.,  
a Delaware corporation

By: 

DONALD G. BLAKSTAD,  
President

SECURED PARTY:

CALIFORNIA PUBLIC UTILITIES COMMISSION,  
CONSUMER SERVICES DIVISION

By: 

RICHARD C. MANISCALCO  
Special Agent No. 1006  
Consumer Services Division  
Utility Enforcement Unit

(END OF APPENDIX A)