

KC/TS

TC97-067

DOCKET NO.

In the Matter of _____ IN THE MATTER OF THE
_____ APPLICATION OF LCI INTERNATIONAL
_____ TELECOM CORP. FOR AN AMENDED
_____ CERTIFICATE OF AUTHORITY TO
_____ PROVIDE LOCAL EXCHANGE SERVICE
_____ IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
6/9 97	Filed and Rocketed;
6/12 97	TC for Filing;
10/3 97	Cable Hunter, Amended COA;
10/3 97	Rocket Closed.



TC97-067

210 N. Park Ave.
P.O. Drawer 200
Winter Park, FL
32793-0200

Tel: 407-740-8575
Fax: 407-740-0613

June 5, 1997
Overnight

RECEIVED

JUN 09 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Mr. William Bullard, Jr.
Executive Director
South Dakota Public
Utilities Commission
500 East Capitol
Pierre, South Dakota 57501

Re: Application of LCI International Telecom Corp. for an Amended Certificate
of Authority to Provide Local Exchange Service

Dear Mr. Bullard:

Enclosed please find the original and ten copies of the above-referenced application
of LCI International Telecom Corp.

A check in the amount of \$250 application filing fee is included with this letter.

Please acknowledge receipt of this filing by returning a date-stamped copy of this
letter in the envelope provided. Should you or your staff have any additional
questions, please contact me at (407) 740-8575. Thank you.

Sincerely,

Connie Wightman
Consultant to LCI International Telecom Corp.

cc: Pam Melton
File: LCI - SD Local

TMS SDL9700.tms

BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
 OF LCI INTERNATIONAL TELECOM CORP.)
 FOR AN AMENDED CERTIFICATE OF)
 AUTHORITY TO PROVIDE LOCAL)
 EXCHANGE SERVICE)

DOCKET NO. _____

Pursuant to S.D.C.L. Sections 49-31.3. and Section 253 of the federal Telecommunications Act of 1996¹ ("Act"), LCI International Telecom Corp. ("LCI") respectfully requests that the Public Service Commission ("Commission") amend LCI's Certificate of Public Convenience and Necessity to include authority to provide local exchange telecommunications services in the State of South Dakota.

In support of its Application, LCI submits the following:

I. Introduction

1. LCI is requesting authority to provide basic local exchange services to both residence and business customers throughout South Dakota. The services that LCI intends to offer will be an adjunct to the intrastate interexchange services that LCI currently provides statewide. Initially, LCI plans to offer service through resale arrangements with incumbent local exchange carriers ("LECs"). As market conditions warrant, LCI may engage in the construction or acquisition of facilities to be used in the provision of local exchange services, thereby operating as both a reseller and facilities based provider of local exchange service. Should its Application be granted, LCI plans to commence offering service immediately upon the establishment of the appropriate and necessary resale arrangements with the incumbent LECs.

¹ Telecommunications Act of 1996, 47 U.S.C. § 253 (1996).

2. Approval of this Application will promote the public interest by increasing the level of competition in the South Dakota telecommunications market. Ultimately, competition will compel all exchange telecommunications service providers to operate more efficiently and pass the resultant cost savings on to consumers. In addition, as a result of competition, the overall quality of local exchange service in the state will improve.

II. APPLICATION FOR AMENDED CERTIFICATE OF AUTHORITY

In support of its application for an amended certificate of authority LCI provides the following information.

1. Name, address and telephone number

LCI International Telecom Corp.
8180 Greensboro Drive
McLean, Virginia 22102
(703) 610-4836

2. State of incorporation, date of incorporation , certificate of incorporation

LCI was first incorporated in Delaware on December 7, 1983 under the name Litel, Inc. The name was changed to LCI International Telecom Corp. on May 4, 1994. See Exhibits A and B.

3. Location of its principal office in-state, and name and address of registered agent

CT Corporation System
319 South Coteau
Pierre, SD 57501

- 0145224
4. **Names and address of any corporation, etc. holding 20% or greater ownership or management interest in LCI, and if so, amount and character of that interest**

LCI is a wholly owned subsidiary of LCI International, Inc.

5. **Names and address of subsidiaries owned or controlled by the applicant**

None.

6. **Specific description of the telecommunications services LCI intends to offer**

Services in South Dakota will include, but are not limited to, local exchange service and other telecommunications services provided to business and residential consumers.

7. **Means by which LCI will provide its services, including the type and quantity of equipment to be used in the operation, the capacity, and the expected use of the equipment**

As a provider of local exchange service, LCI intends to operate initially as a reseller. Therefore, LCI's local traffic will be routed entirely over the networks of the underlying incumbent LECs. LCI expects to offer a broad variety of local exchange services to both business and residential customers in South Dakota. LCI's line of services will be comparable to that currently offered by the incumbent LEC.

8. **Geographic areas in which the services will be offered, including a map describing the service area**

LCI intends to provide local exchange services throughout the state. The territories will depend on successful negotiations with local exchange carriers. See Exhibit G.

9. **Current financial statements**

See Exhibits C and D.

10. **Annual report**

See Exhibit C.

11. **Report to stockholders**

See Exhibit C.

12. **Tariff with the terms and conditions of service**

See Exhibit H.

13. **Names and addresses of LCI's representatives to whom all inquiries should be made regarding complaints and regulatory matters and description of how the applicant handles customer billings and customer service matters.**

Regulatory Contact:
Ms. Pamela Melton
Regulatory Attorney
LCI International Telecom Corp.
8180 Greensboro Drive
Suite 800
McLean, Virginia 22102
Telephone: (703) 610-4836
Facsimile: (703) 848-4404

Contact Regarding this Application:
Connie Wightman
Consultant to LCI
Technologies Management, Inc.
210 Park Avenue North
P.O. Drawer 200
Winter Park, Florida 32789
Telephone: (407) 740-8575
Facsimile: (407) 740-0613

LCI customer service representatives are available to assist customers 24 hours per day, seven days per week. LCI maintains separate customer service organizations for its residential and business customers. Residential customers can contact LCI Customer Services by calling (800) 860-2255; business customers may call (800) 860-1020. These toll free numbers are printed on customers' monthly billing statements. Alternatively, customers wishing to communicate with an LCI customer service representative in writing may send written correspondence to LCI at:

LCI International Telecom Corp.
ATTN: Customer Services
4650 Lakehurst Court
Dublin, OH 43017

- 0143.227
14. **List of states in which LCI is registered or certified to do business and if applicable, the states in which LCI has been denied registration and the reasons for the denial.**

LCI is registered or certificated to do business in all 50 states. LCI has received affirmative authority to provide interexchange service in 49 states. LCI has received authority to provide local exchange service in 23 states and currently offering local service in several states. No applications have been denied.

15. **Description of how LCI intends to market its services, qualifications of its marketing sales personnel, its target market, whether the applicant engages in any multilevel marketing, and copies of any company brochures used to assist in the sale of services.**

See Exhibit E.

III. Financial, Technical and Managerial Qualifications

LCI is a non-dominant international telecommunications company that has been providing voice and data communications services to both business and residential customers since 1984. LCI is headquartered in McLean, Virginia. Its Network Control Center is located in Dublin, Ohio. Primary customer service facilities are located in Dublin, Ohio and Greenville, South Carolina. In addition, LCI maintains operational facilities and sales offices in more than 50 locations nationwide.

Pursuant to authority granted by the Federal Communications Commission ("FCC"), LCI currently originates interstate and international traffic in all 50 states. It has obtained authority to provide intrastate interexchange service in 49 states. In 1995, LCI began its entry into the

local exchange market. Thus far, LCI has obtained local service authority in 23 states and the District of Columbia² and is currently providing local service to customers in several states.

LCI is a certified interexchange carrier in South Dakota and has been providing intrastate interexchange service in the state since 1993. This Commission has previously found that LCI has the financial, technical and managerial resources and capabilities to provide intrastate interexchange services.³ By this Application, LCI seeks to augment its current line of services by offering local exchange service to South Dakota consumers. As demonstrated below, LCI is fully qualified to provide this service in South Dakota.

III.A. Financial Qualifications

LCI is not only among the nation's largest interexchange carriers, but it is also one of the fastest growing in the industry. As a result of this growth, LCI's 1996 growth rate was nearly eight times the industry average. In 1996, LCI's gross operating revenue exceeded \$1 billion, an increase of 64 percent. For the years 1995, 1994 and 1993, LCI's revenue grew at 45, 36 and 31 percent, respectively. This increase in revenues has resulted primarily from strong minutes of use ("MOU") growth in all market segments (i.e., business and residential, international and domestic). For 1996, LCI's MOU increased by 68 percent to 8.2 billion.

In addition to generating higher revenues, LCI has effectively controlled costs. LCI has undertaken several strategies to manage its cost to provide service. These measures include: (1) the installation of additional switching centers to assist in the management of volume growth and

² LCI currently has local service applications pending in a number of other states.

³ LCI International Telecom Corp., formerly known as Litel Telecommunications Corporation d/b/a LCI International, has been granted intrastate interexchange operating authority by the Commission. In the Matter of the Application of Litel Telecommunications Corporation, d/b/a LCI International, for a Certificate of Authority to Operate as a Reseller of Telecommunications Services within the State of South Dakota, Docket No. TC93-085, Order Granting Certificate of Authority, July 15, 1993.

reduce off-network costs; (2) the consolidation of carrier service contracts to achieve cost economies; and (3) the purchase of a fiber optic route that, when completed in the fourth quarter of 1997, will span the western United States.

LCI strictly monitors its other expenses as well. Due to effective cost controls, LCI's selling, general and administrative expenses as a percentage of gross revenues ("SG&A Percentage") continues to be below that of the industry's "First Tier" carriers, AT&T, MCI and Sprint.⁴ Its ability to maintain a low SG&A Percentage clearly demonstrates LCI's operating efficiency.

As a result of the foregoing, as well as effective capital management measures, LCI has achieved strong net income growth. Moreover, it expects to maintain this growth. Thus, LCI asserts that it has the financial resources necessary to operate as a competitive local service provider in South Dakota.

III.B. Managerial Qualifications

As illustrated in Exhibit F to this Application, the members of LCI's senior management team have extensive experience in the telecommunications industry. The significant success of LCI clearly indicates that these executives have both highly effective management skills and considerable telecommunications expertise. Consequently, LCI's managers have been able to implement a number of innovative measures to meet consumer needs. For example, LCI created its "Simple, Fair & Inexpensive"SM ("SFI") line of services in response to strong consumer

⁴ In 1994, LCI's SG&A Percentage was 22.1 percent while the SG&A Percentages of AT&T, MCI and Sprint ranged from 25.4 percent to 27.9 percent. For 1995, LCI's SG&A Percentage was 22.3 percent while the range for AT&T, MCI and Sprint was 25.3 percent to 27.1 percent. For 1996, LCI's SG&A Percentage was 23.0 percent; industry analysts project that SG&A Percentages for AT&T, MCI and Sprint will range from 23.5 percent to 29.9 percent for this period. Merrill Lynch & Co., Telecom Services - Long Distance, Third Quarter Review (November, 1996).

preference for services that are more economical and not subject to standard industry restrictions.⁵ In conjunction with innovative and effective financial and operational measures, creative marketing initiatives such as SFI have resulted in substantial revenue growth and industry leading financial performance. The significant success of LCI is clear evidence that it possesses the managerial qualifications required to provide local service in South Dakota.

III.C. Technical Qualifications

LCI's services will satisfy the minimum standards established by the Commission. The Company will file and maintain tariffs in the same manner and form as required of incumbent local exchange telecommunications companies with which LCI seeks to compete. LCI will meet the minimum basic local standards, including quality of service and billing standards required of all LECs regulated by the Commission. In its successful provision of long distance services, LCI has demonstrated that it possesses the technical capability to provide local exchange service. LCI currently offers a wide range of interexchange services to both business and residential consumers throughout South Dakota. LCI has been providing consistently high quality service to the state's consumers since 1993.

⁵ Customers using LCI's SFI line of services are not subject to the restrictions that are typically associated with the services of other telecommunications carriers. SFI services are based upon simplified rate structures that vary only by time of day. These services are "postalized," i.e., they are not subject to restrictions based upon distance. Additionally, they are not subject to minimum or maximum usage levels or other restrictions such as "calling circles." Thus, consumers are afforded greater flexibility in using their telecommunications services. Furthermore, because of SFI's simplified rate structure, bills are easier for consumers to understand. Moreover, not only are SFI's rates highly competitive, but SFI services are made even more economical for consumers since these services are not "rounded up" to the next full minute. All of the industry's largest carriers generally "round up" increments of calling time to the next full minute, i.e., a customer pays for a full minute of usage where the duration of a call is between one and 59 seconds. Consequently, under this method, when a customer makes a call that is one minute and one second in length, that customer is charged for two full minutes of calling. SFI calls are not "rounded" in this manner; instead, an SFI call is billed based upon six second increments. Thus, a call that is one minute and one second in duration is treated as being one minute and six seconds in duration. The charges that SFI customers pay, therefore, is much closer to their actual usage. (LCI estimates that the practice of full minute "rounding" costs residential consumers in excess of \$2 billion per year.)

LCI is both a facilities based provider and a reseller of telecommunications services. LCI owns a digital fiber optic network that spans the midwestern United States.⁶ In addition, LCI owns switches and maintains Point of Presence sites ("POPs") located throughout the United States. Currently, LCI has agreements with other interexchange carriers for the provision of call handling functions in areas where LCI does not have facilities. LCI leases DS-0, DS-1 and DS-3 capacity that originates from LCI's switch sites and POPs and extends to locations across the nation. LCI currently utilizes the facilities of these carriers to provide interstate and intrastate services in South Dakota.

LCI's interexchange network is entirely digital. LCI currently meets or exceeds all federal guidelines regarding service quality. Nevertheless, LCI is improving its service quality through its deployment of Signaling System 7 ("SS7") across the United States. It is anticipated that this deployment will be more than 90 percent complete by the second quarter of 1997. SS7 affords customers several benefits, including more rapid call setup.⁷

Moreover, as a provider of local exchange service, LCI intends to operate initially as a reseller. Therefore, LCI's local traffic will be routed entirely over the networks of the underlying incumbent LECs. Consequently, the quality of service that LCI's local exchange customers receive will be at least equivalent to that provided by these LECs.

As the foregoing illustrates, LCI possesses considerable telecommunications expertise, acquired by providing to consumers, for well over a decade, a wide range of high quality voice

⁶ LCI will be substantially expanding its fiber optic network during the next year. LCI is purchasing a fiber optic network route between Chicago, Illinois and Los Angeles, California. Construction of this route will be completed in mid-1997. In addition, LCI is negotiating to purchase fiber optic routes in the southern and northeastern regions of the United States. Construction of these routes will be completed in the fourth quarter of 1997. This expansion of LCI's fiber optic network will support LCI's rapidly increasing traffic volume during the next decade, reduce its operating costs and broaden its service capabilities.

⁷ Where SS7 has been deployed, interexchange calls are connecting within two to five seconds after dialing is completed.

and data services. Thus, LCI is certainly technically qualified to provide local exchange service in South Dakota.

IV. Waivers and Regulatory Compliance

LCI requests that the Commission grant it a waiver of those regulatory requirements inapplicable to competitive local service providers such as LCI. Such rules are not appropriate or necessary for competitive providers and constitute an economic barrier to entry into the local exchange market.

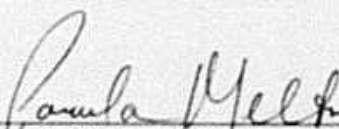
Conclusion

This Application demonstrates that LCI possesses the technical, financial and managerial resources to provide local exchange service in South Dakota. Furthermore, granting this Application will promote the public interest by increasing the level of competition in the state's telecommunications market. Ultimately, competition will compel all exchange telecommunications service providers to operate more efficiently and pass the resultant cost savings on to consumers. In addition, as a result of competition, the overall quality of local exchange service will improve.

Wherefore, LCI respectfully requests that the Commission:

1. grant LCI authority to operate as a provider of residential and commercial basic local exchange telecommunications services in the State of South Dakota;
2. grant the waivers requested in this Application; and
3. grant such other relief as it deems necessary and appropriate.

LCI International Telecom Corp.



Pamela Melton, Regulatory Attorney
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, VA 22102
(703) 610-4836

Dated: May 22, 1997

LCI International Telecom Corp.

Exhibit A

Certificate of Incorporation with the Secretary of State for the State of Delaware

State of Delaware
Office of the Secretary of State

I, WILLIAM T. QUILLEN, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "LCI INTERNATIONAL TELECOM CORP.", FILED IN THIS OFFICE ON THE THIRTEENTH DAY OF MAY, A.D. 1994, AT 10 O'CLOCK A.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.



William T. Quillen

William T. Quillen, Secretary of State

2022848 8100

944085397

AUTHENTICATION:

7119553

DATE:

05-20-94

State of Delaware
Office of the Secretary of State

I, WILLIAM T. QUILLEN, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "LCI INTERNATIONAL TELECOM CORP.", FILED IN THIS OFFICE ON THE THIRTEENTH DAY OF MAY, A.D. 1994, AT 10 O'CLOCK A.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.



William T. Quillen

William T. Quillen, Secretary of State

2022848 8100

944085397

AUTHENTICATION:

7119553

DATE:

05-20-94

0143.22.16

3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4. The total number of shares of stock which the Corporation shall have authority to issue is One Thousand (1,000) all of such shares shall be without par value.

5. The Board of Directors is authorized to make, alter or repeal the by-laws of the corporation. Election of directors need not be by ballot.

6. The Chairman of the Board of Directors may have a second and casting vote in certain matters in accordance with the provision set forth in the By-laws.

7. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation upon the vote of not less than two-thirds (2/3) of all the shares entitled to vote thereon, and all rights conferred upon stockholders herein are granted subject to this reservation.

8. (a) The Corporation shall indemnify to the fullest extent permitted under and in accordance with the laws of the State of Delaware any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, trustee, employee or agent of or in any other capacity with another

corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

(b) Expenses incurred in defending a civil or criminal action, suit or proceeding shall (in the case of any action, suit or proceeding against a director of the Corporation) or may (in the case of any action, suit or proceeding against an officer, trustee, employee or agent) be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board upon receipt of an undertaking by or on behalf of the indemnified person to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article.

(c) The indemnification and other rights set forth in this paragraph shall not be exclusive of any provisions with respect thereto in the By-Laws or any other contract or agreement between the Corporation and any officer, director, employee or agent of the Corporation.

(d) Neither the amendment nor repeal of this Article 8, paragraph (a), (b) or (c), nor the adoption of any provision of this Restated Certificate of Incorporation inconsistent with Article 8, paragraph (a), (b) or (c), shall eliminate or reduce the

effect of this Article 8, paragraphs (a), (b) and (c), in respect of any matter occurring before such amendment, repeal or adoption of an inconsistent provision or in respect of any cause of action, suit or claim relating to any such matter which would have given rise to a right of indemnification or right to receive expenses pursuant to this Article 8, paragraphs (a), (b) or (c), if such provision had not been so amended or repealed or if a provision inconsistent therewith had not been so adopted.

(e) No director shall be personally liable to the Corporation or any stockholder for monetary damages for breach of fiduciary duty as a director, except for any matter in respect of which such director (a) shall be liable under Section 174 of the General Corporation Law of the State of Delaware or any amendment thereto or successor provision thereto, or (b) shall be liable by reason that, in addition to any and all other requirements for liability, he:

(i) shall have breached his duty of loyalty to the Corporation or its stockholders;

(ii) shall not have acted in good faith or, in failing to act, shall not have acted in good faith;

(iii) shall have acted in a manner involving intentional misconduct or a knowing violation of law or, in failing to act, shall have acted in a manner involving intentional misconduct or a knowing violation of law; or

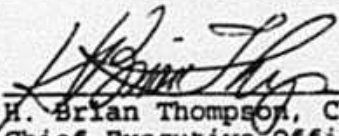
(iv) shall have derived an improper personal benefit.

If the General Corporation Law of the State of Delaware is amended after the date hereof to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation

shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended.

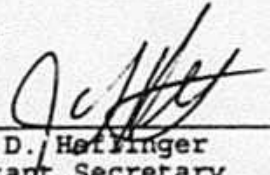
IN WITNESS WHEREOF, LCI International Telecom Corp. has caused its corporate seal to be hereunto affixed and this Restated Certificate of Incorporation to be signed by its Chairman and Chief Executive Officer, and attested by its Assistant Secretary this 4th day of May, 1994.

LCI INTERNATIONAL TELECOM CORP.

By: 

H. Brian Thompson, Chairman and
Chief Executive Officer

ATTESTED:

By: 

James D. Haffinger
Assistant Secretary

LCI International Telecom Corp.

Exhibit B

LCI's Certificate of Authority to Transact Business in the State of South Dakota

State of South Dakota



OFFICE OF THE SECRETARY OF STATE

AMENDED CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that duplicate of the Application for an Amended Certificate of Authority of LITEL TELECOMMUNICATIONS CORPORATION (DE) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Amended Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of LCI INTERNATIONAL TELECOM CORP.



IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this January 12, 1994.

A handwritten signature in cursive script that reads "Joyce Hazeltine".

JOYCE HAZELTINE
Secretary of State



STATE OF SOUTH DAKOTA
Secretary of State



Certificate Of Authority

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby
certify that the Application of
LITEL TELECOMMUNICATIONS CORPORATION (DE)
for a Certificate of Authority to transact business in this State, duly signed and verified,
pursuant to the provisions of the South Dakota Business Corporation Act, have been received
in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issued
this Certificate of Authority to
LITEL TELECOMMUNICATIONS CORPORATION
to transact business in this State under the name of
LITEL TELECOMMUNICATIONS CORPORATION
and attach hereto a duplicate of the Application for such Certificate.



IN TESTIMONY WHEREOF, I have hereunto
set my hand and affixed the Great Seal of the
State of South Dakota, at Pierre, the Capital
this 31st day of
JANUARY A.D. 1992
Joyce Hazeltine
Secretary of State
.....
Deputy

LCI International Telecom Corp.

Exhibit C

SEC Form 10-Q of LCI International, Inc.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 1996

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-21602

LCI INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3498232

(I.R.S. Employer Identification No.)

8180 Greensboro Drive, Suite 800

McLean, Virginia

(Address of principal executive offices)

22102

(Zip Code)

(703) 442-0220

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

As of October 31, 1996, there were 77,250,249 shares of LCI International, Inc. Common Stock (par value \$.01 per share) outstanding.

LCI INTERNATIONAL, INC.

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Item 1. Financial Statements

L.C.I. INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except for per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1996	1995	1996	1995
REVENUES	\$289,195	\$172,992	\$809,173	\$469,207
Cost of services	166,575	101,203	472,828	276,852
GROSS MARGIN	122,620	71,789	336,345	192,355
Selling, general and administrative expenses	67,665	38,939	185,887	104,065
Depreciation and amortization	16,345	11,195	46,002	31,144
OPERATING INCOME	38,610	21,655	104,456	57,146
Interest and other expense, net	7,746	4,451	22,908	11,578
INCOME BEFORE INCOME TAXES	30,864	17,204	81,548	45,568
Income tax expense	10,802	4,129	28,542	10,936
NET INCOME	20,062	13,075	53,006	34,632
Preferred dividends	513	1,437	2,808	4,311
INCOME ON COMMON STOCK	<u>\$ 19,549</u>	<u>\$ 11,638</u>	<u>\$50,198</u>	<u>\$ 30,321</u>
<u>PER SHARE DATA</u>				
Income Per Share	<u>\$ 0.23</u>	<u>\$ 0.16</u>	<u>\$ 0.61</u>	<u>\$ 0.43</u>
Weighted Average Number of Common Shares	<u>87,685</u>	<u>82,360</u>	<u>87,472</u>	<u>81,254</u>

The accompanying notes are an integral part of these statements.

LCI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

<u>ASSETS</u>	September 30, 1996 (unaudited)	December 31, 1995
CURRENT ASSETS:		
Trade accounts receivable, net	\$ 88,853	\$ 161,640
Current deferred tax assets, net	22,206	23,121
Prepays and other	7,800	10,120
Other accounts and notes receivable, net	9,685	9,451
	<u>128,544</u>	<u>204,332</u>
Total current assets		
PROPERTY, PLANT AND EQUIPMENT:		
Fiber optic network	394,532	357,294
General office equipment and building lease	124,316	90,806
Less - Accumulated depreciation and amortization	(196,927)	(181,487)
	<u>321,921</u>	<u>266,613</u>
Plant under construction	57,687	35,334
	<u>379,608</u>	<u>301,947</u>
Total property, plant and equipment, net		
OTHER ASSETS:		
Excess of cost over net assets acquired, net	344,667	245,600
Other, net	45,115	21,480
	<u>389,782</u>	<u>267,080</u>
Total other assets		
Total Assets	<u>\$ 897,934</u>	<u>\$ 773,359</u>

(Continued on next page)

LCI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Continued)
(in thousands)

<u>LIABILITIES AND SHAREOWNERS' EQUITY</u>	September 30, 1996 (unaudited)	December 31, 1995
CURRENT LIABILITIES:		
Accounts payable	\$ 13,407	\$ 39,168
Facility costs accrued and payable	117,645	66,688
Accrued expenses and other	58,742	21,997
Total current liabilities	189,794	127,853
LONG-TERM DEBT	257,000	260,700
CAPITAL LEASE OBLIGATIONS	13,221	14,160
OTHER LIABILITIES AND DEFERRED CREDITS	33,330	25,868
COMMITMENTS AND CONTINGENCIES		
SHAREOWNERS' EQUITY:		
Preferred stock - Authorized 15,000 shares, Issued and Outstanding 4,578.1 shares at December 31, 1995	--	114,453
Common stock - Authorized 300,000 shares, Issued and Outstanding 77,167 shares at September 30, 1996 and Authorized 100,000 shares, Issued and Outstanding 64,434 shares at December 31, 1995	772	644
Paid-in capital	422,867	298,929
Retained deficit	(19,050)	(69,248)
Total shareowners' equity	404,589	344,778
Total Liabilities and Shareowners' Equity	<u>\$ 897,934</u>	<u>\$ 773,359</u>

The accompanying notes are an integral part of these statements.

LCI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996
(Unaudited)
(in thousands)

	Preferred Stock	Common Stock	Paid- In Capital	Retained Deficit	Total
BALANCE AT DECEMBER 31, 1995	\$114,453	\$ 644	\$298,929	\$ (69,248)	\$344,778
Employee stock purchases	--	3	4,445	--	4,448
Exercise of options/warrants and related tax benefits	--	5	5,160	--	5,165
Conversion/redemption of preferred stock	(114,453)	120	114,333	--	--
Net Income	--	--	--	53,006	53,006
Preferred dividends	--	--	--	(2,808)	(2,808)
BALANCE AT SEPTEMBER 30, 1996	<u>\$ --</u>	<u>\$ 772</u>	<u>\$422,867</u>	<u>\$ (19,050)</u>	<u>\$404,589</u>

The accompanying notes are an integral part of these statements.

LCI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	For the Nine Months Ended September 30,	
	1996	1995
OPERATING ACTIVITIES:		
Net cash provided by operating activities	\$ 238,900	\$ 19,354
INVESTING ACTIVITIES:		
Capital expenditures	(105,834)	(54,068)
Payments for acquisitions and other	(118,142)	(78,383)
Net cash used in investing activities	(223,976)	(132,451)
FINANCING ACTIVITIES:		
Net debt (payments) borrowings	(18,695)	114,665
Preferred dividend payments	(2,808)	(4,311)
Proceeds from employee stock plans and warrants	6,579	2,743
Net cash (used in) provided by financing activities	(14,924)	113,097
Net increase in cash and cash equivalents	--	--
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	--	--
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ --	\$ --

The accompanying notes are an integral part of these statements.

LCI INTERNATIONAL, INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(Unaudited)

(1) GENERAL

The results of operations for the interim periods shown are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair presentation for the three and nine months ended September 30, 1996 and 1995. All such adjustments are of a normal recurring nature.

(2) BUSINESS ORGANIZATION AND PURPOSE

The financial statements presented herein include the condensed consolidated statements of operations of LCI International, Inc., a Delaware corporation, and its subsidiaries (collectively LCI or the Company), for the three and nine month periods ended September 30, 1996 and 1995, the condensed consolidated balance sheets as of September 30, 1996 and December 31, 1995, the condensed consolidated statement of shareowners' equity for the nine months ended September 30, 1996, and the condensed consolidated statement of cash flows for the nine month periods ended September 30, 1996 and 1995.

LCI is a facilities-based telecommunications carrier that provides a broad range of domestic and international telecommunications service offerings in all market segments: commercial, wholesale and residential/small business. The Company serves its customers primarily through owned and leased digital fiber optic facilities.

(3) ACCOUNTING POLICIES

Note 2 of the Notes to Consolidated Financial Statements in LCI's 1995 Annual Report summarizes the Company's significant accounting policies.

Principles of Consolidation. The accompanying Condensed Consolidated Financial Statements (Unaudited) include the accounts of LCI and its wholly-owned, direct and indirect, subsidiaries. All material intercompany transactions and balances have been eliminated.

Weighted Average Number of Common Shares. The weighted average number of common shares used to calculate earnings per share includes the Company's Common Stock, par value \$.01 per share (the Common Stock), and Common Stock equivalents, and the assumed conversion of the previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock, par value \$.01 per share (Preferred Stock) into shares of Common Stock. For all periods presented the weighted average number of common shares includes the actual common shares issued for Preferred Stock conversions and the assumed conversion of any remaining Preferred Stock outstanding. The treasury stock method was used to reflect the impact of outstanding stock options and Common Stock warrants for all periods presented.

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Income Per Share. For the three and nine months ended September 30, 1996 and 1995, the income per share is calculated as net income before preferred dividends divided by the weighted average number of common shares, as defined above. Primary and fully diluted income per share for the three and nine months ended September 30, 1996 and 1995, were the same amounts.

Reclassifications. Certain reclassifications have been made to the consolidated financial statements for 1995 to conform with the 1996 presentation.

(4) ACQUISITIONS

In June 1996, the Company purchased the long-distance business of Pennsylvania Alternative Communications, Inc. (PACE). The Company acquired the Greensburg, Pennsylvania-based company for approximately \$8 million in cash, with an additional maximum payment of approximately \$5 million contingent on achieving certain revenue performance over a seven-month period commencing at the closing date. The acquisition was accounted for as a purchase and was not considered significant for financial reporting purposes. The results of operations for PACE were included in the consolidated statement of operations from June 1, 1996.

In January 1996, the Company purchased the long-distance businesses of Teledial America, Inc. (Teledial America), which did business as U.S. Signal Corporation, and an affiliated company, ATS Network Communications, Inc. (ATS). Headquartered in Grand Rapids, Michigan, Teledial America provided long-distance services to commercial customers located primarily in Michigan and throughout the Midwest. ATS was a regional long-distance carrier that operated primarily in Tennessee, Mississippi and Arkansas. The Company acquired both companies for approximately \$99 million in cash, with an additional maximum payment of \$24 million contingent on achieving certain revenue performance and customer retention over an eighteen-month period commencing at the closing date. The acquisitions were accounted for as purchases.

In September 1995, the Company acquired Corporate Telemanagement Group, Inc. (CTG), a Greenville, South Carolina-based provider of long-distance services to commercial customers throughout the U.S. The Company acquired all of the outstanding shares of CTG and shares underlying certain outstanding warrants in exchange for \$45 million in cash and 4.6 million shares of Common Stock. The shares of Common Stock issued were valued at approximately \$93.2 million based on the market price of the shares on the date of the acquisition. The acquisition was accounted for as a purchase.

The following unaudited pro forma summary presents the net revenues, net income and earnings per share from the combination of the operations of the Company and its two significant acquisitions, CTG and Teledial America, as if the acquisitions had occurred at the beginning of the 1995 fiscal year. Pro forma information is not provided for 1996, as both acquisitions were included in the results of operations from January 1, 1996. The pro forma information is provided for informational purposes only.

The information is not intended to reflect the actual results that would have occurred nor is it necessarily indicative of the future results of operations of the combined enterprise:

<i>(in thousands, except per share amounts)</i>	Three Months Ended September 30, 1995	Nine Months Ended September 30, 1995
Net revenues	\$210,526	\$590,614
Net income	14,089	37,672
Earnings per share	\$ 0.17	\$ 0.44

(5) ACCOUNTS RECEIVABLE SECURITIZATION

On August 29, 1996, the Company entered into an agreement to sell a percentage ownership interest in a defined pool of the Company's trade accounts receivable (Securitization Program). LCI SPC 1, Inc. (SPC), was established as a wholly-owned, bankruptcy-remote subsidiary of the Company to facilitate the sale of receivables. Under this Securitization Program, the Company can transfer an undivided interest in a designated pool of its accounts receivable on an ongoing basis to maintain the participation interest up to a maximum of \$150 million. At September 30, 1996, the pool of trade accounts receivable which were available for sale totaled approximately \$114.9 million. The amount of receivables sold totaled \$108.0 million and the proceeds were used to reduce the outstanding balance of the Company's long-term debt. The accounts receivable balances sold are not included in the accompanying condensed consolidated balance sheet at September 30, 1996. The Company retains substantially the same risk of credit loss as if the receivables had not been sold, and has established reserves for such estimated credit losses.

The cost of the Securitization Program is based on a short-term commercial paper rate plus certain fees and expenses. The costs of the Securitization Program, which were incurred at the end of the third quarter, are included in interest and other expense in the accompanying condensed consolidated statement of operations. The cash proceeds are included in operating activities, while the use of the proceeds to pay down long-term debt is included in financing activities in the accompanying condensed consolidated statement of cash flows.

Under the agreement relating to the Securitization Program, the Company acts as agent for the purchaser of the receivables by performing recordkeeping and collection functions on the participation interest sold. The agreement contains certain covenants regarding the quality of the accounts receivable portfolio, as well as financial covenants which are substantially identical to those contained in the Company's Credit Facility (See Note 6).

(6) LONG-TERM DEBT

The Company can borrow up to \$700 million from a syndicate of banks under a Revolving Credit Facility (Credit Facility). The Credit Facility is subject to various principal reductions depending on the outstanding balance, until maturity on March 31, 2001. This Credit Facility bears interest at a rate consisting of two components: the base rate component is dependent upon a market indicator; the second component varies from 0.625% to 1.5% based on the level of borrowings (leverage ratio). The weighted average interest rate on the outstanding borrowings under the Credit Facility on September 30, 1996 was 6.54%. The Credit Facility contains various financial covenants, the most restrictive being the leverage ratio requirement. As of September 30, 1996, the Company was in compliance with all Credit Facility covenants and had \$252 million outstanding under the Credit Facility. An additional \$10 million of the Credit Facility was reserved for letters of credit as of September 30, 1996.

In September 1996, the Company obtained a \$25 million Discretionary Line of Credit. As of September 30, 1996, \$5 million was outstanding under the Discretionary Line of Credit.

The Company has an interest rate cap agreement with a syndicate of banks that limits the Company's base interest rate exposure to 7.5%. The agreement is for a two-year period ending February 1998 on a \$130 million notional principal balance of the Credit Facility. In an event of non-performance by the commercial banks, the Company would have exposure to the extent of any increase in the base rate component above 7.5%. The Company believes the probability of such an event is remote.

(7) COMMITMENTS AND CONTINGENCIES

Vendor Agreements. The Company has agreements with certain telecommunications interexchange carriers and third party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has a single five-year contract with a particular third party carrier which began in August 1995, with minimum annual usage requirements and an increasing cumulative minimum usage requirement, which, if not met subject the Company to an underutilization charge. Through September 30, 1996, the Company has exceeded the first year minimum annual usage requirement of \$48 million and the cumulative minimum usage of \$103 million established for the second year. The Company's minimum monthly billing commitments under all other vendor agreements are approximately \$6 million through the end of 1996. The Company has historically met all minimum billing requirements and believes that the minimum usage commitments will be met.

Legal Matters. *Thomas J. Byrnes and Richard C. Otto v. LCI Communications Holdings Co. et al.* was filed by two former members of the Company's management on June 28, 1991 in Common Pleas Court, Franklin County, Ohio. The suit alleged age discrimination by the Company among other things, and sought \$42.8 million in compensatory and punitive damages. During 1993, a jury returned a verdict in favor of the Plaintiffs and the Common Pleas Court awarded approximately \$8.1 million in damages and attorney's fees.

Both the Plaintiffs and the Company appealed this matter to the Court of Appeals in Ohio, which in a two-to-one decision overruled each of the Company's assignments of error and two of the Plaintiffs' claims, and sustained the Plaintiffs' request for approximately \$0.1 million in pre-judgment interest in addition to the previous award. The Company filed a Notice of Appeal at the Supreme Court of Ohio (the Court) and the Court agreed to review the decision by the Court of Appeals. Oral arguments took place in May 1996. To date the Court has not rendered an opinion on the matter, although the Company expects an opinion to be rendered during the fourth quarter of 1996. The appeal process has extended the resolution of this matter for several years and, depending on the disposition and timing of the ultimate outcome, it is reasonably possible that between \$0 and \$3 million of additional interest expense could be incurred.

The Company also has been named as a defendant in various other litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes it has adequate accrued loss contingencies and, although the ultimate outcome of these claims cannot be ascertained at this time, that current pending or threatened litigation matters will not have a material adverse impact on the Company's results of operations or financial position.

(8) SHAREOWNERS' EQUITY

Common Stock. The Company has stock option plans under which options to purchase shares of Common Stock may be granted to directors and key employees. During the nine months ended September 30, 1996, the Company granted options to purchase 2,249,500 shares of Common Stock. The option price for all options granted was the fair market value of the shares on the date of grant. The Company issued 390,492 shares of Common Stock during the nine months ended September 30, 1996 pursuant to exercises of options under all stock option plans. The Company also has an Employee Stock Purchase Plan and maintains a defined contribution plan for its employees. The Company issued 187,692 shares of Common Stock under its Employee Stock Purchase Plan and 46,742 shares of Common Stock under the defined contribution plan for the nine months ended September 30, 1996.

Preferred Stock. The Company's previously outstanding Preferred Stock was convertible into shares of Common Stock at the option of the holder. Shareholders converted 4,577,995 shares of Preferred Stock into 12,047,030 shares of Common Stock during the nine months ended September 30, 1996. On September 3, 1996 the remaining outstanding shares of Preferred Stock were redeemed by the Company. Neither the conversion nor the redemption of the Preferred Stock had an impact on earnings per share as the assumed conversion of the Preferred Stock was reflected in the weighted average number of common shares calculation for all periods.

Common Stock Warrants. In 1993, the Company issued warrants exercisable for 5,408,900 shares of Common Stock at \$2.83 per share that expire in 2003. During the nine months ended September 30, 1996, warrant owners exercised 69,968 warrants for an aggregate net 61,923 shares of Common Stock.

(9) INCOME TAXES

The provision for income taxes for the three and nine months ended September 30, 1996 and 1995, consisted of:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Current tax expense:				
Federal	\$ 1,718	\$ 307	\$ 2,623	\$ 873
State	1,270	272	1,677	1,020
Total current tax expense	<u>2,988</u>	<u>579</u>	<u>4,300</u>	<u>1,893</u>
Deferred tax expense:				
(Decrease) increase in deferred tax liabilities	(668)	(1,812)	736	738
Decrease in deferred tax asset	10,957	8,260	28,549	16,305
Decrease in valuation allowance, net	(2,475)	(2,898)	(5,043)	(8,000)
Total deferred tax expense	<u>7,814</u>	<u>3,550</u>	<u>24,242</u>	<u>9,043</u>
Total income tax expense	<u>\$10,802</u>	<u>\$4,129</u>	<u>\$28,542</u>	<u>\$10,936</u>

The decrease in the valuation allowance for the three and nine months ended September 30, 1996 and 1995 resulted from the Company's expected realization of a portion of its net operating loss (NOL) carryforwards in future years based on the Company's growth in recurring operating income in 1996 and 1995, and its expectation of future taxable income, net of a minor increase relating to expected state tax credits.

The effective income tax rate varies from the Federal statutory income tax rate for the three and nine months ended September 30, 1996 and 1995, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Expected tax at Federal statutory income tax rate:	35.0%	35.0%	35.0%	35.0%
Effect of:				
State income tax expense	5.2	3.9	5.2	3.9
Non-deductible expenses	1.5	1.5	1.5	1.2
Decrease in valuation allowance, net	(5.0)	(16.9)	(5.0)	(17.6)
Other, net	(1.7)	0.5	(1.7)	1.5
	<u>35.0%</u>	<u>24.0%</u>	<u>35.0%</u>	<u>24.0%</u>

The effective tax rate of 35% for the three and nine months ended September 30, 1996 and 24% for the same periods in 1995 represents the Company's estimated effective tax rate for the periods. This effective tax rate is adjusted quarterly based on the Company's estimate of future taxable income, use of NOLs and the related impact on the valuation allowance. The tax rate reconciliation for the three and nine months ended September 30, 1996, reflects the expected

financial reporting use of \$6.1 million and \$14.2 million, respectively, of NOLs which resulted in a \$2.4 million and \$5.7 million reduction of income tax expense, respectively. As of September 30, 1996, the Company had available \$6.8 million of NOLs for financial reporting purposes.

The Company has generated significant NOLs that may be used to offset future taxable income. Each year's NOL has a maximum 15-year carryforward period. The Company's ability to fully use its NOL carryforwards is dependent upon future taxable income. As of September 30, 1996, the Company had total NOL carryforwards for income tax purposes of \$119 million, subject to various expiration dates beginning in 1998 and ending in 2010.

The Company's deferred income tax balances include \$22.2 million in current deferred tax assets and \$10.7 million in other noncurrent liabilities as of September 30, 1996. As of December 31, 1995, deferred income tax balances included \$23.1 million in current deferred tax assets, net and \$8.8 million in noncurrent other assets.

The Company has a valuation allowance remaining of \$3.4 million as of September 30, 1996 and \$8.4 million as of December 31, 1995.

(10) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company has filed a shelf registration statement with the Securities and Exchange Commission to register \$300 million of debt and/or equity securities, for issuance on a delayed or continuous basis. Any debt securities issued may be guaranteed by certain of the Company's wholly-owned subsidiaries (Guarantor Subsidiaries). Such guarantees will be full, unconditional and joint and several. Separate financial statements of the Guarantor Subsidiaries have not been presented because the Company's management has determined that they would not be material to investors. The following supplemental financial information sets forth, on an unconsolidated basis, statement of operations, balance sheet, and statement of cash flow information for the Company (Parent Company Only), for the Guarantor Subsidiaries and for the Company's other subsidiaries (Non-Guarantor Subsidiaries). The comparative statements for 1995 have not been presented as the Non-Guarantor information is not material to the consolidated financial statements for that period. The supplemental financial information reflects the Company's investments in subsidiaries using the equity method of accounting. Certain immaterial reclassifications have been made to provide for uniform disclosure for the period presented.

(10) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
(Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 1996
(in thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ --	\$ 804,293	\$ 4,880	\$ --	\$ 809,173
Cost of services	--	468,928	3,900	--	472,828
Gross margin	--	335,365	980	--	336,345
Selling, general and administrative expenses	68	184,919	900	--	185,887
Depreciation and amortization	--	45,952	50	--	46,002
Operating income	(68)	104,494	30	--	104,456
Interest and other (income) expense, net	19,279	6,555	(2,926)	--	22,908
Intercompany (income) expense	(22,660)	22,660	--	--	--
Equity in earnings of subsidiaries	(50,853)	--	--	50,853	--
Income before income taxes	54,166	75,279	2,956	(50,853)	81,548
Income tax expense	1,160	26,348	1,034	--	28,542
Net income	53,006	48,931	1,922	(50,853)	53,006
Preferred dividends	2,808	--	--	--	2,808
Income on common stock	\$ 50,198	\$ 48,931	\$ 1,922	\$ (50,853)	\$ 50,198

(Continued on next page)

(10) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
(Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1996

(in thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Trade accounts receivable, net	\$ --	\$ 33,373	\$ 55,480	\$ --	\$ 88,853
Current deferred tax assets, net	9,138	13,068	--	--	22,206
Prepays and other	23,384	7,018	556	(23,158)	7,800
Intercompany receivable	278,533	--	12,139	(290,672)	--
Other accounts and notes receivable, net	5,584	4,101	--	--	9,685
Total current assets	316,639	57,560	68,175	(313,830)	128,544
Property, plant and equipment, net	--	379,288	320	--	379,608
Excess of cost over net assets acquired, net	--	344,667	--	--	344,667
Investment in affiliates	325,041	--	--	(325,041)	--
Other, net	24,064	30,816	674	(10,439)	45,115
Total Assets	\$ 665,744	\$ 812,331	\$ 69,169	\$ (649,310)	\$ 897,934
LIABILITIES AND SHAREOWNERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ --	\$ 13,407	\$ --	\$ --	\$ 13,407
Facility costs accrued and payable	--	116,685	960	--	117,645
Intercompany payable	--	284,507	6,165	(290,672)	--
Accrued expenses and other	--	81,607	293	(23,158)	58,742
Total current liabilities	--	496,206	7,418	(313,830)	189,794
Long-term debt	257,000	--	--	--	257,000
Capital lease obligations	--	13,221	--	--	13,221
Other liabilities and deferred credits	4,155	39,614	--	(10,439)	33,330
SHAREOWNERS' EQUITY:					
Preferred stock	--	66,500	--	(66,500)	--
Common stock	772	1	12,046	(12,047)	772
Paid-in capital	422,867	136,331	60,500	(196,831)	422,867
Retained (deficit) earnings	(19,050)	60,458	(10,795)	(49,663)	(19,050)
Total shareowners' equity	404,589	263,290	61,751	(325,041)	404,589
Total Liabilities and Shareowners' Equity	\$ 665,744	\$ 812,331	\$ 69,169	\$ (649,310)	\$ 897,934

(Continued on next page)

(10) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
(Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 1996
(in thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	\$ 59,440	\$ 239,960	\$ (60,500)	\$ --	\$ 238,900
INVESTING ACTIVITIES:					
Investment in SPC	(60,500)	--	60,500	--	--
Capital expenditures	--	(105,834)	--	--	(105,834)
Payments for acquisitions and other	--	(118,142)	--	--	(118,142)
Net cash (used in) provided by investing activities	(60,500)	(223,976)	60,500	--	(223,976)
FINANCING ACTIVITIES:					
Net debt payments	(2,711)	(15,984)	--	--	(18,695)
Preferred dividend payments	(2,808)	--	--	--	(2,808)
Proceeds from employee stock plans and warrants	6,579	--	--	--	6,579
Net cash provided by (used in) financing activities	1,060	(15,984)	--	--	(14,924)
Net increase in cash and cash equivalents	--	--	--	--	--
Cash and Cash Equivalents at the Beginning of the Period	--	--	--	--	--
Cash and Cash Equivalents at the End of the Period	\$ --	\$ --	\$ --	\$ --	\$ --

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION - INDUSTRY ENVIRONMENT

The Company has historically operated in the almost \$80 billion long-distance telecommunications industry. Recent legislative activity is designed to create one telecommunications industry to encompass both long-distance and local services. The Company intends to provide combined local and long-distance services to compete in what is estimated to be a \$150 billion market. The current industry environment subjects the Company to varying degrees of legislative and regulatory oversight on both the national and state levels. The following potential changes in the legislative and regulatory environment can impact the nature and degree of the competition in the telecommunications industry and impact the Company's ability to compete.

Legislative Matters

Telecommunications Act of 1996. In February 1996, the Telecommunications Act of 1996 (the Act) was passed by the United States Congress and signed into law by President Clinton. This comprehensive telecommunications legislation was designed to increase competition in the long-distance and local telecommunications industries. The legislation will allow the Regional Bell Operating Companies (RBOCs) to provide long-distance service in exchange for opening their networks to local competition. Under the legislation, the RBOCs can immediately provide interstate long-distance services outside of their local service territories. However, an RBOC must apply to the Federal Communications Commission (FCC) to provide long-distance services within any of the states in which such RBOC currently operates. The RBOCs must satisfy several pro-competition criteria before the FCC will approve an RBOC's request to provide in-region long-distance services and several RBOC requests have been approved. The legislation provides a framework for the Company and other long-distance carriers to compete with incumbent local exchange carriers (LECs), by reselling service of local telephone companies, interconnecting with LEC network facilities, or building new facilities.

Under the Act, a telecommunications provider can request initiation of interconnection/resale negotiations with a LEC. In early March, the Company requested in writing to begin good faith negotiations with the RBOCs and several other LECs. On June 27, 1996, the Company withdrew from formal negotiations as a result of the Company's unsuccessful attempts to reach local service agreements with each of the respective LECs. Several LECs failed to provide the necessary technical and pricing information fundamental to the provision of competitive local telephone service. The Act provides that if the parties have not reached an agreement between 135 to 160 days from the beginning of negotiations, a party may request arbitration from the appropriate state regulatory agency. The Company's withdrawal, which occurred before the 160-day deadline, preserved LCI's rights to arbitrate any unresolved issues. In the case of Ameritech, BellSouth and Sprint United, the parties mutually consented to withdraw from negotiations.

The Company continues to have discussions with various LECs, competitive access providers and other telecommunications service providers regarding the provision of local service outside of formal negotiations. The Company has since reinitiated formal negotiations with various LECs and intends to vigorously compete in the local service market.

Regulatory Matters

In order to implement the Act, the FCC was required to undertake a variety of regulatory actions which can impact competition in the telecommunications industry. Certain of these regulatory actions are described below.

Local Interconnection and Resale. On August 1, 1996, the FCC adopted a comprehensive order (Interconnection Order) to implement policies, rules, and procedures regarding local service competition as required under the Act. The Interconnection Order establishes a minimum national framework for interconnection, the purchase of unbundled local network elements, resale discounts, and procedures by which agreements for the provision of local service through LECs are to be arbitrated. Under the Interconnection Order, the states will have an important role implementing and applying local interconnection policies, rules and procedures. Several states, companies, associations, and other entities appealed the Interconnection Order.

On September 27, 1996, the United States Court of Appeals for the 8th Circuit (the 8th Circuit Court) issued a temporary stay of the Interconnection Order, preventing the order from taking effect on September 30, 1996 while the 8th Circuit Court heard oral arguments. On October 15, 1996, the 8th Circuit Court issued a stay on the implementation of various aspects of the Interconnection Order, including the proxy pricing provisions for unbundled network elements, resale discounts, and the "pick and choose" rule which allows carriers to choose the best rates and terms for components of a phone network from any previous agreements between the incumbent LEC and other carriers. The FCC and other parties petitioned the U.S. Supreme Court to reverse the 8th Circuit Court's decision and implement the Interconnection Order. On October 31, 1996, U.S. Supreme Court denied the petitions to overturn the stay. Because of the uncertainty regarding whether the 8th Circuit Court will overturn the Interconnection Order, the Company is unable to predict what impact the pending judicial proceedings will have on local service competition or on RBOC provision of in-region long distance services.

The FCC has also initiated a number of other rulemaking proceedings to comply with the Act. These rulemaking proceedings include addressing certain tariff-related issues, the definition of and funding for universal service, and accounting and non-accounting safeguards relative to RBOC provision of in-region long distance service. The Company is unable to predict what action will be taken by the FCC or how such action will affect the Company's financial position and results of operation.

Geographic Rate Averaging. On August 7, 1996, the FCC released an order regarding rate averaging. The FCC's order applies only to providers of intrastate and interstate interexchange telecommunications services. Under the FCC's rate averaging order, the rates charged by all providers of interexchange telecommunications services to subscribers in rural and high cost areas cannot be higher than the rates charged by each such provider to its subscribers in urban areas. The Company is unable to predict how the order will affect pricing structures in different services areas.

Local Service. The Company is involved in state regulatory proceedings in various states to secure approval to resell local service which would enable the Company to provide combined local and long-distance services to existing and prospective customers. The local service industry is estimated to be a \$90 billion market and the Company believes that it has significant opportunities

in this industry. The Company has received different levels of approval to resell local service in Illinois, Texas, Florida, Connecticut, Michigan, California, Maryland, Tennessee, Nevada, Wisconsin, Georgia, South Carolina, New York and Minnesota and has applications for local service authority pending in fourteen other states.

Competition

The long-distance telecommunications market is highly competitive. The principal competitive factors affecting the Company's market share are pricing, regulatory developments as described above, customer service, and diversity of services and features. The Company's ability to compete effectively will depend on its continuing to maintain high quality, market-driven services at prices generally equal to or below those charged by its major competitors.

Several of the Company's competitors are substantially larger and have substantially greater financial, technical and marketing resources. As the Company grows, it expects to face increased competition, particularly from AT&T Corp. (AT&T), MCI Telecommunications Corporation (MCI) and Sprint Corporation (Sprint). The Company also competes with other interexchange carriers and resellers as well as LECs in various types of long-distance services. The Company's pricing strategy is to offer a simple, flat-rate pricing structure with rates generally below those of AT&T, MCI and Sprint. Recently, certain long-distance carriers have introduced flat-rate pricing programs.

As a result of the passage of the Act, the nature of the industry is expected to change by allowing carriers other than LECs to provide local service while RBOCs will be permitted to provide long-distance service. As a result, the Company expects competition within the industry to increase in both the long-distance and local markets.

Regulation of RBOC Out-of-Region Long Distance. The Act granted the RBOCs the authority to provide out-of-region long-distance services. In response, the FCC granted the ability for an RBOC that provides interstate interexchange services through an affiliate to obtain non-dominant (i.e., less burdensome) regulatory treatment on an interim basis, if the affiliate complies with certain safeguards. The safeguards require that the affiliate maintains separate books of account, does not jointly own transmission or switching facilities with the RBOC, and obtains any tariffed services from the affiliated RBOC at tariffed rates and conditions. The Company is unable to predict what impact, if any, the implementation of these requirements will have on competition from RBOCs.

RBOC Mergers. In early 1996, SBC Communications Inc. and Pacific Telesis Group announced plans to merge, as did Bell Atlantic Corp. and NYNEX Corp. (all are RBOCs). The mergers are subject to review and approval by various state and Federal agencies. The Company is unable to predict what impact, if any, these potential mergers, if approved, might have on competition in the telecommunications industry or on the Company.

GENERAL - RESULTS OF OPERATIONS

The Company's switched revenues are a function of switched minutes of use (MOUs) and rate structure (rates charged per MOU), which in turn are a function of the Company's customer and service mix. Private line revenues are a function of fixed rates that do not vary with usage. The Company's cost of services consists primarily of expenses incurred for origination, termination and transmission of calls through LECs and transmission through other long-distance carriers. The Company provides service to its customers through digital fiber optic facilities which are both owned and leased. Collectively these facilities constitute the Company's network (the Network). These results of operations include the acquisition of Pennsylvania Alternative Communications, Inc. (PACE) from June 1, 1996, and the acquisitions of Teledial America, Inc. (Teledial America) and AT Network Communications, Inc. (ATS) from January 1, 1996. For the comparative periods presented, the results of operations include the acquisition of Corporate Telemanagement Group, Inc. (CTG) from September 1, 1995.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1996 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1995

Revenues. Revenues for the three months ended September 30, 1996 increased 67% to \$289.2 million on 2.1 billion MOUs as compared to \$172.0 million on 1.2 billion MOUs for the three months ended September 30, 1995. For the nine months ended September 30, 1996, revenues increased 72% to \$809.2 million on 5.9 billion MOUs versus \$469.2 million on 3.4 billion MOUs for the same period in 1995. The increases in total revenues and MOUs are attributable to internal growth of approximately 40% for the three and nine months ended September 30, 1996, with the Company's acquisitions representing the remaining growth over prior periods. The following table provides further information regarding the Company's revenues:

(in thousands, except switched revenue per MOU)	Three Months Ended September 30,			Nine Months Ended September 30,		
	1996	1995	Change	1996	1995	Change
Total Revenues	\$289,195	\$172,992	67%	\$809,173	\$469,207	72%
MOUs	2,130,974	1,244,520	71%	5,895,629	3,425,423	72%
Switched Revenue per MOU ⁽¹⁾	\$ 0.1254	\$ 0.1239	1%	\$ 0.1263	\$ 0.1215	4%

(1) Switched revenue divided by MOUs.

Revenues from business customers increased approximately 45% and 50% year-over-year for the three and nine months ended September 30, 1996, respectively, and continue to represent more than half of the Company's total revenues. Residential/small business revenues increased in excess of 100% year-over-year for the three and nine months ended September 30, 1996. The residential/small business segment represented more than 30% of total revenues for the three and nine months ended September 30, 1996 as compared to approximately 20% for the same periods in the prior year.

Growth in international service revenues across all revenue service lines continued in excess of 100% for both the three months and nine months ended September 30, 1996 compared to the same periods in 1995 and resulted from the Company's efforts to take full advantage of opportunities in the global telecommunications market.

During the third quarter, several of the Company's competitors announced new "flat-rate" pricing plans or promotions for the residential market. The impact of these efforts on the Company's residential customer base has not been determined. LCI continues to believe its simple, fair and inexpensive marketing and product pricing approach is very competitive in retaining existing customers as well as obtaining new customers. The present growth rate of the Company's residential/small business revenues in excess of 100% demonstrates the success of this marketing and pricing approach. As LCI's residential/small business base grows, however, the year-over-year growth rates are expected to decline from current reported growth rates.

The Company experienced a 1% and 4% increase year-over-year in revenue per MOU for the three and nine months ended September 30, 1996, respectively. Revenue per MOU is affected by several factors. Residential/small business and international revenues have a higher rate structure per MOU, and the Company's growth in these segments has favorably impacted revenue per MOU. Factors placing downward pressure on revenue per MOU include competitive market conditions and higher level of sales allowance on the growing base of residential/small business revenues. As a result of the Company's varying growth and changes in mix across business segments, and competitive rate structures within segments, revenue per MOU is not an exclusive indicator of gross margin. Changes in revenue per MOU is not always an accurate measure of the impact on gross margin. The Company is committed to grow in all market segments and will experience a wide diversity of rate structures which generate a variety of margins.

The Company experienced an increase in its sales allowance as a result of the growth in revenue during 1996 and the increase in the customer mix toward the residential/small business service segment. The increase in sales allowance was also due to growth in geographic markets, that require a higher level of sales allowance than the historical levels in the Company's core business.

The Company uses a variety of sales channels to market its services. In addition to its internal sales force, the Company uses a combination of advertising, telemarketing and third-party sales agents. With respect to third-party sales agents, compensation for sales is paid to agents in the form of an ongoing commission based upon collected revenue attributable to customers generated by them. The billing and customer service functions for such customers are performed by the Company. A nationwide network of third-party sales agents managed by one vendor continued to be the most successful of the Company's sales agents and accounted for a significant portion of the Company's residential/small business revenue and sales growth. In June 1996, the Company extended its contract with this vendor through April 2011. In consideration for the contract extension, as well as exclusivity and non-compete provisions, the Company has committed to make two payments on designated dates which will be amortized over the life of the contract. A portion of these payments is contingent on future performance of this vendor.

Gross Margin. The Company's gross margin increased 71% to \$122.6 million and 75% to \$336.4 million for the three and nine months ended September 30, 1996, respectively, as compared to the prior year. During the three and nine months ended September 30, 1996, the gross margin as a percentage of revenue increased to 42.4% and 41.6%, year-over-year respectively, from 41.5% and 41.0%, respectively, for the same periods in 1995. The increase in gross margin as a percentage of revenue resulted from the net impact of several items. The Company experienced the positive impact of growth in residential/small business and international traffic, which provide higher margins. The improvements in Network efficiencies and lower access costs due to LEC rate reductions provided cost savings which also favorably impacted gross margin. The Network efficiencies were a result of the integration of traffic from acquired companies onto the Network and improved application of Network optimization techniques. During the third quarter of 1996 approximately 95% of the Company's domestic traffic was carried on the Network compared to approximately 90% for the same period in 1995.

The favorable impacts on gross margin were partially offset by competitive pressures in the business service line and some international markets. The Company has experienced a reduction in the revenue per MOU in some markets, but the cost savings discussed above have reduced the cost per MOU at a greater rate than the revenue reductions. The net impact of all of these factors resulted in an overall improvement in the gross margin as a percentage of revenue.

The Company continues to evaluate strategies to reduce its cost of services. These strategies include a review of the Company's ability to leverage its embedded fiber optic capacity, as well as gain access to fiber optic and broadband capacity through contract negotiations or other arrangements with carriers. In addition, the Company continues to identify variable-cost network traffic that can be cost effectively routed onto the Company's fixed-cost Network. Through these strategies, LCI plans to improve the reliability and efficiency of the Network and continue to pursue opportunities to reduce its cost of services per MOU.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 74% to \$67.7 million and 79% to \$185.9 million for the three and nine months ended September 30, 1996, respectively, as compared to the same periods in the prior year. As a percentage of revenues, selling, general and administrative expenses were 23.4% and 23.0% for the three and nine months ended September 30, 1996, respectively, as compared to 22.5% and 22.2%, for the three and nine months ended September 30, 1995.

The Company's selling, general and administrative expenses are impacted primarily by three expenses: payroll, commissions and billing services. Payroll expenses increased \$8.0 million and \$21.9 million for the three and nine months ended September 30, 1996, respectively, due to an increase in the number of employees resulting from the Company's acquisitions and infrastructure expansion. This growth in the payroll expense year-over-year, was less than the corresponding growth in revenues for the same periods. In addition revenue per employee remained above an annualized \$500,000 per employee for the three and nine months ended September 30, 1996.

The increase in selling, general and administrative expenses reflects, in part, the \$10.2 million and \$29.0 million increase in commission expense for the three months and nine months ended September 30, 1996, respectively, over the comparable periods in 1995. The growth in residential/small business revenue sold by third party sales agents with an ongoing commission was the primary cause of the increase in commission expense. Billing services expense increased \$4.0 million and \$11.2 million year-over-year for the three and nine months ended September 30, 1996, due to improvements in the invoice for business customers which resulted in an increase in the cost per bill. The billing services expense for residential/small business customers, which is performed by LECs, declined year-over-year on a per bill basis, but the increase in residential/small business customers caused an overall increase in this expense year-over-year. Both commission and billing services expenses grew at a faster rate than revenues due to the shift in customer mix toward residential/small business services. The Company expects continued increases in these components of selling, general and administrative expenses as a result of the growth in the residential/small business segments, which incur higher proportional costs than other segments.

The Company anticipates an incremental increase in selling, general and administrative expenses with the expansion of its geographic sales presence and its entrance into the local services market. The increase in selling, general and administrative expenses and the corresponding increase in these expenses as a percentage of revenues is a demonstration of management's decision to invest in the Company's future and continued growth.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three and nine months ended September 30, 1996 increased 46% and 48%, respectively, over the same periods in 1995. The dollar increase is a result of the increased capital expenditures required to support the growth in revenue and MOU volumes, as well as additional goodwill amortization from the Company's recent acquisitions. The growth in revenue exceeded the growth in depreciation and amortization expense which caused depreciation and amortization expense as a percentage of revenues to decrease to 5.7% for both the three and nine month periods ended September 30, 1996 from 6.5% and 6.6% for the same periods in 1995, respectively. The reduction in depreciation and amortization expense as a percentage of revenues reflects the Company's ability to maximize the application of its facilities and achieve economies of scale from its revenue growth.

Operating Income. Operating income increased 78% to \$38.6 million and 83% to \$104.5 million for the three and nine months ended September 30, 1996, respectively, compared to the same period in 1995 due to the factors discussed above. As a percentage of revenues, operating income increased to 13.4% and 12.9% for the three and nine months ended September 30, 1996, respectively, compared to 12.5% and 12.2% for the same periods in 1995, reflecting management of expenses during a period of significant growth in revenues and MOUs.

Interest and Other Expense, Net. Interest and other expense, net of capitalized interest, increased to \$7.7 million and \$22.9 million for the three and nine months ended September 30, 1996, respectively, from \$4.5 million and \$11.6 million for the same periods in 1995, respectively. Increased interest expense was the result of higher levels of outstanding debt during most of 1996 as compared to the same periods in 1995. The Company's acquisitions of Teledial America, ATS and PACE increased outstanding debt by approximately \$107 million for the three and nine months ended September 30, 1996 over the comparable periods in 1995. The level of outstanding debt decreased toward the end of the quarter as a result of the application of the proceeds from the Accounts Receivable Securitization Program (Securitization Program). The Company is expecting a lower cost of funding to be provided by the Securitization Program as well as more favorable interest rates on the outstanding balances under the Company's Revolving Credit Facility (Credit Facility).

Income Tax Expense. Income tax expense was \$10.8 million and \$28.5 million for the three and nine months ended September 30, 1996, respectively, as compared to \$4.1 million and \$10.9 million for the same periods in 1995, respectively. The increase in income tax expense was a result of an increase in the estimated effective tax rate to 35% in 1996 from 24% in 1995, as well as the increase in income before income taxes for the periods in 1996 as compared to 1995. The effective tax rate is lower than the statutory rate primarily due to the Company's expectation that a portion of the available net operating losses (NOLs) will be realized in future years as permitted by Statement of Financial Accounting Standards No. 109 (See Note 9 to the Condensed Consolidated Financial Statements).

Preferred Dividends. Preferred dividends were \$0.5 million and \$2.8 million for the three and nine months ended September 30, 1996, respectively, as a result of the dividend requirements on the previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock (Preferred Stock). There were Preferred Stock conversions of approximately 1.7 million shares and 4.6 million shares during the three and nine months ended September 30, 1996, respectively. The remaining shares of Preferred Stock were redeemed on September 3, 1996. The conversions and redemptions decreased the balance of Preferred Stock and the corresponding preferred dividend payments decreased during 1996 as compared to 1995. The elimination of future dividend payments will result in an annual savings of \$5.8 million, based upon the original 4.6 million shares issued in August 1993.

Income on Common Stock. The Company generated income on common stock (after preferred dividends) of \$19.6 million and \$50.2 million for the three and nine months ended September 30, 1996, respectively, as compared to \$11.6 million and \$30.3 million for the same periods in 1995, respectively.

LIQUIDITY AND CAPITAL RESOURCES

LCI International, Inc. (LCI) is a holding company and conducts its operations through direct and indirect wholly-owned subsidiaries. LCI SPC I, Inc. was established as a wholly-owned subsidiary of LCI to facilitate the Securitization Program, and is subject to certain contractual restrictions concerning the payment of dividends or the making of loans or advances to LCI. There are however, no restrictions on the movement of cash among the Company and the other subsidiaries in the consolidated group and the Company's discussion of its liquidity is based on the consolidated group. The Company measures its liquidity based on cash flow as reported in its

Condensed Consolidated Statements of Cash Flow; however, the Company does use other operational measures as outlined below to manage its operations.

Cash Flows - Operating Activities. The Company provided \$238.9 million of cash from operations for the nine months ended September 30, 1996 which is an increase of \$219.5 million from the same period in 1995. The proceeds from the Securitization Program provided \$108.0 million during 1996. The remaining increase is due to the significant growth in revenues and net income for the periods, as well as improved management of working capital and stronger cash collections in 1996 when compared to 1995.

Cash Flows - Investing Activities. The Company has supported its growth strategy with capital expenditures and acquisitions, resulting in \$224.0 million in cash used for investing activities during 1996, representing an increase of \$91.5 million compared to 1995. During the nine months ended September 30, 1996, the Company spent \$105.8 million in capital expenditures to acquire additional switching, transmission and distribution capacity as well as to develop and license information systems support, representing an increase of \$51.8 million from the same period in 1995.

The Company's acquisitions of Teledial America and ATS in the first quarter of 1996, as well as the acquisitions of PACE and other intangible assets in the second quarter of 1996 resulted in the use of \$118.1 million in cash for the nine months ended September 30, 1996. During the third quarter of 1995, the Company used \$78.4 million for the acquisition of CTG and payment for a called letter of credit.

Cash Flows - Financing Activities. Financing activities used a net \$14.9 million for the nine months ended September 30, 1996, compared with cash provided by financing activities of \$113.1 million during the same period in 1995. During the nine months ended September 30, 1996 the Company increased its financing activities to fund its acquisitions and capital expenditures, as discussed in investing activities, above. This increase was offset by the proceeds provided by the sale of accounts receivable pursuant to the Securitization Program, which were used to pay down outstanding balances under the Credit Facility.

Capital Resources. In February 1996, the Company negotiated an increase in the Credit Facility to \$700 million for a five-year period, and in September 1996, the Company entered into a Discretionary Line of Credit for \$25 million. The Credit Facility and Discretionary Line of Credit allow the Company to borrow on a daily basis, therefore the Company uses its available cash to reduce the balance of its borrowings and maintains no cash on hand. As of September 30, 1996, the Company had \$252 million outstanding under the Credit Facility with \$10 million reserved as a result of issued letters of credit and, based on covenant restrictions, the Company had \$355 million available under the Credit Facility. As of September 30, 1996, the Company had \$5 million outstanding on the Discretionary Line of Credit with \$20 million available.

The banks' commitment under the Credit Facility is subject to various principal reductions, depending on the outstanding balance, until maturity on March 31, 2001. The Credit Facility contains certain balance sheet, operating cash flow, capital expenditure and negative covenant requirements. As of September 30, 1996, the Company was in compliance with all covenants. The interest rate on the Credit Facility outstanding balance is variable based on several indices (See Note 6 to the Condensed Consolidated Financial Statements). The weighted average interest rate on

the debt outstanding under the Credit Facility was 6.5% and 6.9% at September 30, 1996 and 1995, respectively.

On August 29, 1996, the Company entered into the Securitization Program to sell a percentage owner hip interest in a defined pool of the Company's trade accounts receivable. The Company can transfer an undivided interest in a designated pool of accounts receivable on an ongoing basis to maintain the participation interest up to the limit of \$150 million. At September 30, 1996, the pool of trade accounts receivable which was available for sale totaled approximately \$114.9 million and the amount of receivables sold totaled \$108.0 million.

Although the Company believes it has sufficient operating cash flows and available borrowing capacity to fund its current operations and anticipated capital requirements, the Company continues to evaluate other sources of financing. The Company has filed a shelf registration statement with the Securities and Exchange Commission, which would allow the issuance of \$300 million of debt and/or equity securities.

Operational Measures. The Company uses earnings before interest, income taxes, other expense, depreciation and amortization (EBITDA) and borrowing capacity under its Credit Facility as operational measures of its ability to fund growth and manage expansion. EBITDA should not be considered (i) as an alternate to net income, (ii) as an indicator of operating performance or cash flows generated by operating, investing or financing activities or (iii) as a measure of liquidity.

EBITDA increased 67% to \$55.0 million and 70% to \$150.4 million for the three and nine months ended September 30, 1996, respectively, compared to the same period for 1995. The successful growth in operations, together with the capital changes discussed above, have significantly improved EBITDA during the periods presented.

Capital Requirements. The Company has utilized strategic acquisitions as a means of expanding its network, sales and service presence and revenues across the country. The Company evaluates each potential acquisition to determine its strategic fit within the Company's growth, operating margin and income objectives. The Company expects to continue to actively explore potential acquisitions and may enter into discussions from time to time with potential acquisition candidates, but there can be no assurance that the Company will be able to enter into agreements in the future with respect to, or consummate, acquisitions on acceptable terms.

The PACE and Teledial America acquisition agreements contain provisions that may require the Company to make contingent purchase price payments during the fourth quarter of 1996 and through 1997. These payments will be based on achieving certain revenue performance and customer retention as specified in the respective purchase agreements. The Company expects to increase the level of capital expenditures through 1997 to support continued growth.

In May 1996, the Company entered into two separate agreements with a distributor and its affiliated party. In consideration for the contract extensions as well as exclusivity and non-compete provisions in the agreements, the Company will make payments on various designated dates over several years in accordance with the two agreements. Certain of these payments are contingent upon these parties meeting certain performance measures. These payments are being amortized over the respective contract terms.

Commitments and Contingencies. The Company has agreements with certain interexchange carriers and third-party vendors to lease facilities for originating, terminating and transport services. These agreements require the Company to maintain minimum monthly and/or annual billings based on usage. The third party carriers include WorldCom Network Services, Inc. d/b/a WiTel, Sprint Corporation and MCI Telecommunications Corporation. In addition, the Company uses services provided by each RBOC, GTE Telephone Operating Companies and other smaller local exchange carriers. The Company currently has one significant contract with a third-party carrier, however, the costs associated with the contract represent less than 10% of the Company's revenue on an annual basis (See Note 7 to the Condensed Consolidated Financial Statements). The Company manages its network in order to maximize reliability and redundancy, and minimize dependence on any particular third party carrier. The Company may, however, increase its reliance on a particular third party carrier as a result of service, quality and pricing considerations. The Company has engineered its Network to minimize the impact on its customers of a service failure by any third party carrier and has established contingency plans to reroute traffic as quickly as possible if a service failure by a third party carrier should occur. Although most service failures that the Company has experienced have been corrected in a relatively short time period, a catastrophic service failure could interrupt the provision of service by both the Company and its competitors for a lengthy time period. The restoration period for a catastrophic service failure cannot be reasonably determined, however the Company has not experienced a catastrophic service failure in its history.

The Company has been named as a defendant in various litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes that it has adequate accrued loss contingencies and that current pending or threatened litigation matters will not have a material adverse impact on the Company's results of operations or financial condition (See Note 7 to the Condensed Consolidated Financial Statements).

Federal Income Taxes. The Company has generated significant NOLs in prior years that are available to reduce current cash requirements for income taxes. See Note 9 of the Condensed Consolidated Financial Statements for a discussion of the availability and expected utilization of the existing NOLs.

Impact of Inflation and Seasonality. The Company does not believe that the relatively moderate levels of inflation which have been experienced in the United States in recent years have had a significant effect on its net revenues or earnings.

The Company's long-distance revenue is subject to seasonal variations based on each business segment. Use of long-distance services by commercial customers is typically lower on weekends throughout the year, and in the fourth quarter due to holidays. As residential revenue increases as a proportion of the Company's total revenues, the seasonal impact due to changes in commercial calling patterns should be reduced. The Company is unable to predict the impact of a shift to a larger residential customer base.

Private Securities Litigation Reform Act of 1995 - Safe Harbor Cautionary Statement.

This report contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 (the Reform Act). These forward-looking statements express the beliefs and expectations of management regarding LCI's future results and performance and include, without

limitation, the following: statements concerning the Company's outlook for 1997; the Company's plans to enter the local service market; the effect of FCC and judicial rulings pertaining to local service competition and RBOC entry into the long-distance market; the impact of marketplace competition on pricing strategies and rates; expected growth in the residential business segment; the cost reduction strategies and opportunities in gross margin; the expected interest savings from the Securitization Program; funding of capital expenditures and operations; the Company's beliefs regarding a catastrophic service failure; and other similar expressions concerning matters that are not historical facts.

Such statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results, performance, and/or achievements of the Company to differ materially from any future results, performance, or achievements, expressed or implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements and any such statement is qualified by reference to the following cautionary statements. In connection with the safe harbor provisions of the Reform Act, the Company's management is hereby identifying important factors that could cause actual results to differ materially from management's expectations including, without limitation, the following: increased levels of competition in the telecommunications industry, including RBOC entry into the long-distance industry and the impact on pricing; the ability of LCI's direct sales force and alternative channels of distribution to obtain new sales; the adoption and application of rules and regulations implementing the Act; and other risks described from time to time in the Company's Securities and Exchange Commission filings. The Company undertakes no obligation to publicly release the result of any revision to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Thomas J. Byrnes and Richard C. Otto v. LCI Communications Holdings Co. et al. was filed by two former members of the Company's management on June 28, 1991 in Common Pleas Court, Franklin County, Ohio. The suit alleged age discrimination by the Company among other things and sought \$42.8 million in compensatory and punitive damages. During 1993, a jury returned a verdict in favor of the Plaintiffs and the Common Pleas Court awarded approximately \$8.1 million in damages and attorney's fees.

Both the Plaintiffs and the Company appealed this matter to the Court of Appeals in Ohio, which in a two to one decision overruled each of LCI's assignments of error and two of the Plaintiffs' claims, and sustained the Plaintiffs' request for approximately \$0.1 million in pre-judgment interest in addition to the previous award. The Company filed a Notice of Appeal at the Supreme Court of Ohio (the Court) and the Court agreed to review the decision by the Court of Appeals. Oral arguments took place in May 1996. To date the Court has not rendered an opinion on the matter, although the Company expects an opinion to be rendered in the fourth quarter of 1996. The appeal process has extended the resolution of this matter for several years and, depending on the disposition and timing of the ultimate outcome, it is reasonably possible that between \$0 and \$3 million of additional interest expense could be incurred.

Vanus James v. LCI International, Inc. et al. and American Communications Network, Inc. was commenced in late May 1995 in the Supreme Court, Kings County, New York. The plaintiff purports to bring a class action lawsuit against the Company, certain of its affiliates, and American Communications Network, Inc. (ACN), one of the Company's sales agents. The lawsuit alleges that, in an effort to induce prospective customers to sign up for the Company's long distance services, the Company and ACN violated various laws by disseminating false and misleading statements concerning the Company's rates for calls to certain foreign countries. The lawsuit seeks, among other things, compensatory damages of \$10 million dollars and punitive damages of \$30 million dollars. Based upon its overall assessment of the matter, management is of the opinion that the final resolution of these proceedings will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

The Company has also been named as a defendant in various other litigation matters incident to the character of its business. The Company believes it has adequate accrued loss contingencies with respect to all litigation matters and, although the ultimate outcome of these claims cannot be ascertained at this time, that current pending or threatened litigation matters will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits: The exhibits filed as part of this report are set forth in the Index of Exhibits on page 32 of this report.
- (b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the three months ended September 30, 1996.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LCI INTERNATIONAL, INC.

DATE: November 5, 1996

BY: /s/ Joseph A. Lawrence

Chief Financial Officer,
Senior Vice President Finance and
Corporate Development

(as duly authorized officer and
principal financial officer)

EXHIBIT INDEX

The following Exhibits are included in this Quarterly Report on Form 10-Q:

Exhibit Number	Exhibit Description
3(i)(a)	Amended and Restated Certificate of Incorporation. ¹
3(ii)	Amended and Restated By-laws. ²
10(r)(i)	Transfer and Administrative Agreement among Enterprise Funding Corporation, LCI SPC I, Inc., LCI International Telecom Corp., NationsBank, N.A. and certain other parties thereto, dated August 29, 1996.
10(r)(ii)	Receivables Purchase Agreement dated August 29, 1996, among LCI International Telecom Corp. LCI SPC I, Inc.
10(r)(iii)	Subordinated Intercompany Revolving Note, date August 29, 1996, issued to LCI International Telecom Corp. by LCI SPC I, Inc.
10(r)(iv)	Support Agreement, dated August 29, 1996, by LCI International, Inc. in favor of LCI SPC I, Inc.
11	Statement Regarding Computation of Per Share Earnings
27	Financial Data Schedule

¹ Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996.

² Incorporated by reference from the Company's Registration Statement on Form S-1 (Registration No. 33-60558).

LCI International, Inc.**Selected Consolidated Financial Data - Audited***(In Millions, Except Revenue per MOU and Earnings per Common Share)*

	1996	1995	1994 ^(A)	1993 ^(A)	1992 ^(A)
Statement of Operations Data					
Revenues	\$ 1,103.0	\$ 672.9	\$ 464.0	\$ 341.2	\$ 260.5
Operating Expenses	959.5	590.3	413.1	320.0	267.0
Operating Income	143.5	82.6	50.9	21.2	(6.5)
Income (Loss) Before Extraordinary Items	74.8	50.8	6.8	(2.6)	(41.7)
Net Income (Loss)	74.8	50.8	6.8	(10.9)	(41.7)
Income (Loss) on Common Stock	\$ 72.0	\$ 45.1	\$ 1.0	\$ (13.0)	\$ (46.9)
Operating Data					
Minutes of Use (MOUs)	8,159.1	4,862.6	3,288.4	2,270.4	1,677.2
Revenue per MOU	\$ 0.1245	\$ 0.1236	\$ 0.1226	\$ 0.1273	\$ 0.1263
EBITDA ^(B)	\$ 207.0	\$ 126.5	\$ 87.0	\$ 67.6	\$ 50.3
Balance Sheet Data					
Total Assets	\$ 950.0	\$ 773.4	\$ 469.7	\$ 359.8	\$ 323.6
Long-term Debt and Capital Lease Obligations	235.9	274.9	144.8	84.3	255.9
Redeemable Preferred Stock	—	—	—	—	4.1
Shareowners' Equity (Deficit)	\$ 430.7	\$ 344.8	\$ 201.7	\$ 195.3	\$ (38.0)
Earnings per Common Share^(C)					
Income (Loss) per Share					
Before Extraordinary Items	\$ 0.86	\$ 0.62	\$ 0.02	\$ (0.10)	\$ (1.33)
Extraordinary Loss per Share	—	—	—	(0.18)	—
Income (Loss) per Share	\$ 0.86	\$ 0.62	\$ 0.02	\$ (0.28)	\$ (1.33)
Weighted Average Number of Common Shares^(C)					
	87.3	82.1	66.7	47.2	31.4
Cash Dividends per Share					
	—	—	—	—	—

(A) Includes write-off of assets, loss contingency expenses and restructuring charges of \$62.5 in 1994, \$13.8 in 1993, and \$24.4 in 1992.

(B) Earnings before interest, income taxes, depreciation and amortization (EBITDA) excludes nonrecurring charges discussed in note (A) above.

(C) Earnings per common share and weighted average number of common shares are presented on a fully diluted basis.

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

LCI International, Inc., together with its subsidiaries (LCI or the Company), is a facilities-based, long-distance telecommunications carrier that provides a broad range of domestic and international telecommunications service offerings in all market segments: commercial, wholesale and residential/small business. The Company provides service to its customers through leased and owned digital fiber-optic facilities. Collectively, these facilities constitute the Company's network (the Network).

Historically, the Company has operated in the \$80 billion long-distance telecommunications industry. The long-distance industry is highly competitive and is currently dominated by the three largest interexchange carriers: AT&T Corporation (AT&T), MCI Communications Corporation (MCI) and Sprint Corporation (Sprint). In 1996, fewer than ten other publicly traded interexchange carriers, including the Company, had annual revenues exceeding \$1 billion. The balance of the long-distance industry comprises several hundred smaller interexchange carriers. Recent legislative and regulatory activity is designed to create one telecommunications industry to encompass both long-distance and local telecommunications services. The local telecommunications industry is approximately \$95 billion and is dominated by the seven Regional Bell Operating Companies (RBOCs) and GTE Communications Corporation (GTE). The RBOCs and GTE have been granted the authority to provide Local Access Transport Area (interLATA) long-distance service outside their respective regions. The nature of competition in this combined industry is expected to change significantly as legislative and regulatory activities progress. The Company intends to provide combined local and long-distance services to compete in what is expected to be a \$150 billion combined market.

While the revenue of long-distance telecommunications industry providers has grown between 5% and 8% annually in recent years, the Company has experienced 64%, 45% and 36% growth in revenues in 1996, 1995 and 1994, respectively, as well as 68%, 48% and 45% growth in the volume of switched minutes of use (MOUs) during the same periods. This growth has been primarily generated by internal growth in all service areas of the Company's business. The Company's residential/small business revenues grew in excess of 125%, 170% and 120% in 1996, 1995 and 1994, respectively, while international service revenues from all segments grew in excess of 100% in each of the same periods. Revenues from the Company's business segment exhibited overall growth rates of 45%, 28% and 31% in 1996, 1995 and 1994, respectively. The Company intends to continue expanding sales, marketing and promotional efforts across all customer segments, to expand its service lines and to provide local service.

The Company's ability to compete and grow is subject to changing industry conditions. Recent legislation and the resulting judicial and regulatory action have had a significant impact on the current industry environment. These changes will alter the nature and degree of competition in both the local and long-distance segments of the industry.

INDUSTRY ENVIRONMENT

Legislative Matters

Telecommunications Act of 1996. In February 1996, the Telecommunications Act of 1996 (the Act) was passed by the United States Congress and signed into law by President Clinton. This comprehensive telecommunications legislation was designed to increase competition in the long-distance and local telecommunications industries. The legislation will allow the RBOCs to provide long-distance service in exchange for opening their local networks to competition. Under the legislation, the RBOCs can immediately provide interLATA long-distance service outside of their local-service territories. However, an RBOC must apply to the Federal Communications Commission (FCC) to provide long-distance services within any of the states in which the RBOC currently operates. The

RBOCs must satisfy several pro-competitive criteria before the FCC will approve an RBOC's request to provide in-region interLATA long-distance services. The legislation provides a framework for the Company and other long-distance carriers to compete with incumbent local exchange carriers (LECs) by reselling service of local telephone companies, interconnecting with LEC network facilities or building new local-service facilities.

Under the Act, a telecommunications provider can request initiation of interconnection/resale negotiations with a LEC. The Company is currently in formal negotiations with various LECs to reach local-service agreements and LCI intends to vigorously compete in the local-service market. Initially, the Company will provide local service to customers on a bundled resale basis. The Company's decision to sell unbundled services or to build local-service facilities is dependent on economic viability and favorable regulation.

Regulatory Matters

Interconnection Order. In order to implement the Act, the FCC is required to undertake a variety of regulatory actions which can impact competition in the telecommunications industry. These regulatory actions include the adoption of a comprehensive order to implement policies, rules and procedures regarding local-service competition as required under the Act (Interconnection Order). The Interconnection Order establishes a minimum national framework for interconnection with LECs, the purchase of unbundled local network elements from LECs, local-service resale discounts and procedures by which agreements for the provision of local service through LECs are to be arbitrated. Several LECs, state regulatory agencies and other parties have appealed the FCC's Interconnection Order. The United States Court of Appeals for the Eighth Circuit issued a stay of the Interconnection Order, pending the outcome of the appeals. Because the legal outcome of these appeals is uncertain, the Company is unable to predict what impact the pending judicial proceedings will have on local-service competition or on RBOC provision of in-region interLATA long-distance services.

Geographic Rate Averaging. The FCC also released an order regarding rate averaging. Under the FCC's rate averaging order, the rates charged by all providers of interexchange telecommunications services to customers in rural and high-cost areas cannot be higher than the rates charged by such providers to their customers in urban areas. The Company is unable to predict how this order will affect its results of operations or financial position.

Access Charge Reform. In December 1996, the FCC proposed changes to access charges levied by LECs on long-distance service providers. These charges currently represent approximately one-half of the long-distance industry revenues. The FCC's intention is to require the charges for access services to be consistent with actual economic cost. The FCC has proposed two approaches for access charge reform: The first proposed solution is a market-based approach that relies on competitive pressure, while the second is a prescriptive approach which would involve FCC intervention. It is widely expected that material changes to current industry cost structures could result from these proceedings. The Company intends to actively participate in these proceedings. In light of the uncertainty regarding the FCC's ultimate actions in these proceedings, the Company is unable to predict what impact the pending proceedings will have on the Company's cost structure.

Local Service. The Company is involved in state regulatory proceedings in various states to secure approval to resell local service, which would enable the Company to provide combined local and long-distance services to existing and prospective customers. The Company has received approval to resell local service in 21 states (Alabama, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Maryland, Michigan, Minnesota, Mississippi, Nevada, New York, Pennsylvania, South Carolina, Tennessee, Texas, Washington and Wisconsin) and the District of Columbia, and has applications for local-service authority pending in another seven states. The Company is currently reselling local telecommunications service in California, Illinois and New York.

INDUSTRY STRUCTURE

The current long-distance telecommunications market is highly competitive. Several of the Company's competitors are substantially larger and have substantially greater financial, technical and marketing resources. As the Company grows, it expects to face increased competition, particularly from AT&T, MCI and Sprint. The Company also competes with other interexchange carriers and resellers in various types of long-distance services.

The Company's growth is based on a marketing strategy that focuses on differentiating LCI through "Simple, Fair and Inexpensive" domestic and international telecommunications service offerings in all market segments. This strategic direction is supported by geographic expansion of sales presence and Network operating facilities, as well as expansion in sales channels, targeted service offerings to each market segment and selective acquisitions.

The principal competitive factors affecting the implementation of the Company's strategy are the industry environment as described above, pricing, efficient low-cost operations, customer service and diversity of services and features. The Company's pricing approach is to offer a simple, flat-rate pricing structure with rates generally below those of AT&T, MCI and Sprint. This pricing strategy is supported by a continuous focus on lowering the unit cost of the Company's cost of service, which enables the Company to competitively price its services. Recently, certain long-distance carriers have introduced flat-rate pricing programs whose impact on the Company has not yet been determined. The Company's ability to compete effectively will depend on maintaining high-quality, market-driven services at prices generally equal to or below those charged by its major competitors.

As a result of the passage of the Act and the effect of other regulatory matters discussed above, the structure of the industry is expected to change by facilitating the provision of local service by carriers other than LECs, while permitting RBOCs to provide interLATA long-distance service within their service territories. Consequently, the Company expects competition within the industry to increase in both the long-distance and local markets.

REVIEW OF OPERATIONS

The Company's revenues primarily consist of switched and private-line revenues. The Company's switched revenues are a function of switched MOUs and rate structure (rates charged per MOU), which in turn are based upon the Company's customer and service mix. Private-line revenues are a function of fixed rates that do not vary with usage. The Company's cost of services consists primarily of expenses incurred for origination, termination and transmission of calls through LECs and over the Company's Network, and the cost of transmission through other long-distance carriers. The Company's results of operations include the acquisition of Pennsylvania Alternative Communications, Inc. (PACE) from June 1, 1996, and the acquisitions of Teledial America, Inc. (Teledial America) and ATS Network Communications, Inc. (ATS) from January 1, 1996. For the comparative periods presented, the Company's results of operations include the acquisition of Corporate Telemanagement Group, Inc. (CTG) from September 1, 1995.

Revenues

Total revenues increased 64% to \$1.1 billion in 1996, from \$672.9 million in 1995. Total revenues in 1995 increased 45% from \$464.0 million in 1994. Revenues for all periods presented are reduced by estimated allowances for credits and uncollectible accounts (sales allowance).

Revenues from business customers increased approximately 45% during 1996 as compared to approximately 30% during both 1995 and 1994. Business revenues continue to represent more than half of the Company's total revenues. Residential/small business revenues increased in excess of 100% for all years presented. The residential/small business segment represented more than 30% of total revenues for 1996, as compared to approximately 20% for 1995 and 10% for 1994. Growth in international service revenues across all revenue service lines continued in excess of 100% for all years presented.

During the last half of 1996, several of the Company's competitors announced new flat-rate pricing plans or promotions for the residential market. LCI continues to believe that its Simple, Fair and Inexpensive marketing and service pricing approach is very competitive in retaining existing customers, as well as in obtaining new customers. As LCI's residential/small business base grows, however, the year-over-year growth rates are expected to decline from current reported growth rates.

The Company experienced a 1% increase year-over-year in revenue per MOU for both 1996 and 1995. Revenue per MOU is affected by several factors. Residential/small business and international revenues have a higher rate structure per MOU, and the Company's growth in these segments has favorably impacted revenue per MOU.

Factors placing downward pressure on revenue per MOU include competitive market conditions, a higher sales allowance for uncollectibles on the growing base of residential/small business revenues and a change in the mix of business volumes from switched services to dedicated access services. The Company's growth in various segments has changed its revenue mix and consequently impacts revenue per MOU. Changes in revenue per MOU are not necessarily indicative of the performance that can be expected in the Company's gross margin, both in total and as a percentage of revenue. The Company is committed to growing in all market segments, which have different rate structures and generate a variety of gross margins, but have similar operating margins.

The Company experienced an increase in its sales allowance in 1996 as a result of the growth in revenue and a shift in the customer mix toward the residential/small business service segment which, historically, has a higher uncollectible rate than the business revenue segment. This increase in sales allowance was also due to growth in specific geographic markets where the Company experienced a higher level of sales allowance than the Company's historical levels.

The Company uses a variety of channels to market its services. In addition to its internal sales force, the Company uses a combination of advertising, telemarketing and third-party sales agents. With respect to third-party sales agents, compensation for sales is paid to agents in the form of an ongoing commission based upon collected revenue attributable to customers identified by the agents. Service responsibilities, including billing and customer service functions for such customers, are performed by the Company. American Communications Network, Inc. (ACN), a nationwide network of third-party sales agents, continued to be the most successful of the Company's sales agents and accounted for a significant portion of the Company's residential/small business sales growth. In June 1996, the Company extended its contract with ACN through April 2011. In consideration for the contract extension, as well as exclusivity and non-compete provisions, the Company committed to make two payments on designated dates which will be amortized over the life of the contract. A portion of these payments is contingent on future performance by ACN. The agreement also contains a provision whereby ACN will receive a payment if there is a change in the control of the Company. In consideration for this change in control payment, the Company will receive a 31% reduction in the ongoing commission rates paid to ACN. The change in control payment is calculated based on a multiple of three times the average monthly collected revenue generated by customers identified by ACN. Average monthly collected revenue is calculated over a 24-month performance period subsequent to the change in control. The amount of this payment is therefore dependent upon ACN's level of performance during this period.

Gross Margin

The Company's gross margin increased 67% to \$460.7 million in 1996 from \$276.7 million in 1995. Gross margin in 1995 increased 46% from \$189.7 million in 1994. The following table provides information regarding gross margin:

(In Millions)	1996	1995	1994
Revenues	\$ 1,103.0	\$ 672.9	\$ 464.0
Cost of Services	642.3	396.2	274.3
Gross Margin	\$ 460.7	\$ 276.7	\$ 189.7
Gross Margin %	41.8%	41.1%	40.9%

During 1996, 1995 and 1994, the gross margin as a percentage of revenue increased to 41.8%, 41.1% and 40.9%, respectively. The increase in gross margin as a percentage of revenue resulted from the net impact of several items. The Company experienced the positive impact of growth in residential/small business and international traffic, which provide higher gross margins. The improvements in Network efficiencies and lower access costs due to LEC rate reductions provided cost savings that also favorably impacted gross margin. The Network efficiencies resulted from integration of traffic from acquired companies onto the Network and improved application of Network optimization techniques. The favorable impacts on gross margin were partially offset by

Excerpt from 1996 Annual Report to Shareowners

competitive pressures for lower pricing across all service lines and in some international markets. The net impact of all of these factors resulted in an overall improvement in the gross margin as a percentage of revenue.

The Company continues to evaluate strategies to reduce its cost of services. These strategies include using its embedded fiber-optic capacity, expanding its owned fiber-optic capacity and gaining access to fiber-optic and broadband capacity through contract negotiations or other arrangements with carriers. In addition, the Company continues to identify variable-cost network traffic that can be cost-effectively routed onto the Company's fixed-cost Network. Through these strategies, LCI plans to improve the reliability and efficiency of the Network and to continue to pursue opportunities to reduce its cost of services per MOU.

Operating Expenses and Operating Income

The following table provides information regarding operating expenses and operating income:

(In Millions)	1996	1995	1994
Gross Margin	\$ 460.7	\$ 276.7	\$ 189.7
Selling, General and Administrative Expenses	253.7	150.1	102.7
Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA)	207.0	126.6	87.0
Depreciation and Amortization	63.5	44.0	36.1
Operating Income	\$ 143.5	\$ 82.6	\$ 50.9
As a Percent of Revenue:			
Gross Margin	41.8 %	41.1 %	40.9 %
Selling, General and Administrative Expenses	23.0 %	22.3 %	22.1 %
EBITDA	18.8 %	18.8 %	18.8 %
Depreciation and Amortization	5.8 %	6.5 %	7.8 %
Operating Income	13.0 %	12.3 %	11.0 %

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 69% to \$253.7 million in 1996 and increased 46% to \$150.1 million in 1995 from \$102.7 million in 1994. As a percentage of revenues, selling, general and administrative expenses were 23.0%, 22.3% and 22.1% for 1996, 1995 and 1994, respectively. The Company's selling, general and administrative expenses are impacted primarily by three expenses: payroll, commissions and billing services. Payroll expenses increased \$37.5 million, \$17.4 million and \$13.5 million year-over-year for 1996, 1995 and 1994, respectively, due to an increase in the number of employees that resulted from the Company's acquisitions and expansion of the sales and customer support infrastructure. This growth in the payroll expense year-over-year was less than the corresponding growth in revenues for the same periods.

The growth in residential/small business revenue to more than 30% of the Company's customer base in 1996 was responsible for a significant portion of the growth in selling, general and administrative expenses during the past three years. Although the residential/small business service line resulted in increased costs, it also provided a higher gross margin, allowing the Company to manage EBITDA to a consistent percentage of revenue.

The increase in selling, general and administrative expenses reflects, in part, the \$35.3 million, \$15.7 million and \$5.5 million increase in commission expenses for the years ended December 31, 1996, 1995 and 1994, respectively, over the comparable prior periods. The growth in residential/small business revenue sold by third-party sales agents with an ongoing commission was the primary cause of the increase in commission expense. The costs incurred for commissions primarily replace other variable marketing and selling expenses for this revenue segment. Billing services expenses increased \$14.6 million, \$6.5 million and \$2.7 million year-over-year for 1996, 1995 and 1994, respectively, primarily for residential/small business billing service expenses, which are

performed by LECs. LEC billing costs declined year-over-year on a per-bill basis, but the increase in residential/small business customers and the related revenue caused an overall increase in this expense year-over-year. Both commission and billing services expenses grew at a faster rate than total revenues due to the shift in customer mix toward residential/small business services.

The Company anticipates an incremental increase in selling, general and administrative expenses with the continued expansion of its geographic sales presence and its entrance into the local-services market. The Company also expects continued increases in selling, general and administrative expenses as a result of the growth in the residential/small business segment, which incurs higher proportional costs but also provides a higher gross margin than other segments.

Depreciation and Amortization Expense. Depreciation and amortization expense for 1996, 1995 and 1994 increased 44%, 22% and 10% year-over-year, respectively, due to the Company's increased capital expenditures to support its growth in revenues and volumes, as well as additional amortization expense from acquisitions. The growth in revenue has exceeded the growth in depreciation and amortization expense, which has caused depreciation and amortization expense as a percentage of revenues to decrease to 6% in 1996, from 7% in 1995 and 8% in 1994. The Company's revenue growth out-paced the growth in the cost of additional Network and other capital assets, due to LCI's ability to take advantage of improved technology with higher capacity at lower costs.

Operating Income. Operating income increased 74% to \$143.5 million in 1996 and 62% to \$82.6 million in 1995 from \$50.9 million in 1994. As a percentage of revenues, operating income increased to 13%, 12% and 11% for the years ended December 31, 1996, 1995 and 1994, respectively, reflecting the management of the unit cost of services and selling, general and administrative expenses during a period of significant growth in revenues and MOUs.

Other (Income) Expense, Net

Other income, net of other expenses, was \$.3 million in 1996 compared to \$.9 million in 1995. Other income, net for the year ended December 31, 1996, includes a gain on the sale of a wholly owned CTG subsidiary which provided service to non-strategic geographic locations. In 1995, other income included a gain related to the resolution of the STN Incorporated (STN) investment. In 1994, other expense, net, was \$59.8 million, primarily a result of the nonrecurring charge of \$62.5 million relating to the loss of the STN investments and accrued loss contingencies related to STN obligations.

Interest Expense, Net

Interest expense, net of capitalized interest, increased to \$28.8 million in 1996 from \$16.3 million in 1995 and \$8.8 million in 1994. Increased interest expense in 1996 was primarily the result of higher levels of outstanding debt and capital leases throughout 1996 as compared to 1995. The Company's acquisitions of Teledial America, ATS and PACE increased outstanding debt by \$120 million in 1996. The proceeds from the sale of accounts receivable through the Accounts Receivable Securitization Program (Securitization Program), in the third and fourth quarters of 1996, were used to decrease the outstanding debt to \$235.8 million at December 31, 1996. The Company's acquisitions and capital expenditures during 1995 increased outstanding debt and capital leases to \$274.7 million at December 31, 1995, from \$144.8 million at December 31, 1994. The effective weighted average interest rate on all indebtedness outstanding was 8.24% in 1996, as compared to 8.20% in 1995 and 7.35% in 1994. The Company expects lower interest rates due to the reduction of the outstanding balances under the Revolving Credit Facility (Credit Facility) for a full year in 1997.

Income Taxes

Income tax expense was \$40.2 million and \$16.4 million in 1996 and 1995, respectively, and a benefit of \$24.5 million in 1994. Increased income tax expense resulted from an increase in the effective tax rate to 35% in 1996

Excerpt from 1996 Annual Report to Shareowners

from 24% in 1995 and the increase in income before income taxes for the year ended December 31, 1996 as compared to the same period in 1995. The effective income tax rate was lower than the statutory rate in 1996 and 1995 and was a benefit in 1994, primarily due to the Company's expected utilization of available net operating losses (NOLs). Previously generated NOLs for financial reporting purposes have been fully realized as of December 31, 1996. (See Note 10 to the Consolidated Financial Statements.)

Preferred Dividends

Preferred dividends were \$2.8 million, \$5.7 million and \$5.8 million for 1996, 1995 and 1994, respectively, as a result of the dividend requirements on the Company's previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock (Preferred Stock). During 1996, nearly all of the 4.6 million shares of Preferred Stock outstanding at December 31, 1995 were converted into shares of the Company's Common Stock, par value \$.01 per share (Common Stock). On September 3, 1996, the remaining shares of Preferred Stock were redeemed by the Company. The conversion of Preferred Stock will result in an annual savings of \$5.8 million, based upon the original 4.6 million shares issued in August 1993.

Net Income and Earnings per Common Share

Net income increased to \$74.8 million for 1996, \$50.8 million for 1995 and \$6.8 million for 1994. Income on common stock was \$72.0 million, \$45.1 million and \$1.0 million for 1996, 1995 and 1994, respectively.

For the years ended December 31, 1996 and 1995, the earnings per common share were calculated as net income before preferred dividends divided by the weighted average number of common shares. For the year ended December 31, 1994, the earnings per common share were calculated as the income on common stock divided by the weighted average number of common shares. For the years ended December 31, 1996 and 1995, the weighted average number of common shares included the assumed conversion of any Preferred Stock then outstanding during any point in the period, into 12.1 million shares of Common Stock. For the years ended December 31, 1994, the assumed conversion of the Preferred Stock into Common Stock was excluded from the weighted average number of common shares as such stock was anti-dilutive. For all years presented, Common Stock equivalents were reflected in the weighted average number of common shares using the treasury stock method. (See Note 2 to the Consolidated Financial Statements.)

LIQUIDITY AND CAPITAL RESOURCES

LCI International, Inc. is a holding company and conducts its operations through its direct and indirect wholly owned subsidiaries. LCI SPC I, Inc. (SPC) is a wholly owned subsidiary of LCI and facilitates the Securitization Program. Except in certain limited circumstances, SPC is subject to certain contractual prohibitions concerning the payment of dividends and the making of loans and advances to LCI. There are, however, no restrictions on the movement of cash within the remainder of the consolidated group, and the Company's discussion of its liquidity is based on the consolidated group. The Company measures its liquidity based on cash flow as reported in its consolidated statements of cash flow; however, the Company does use other operational measures, as outlined below, to manage its operations.

Cash Flows — Operating Activities

The Company provided \$303.7 million of cash from operations, which includes the proceeds of \$112.0 million from the Securitization Program for the year ended December 31, 1996. Cash provided from operations, excluding the proceeds from the Securitization Program, was \$188.1 million, compared to \$53.9 million and \$38.1 million for 1995 and 1994, respectively. The increase in 1996, as well as in 1995 and 1994, is due to the significant growth in revenues and net income for the periods, as well as improved management of working capital and stronger cash collections during 1996 when compared to 1995 and 1994.

Cash Flows — Investing Activities

The Company has supported its growth strategy with both capital additions and acquisitions. In 1996, the Company spent \$144.3 million in capital expenditures to acquire additional switching, transmission and distribution capacity, as well as to develop information systems support. Capital expenditures increased \$47.0 million in 1996 when compared to 1995, and increased \$31.3 million in 1995 when compared to 1994. The Company's acquisitions of Teledial America, ATS and PACE, as well as other intangible assets, resulted in the use of \$124.6 million in cash for the year ended December 31, 1996. In 1995, the Company spent \$66.4 million to acquire CTG and \$97.3 million for capital additions. In 1994, the Company spent \$7.9 million for acquisitions and \$66.0 million for capital expenditures. The remaining investing activities in 1995 and 1994 reflect the payment for the investment in STN.

Cash Flows — Financing Activities

In 1996, financing activities used a net \$34.8 million. During 1996, the Company experienced net borrowing of \$70.7 million under its debt agreements, to fund its acquisitions and capital expenditures as discussed in investing activities, above. The net borrowings were offset by the \$112.0 million in proceeds provided by the sale of accounts receivable pursuant to the Securitization Program, which were used to pay down outstanding balances under the Credit Facility. In 1995 and 1994, financing activities provided a net \$121.8 million and \$67.3 million, respectively, primarily from borrowings under the Credit Facility.

Capital Resources

In February 1996, the Company obtained a \$700 million Credit Facility with a syndicate of banks, which allows the Company to borrow funds on a daily basis. As a result, the Company uses its available cash to reduce the balance of its Credit Facility and maintains no cash on hand. Under the Credit Facility, the Company had \$215.0 million and \$260.7 million outstanding and \$10.0 million and \$10.4 million reserved for letters of credit issued for various business matters, as of December 31, 1996 and 1995, respectively. As of December 31, 1996 and 1995, respectively, the Company had \$475.0 million and \$178.9 million available under the Credit Facility.

The amount that can be borrowed under the Credit Facility is subject to reduction based on the outstanding balance beginning June 30, 1998 until maturity on March 31, 2001. The interest rate on the debt outstanding is variable based on several indices. (See Note 5 to the Consolidated Financial Statements.) The weighted average interest rates on the debt outstanding under the Credit Facility were 6.09% and 6.88% on December 31, 1996 and 1995, respectively. The Credit Facility contains certain balance sheet, operating cash flow, capital expenditure and negative covenant requirements. As of December 31, 1996, the Company was in compliance with all covenants.

In September 1996, the Company entered into two separate discretionary line of credit agreements (Lines of Credit) with commercial banks for a total of \$50 million. The Lines of Credit provide flexible short-term borrowing facilities at competitive rates. As of December 31, 1996, \$8.0 million was outstanding on the Lines of Credit.

In August 1996, the Company entered into the Securitization Program to sell a percentage ownership interest in a defined pool of the Company's trade accounts receivable. The Company can sell an undivided interest in a designated pool of accounts receivable on an ongoing basis to maintain the participation interest up to the limit of \$150 million. As of December 31, 1996, the pool of trade accounts receivable that was available for sale totaled approximately \$120 million, and the amount of receivables sold totaled \$112.0 million.

Although the Company believes it has sufficient operating cash flows and available borrowing capacity to fund its current operations and anticipated capital requirements, the Company continues to evaluate other sources of financing. The Company has filed a shelf registration statement with the Securities and Exchange Commission, which would allow the issuance of \$300 million of debt and/or equity securities. The Company has not yet determined when or if any new capital financing will be completed.

Cash Flows — Investing Activities

The Company has supported its growth strategy with both capital additions and acquisitions. In 1996, the Company spent \$144.3 million in capital expenditures to acquire additional switching, transmission and distribution capacity, as well as to develop information systems support. Capital expenditures increased \$47.0 million in 1996 when compared to 1995, and increased \$31.3 million in 1995 when compared to 1994. The Company's acquisitions of Teledial America, ATS and PACE, as well as other intangible assets, resulted in the use of \$124.6 million in cash for the year ended December 31, 1996. In 1995, the Company spent \$66.4 million to acquire CTG and \$97.3 million for capital additions. In 1994, the Company spent \$7.9 million for acquisitions and \$66.0 million for capital expenditures. The remaining investing activities in 1995 and 1994 reflect the payment for the investment in STN.

Cash Flows — Financing Activities

In 1996, financing activities used a net \$34.8 million. During 1996, the Company experienced net borrowing of \$70.7 million under its debt agreements, to fund its acquisitions and capital expenditures as discussed in investing activities, above. The net borrowings were offset by the \$112.0 million in proceeds provided by the sale of accounts receivable pursuant to the Securitization Program, which were used to pay down outstanding balances under the Credit Facility. In 1995 and 1994, financing activities provided a net \$121.8 million and \$67.3 million, respectively, primarily from borrowings under the Credit Facility.

Capital Resources

In February 1996, the Company obtained a \$700 million Credit Facility with a syndicate of banks, which allows the Company to borrow funds on a daily basis. As a result, the Company uses its available cash to reduce the balance of its Credit Facility and maintains no cash on hand. Under the Credit Facility, the Company had \$215.0 million and \$260.7 million outstanding and \$10.0 million and \$10.4 million reserved for letters of credit issued for various business matters, as of December 31, 1996 and 1995, respectively. As of December 31, 1996 and 1995, respectively, the Company had \$475.0 million and \$178.9 million available under the Credit Facility.

The amount that can be borrowed under the Credit Facility is subject to reduction based on the outstanding balance beginning June 30, 1998 until maturity on March 31, 2001. The interest rate on the debt outstanding is variable based on several indices. (See Note 5 to the Consolidated Financial Statements.) The weighted average interest rates on the debt outstanding under the Credit Facility were 6.09% and 6.88% on December 31, 1996 and 1995, respectively. The Credit Facility contains certain balance sheet, operating cash flow, capital expenditure and negative covenant requirements. As of December 31, 1996, the Company was in compliance with all covenants.

In September 1996, the Company entered into two separate discretionary line of credit agreements (Lines of Credit) with commercial banks for a total of \$50 million. The Lines of Credit provide flexible short-term borrowing facilities at competitive rates. As of December 31, 1996, \$8.0 million was outstanding on the Lines of Credit.

In August 1996, the Company entered into the Securitization Program to sell a percentage ownership interest in a defined pool of the Company's trade accounts receivable. The Company can sell an undivided interest in a designated pool of accounts receivable on an ongoing basis to maintain the participation interest up to the limit of \$150 million. As of December 31, 1996, the pool of trade accounts receivable that was available for sale totaled approximately \$120 million, and the amount of receivables sold totaled \$112.0 million.

Although the Company believes it has sufficient operating cash flows and available borrowing capacity to fund its current operations and anticipated capital requirements, the Company continues to evaluate other sources of financing. The Company has filed a shelf registration statement with the Securities and Exchange Commission, which would allow the issuance of \$300 million of debt and/or equity securities. The Company has not yet determined when or if any new capital financing will be completed.

Excerpt from 1996 Annual Report to Shareowners

Capital Requirements

During 1997, the Company expects that its non-binding commitments for capital expenditures (excluding acquisitions) will increase from the 1996 levels and are dependent on the Company's geographic and revenue growth. These capital requirements are primarily for switching and transmission facilities, technology platforms and information systems applications. In addition to its ongoing capital requirements, the Company entered into an agreement, in February 1997, to extend its Network. This commitment will extend the Company's fiber-optic network by over 3,100 route miles, and is expected to require capital expenditures of approximately \$120 million, including equipment.

The Company has relied upon strategic acquisitions as one means of expanding its network, sales and service presence, and revenues across the country. The Company evaluates each potential acquisition to determine its strategic fit within the Company's growth, operating margin and income objectives. The Company expects to continue to actively explore potential acquisitions and may enter into discussions from time to time with potential acquisition candidates, but there can be no assurance that the Company will be able to enter into or complete acquisition agreements on acceptable terms.

In May 1996, the Company entered into two separate agreements with a third-party sales agent and an affiliated party to this agent. In consideration for the contract extensions, as well as exclusivity and non-compete provisions in the agreements, the Company has made and will make payments on various designated dates over several years in accordance with the two agreements. Certain of these payments are contingent upon achievement of defined performance measures. The Company believes that these payments, if required, can be funded by operations or borrowing capacity under the Credit Facility.

During 1996, the Company executed lease agreements for a new corporate headquarters and an additional facility for its operating subsidiaries. The agreement for the new corporate headquarters building is a three-year operating lease with a maximum residual guarantee payment at the end of the lease term. The agreement for the facility for the operating subsidiaries is a capital lease. Occupancy for the subsidiaries' facility will begin in mid-1997 and extend for a 15-year term. (See Note 6 to the Consolidated Financial Statements.)

Commitments and Contingencies

The Company has agreements with certain interexchange carriers, LECs and third-party vendors to lease facilities for originating, terminating and transporting services. These agreements require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has met and expects to continue to meet such minimum usage requirements. The third-party carriers include WorldCom Network Services, Inc. d/b/a WilTel, Sprint and MCI. In addition, the Company uses services provided by each RBOC, GTE and other smaller LECs. The Company currently has one significant contract with a third-party carrier. Subject to the ability of that carrier to meet the Company's operational requirements, the Company is obligated to use this carrier for a significant percentage of services that the Company provides through its leased facilities. The amounts payable under that contract, however, represent less than 10% of the Company's revenue on an annual basis. (See Note 7 to the Consolidated Financial Statements.) The Company has engineered its Network to minimize the impact on its customers of a service failure by any third-party carrier and has established contingency plans to reroute traffic as quickly as possible if a service failure by a third-party carrier should occur. Although most service failures that the Company has experienced have been corrected in a relatively short time period, a catastrophic service failure could interrupt the provision of service by both the Company and its competitors for a lengthy time period. The restoration period for a catastrophic service failure cannot be reasonably determined; however, neither the Company nor the industry has experienced a catastrophic service failure in its history.

The Company has been named as a defendant in various litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes that it has adequate accrued loss contingencies and that current pending or threatened litigation matters will not have a material adverse impact on the Company's results of operations or financial condition. (See Note 7 to the Consolidated Financial Statements.)

Excerpt from 1996 Annual Report to Shareowners

Federal Income Taxes

The Company generated significant NOLs in prior years that are available to reduce current cash requirements for income taxes. See Note 10 of the Consolidated Financial Statements for a discussion of the availability and utilization of the NOLs.

Impact of Inflation and Seasonality

The Company does not believe that the relatively moderate levels of inflation that have been experienced in the United States in recent years have had a significant effect on its revenues or earnings.

The Company's long-distance revenue is subject to seasonal variations based on each segment. Use of long-distance services by commercial customers is typically lower on weekends throughout the year and in the fourth quarter, due to holidays. As residential revenues increase as a proportion of the Company's total revenues, the seasonal impact due to changes in commercial calling patterns will be reduced.

Private Securities Litigation Reform Act of 1995 — Safe Harbor Cautionary Statement

This report contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 (the Reform Act). These forward-looking statements express the beliefs and expectations of management regarding LCI's future results and performance and include, without limitation, the following: statements concerning the Company's future outlook; the Company's plans to enter the local-service market; the effect of FCC and judicial rulings pertaining to the Telecommunications Act of 1996, local-service competition and RBOC entry into the long-distance market; the impact of marketplace competition on pricing strategies and rates; expected revenue growth; the cost reduction strategies and opportunities to expand the Network which may allow for increased gross margin; the expected future interest rates and interest savings from the Securitization Program; funding of capital expenditures and operations; the Company's beliefs regarding a catastrophic service failure; and other similar expressions concerning matters that are not historical facts.

Such statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results, performance and/or achievements of the Company to differ materially from any future results, performance or achievements, expressed or implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements and any such statement is qualified by reference to the following cautionary statements. In connection with the safe harbor provisions of the Reform Act, the Company's management is hereby identifying important factors that could cause actual results to differ materially from management's expectations including, without limitation, the following: increased levels of competition in the telecommunications industry, including RBOC entry into the interLATA long-distance industry and the impact on pricing; the ability of LCI's direct sales force and alternative channels of distribution to obtain new sales; the adoption and application of rules and regulations implementing the Act; the availability of leased capacity to support the Company's geographic expansion; the ability to negotiate appropriate local-service agreements with LECs; and other risks described from time to time in the Company's periodic filings with the Securities and Exchange Commission. The Company is not required to publicly release any changes to these forward-looking statements for events occurring after the date hereof or to reflect other unanticipated events.

OTHER MATTERS

Accounting Pronouncements Not Yet Effective

A new accounting pronouncement on accounting for transfers and servicing of financial assets was issued in 1996 and is effective for fiscal years beginning after December 15, 1996. As explained in Note 2 to the Consolidated Financial Statements, the Company does not expect any significant impact from the adoption of this pronouncement.

Excerpt from 1996 Annual Report to Shareowners

Report of Management

The management of LCI International, Inc. is responsible for the preparation of all information, including the financial statements and related notes, included in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and include amounts based on the best judgment of management. Financial information included elsewhere in this Annual Report is consistent with these financial statements.

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, management maintains a system of internal accounting controls. This system has been established to ensure, within reasonable limits, that assets are safeguarded, that transactions are properly recorded and executed in accordance with management's authorization and that accounting records provide a solid foundation from which to prepare the financial statements. The system is supported by an internal auditing function which assesses the effectiveness of internal controls and reports its findings to management throughout the year. It is recognized that no system of internal controls can detect and prevent all errors and irregularities. Management believes that the established system provides an acceptable balance between benefits to be gained and their related costs.

The Company's independent public accountants are engaged to express an opinion on the year-end financial statements. As part of their audit of the Company's 1996 financial statements, they considered the Company's system of internal controls to the extent they deemed necessary to determine the nature, timing and extent of their audit tests.

The Audit Committee of the Board of Directors meets regularly with the independent public accountants and management to review the work performed and to ensure that each is properly discharging its responsibilities. The independent public accountants have full and free access to the Audit Committee, without the presence of management, to discuss the results of their audits, internal accounting controls and financial reporting.

Joseph A. Lawrence
Senior Vice President -
Finance and Development
and Chief Financial Officer

Jeffrey H. VonDeylen
Corporate Controller

Report of Independent Public Accountants

TO THE BOARD OF DIRECTORS AND SHAREOWNERS OF LCI INTERNATIONAL, INC.:

We have audited the accompanying consolidated balance sheets of LCI International, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCI International, Inc. and subsidiaries, as of December 31, 1996 and 1995, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Arthur Andersen LLP
Washington, D.C.
February 6, 1997

Excerpt from 1996 Annual Report to Shareowners

LCI International, Inc.

Consolidated Statements of Operations*(In Millions Except for Earnings per Common Share)*

	For the Year Ended December 31,		
	1996	1995	1994
Revenues	\$ 1,103.0	\$ 672.9	\$ 464.0
Cost of Services	642.3	396.2	274.3
Gross Margin	460.7	276.7	189.7
Selling, General and Administrative Expenses	253.7	150.1	102.7
Depreciation and Amortization	63.5	44.0	36.1
Operating Income	143.5	82.6	50.9
Other (Income) Expense, Net	(.3)	(.9)	59.8
Interest Expense, Net	28.8	16.3	8.8
Income (Loss) Before Income Taxes	115.0	67.2	(17.7)
Income Tax Expense (Benefit)	40.2	16.4	(24.5)
Net Income	74.8	50.8	6.8
Preferred Dividends	2.8	5.7	5.8
Income on Common Stock	\$ 72.0	\$ 45.1	\$ 1.0

Earnings per Common Share

Primary	\$ 0.86	\$ 0.63	\$ 0.02
Fully Diluted	\$ 0.86	\$ 0.62	\$ 0.02

Weighted Average Number of Common Shares

Primary	87.3	81.0	65.5
Fully Diluted	87.3	82.1	66.7

The accompanying notes are an integral part of these statements.

Excerpt from 1996 Annual Report to Shareowners

LCI International, Inc.

Consolidated Balance Sheets*(In Millions)*

	December 31,	
	1996	1995
Assets		
Current Assets		
Trade Accounts Receivable, Less Allowance for Doubtful Accounts of \$23.4 and \$9.8 for 1996 and 1995, Respectively	\$ 85.2	\$ 161.6
Current Deferred Tax Assets, Net	48.9	23.1
Prepays and Other	16.4	19.6
Total Current Assets	150.5	204.3
Property, Plant and Equipment		
Fiber-Optic Network	392.5	357.3
Technology Platforms, Equipment and Building Lease	123.2	90.8
Less - Accumulated Depreciation and Amortization	(171.8)	(181.4)
	343.9	266.7
Plant Under Construction	58.9	35.3
Total Property, Plant and Equipment, Net	402.8	302.0
Other Assets		
Excess of Cost over Net Assets Acquired, Net of Accumulated Amortization of \$25.8 and \$16.8 for 1996 and 1995, Respectively	350.5	245.6
Other, Net	46.2	21.5
Total Other Assets	396.7	267.1
Total Assets	\$ 950.0	\$ 773.4

Excerpt from 1996 Annual Report to Shareowners

	December 31,	
	1996	1995
Liabilities and Shareowners' Equity		
Current Liabilities		
Accounts Payable	\$ 37.1	\$ 39.2
Facility Costs Accrued and Payable	123.0	66.7
Accrued Expenses and Other	53.3	22.0
Total Current Liabilities	213.4	127.9
Long-term Debt and Capital Lease Obligations	235.8	274.7
Other Liabilities and Deferred Credits	70.0	26.0
Commitments and Contingencies		
Shareowners' Equity		
Preferred Stock - Authorized 15 Shares, Issued and Outstanding 4.6 Shares in 1995	--	114.5
Common Stock - Authorized 300 Shares, Issued and Outstanding 77.5 Shares in 1996 and Authorized 100 Shares, Issued and Outstanding 64.4 Shares in 1995	.8	.6
Paid-in Capital	427.2	298.9
Retained Earnings (Deficit)	2.8	(69.2)
Total Shareowners' Equity	430.8	344.8
Total Liabilities and Shareowners' Equity	\$ 950.0	\$ 773.4

The accompanying notes are an integral part of these statements.

Excerpt from 1996 Annual Report to Shareowners

LCI International, Inc.

Consolidated Statements of Shareowners' Equity

(In Millions)

	Preferred Stock	Common Stock			Retained Earnings (Deficit)	Total Shareowners' Equity
	\$.01 Par Value	Issued and Outstanding	\$.01 Par Value	Paid-in Capital		
Balance at December 31, 1993	\$115.0	58.5	\$.6	\$195.0	\$(115.3)	\$195.3
Employee Stock Purchases and Exercise of Options/Warrants, Including Related Tax Benefit	--	.5	--	2.1	--	2.1
STN Incorporated Stock Exchange	--	.3	--	3.0	--	3.0
Other	--	--	--	.4	--	.4
Net Income	--	--	--	--	6.8	6.8
Preferred Dividends	--	--	--	--	(5.8)	(5.8)
Balance at December 31, 1994	\$115.0	59.3	\$.6	\$200.5	\$(114.3)	\$201.8
Acquisition of CTG, Inc.	--	4.6	--	93.1	--	93.1
Employee Stock Purchases and Exercise of Options/Warrants, Including Related Tax Benefit	--	.4	--	4.8	--	4.8
Conversion/Redemption of Preferred Stock	(.5)	.1	--	.5	--	--
Net Income	--	--	--	--	50.8	50.8
Preferred Dividends	--	--	--	--	(5.7)	(5.7)
Balance at December 31, 1995	\$ 114.5	64.4	\$.6	\$298.9	\$(69.2)	\$ 344.8
Employee Stock Purchases and Exercise of Options/Warrants, Including Related Tax Benefit	--	1.0	--	14.0	--	14.0
Conversion/Redemption of Preferred Stock	(114.5)	12.1	.2	114.3	--	--
Net Income	--	--	--	--	74.8	74.8
Preferred Dividends	--	--	--	--	(2.8)	(2.8)
Balance at December 31, 1996	\$ --	77.5	\$.8	\$ 427.2	\$ 2.8	\$ 430.8

The accompanying notes are an integral part of these statements.

Excerpt from 1996 Annual Report to Shareowners

LCI International, Inc.

Consolidated Statements of Cash Flows*(In Millions)*

	For the Year Ended December 31,		
	1996	1995	1994
Operating Activities			
Net Income	\$ 74.8	\$ 50.8	\$ 6.8
Adjustments to Net Income:			
Depreciation and Amortization	63.5	44.0	36.1
Provision for Bad Debt	15.8	8.2	5.8
Change in Deferred Taxes	36.4	(1.2)	(30.7)
Loss Contingencies and Other Charges	-	-	62.5
Change in Assets/Liabilities:			
Trade Accounts Receivable	(59.0)	(71.3)	(35.6)
Net Securitization Activity	112.0	-	-
Accounts Payable and Facility Costs Accrued and Payable	49.0	20.9	1.4
Other Assets/Liabilities	7.6	2.5	(8.2)
Net Cash Provided by Operating Activities	300.1	53.9	38.1
Investing Activities			
Capital Expenditures - Property, Plant and Equipment	(144.3)	(97.3)	(66.0)
Payments for Acquisitions and Other	(121.0)	(66.4)	(7.9)
Payments for STN Incorporated	-	(12.0)	(31.5)
Net Cash Used in Investing Activities	(265.3)	(175.7)	(105.4)
Financing Activities			
Net Debt (Payments) Borrowings	(41.3)	122.8	70.9
Preferred Dividend Payments	(2.8)	(5.8)	(5.7)
Proceeds from Employee Stock Plans and Warrants	9.3	4.8	2.1
Net Cash (Used in) Provided by Financing Activities	(34.8)	121.8	67.3
Change in Cash and Cash Equivalents	-	-	-
Cash and Cash Equivalents at the Beginning of the Year	-	-	-
Cash and Cash Equivalents at the End of the Year	\$ -	\$ -	\$ -
Supplemental Disclosure of Cash Flow Information:			
Cash Paid for Interest	\$ 26.1	\$ 15.1	\$ 8.8
Cash Paid for Income Taxes	\$ 1.3	\$ 2.9	\$ 1.1

Non-Cash Activity:

During 1996, shareowners converted 4.6 million shares of Preferred Stock into 12.1 million shares of Common Stock. In September 1995, the Company issued 4.6 million shares of its Common Stock as partial consideration to purchase CTG, with a market value of approximately \$93.2 million. The reconciliation of net income to net cash provided by operating activities is net of assets purchased and liabilities assumed through the acquisition.

The accompanying notes are an integral part of these statements.

Excerpt from 1996 Annual Report to Shareowners

Notes to Consolidated Financial Statements**1. BUSINESS ORGANIZATION AND PURPOSE**

The financial statements presented herein include the consolidated balance sheets of LCI International, Inc., a Delaware corporation, and its wholly owned subsidiaries (LCI or the Company) as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareowners' equity and cash flows for the three years ended December 31, 1996.

LCI is a facilities-based telecommunications carrier that provides a broad range of domestic and international voice and data services offerings to the commercial, wholesale and residential/small business market segments. The Company serves its customers primarily through leased and owned digital fiber-optic facilities.

2. ACCOUNTING POLICIES**Estimates**

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company uses its available cash to reduce the balance of its Revolving Credit Facility (Credit Facility) and generally maintains no cash on hand.

Trade Accounts Receivable

Trade accounts receivable represent amounts due from customers for telecommunications services. Switched revenues include amounts recognized for services provided, but not yet billed. A portion of the residential accounts receivable balance is billed through local exchange carriers (LECs) who are responsible for the collection of these accounts. The Company receives information from the LECs about uncollectible accounts three to thirteen months after the account is billed. The Company's reserve includes an estimate for these future uncollectible accounts.

Accounts Receivable Securitization Program

In accordance with Statement of Financial Accounting Standards (SFAS) No. 77, "Reporting by Transferors for Transfers of Receivables with Recourse," the transfers of receivable balances meet the criteria to be classified as a sale for accounting purposes. As such, amounts sold under the Accounts Receivable Securitization Program (Securitization Program) are not included in the accompanying consolidated financial statements. The costs of the Securitization Program are included in other (income) expense, net in the accompanying consolidated statements of operations. The cash proceeds are included in operating activities, while the use of the proceeds are included in financing activities in the accompanying consolidated statements of cash flows.

Prepays and Other

Prepays and other assets include deferred customer promotion costs that are amortized over the life of the related contracts, and various other accounts and notes receivable expected to be received within the next year.

Property, Plant and Equipment

These assets are stated at cost or at fair market value if obtained as part of an acquisition. Construction costs include material, labor, interest and overhead for certain general and payroll related costs. Property, plant and equipment as of December 31, 1996 and 1995, includes the net book value of \$9.3 million and \$10.2 million for a capitalized building lease for the Company's operating subsidiaries' headquarters. Routine repairs and maintenance of property and replacements of minor items are charged to expense as incurred. Depreciation of buildings and equipment is provided using the composite method over the estimated useful lives of these assets. The cost of equipment retired in the ordinary course of business, less proceeds, is charged to accumulated depreciation. The capitalized building lease is amortized on a straight-line basis over the term of the lease.

The estimated depreciation and amortization periods by asset type are as follows:

Asset Category	Years
Fiber Optic Network:	
Outside Plant and Buildings	30
Transmission, Distribution and Switching	10
Installations	3
Technology Platforms	5
Information Systems - Hardware and Software	3 - 5
General Office Equipment	5 - 10
Capitalized Building Lease	15

Excess of Cost over Net Assets Acquired

Excess of cost over net assets acquired (goodwill) consists of the excess of the cost to acquire an entity over the estimated fair market value of the net assets acquired. Goodwill is amortized on a straight-line basis over 40 years. The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable. In evaluating whether goodwill is recoverable, the Company estimates the sum of the expected future cash flows, undiscounted and without interest charges, derived from such goodwill over its remaining life. The Company believes that no such impairment existed at December 31, 1996. Amortization of goodwill was \$9.2 million, \$4.0 million and \$2.8 million for the years ended December 31, 1996, 1995 and 1994, respectively.

Other Assets

Other assets consist of debt issuance costs, rights of way, customer lists, non-compete agreements and other deferred costs. Other assets as of December 31, 1995 included a net deferred tax asset of \$8.8 million. Debt issuance costs are amortized over the life of the applicable debt agreements. Rights-of-way costs are amortized over the life of the respective agreements. Customer lists and non-compete agreements are amortized over the estimated life or contract term of the customer list or non-compete agreement.

Other Liabilities and Deferred Credits

Other liabilities and deferred credits primarily include long-term deferred income taxes and other long-term liabilities. As of December 31, 1996, net long-term deferred tax liabilities of \$53.4 million were included in other liabilities and deferred credits.

Revenue Recognition

Telecommunications revenues are recognized when services are provided and are net of estimated credits and uncollectible amounts.

Advertising Cost

Costs for advertising are expensed as incurred within the fiscal year.

Income Taxes

The Company follows SFAS No. 109 "Accounting for Income Taxes." (See Note 10.)

Weighted Average Number of Common Shares and Earnings per Common Share

The weighted average number of common shares used to calculate earnings per common share included the Company's Common Stock, par value \$.01 per share (Common Stock) and Common Stock equivalents. Common Stock equivalents include Common Stock issuable pursuant to stock options and Common Stock warrants. During 1996, substantially all of the previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock, par value \$.01 per share (Preferred Stock), was converted into Common Stock. For 1996 and 1995, the weighted average number of common shares included the assumed conversion of any Preferred Stock then outstanding during any point in the period. In 1994, the assumed conversion of the Preferred Stock into Common Stock was excluded from the weighted average number of common shares as such stock was anti-dilutive. For all years presented, outstanding stock options and Common Stock warrants were reflected in the weighted average number of common shares using the treasury stock method. The primary weighted average number of common shares was calculated using the average daily closing price of the Common Stock for the period. The fully diluted weighted average number of common shares was calculated using the higher of the end of the period closing price of the Common Stock or the average daily closing price of the Common Stock.

For 1996 and 1995, earnings per common share are calculated as net income before preferred dividends divided by the weighted average number of common shares, as defined above. For 1994, earnings per common share are calculated as the income on common stock divided by the respective weighted average number of common shares, as defined above.

Fair Value of Financial Instruments

The carrying amounts of current assets and liabilities approximate their fair market value because of the short-term maturity of these financial instruments. The fair market value of long-term debt is discussed further in Note 5.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. The risk is limited due to the number of market segments, the large number of entities comprising the Company's customer base and the dispersion of those entities across many different industries and geographic regions. As of December 31, 1996, the Company had no significant concentrations of credit risk.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 1995 and 1994 to conform with the 1996 presentation.

Accounting Pronouncements Not Yet Effective

In June 1996, the Financial Accounting Standards Board issued SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 125 is required for financial statements for fiscal years beginning after December 15, 1996; earlier adoption is not permitted. The Securitization Program was structured to comply with the provisions of SFAS 125, which the Company will adopt in 1997, and accordingly, the Company does not expect any significant impact to its results of operations or financial condition from adoption of this statement.

3. ACQUISITIONS

The Company has supplemented growth from its base business with several strategic acquisitions. Each acquisition over the last three years was accounted for as a purchase.

In June 1996, the Company purchased the long-distance business assets of Pennsylvania Alternative Communications, Inc. (PACE). The results of operations for PACE were included in the Company's consolidated

Excerpt from 1996 Annual Report to Shareowners

statement of operations from June 1, 1996 and the acquisition was not considered significant for financial reporting purposes.

In January 1996, the Company purchased the long-distance business assets of Teledial America, Inc. (Teledial America), which did business as U.S. Signal Corporation, and an affiliated company, ATS Network Communications, Inc. (ATS). The Company acquired both companies for approximately \$99 million in cash, with an additional maximum payment of \$24 million contingent on achieving certain revenue performance and customer retention milestones over an 18-month period commencing at the closing date. The amount of goodwill recorded in the purchase transactions was \$98.8 million. The results of operations for Teledial America and ATS were included in the consolidated statement of operations from January 1, 1996. The purchase of ATS was not considered significant for financial reporting purposes.

In September 1995, the Company acquired Corporate Telemanagement Group, Inc. (CTG), a Greenville, South Carolina-based provider of long-distance services to commercial customers throughout the United States. Under the terms of the agreement, the Company acquired all of the outstanding shares of CTG and shares underlying certain outstanding warrants in exchange for \$44.5 million in cash and 4.6 million shares of the Company's Common Stock valued at \$20.25 per share, the market price on the date of the acquisition. In conjunction with the transaction, the Company assumed approximately \$24 million in debt, of which \$21.9 million was refinanced. The amount of goodwill recorded in the purchase transaction was \$156.6 million. The consolidated statements of operations include the results of CTG from September 1, 1995.

The following unaudited pro forma summary presents the revenues, net income and earnings per common share from the combination of the operations of the Company and its significant acquisitions during the periods — CTG and Teledial America. The pro forma information is provided as if each acquisition had occurred at the beginning of both the fiscal year of the purchase and the immediately preceding fiscal year. Pro forma information is not provided for 1996, as both acquisitions were included in the consolidated results of operations from January 1, 1996. The pro forma information is provided for informational purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of operations of the combined enterprise.

<i>(In Millions Except Earnings per Common Share Amounts)</i>	Unaudited Pro Forma Information for the Years Ended December 31,	
	1995	1994
Net Revenues	\$ 814.7	\$ 520.0
Net Income	54.0	0.5
Earnings per Common Share	\$ 0.63	\$ 0.01

During the fourth quarter of 1994, the Company recognized a loss of \$62.5 million on its investment in STN Incorporated (STN). This loss, recorded in other (income) expense, net in the accompanying consolidated statement of operations, included \$47.6 million for the full impairment of the STN investments and \$14.9 million for accrued loss contingencies related to future STN obligations.

4. ACCOUNTS RECEIVABLE SECURITIZATION

In August 1996, the Company entered into an agreement to sell a percentage ownership interest in a defined pool of its trade accounts receivable (Securitization Program). LCI SPC I, Inc. (SPC), a wholly owned, bankruptcy-remote subsidiary of the Company, was formed to execute the sale of receivables. Under this Securitization Program, the Company can transfer an undivided interest in a designated pool of its accounts receivable on an ongoing basis to maintain the participation interest up to a maximum of \$150 million. At December 31, 1996, the pool of trade accounts receivable that were available for sale totaled approximately \$120 million. The amount of receivables sold, but not yet collected at December 31, 1996, totaled \$112 million and the proceeds were used to reduce the outstanding balance of the Company's long-term debt. Total proceeds from the sale of accounts receivable during the year was \$535 million. The accounts receivable balances sold are not included in the

Excerpt from 1996 Annual Report to Shareowners

accompanying consolidated balance sheet at December 31, 1996. The cost of the Securitization Program is based on a discount rate equal to the short-term commercial paper rate plus certain fees and expenses. The Company retains substantially all the same risk of credit loss as if the receivables had not been sold, and has established reserves for such estimated credit losses.

Under the Securitization Program agreement, the Company acts as agent for the purchaser of the receivables by performing recordkeeping and collection functions on the participation interest sold. The agreement contains certain covenants regarding the quality of the accounts receivable portfolio, as well as financial covenants which are substantially identical to those contained in the Company's Credit Facility. (See Note 5.) Except in certain limited circumstances, SPC is subject to certain contractual prohibitions concerning the payment of dividends and the making of loans and advances to LCI.

5. DEBT

Credit Facility

The Company can borrow up to \$700 million from a syndicate of banks under the Credit Facility. The amount that can be borrowed under the Credit Facility is subject to reduction based on the outstanding balance, beginning on June 30, 1998, until maturity on March 31, 2001. This Credit Facility bears interest at a rate consisting of two components: The base rate component is dependent upon a market indicator; the second component varies from 0.625% to 1.5% based on the level of borrowings (leverage ratio). The weighted average interest rates on the outstanding borrowings under the Credit Facility as of December 31, 1996 and 1995 were 6.09% and 6.88%, respectively. The Credit Facility contains various financial covenants, the most restrictive being the leverage ratio requirement. As of December 31, 1996 and 1995, the Company was in compliance with all Credit Facility covenants and had \$215.0 million and \$260.7 million, respectively, outstanding under the Credit Facility. The carrying amount of the Credit Facility approximates its fair value as the underlying instruments are variable rate notes that reprice frequently.

The Company has an interest rate cap agreement with a syndicate of banks that limits the Company's base interest rate exposure to 7.5%. The agreement is for a two-year period ending February 1998 on a \$130 million notional principal balance of the Credit Facility. In an event of non-performance by the commercial banks, the Company would have exposure to the extent of any increase in the base rate component above 7.5%. The Company believes the probability of such an event is remote.

In November 1996, the Company entered into an interest rate swap agreement for a one-year period. The agreement, with two commercial banks, is on a \$100 million notional principal balance of the Credit Facility. Under the agreement, the Company makes a fixed-rate payment to the banks at an interest rate of 5.58% in exchange for the receipt of a payment from the banks based on a variable interest rate. As of December 31, 1996, the fair value of the agreement was not material. In an event of non-performance by a commercial bank, the Company would be required to make interest payments in accordance with the Credit Facility. The Company believes that the probability of such an event is remote.

Lines of Credit

During 1996, the Company obtained two separate discretionary lines of credit (Lines of Credit) for a total of \$50 million. The Lines of Credit bear interest at a rate dependent upon a market indicator. The interest rate as of December 31, 1996 on the \$8.0 million outstanding balance under the Lines of Credit was 5.93%. The outstanding balance in the accompanying consolidated balance sheets is reflected in long-term debt, due to the availability under the Credit Facility.

6. LEASES

The Company's capital leases primarily include its operating subsidiaries' headquarters building lease, which expires in 2005. The noncurrent portion of capital lease obligations was \$12.9 and \$14.2 million as of December 31, 1996 and 1995, respectively. The Company has operating leases for office space and equipment with lease terms from three to ten years with options for renewals. The Company has entered into several rights-of-way (ROW) lease agreements that allowed for installation of its fiber-optic network facilities. The terms of these

agreements range from one to 30 years, and most contain renewal options. These agreements also provide for rental payments to be made for use of other land and buildings occupied in connection with the ROW agreements, maintenance and repairs.

During 1996, the Company entered into an operating lease agreement for the rental of a new corporate headquarters being developed in suburban Virginia. This agreement has a three-year base term with two options to renew for one year each. The agreement includes a maximum residual guarantee which is included in the minimum lease payments, below. The property will be owned by an unrelated entity that will lease the facility to the Company. Financing for the project will be provided by a syndicate of banks. Also during 1996, the Company executed a \$19 million capital lease agreement for an additional headquarters facility for its operating subsidiaries. The lease term begins July 1997 and, therefore, is not included in the capital lease schedule.

Total expenses for operating leases for the years ended December 31, 1996, 1995 and 1994 were \$10.0 million, \$6.1 million and \$4.2 million, respectively. The Company is required, at a minimum, to make the following payments on capital and operating leases:

(In Millions)	Capital	Operating
1997	\$ 3.3	\$ 12.9
1998	3.1	13.0
1999	2.6	65.5
2000	2.9	9.3
2001	2.9	7.4
Thereafter	11.3	34.3
Total Minimum Lease Payments	26.1	\$142.4
Less - Amounts Representing Interest	12.0	
Capital Lease Obligations	14.1	
Less - Amounts Due Within One Year	1.2	
Noncurrent Portion of Capital Lease Obligations	\$ 12.9	

7. COMMITMENTS AND CONTINGENCIES

Capital Expenditures

During 1997, the Company expects that its nonbinding commitment for capital expenditures (excluding acquisitions) will increase from the levels expended in 1996 and is dependent on the Company's geographic and revenue growth. The Company's capital requirements are primarily for switching and transmission facilities and technology platforms arising from the Company's strategic expansion plans. In addition to its ongoing capital requirements, the Company entered into an agreement, in February 1997, to extend its fiber-optic network. This commitment will extend the Company's fiber-optic network by over 3,100 route miles, and is expected to require capital expenditures of approximately \$120 million, including equipment.

Vendor Agreements

The Company has agreements with certain telecommunications interexchange carriers and third-party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has a single five-year contract with a particular third-party carrier which began in August 1995. This contract has minimum annual usage requirements and an increasing cumulative minimum usage requirement, which if not met, subjects the Company to an underutilization charge. Through December 31, 1996, the Company had significantly exceeded both the first-year minimum annual usage requirement of \$48 million and the cumulative minimum usage of \$103 million established for the second year. The Company's minimum monthly billing commitments under all other vendor agreements are approximately \$4 million through 1997. The Company has historically met all minimum billing requirements and believes that the minimum usage commitments will be met in the future.

Legal Matters

In 1991, Thomas J. Byrne and Richard C. Otto v. LCI Communications Holdings Co. et al. was filed by two former members of the Company's management in Common Pleas Court, Franklin County, Ohio. The suit alleged age discrimination by the Company. In 1993, a jury returned a verdict in favor of the Plaintiffs and the Common Pleas Court awarded approximately \$8.1 million in damages and attorney's fees.

Both the Plaintiffs and the Company appealed the matter to the Court of Appeals in Ohio, which, in a two-to-one decision, overruled each of the Company's assignments of error and two of the Plaintiffs' claims, and sustained the Plaintiffs' request for approximately \$1.1 million in pre-judgment interest in addition to the previous award. The Company appealed the matter to the Supreme Court of Ohio (the Court). On December 11, 1996, the Court reversed the Court of Appeals, finding that, as a matter of law, there was insufficient evidence to sustain the verdict for Plaintiffs. In December 1996, the Plaintiffs filed with the Court a Motion for Reconsideration, which was denied by the Court in January 1997. At this time, the Company is unable to determine whether the Plaintiffs will file a petition asking the United States Supreme Court to consider the case.

The Company has been named as a defendant in various other litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes it has adequate accrued loss contingencies and that current or threatened litigation matters will not have a material adverse impact on the Company's results of operations or financial condition.

8. SHAREOWNERS' EQUITY

Preferred Stock

On September 3, 1996, the remaining outstanding shares of the Company's previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock (Preferred Stock) were redeemed by the Company. Preferred dividends, cumulative from the date of issuance, were paid quarterly at an annual rate of \$1.25 per share on the outstanding shares until redemption. Prior to redemption, shareowners converted 4,599,895 shares of Preferred Stock into 12,104,661 shares of Common Stock.

In January 1997, the Board of Directors adopted a shareholder rights plan (the Rights Plan). In order to implement the Rights Plan, the Board of Directors declared a dividend of one preferred share purchase right (a Right) for each share of the Company's Common Stock to shareowners of record on January 22, 1997. Each Right, when exercisable, represents the right to purchase one one-thousandth of a share of a newly issued series of Preferred Stock of the Company, designated as Junior Participating Preferred Stock, par value \$.01 per share, or, in certain circumstances, to purchase shares of Common Stock at less than the prevailing market price. The exercise price is \$100 per Right, the redemption price is \$.01 per Right, and the Right expires on January 22, 2007. The Rights will be exercisable only in the event that any person or entity, together with its affiliates or associates, acquires more than a certain specified percentage of Common Stock of the Company. The Rights Plan was designed to ensure that shareowners receive fair and equal treatment in the event of any proposed takeover of the Company.

Common Stock

In September 1995, the Company issued 4,601,586 shares of Common Stock to purchase CTG at \$20.25 per share, the market price at the date of acquisition.

Common Stock Warrants

In 1993, the Company issued warrants for 5,408,900 shares of Common Stock, at \$2.83 per share, that expire in 2003. During 1996, 1995 and 1994, holders exercised 164,336, 40,572 and 41,216 warrants for an aggregate amount of 148,253, 33,100 and 41,216 shares of Common Stock, respectively. As of December 31, 1996, there were 5,162,776 unexercised Common Stock warrants.

Employee Benefit Plans

The Company maintains a defined contribution retirement plan for its employees. Under this plan, eligible employees may contribute a percentage of their base salary, subject to certain limitations. Beginning in 1994, the Company elected to match a portion of the employees' contributions. The expense of the Company's matching contribution was \$7 million in 1996, \$6 million in 1995 and \$3 million in 1994. Under this plan, employees may purchase shares of LCI's Common Stock at market prices. During 1996, 1995 and 1994, 63,200, 45,484 and 35,328 shares were issued under this plan at an average price of \$27.76, \$15.62 and \$9.32, respectively.

9. INCENTIVE STOCK PLANS**Stock Options**

The Company has stock option plans under which options to purchase shares of Common Stock may be granted to directors and key employees. Under the plans, the Company may grant incentive stock options (ISOs) as defined by the Internal Revenue Code or non-qualified options (NQOs). Stock options generally have a five-year vesting period. Twenty percent of each option granted generally becomes exercisable on the first anniversary of the grant and 1.66% each month thereafter for 48 months. In the event of a change in control of the Company, all options outstanding would become 100% exercisable. Under the plans, options expire up to 10 years after the date of the grant. Except in the case of ISOs, the option price may be less than the fair market value of the Common Stock as of the date of grant. The option price under all plans is fixed at the discretion of an administrative committee of the Board of Directors at the time of grant. During 1996, 1995 and 1994, the option price for all options granted was the fair market value of the shares on the date of grant. The weighted average fair value of options granted during 1996 and 1995 for the stock option plans was \$6.69 and \$4.53, respectively, and for the ESPP was \$9.48 and \$7.17, respectively. Shares of Common Stock underlying surrendered options may be re-granted by the Board of Directors. As of December 31, 1996, there were 12,590,852 options authorized under the Company's stock option plans. Information regarding these stock option plans is as follows:

	Number of Shares	Exercisable Options	Weighted Average Exercise Price
Outstanding as of December 31, 1993	4,167,316	1,466,448	\$ 3.76
Options Granted	1,813,600		9.07
Options Exercised	(152,520)		2.69
Options Surrendered	(456,520)		7.13
Outstanding as of December 31, 1994	5,371,876	2,003,154	5.29
Options Granted	2,799,798		12.91
Options Exercised	(218,366)		4.88
Options Surrendered	(340,522)		9.77
Outstanding as of December 31, 1995	7,612,786	3,047,337	7.89
Options Granted	2,352,000		23.14
Options Exercised	(555,033)		6.91
Options Surrendered	(431,810)		18.40
Outstanding as of December 31, 1996	8,977,943	4,184,670	\$ 11.48
Options Available for Grant as of December 31, 1996	2,686,090		

10. INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 1996, 1995 and 1994, consisted of:

(In Millions)	1996	1995	1994
Current Tax Expense:			
Federal	\$ 2.0	\$ —	\$ 0.6
State	1.2	0.5	0.4
Deferred Tax Expense (Benefit):			
Increase in Deferred Tax Liability	4.0	1.7	15.1
Decrease (Increase) in Deferred Tax Asset	38.8	25.9	(22.9)
Decrease in Valuation Allowance	(5.8)	(11.7)	(17.7)
Income Tax Expense (Benefit)	\$ 40.2	\$ 16.4	\$ (24.5)

The decrease in the valuation allowance in 1996, 1995 and 1994 resulted from the Company's realization of its net operating loss (NOLs) carryforwards based on the Company's growth in recurring operating income. The Company pays state income taxes on the greater of a net worth basis or an income basis in a majority of the states in which it operates. The Company records state deferred tax assets and liabilities at an average blended rate of 5%.

The significant items giving rise to the deferred tax (assets) and liabilities as of December 31, 1996 and 1995, were:

(In Millions)	1996		1995		1994	
	\$	%	\$	%	\$	%
Expected Tax Expense (Benefit) at Federal Statutory Income Tax Rate	\$ 40.2	35.0	\$ 23.5	35.0	\$ (6.2)	(35.0)
Effect of:						
State Income Tax Expense	5.0	4.4	2.0	2.9	0.5	2.5
Non-deductible Expenses	1.7	1.4	1.0	1.6	0.6	3.6
Change in Valuation Allowance	(5.8)	(5.0)	(11.7)	(17.4)	(17.7)	(99.9)
Other, Net	(0.9)	(0.8)	1.6	2.3	(1.7)	(9.6)
Income Tax Expense (Benefit)	\$40.2	35.0	\$16.4	24.4	\$ (24.5)	(138.4)

The Company's 1996 deferred income tax balances were included in current deferred tax assets, net \$48.9 million, and in other non-current liabilities of \$53.4 million. The 1995 deferred income tax balances were included in current deferred tax assets, net of \$23.1 million and other assets of \$8.8 million.

The Company has generated significant NOLs that may be used to offset future taxable income. Each year's NOL has a maximum 15-year carryforward period. The Company's ability to fully use its NOL carryforwards is dependent on future taxable income. As of December 31, 1996, the Company has NOL carryforwards of \$103 million for income tax return purposes subject to various expiration dates beginning in 1998 and ending in 2008. The future tax benefit of these NOL carryforwards of \$41.3 million and \$70.4 million using a 40% effective tax rate in 1996 and 1995, has been recorded as a deferred tax asset.

11. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company has filed a shelf registration statement with the Securities and Exchange Commission to register \$300 million of debt and/or equity securities, for issuance on a delayed or continuous basis. Any debt securities issued may be guaranteed by certain of the Company's wholly owned subsidiaries (Guarantor Subsidiaries). Such guarantees will be full, unconditional and joint and several. Certain of the Company's subsidiaries would not provide any guarantees (Non-Guarantor Subsidiaries) primarily as a result of contractual prohibitions. The primary Non-Guarantor Subsidiary is SPC, discussed in Note 4. Separate financial statements of the Guarantor Subsidiaries have not been presented because the Company's management has determined that they would not be material. The following supplemental financial information sets forth, on an unconsolidated basis, statement of

Excerpt from 1996 Annual Report to Shareowners

operations, balance sheet and statement of cash flow information for the parent company only (Parent Company), for the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. The comparative statements for 1995 and 1994 have not been presented as the Non-Guarantor information is not material to the consolidated financial statements for that period. The supplemental financial information reflects the Company's investments in subsidiaries using the equity method of accounting. Certain immaterial reclassifications have been made to provide for uniform disclosure for the period presented.

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996
(In Millions)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ --	\$ 1,103.0	\$ --	\$ --	\$ 1,103.0
Cost of Services	--	642.3	--	--	642.3
Gross Margin	--	460.7	--	--	460.7
Selling, General and Administrative Expenses	0.1	253.6	--	--	253.7
Depreciation and Amortization	--	63.5	--	--	63.5
Operating (Loss) Income	(0.1)	143.6	--	--	143.5
Interest and Other (Income) Expense, Net	23.7	9.5	(4.7)	--	28.5
Intercompany (Income) Expense	(28.6)	28.6	--	--	--
Equity in Earnings of Subsidiaries	(71.6)	--	--	71.6	--
Income Before Income Taxes	76.4	105.5	4.7	(71.6)	115.0
Income Tax Expense	1.6	36.9	1.7	--	40.2
Net Income	74.8	68.6	3.0	(71.6)	74.8
Preferred Dividends	2.8	--	--	--	2.8
Income on Common Stock	\$ 72.0	\$ 68.6	\$ 3.0	\$ (71.6)	\$ 72.0

(Continued on next page.)

11. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1996
(In Millions)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Trade Accounts Receivable, Net	\$ —	\$ 14.8	\$ 70.4	\$ —	\$ 85.2
Current Deferred Tax Assets, Net	19.7	29.2	—	—	48.9
Prepays and Other	4.5	11.9	—	—	16.4
Intercompany Receivable	370.4	—	—	(370.4)	—
Total Current Assets	394.6	55.9	70.4	(370.4)	150.5
Property, Plant and Equipment, Net	—	402.8	—	—	402.8
Excess of Cost over Net Assets Acquired, Net	—	350.5	—	—	350.5
Investment in Affiliates	250.4	—	—	(250.4)	—
Other, Net	16.3	29.5	0.4	—	46.2
Total Assets	\$ 661.3	\$ 838.7	\$ 70.8	\$ (620.8)	\$ 950.0
LIABILITIES AND SHAREOWNERS' EQUITY					
CURRENT LIABILITIES:					
Accounts Payable	\$ —	\$ 37.1	\$ —	\$ —	\$ 37.1
Facility Costs Accrued and Payable	—	123.0	—	—	123.0
Intercompany Payable	—	363.2	7.3	(370.5)	—
Accrued Expenses and Other	3.4	49.9	—	—	53.3
Total Current Liabilities	3.4	573.2	7.3	(370.5)	213.4
Long-term Debt and Capital Lease Obligations	223.0	12.8	—	—	235.8
Other Liabilities and Deferred Credits	4.1	65.9	—	—	70.0
SHAREOWNERS' EQUITY:					
Preferred Stock	—	66.4	—	(66.4)	—
Common Stock	0.8	—	12.0	(12.0)	0.8
Paid-in Capital	427.2	43.2	60.5	(103.7)	427.2
Retained (Deficit) Earnings	2.8	77.2	(9.0)	(68.2)	2.8
Total Shareowners' Equity	430.8	186.8	61.5	(250.3)	430.8
Total Liabilities and Shareowners' Equity	\$ 661.3	\$ 838.7	\$ 70.8	\$ (620.8)	\$ 950.0

(Continued on next page.)

11. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1996
(In Millions)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES:					
Net Cash Provided by (Used in) Operating Activities	\$ 91.7	\$ 268.9	\$ (60.5)	\$ —	\$ 300.1
INVESTING ACTIVITIES:					
Investment in SPC	(60.5)	—	60.5	—	—
Capital Expenditures	—	(144.3)	—	—	(144.3)
Payments for Acquisitions and Other	—	(121.0)	—	—	(121.0)
Net Cash (Used in) Provided by Investing Activities	(60.5)	(265.3)	60.5	—	(265.3)
FINANCING ACTIVITIES:					
Net Debt Payments	(37.7)	(3.6)	—	—	(41.3)
Preferred Dividend Payments	(2.8)	—	—	—	(2.8)
Proceeds from Employee Stock Plans and Warrants	9.3	—	—	—	9.3
Net Cash (Used in) Financing Activities	(31.2)	(3.6)	—	—	(34.8)
Change in Cash and Cash Equivalents	—	—	—	—	—
Cash and Cash Equivalents at the Beginning of the Year	—	—	—	—	—
Cash and Cash Equivalents at the End of the Year	\$ —	\$ —	\$ —	\$ —	\$ —

Excerpt from 1996 Annual Report to Shareowners

12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31:

(In Millions, Except Earnings per Common Share)		1996			
	First	Second	Third	Fourth	
Revenues	\$ 250.6	\$ 269.4	\$ 289.2	\$ 293.8	
Cost of Services	148.6	157.6	166.6	169.5	
Gross Margin	102.0	111.8	122.6	124.3	
Selling, General and Administrative Expenses	56.7	61.5	67.7	67.8	
Depreciation and Amortization	14.1	15.6	16.3	17.5	
Operating Income	31.2	34.7	38.6	39.0	
Interest and Other Expense, Net	7.7	7.5	7.7	5.6	
Income Before Income Taxes	23.5	27.2	30.9	33.4	
Income Tax Expense	8.2	9.5	10.8	11.7	
Net Income	15.3	17.7	20.1	21.7	
Income on Common Stock	\$ 13.9	\$ 16.8	\$ 19.6	\$ 21.7	
Earnings per Common Share ^(A)					
Income per Share	\$ 0.18	\$ 0.20	\$ 0.23	\$ 0.25	
Primary Weighted Average Shares ^(B)	86.3	87.2	87.7	87.8	
Fully Diluted Weighted Average Shares ^(B)	86.6	87.6	87.7	87.8	

(In Millions, Except Earnings per Common Share)		1995			
	First	Second	Third	Fourth	
Revenues	\$144.2	\$152.0	\$173.0	\$203.7	
Cost of Services	85.8	89.8	101.2	119.4	
Gross Margin	58.4	62.2	71.8	84.3	
Selling, General and Administrative Expenses	31.5	33.7	38.9	46.0	
Depreciation and Amortization	9.7	10.2	11.2	12.9	
Operating Income	17.2	18.3	21.7	25.4	
Interest and Other Expense, Net	3.4	3.7	4.5	3.8	
Income Before Income Taxes	13.8	14.6	17.2	21.6	
Income Tax Expense	3.3	3.5	4.1	5.5	
Net Income	10.5	11.1	13.1	16.1	
Income on Common Stock	\$ 9.0	\$ 9.7	\$ 11.6	\$ 14.8	
Earnings per Common Share ^(A)					
Income per Share	\$ 0.13	\$ 0.14	\$ 0.16	\$ 0.19	
Primary Weighted Average Shares ^(B)	78.4	79.3	82.1	85.2	
Fully Diluted Weighted Average Shares ^(B)	78.8	79.9	82.4	85.6	

- (A) The quarterly per share amounts represent both primary and fully diluted as both calculations yield the same result.
- (B) The weighted average shares include the assumed conversion of preferred stock. Income per share is calculated as net income divided by weighted average shares outstanding.

LCI International Telecom Corp.

Exhibit D

Press release regarding earnings of LCI for the calendar year 1996 and
associated unaudited financial statements of LCI



Contact: Gerry A. Simone, 703/848-4478 (Media)
John C. Taylor, 703/848-4401 (Investors)

**LCI INTERNATIONAL REPORTS 1996 AND FOURTH QUARTER RESULTS;
ANNOUNCES LOCAL TELEPHONE SERVICE IN FIVE MARKETS**

1996 HIGHLIGHTS

Revenue of \$1.1 billion – up 64 percent
Operating income of \$143.5 million – up 74 percent
Net Income of \$74.8 million – up 47 percent
Earnings Per Common Share of \$0.86 – versus \$0.62
Fully-taxed Earnings Per Common Share of \$0.79 – versus \$0.49
Network telecom traffic of 8.2 billion minutes – up 68 percent

FOURTH QUARTER HIGHLIGHTS

Revenue of \$293.8 million – up 44 percent
Operating income of \$39 million – up 53 percent
Net Income of \$21.7 million – up 34 percent
Earnings Per Common Share of \$0.25 – versus \$0.19
Fully-taxed Earnings Per Common Share of \$0.23 – versus \$0.15
Network telecom traffic of 2.3 billion minutes – up 57 percent

MCLEAN, VA, February 6, 1997 – LCI International (NYSE:LCI) today reported 1996 revenue of \$1.1 billion, a 64 percent increase over LCI's 1995 revenue of \$673 million. Operating income for the year rose to \$143.5 million, up 74 percent from \$82.6 million in 1995. Net income for the year was up 47 percent to \$74.8 million or \$0.86 per common share versus \$50.8 million in net income, or \$0.62 per share last year.

LCI also revealed today for the first time that, subsequent to successful trial testing during the fourth quarter, it is now offering local telephone service in five markets – by reselling services offered by local exchange carriers – to a growing list of business customers under the LCI brand name. Underscoring its initial focus on building a bona-fide customer base for local service, LCI has already begun delivering a simple local and long-distance service package with its own billing and customer service.

Fourth Quarter 1996

Fourth quarter revenue was up 44 percent to \$293.8 million from \$203.6 million in the fourth quarter of 1995 – marking the twenty-first consecutive quarter of growth. Net income for the fourth quarter was \$21.7 million, up 34 percent from the same quarter a year ago. Earnings per share were \$0.25, up 32 percent from \$0.19 in 1995's fourth quarter. Both periods included a one time gain of \$0.01.

While LCI's growth in fourth quarter revenue, earnings and network minutes far outpaced the industry, the company said that its revenue growth rate was lower than the previous quarter principally due to the inclusion of results from the acquisition of Corporate Telemanagement Group, Inc. in the fourth quarter for both years. Additional factors included: predictable seasonal weakness in the commercial market, faster-than-anticipated price declines in the international market, and a slowing in the rate of net new customers signed up by LCI third-party sales agents in the residential market.

Commenting on the quarter's results, H. Brian Thompson, LCI chairman and CEO, said "Competition is the heart and soul of being in the telecommunications business. We saw some of the effects of that in the fourth quarter and we responded very rapidly to competitive pressures with price improvements, new service approaches, and intensive campaigns designed to win new customers on the international, residential and commercial fronts. It's clear that those actions were effective." Added Thompson, "The fact that we continued to lead the industry in growth again demonstrates that LCI is among the industry's most effective competitors."

1996 Annual Highlights

LCI's full-year 1996 growth rate was 64 percent, up from 45 percent in 1995 and roughly eight times the industry average. Driven by the company's expansion of its core business, in 1996, 38 percent of LCI's total growth rate was internal.

For the year, the company achieved its gains in earnings per share despite an increase in the 1996 effective income tax rate to 35 percent from 24 percent in 1995. On a comparable fully taxed basis, net earnings per share were up 61 percent to \$0.79 versus \$0.49 in 1995, compared with actual earnings per share which were up 39 percent to \$0.86.

Throughout 1996, LCI significantly expanded the company's infrastructure, investing in an advanced and flexible technological base that is designed to support service through the next century; introduced new services; and added management talent – including several recognized names in the telecommunications field.

As part of an aggressive geographic expansion strategy geared to keeping up with rapidly growing demand, LCI opened an additional national customer service center in Greenville, S.C., and expanded its sales reach during the year by opening new offices in Boston, Denver, Ft. Lauderdale, Tampa and Los Angeles. LCI now has 45 sales offices and network operating facilities located in 36 U.S. cities.

Commenting on the company's 1996 results and organizational progress, LCI's Thompson said, "We went into 1996 with five goals: to grow in all business segments; balance our growth with increased profitability to our shareholders; control our costs; smoothly integrate our acquisitions; and, critical to LCI's future, begin to offer local service. We achieved them all. It was an exceptional year."

LCI Begins Local Telephone Service

In a move that has major implications for future growth, LCI began offering bundled local (with long-distance) service in Chicago and New York City in the fourth quarter of 1996, and, in January, began selling local service in Los Angeles, Orange County and San Francisco. The entry into these markets with the new local service -- Simply Direct(sm) -- is the start of an aggressive roll out schedule aimed at selling combined local and long-distance service to both business and residential customers throughout 1997.

"We are no longer planning for local service," said Thompson. "We are in the business. Over a short period of time, in just five markets, the minutes of use by LCI's local service customers increased dramatically, and we're rapidly building the infrastructure and services to meet the demand and opportunities we envision across the country. In building a base in bundled service for resale," said Thompson, "we're following the script that has built LCI into a billion dollar company -- create the customer base and revenue stream first, then expand our facilities and service offerings as the economics dictate. Based on the market opportunity and our success to date, and dependent upon how well the regulatory environment works to deliver cost-based pricing from the local exchange carriers, we believe that local service can be a billion dollar business for LCI in a reasonably short period of time."

Bingaman named to lead local service growth

To lead LCI's ambitious move into local service, the company named Anne K. Bingaman corporate senior vice president and president of its local telecommunications division on January 3, 1997. Bingaman joins LCI after serving as assistant attorney general of the U.S. Department of Justice's Antitrust Division, where she played a pivotal role in shaping the Telecommunications Act of 1996, which opened local markets to competition.

To date, LCI has permission to begin delivering local service in 20 states and the District of Columbia, and has applications pending in eight more. The company is actively negotiating with Bell Operating Companies and major independent local service companies for interconnection, local service resale and possible purchase of unbundled network services.

Recent Network Initiative

In a move that will reduce LCI's facilities costs over time and broaden the reach and value-added service capabilities of its nationwide network resources, in February LCI agreed to purchase from IXC Communications, Inc. a significant position in a fiber optic network route from Chicago to Los Angeles to be completed later this year.

Statements made in this press release, other than historical financial results, are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These statements express the current beliefs and expectations of LCI management regarding LCI's future results and performance but are subject to a number of known and unknown risks that could cause actual results to differ materially from those projected or implied in forward-looking statements. These risks and uncertainties, including that of increased level of competition and pricing pressures in the telecommunications industry, are described in detail from time to time in LCI's filings with the Securities and Exchange Commission, including LCI's Form 10-Q for the quarter ended September 30, 1996. LCI accepts no obligation to update these forward looking statements.

LCI International, Inc., one of the fastest growing of the nation's major long-distance carriers, provides a full array of worldwide voice and data transmission services to businesses, residential customers and other carriers throughout its fiber-optic network. LCI International, Inc. has headquarters in McLean, Va., with offices in more than 40 locations, national network control and customer service centers, and regional operations in various locations throughout the United States.

To obtain copies of other recent LCI announcements please contact our fax service at 1-800-758-5804 (id# 520213) or visit LCI International's website (<http://www.lci.com>).

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Attachment A

LCI International, Inc. Condensed Consolidated Statements of Operations (Amounts in thousands except earnings per share) (Unaudited)

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	1996	1995	1996	1995
REVENUES	\$293,819	\$203,643	\$1,102,992	\$672,851
Cost of services	169,471	119,333	642,299	396,187
GROSS MARGIN	124,348	84,310	460,693	276,664
Selling, general and administrative expenses	67,845	46,051	253,732	150,116
Depreciation and amortization	17,500	12,811	63,502	43,955
OPERATING INCOME	39,003	25,448	143,459	82,593
Interest and other expense, net	5,552	3,782	28,460	15,360
EARNINGS BEFORE INCOME TAXES	33,451	21,666	114,999	67,233
Income tax expense	11,708	5,500	40,249	16,436
NET INCOME	21,743	16,166	74,750	50,797
Accrued preferred dividends	—	1,438	2,808	5,748
EARNINGS ON COMMON STOCK	\$21,743	\$14,730	\$71,942	\$45,049
<u>Per Share Data</u>				
Earnings per Share				
Primary and Fully Diluted ^(a)	\$0.25	\$0.19	\$0.86	\$0.62
Fully Taxed (40% tax rate)	\$0.23	\$0.15	\$0.79	\$0.49
<u>Recurring Per Share Data ^(b)</u>				
Primary and Fully Diluted	\$0.24	\$0.18	\$0.85	\$0.61
Fully Taxed (40% tax rate)	\$0.22	\$0.14	\$0.78	\$0.48
Weighted Average Number of Shares	87,753	85,627	87,281	82,058

(a) Primary and fully diluted earnings per share were the same in all periods presented except for the year ended December 31, 1995, where primary earnings per share was \$0.63 based on a primary weighted average number of shares of 81,000.

(b) Non-recurring income, net in 1996 includes a gain on the sale of a non-strategic wholly owned subsidiary. Non-recurring income, net in 1995 includes a recovery related to the Company's investment in STN, Inc. (STN).

Attachment B

LCI International, Inc. Statistical Summary

Operating Statistics	For the Three Months Ended December 31,		For the Year Ended December 31,	
	1996	1995	1996	1995
Revenues	100.0%	100.0%	100.0%	100.0%
Gross margin	42.3%	41.4%	41.8%	41.1%
Selling, general & administrative expenses	23.1%	22.6%	23.0%	22.3%
Earnings before interest, taxes, depreciation and amortization	19.2%	18.6%	18.8%	18.8%
Operating income	13.3%	12.5%	13.0%	12.3%
Effective income tax rate*	35.0%	24.0%	35.0%	24.0%
Net income	7.4%	7.9%	6.8%	7.5%

* Rate applied against earnings before income taxes

LCI International Telecom Corp.

Exhibit E

Marketing Plans and Materials

LCI International Telecom Corp.

Exhibit E

Marketing Plans and Materials

LCI does not have a South Dakota-specific market plan developed at this time. This Exhibit contains examples of LCI's use of various media to convey its marketing message to the public.



Selected Media Coverage:

First Quarter 1997

"Here's something those AT&T, MCI and Sprint ads leave out: The Big Three don't offer the best rates anymore. The 'second tier' carriers have arrived and they can slash your bill by a third."

— Smart Money Magazine, January 1997

Produced for internal distribution by the National Media Relations Group in LCI International's Corporate Communications Department. If you have any questions about LCI's media relations efforts, please call us at (703) 848-4475.

LCI Media Coverage...

National/International

- AP Financial Wire
- Associated Press
- Barron's
- ☛ *Business Week*
- Business Week, International Edition
- ☛ *Cavuto Business Report* (Fox News Channel)
- ☛ *Dow Jones News Service*
- Forbes Magazine
- Investment Dealer's Digest
- Investor's Business Daily
- Kiplinger's Personal Finance
- ☛ *Los Angeles Times*
- ☛ *Media Show* (CNN-fn)
- ☛ *National Law Journal*
- ☛ *New York Times*
- Newsbytes, Inc.
- ☛ *Reuters Financial Report*
- ☛ *Reuters Financial Service*
- ☛ *Smart Money*
- Standard & Poor's
- ☛ *Today's Business* (CNBC)
- United Press International
- ☛ *USA Today*
- ☛ *Wall Street Journal*
- ☛ *Wall Street Journal Asia Edition*
- ☛ *Wall Street Week* (PBS)
- ☛ *Washington Post*
- Wireless Business and Finance

Regional

Central/Midwest Region

- Akron Beacon Journal
- Beavercreek News Current (Dayton, OH)
- Bloomington Pantagraph (Bloomington, IN)
- ☛ *Business First* (Columbus, OH)
- Chicago Daily Southtown
- ☛ *Chicago North Loop News*
- Chicago Tribune
- Cincinnati Business Courier
- Cincinnati Downowner
- ☛ *Columbus Dispatch*
- ☛ *Columbus Reporter*
- ☛ *Crain's Small Business Chicago Edition*
- Dayton Huber Heights Courier
- Dublin Villager (Dublin, OH)
- Grand Rapids Business Journal

- ☛ *Grand Rapids (MI) Press*
- ☛ *Grove City Record* (Columbus, OH)
- Huntley Farmside (Chicago, IL)
- ☛ *Indiana Business Magazine*
- Indianapolis Business Journal
- Journal Record (Oklahoma City, OK)
- ☛ *Kansas City Star*
- ☛ *Kentucky Advocate*
- ☛ *KUSA-TV - Nine News at Six* (NBC, Denver, CO)
- ☛ *Lafayette Advertiser* (Lafayette, IN)
- Lebanon Western Star (Cincinnati, OH)
- Madison-Enterprise Recorder (Madison, WI)
- ☛ *Marysville Journal-Tribune* (Columbus, OH)
- Milwaukee Journal Sentinel
- Moore American (Oklahoma City, OK)
- New Carlisle Sun (Dayton, OH)
- River North News (Chicago, IL)
- Small Business News (Columbus, OH)
- St. Louis Dispatch
- ☛ *The Tennessean* (Nashville, TN)
- Vandalia Drummer News (Dayton, OH)
- ☛ *Waverly News Watchman* (Waverly, OH)
- Westerville This Week (Columbus, OH)
- West Milton Record (Dayton, OH)
- ☛ *WMAQ-TV - First Thing In The Morning* (NBC Chicago, IL)

South/Southeast Region

- ☛ *Atlanta Journal-Constitution*
- Bristol Herald-Courier (Johnson City, VA)
- Charlotte Business Journal
- Columbia State (Columbia, SC)
- Ft. Lauderdale Sun Sentinel
- Herald-Dispatch (Huntington, AL)
- ☛ *KRPC-TV - First At Five* (NBC, Houston, TX)
- ☛ *KXAN-TV - News 36 Firstcast* (NBC, Austin, TX)
- ☛ *Miami Herald*
- ☛ *St. Petersburg Times* (St. Petersburg, FL)
- Tampa Tribune
- ☛ *West Palm Beach Post*
- ☛ *Virginian-Pilot* (Norfolk, VA)
- ☛ *WBAL-TV - 11 News Today* (NBC, Baltimore, MD)
- ☛ *WKYC-TV - Sunday Morning News* (NBC, Cleveland, OH)
- ☛ *WLWT-TV - News 5 at Noon* (NBC, Cincinnati, OH)

Media Coverage (cont.)...

West Region

- ☎ *Albuquerque Journal*
- ☎ *Arizona Republic*
- ☎ *Denver Business Journal*
- ☎ *Denver Post*
- ☎ *El Paso Times*
- ☎ *Fresno Bee*
- ☎ *Idaho Statesman*
- ☎ *KGW-TV - Northwest News Channel 8 (NBC, Portland, OR)*
- ☎ *KRON-TV - Daybreak (NBC, San Francisco, CA)*
- ☎ *Las Vegas Review Journal*
- ☎ *Orange County Register (Los Angeles, CA)*
- ☎ *Paramount Journal (Los Angeles, CA)*
- ☎ *Rocky Mountain News*
- ☎ *Sacramento Bee*
- ☎ *San Diego Daily Transcript*
- ☎ *San Francisco County Times (San Francisco, CA)*
- ☎ *San Francisco Daily Examiner*
- ☎ *San Jose Mercury News (San Francisco, CA)*
- ☎ *San Mateo County Times (San Francisco, CA)*
- ☎ *San Ramon Valley Herald (San Francisco, CA)*
- ☎ *Santa Fe New Mexican (Albuquerque, NM)*
- ☎ *Seattle Times*
- ☎ *Rio Grande Herald*

East Region

- ☎ *Albany Times-Union*
- ☎ *Allentown Call*
- ☎ *Arlington Courier (Arlington, VA)*
- ☎ *Buffalo News*
- ☎ *Baltimore Record*
- ☎ *Baltimore Sun*
- ☎ *Cologne County Reporter (Atlantic City, NJ)*
- ☎ *Craig's New York Business*
- ☎ *Eastchester Record (New York, NY)*
- ☎ *Fairfax Journal (Fairfax County, VA)*
- ☎ *Great Falls Times (Fairfax County, VA)*
- ☎ *Home News and Times (New York, NY)*
- ☎ *McLean/Great Falls Connection (McLean, VA)*
- ☎ *Pepperell Free Press (Boston, MA)*
- ☎ *Pittsburgh Post-Gazette*
- ☎ *Reston Times (Reston, VA)*
- ☎ *Rochester Democrat & Chronicle*
- ☎ *Rutland Herald (Rutland, VT)*
- ☎ *Rye Chronicle (Rye, NY)*
- ☎ *Townsend Times (Boston, MA)*
- ☎ *Washington Business Journal*
- ☎ *Washington Times*
- ☎ *Washingtonian Magazine*

Trade

- ☎ *Broadcasting & Cable*
- ☎ *Commercial Property News*
- ☎ *Communications Daily*
- ☎ *Communications News*
- ☎ *Communications Today*
- ☎ *Communications Week*
- ☎ *Computerworld*
- ☎ *Data Communications*
- ☎ *Edge, On & About AT&T*
- ☎ *FCC Daily Digest*
- ☎ *Fiber Optic News*
- ☎ *Industry Express*
- ☎ *InformationWeek*
- ☎ *Intele-card news*
- ☎ *InterNetwork*
- ☎ *MediaWeek*
- ☎ *Network World*
- ☎ *Phillips Business Information*
- ☎ *Phone +*
- ☎ *Physicians Financial News*
- ☎ *Radio Communications Report*
- ☎ *TechWire*
- ☎ *Telecom AM*
- ☎ *Telecom Highlights*
- ☎ *Telecom Reseller*
- ☎ *Telecommunications Alert*
- ☎ *Telephony*
- ☎ *Upside*
- ☎ *Value Line Investment Survey*
- ☎ *Washington Technology (Vienna, VA)*
- ☎ *Wireless Business & Finance*
- ☎ *X-Change*
- ☎ *Zack's Earnings Forecaster (Chicago, IL)*

Quarterly Information January-March 1997

Key LCI Events:

- ☎ Named Anne K. Bingaman Senior Vice President and President of LCI's Local Telecommunications Division.
- ☎ Signed a regionwide agreement with Bell South to offer local telephone service in 9 states.
- ☎ Reported that among customers who switched, three-quarters of its national customers rate LCI as being superior to their previous carrier.
- ☎ Announced that LCI's customers said they save \$264 a year on their long-distance bill since switching from 'Big Three'.
- ☎ Unveiled new Frame Relay Reporting feature at ComNet 97.
- ☎ Announced plans to expand its nationwide network with the purchase of new fiber routes.
- ☎ Reported 1996 revenues of \$1.1 billion, a 64 percent increase over LCI's 1995 revenues of \$673 million.
- ☎ Signed a three-year contract with Strategic Marketing & Communications to provide long-distance services estimated at \$19 million.
- ☎ Announced that LCI now offers local service in four Michigan markets; Detroit, Grand Rapids,

Lansing and Saginaw, Michigan.

- ☎ Announced that LCI now offers local service in Charlotte and Greensboro, N.C.

Cavuto Business Report

Fox News Channel

February 11, 1997
(circ. 220,000)

Television



Transcript

DATE February 11, 1997
TIME 5:00-6:00 PM (ET)
NETWORK FNC
PROGRAM Cavuto Business Report

Neil Cavuto, host:

The lines continue to blur between long-distance and local phone service providers. Just last week, LCI International said that it would expand beyond its core long-distance business and offer local phone service to its business customers in five major markets, including New York and Chicago and Los Angeles.

Joining us now from Washington, D.C., is H. Brian Thompson. Mr. Thompson, should be familiar from his ads, is the chairman and chief executive officer of LCI International. Good to see ya', sir.

H. Brian Thompson (Chairman and Chief Executive Officer, LCI International): Good to see you, Neil.

Cavuto: I don't want to hit you with this broadside, this just came into our newsroom, Ameritech, you know, has notified federal regulators that it's going to cancel that application to offer long-distance telephone service in Michigan. Of course, that was being effectively nixed by regulators when they determined that they were not going to be as open to doing the same with their local market to the long-distance guys. So, I don't want to hit you with that broadside, but what do you think of that Brian?

Thompson: It reminds me a little when I used to be a competition swimmer and I swam long distance and you make a mistake and start before everybody else got on their blocks and find yourself halfway down the pool and having to get back out of the pool and start all over again. I think they just jumped the gun, clearly jumped the gun. They—you know, when you start to tell the regulators and the public at large that twenty thousand lines out of five million constitutes real viable competition, I think you got a long way to go.

Cavuto: But they're gunning for you, aren't they? I mean, aren't the Ameritechs, you know, the Bell Atlantic/NYNEXs, the Nynexs, and all of these guys, there going after you, aren't they?

Thompson: Well, I think they're really, first and foremost, scared to death about their own base of customers. The competitive opportunity that the Telecommunications Act raised for all of us was quite considerable. And I think their biggest fear is that to the extent that anybody gets in that local market and starts to compete, it's going to take their revenues away more rapidly than they could probably get into the long-distance business.

Cavuto: But which is gonna be more important to you going forward then? Will it be the opportunities you see locally, as you've already looked at, or still long-distance as your core?

Thompson: Oh, I think long-distance is a core business because it's a business we know is going to continue to be a good business, you know. I'm not fearful about, you know, seven more Bell operating companies coming in the business. We've already got a passel full of competition irregardless of what they have to say. The fact of the matter is, it's a business we know.

Cavuto: Is that why- by the way, does it help to have Anne Bingaman now on board running your local phone service, the former anti-trust chief. She's essentially there kind of clearing the path for you, right?

Thompson: Well, Anne is a unique person. Anne is there not because she's an anti-trust chief, but because she knows what that act is about and she knows what competition is about. And the fact of the matter is we've put her into a line job, she's the chief executive of our local business. She's the one that we're looking to make it happen.

Cavuto: All your competitors certainly know who the heck Anne Bingaman is, huh?

Thompson: I would think they ought to and they ought to understand that she knows where they stand as well.

Cavuto: All right. Well, let's talk. Fourth quarter net income up thirty-four percent. Momentum analysts say you can't continue. What do you say?

Thompson: I am totally confused. We had the best quarter in the history of the company and the market takes us down.

Cavuto: Welcome to Wall Street.

Thompson: Well, it's unusual. We've had it happen briefly a couple of times in the past, but this time I just don't understand it.

Cavuto: You would not be alone, Mr. Thompson. Thank you very much. H. Brian Thompson is his name; he's the chairman and he is the CEO of LCI International.

99-02-0418

The Media Show Television

CNN fn-TV

February 5, 1997
(circ. 300,000)



DATE February 5, 1997
TIME 6:30-7:00 PM
NETWORK CNNFN
PROGRAM The Media Show

Donald Van de Mark, host:

LCI International says it has acquired an interest in a fiberoptic cable being built from Chicago to Los Angeles by IXC Communications, for a hundred million dollars. LCI is trying to compete in the long distance market with its larger rivals, AT and T, MCI, and Sprint, and says it is negotiating to buy more space on the IXC fiberoptic cable that run between New York and Atlanta, as well as between Cleveland and Boston. IXC plans to finish building the new fiberoptic cable routes by this summer.

Today's Business

CNBC-TV

February 5, 1997
(circ. 220,000)

Transcript

DATE February 5, 1997
TIME 6:00-7:00 AM (ET)
NETWORK CNBC
PROGRAM Today's Business

Kevin McCullough, co-anchor:

Finally, LCI International is buying a stake in a fiber optic cable project being built by IXC Communications. The deal is for a hundred million dollars. Under the terms of the agreement, IXC would provide LCI with thirty-one hundred additional miles of fiber optic cable along its Los Angeles to Chicago route. LCI added that it's seeking to expand its network by negotiating positions in other IXC fiber optic cables.

Analysts say the deal would allow LCI to achieve significant cost savings by eliminating the need to lease fiber optic facilities from other carriers. Ahead of all this, LCI stock fell a quarter to twenty-two and IXC shares dropped three-quarters to thirty-four and a quarter.

Los Angeles Times

January 4, 1997
(circ. 1,021,121)

LCI Appoints Bingaman to Lead its Local Phone Division

By JUBE SHIVER Jr.
TIMES STAFF WRITER

WASHINGTON—Anne K. Bingaman, who played a central role in policing the telecommunications industry as the former head of the Justice Department's antitrust division, has been named president of the newly created local phone division of long-distance carrier LCI International Inc.

Bingaman, a plaintiff's attorney from Jerome, Ariz., who resigned from the Justice Department in November, will oversee a staff of 15. They will try to help McLean, Va.-based LCI extend its reach into the local telephone business, where LCI has received permission to offer service in 17 states and the District of Columbia.

"Anne is not here as a lawyer. . . . She's here to run a business," said H. Brian Thompson, chairman of LCI. "The reason that I wanted Anne to come here is because she is a person that gets things done."

Little known outside Democratic Party circles before she joined the Justice Department, Bingaman quickly developed a reputation as a thorough and driven antitrust enforcer during her stint as chief of the antitrust division from 1993 to 1996.

Bringing new vigor to a department that had become a backwater during the Reagan and Bush administrations, Bingaman opened more than 70 civil investigations in her first year.

But her results were mixed, and her handling of the most important case of her tenure—a long-running probe of Microsoft Corp.—drew fire from many quarters. Microsoft agreed to a settlement in 1994 that many in the industry considered a mere slap on the wrist. Later, Bingaman sided with critics and opposed Microsoft's failed acquisition of personal finance software maker Intuit Inc., and Justice has since been investigating the company again.

Bingaman has been a guest scholar in telecommunications at the Brookings Institution think tank since her departure from the Justice Department.

"Telecommunications is easy in the sense that it was a huge part of the job at the Justice Department," Bingaman said in an interview. "I'd say I spent at least a quarter of my time on it."

Because of that involvement, Bingaman said there may be occasions she will have to recuse herself from certain matters to avoid a conflict of interest.

THE ATLANTA CONSTITUTION

Atlanta, GA
February 27, 1997
(circ. 324,934)

LCI in deal to resell use of BellSouth network

By Michael E. Kanell
STAFF WRITER

LCI has signed a deal that allows the long-distance company to resell use of BellSouth Corp.'s local network.

The pact, the 40th such agreement with BellSouth in Georgia, came the same day long-distance rival MCI bought a full-page ad in The New York Times to proclaim that the regional phone companies like BellSouth have blocked true competition.

The slew of resale agreements proves that charge is empty, said BellSouth spokesman Joe Chandler. "This agreement with LCI is significant to us because it's another demonstration of our pro-competitive position."

Because it argues that there is now competition in local service, BellSouth plans to ask federal regulators for the right to enter the long-distance market.

However, reaching an agreement on how to connect another network to the BellSouth network has been tougher than an accord on simply reselling BellSouth service. For instance, a mandate from the Georgia Public Service

Commission was needed to force a connection deal between AT&T and BellSouth. Similar PSC arbitrations are expected to connect BellSouth with MCI and Sprint.

Moreover, the many resale agreements have not meant a surrender of the Bells' status as monopolies. In Georgia, BellSouth remains virtually the only choice for consumers, although several competitors offer local service to businesses — mostly in metro Atlanta. Georgia Communications South offers residential service, but only in Columbus.

"The law doesn't say we have to lose market share," Chandler said. "We've done what the Telecommunications Act told us to — negotiate and sign agreements."

LCI, one of the largest companies to make such a resale deal with BellSouth, plans to sell the service to small and medium-size businesses, said Anne Bingaman, LCI vice president and a former Justice Department official.

The agreement, which covers the nine states in BellSouth's region, is aimed at allowing Virginia-based LCI to package local and long-distance service, Bingaman said.

Baltimore Sun

Baltimore, MD
February 8, 1997
(circ. 337, 292)

Telecommunications

LCI to start local phone service

Company will resell
service packages
it buys from Bell

By TIMOTHY J. MULLANEY
SUN STAFF

LCI International Inc. will begin to offer local phone service in Maryland in March, as the nation's seventh-largest long-distance company prepares to resell phone-service packages it will buy wholesale from Bell Atlantic Corp.

The arrangements between Maryland's phone monopoly and the McLean, Va.-based upstart are rooted in the federal telecommunications reform law that President Clinton signed a year ago today. The act requires traditional local exchange carriers like Bell Atlantic to sell newcomers the right to use all or part of their call-handling networks, hoping that such limited competition will let newcomers earn profits they can invest in new, more modern systems.

Anne K. Bingaman, president of LCI's local-service division, said LCI will initially target business customers rather than retail consumers. Its local service will be packaged with LCI's long-distance services. She said LCI's local-service packages will be about

10 percent cheaper than the same service purchased directly from Bell Atlantic.

LCI can undercut its supplier because Maryland requires Bell Atlantic to sell its service to other long-distance carriers at a wholesale price 19.87 percent below its retail rates, said Steve Molnar, director of telecommunications for the staff of the state Public Service Commission.

LCI and Bell Atlantic could arrange a different price, but Bingaman said LCI is not likely to get a significantly better rate.

The new competitors must pay for sales, billing and other expenses — and take their own profit — out of the wholesale discount. Bingaman said that's not a great business, so LCI plans to start building at least parts of its own local service networks as soon as it can.

"There's not really any profit in resale," said Bingaman, who headed the Justice Department's antitrust division before joining LCI last month. "It's the second stage that's really critical to changing the market."

BUSINESS FIRST

of Greater Columbus

March 14, 1997

(circ. 10,500)

Keeping it simple key to LCI's expansion

By Forrest D. Clarke
BUSINESS FIRST CORRESPONDENT

LCI International prides itself on being a trendsetter in the ultracompetitive long-distance phone market. Its growth over the past six years is a testament to that thinking.

Since its Columbus inception in 1983, LCI has been providing simplified options and reduced rates to phone customers.

"We took the whole process and changed the way people thought about long-distance carriers by being less intimidating," said Tyler Gronbach, national media relations manager.

Although LCI only has a little over 1 percent of the national long-distance market, its gross revenues grew 64 percent from \$673 million in 1995 to \$1.1



LCI will lease 156,000 square feet from Duke Realty at the Parkwood 1 building in Dublin.

billion in 1996.

Since 1991, LCI gross revenues have grown 382 percent.

But things weren't always so rosy for LCI, which is based in McLean, Va. The company was on the brink of financial disaster in 1991 because of large interest payments due on junk bonds.

Current Chairman/CEO Brian Thompson and President/COO Tom Wynne were recruited from MCI to turn the company around.

LCI has stuck to three key compo-

nents in order to keep a competitive edge: reshaping the enterprise, changing the management structure and focusing on the core business. "Our basic mantra was to make it simple, fair and inexpensive," Wynne said.

One of the first strategies Wynne and Thompson implemented in '92 was becoming the first long-distance carrier to bill residential customers (as they had

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commercial customers) in six-second intervals, instead of rounding to the next minute. They also introduced a flat rate that didn't fluctuate by distance.

Although the core business for LCI in the past has been commercial clients in 40 to 45 cities in 50 states, Wynne's goals include raising residential growth by 33 percent this year. Last year, residential business accounted for 24 percent of LCI's gross revenues, Wynne said.

"The objective is to balance the network. We want to make all our services available to more people," he said.

Another of Wynne's objectives is to increase LCI's residential market to 3 percent nationally by the end of '98. He plans on doing that through a national TV campaign, primarily on cable, along with a network marketing and agent program.

LCI has already expanded geographically and is now providing local service in five major cities or areas: New York City, Chicago, Los Angeles, Orange County, Calif., and San Francisco. Gronbach said LCI intends to offer local service in 30 major markets including Ohio — and possibly Columbus — by the end of '97. It will offer flat rate pricing for local and local toll calls.

LCI's fiber optic network stretches from Chicago to Pittsburgh, west to Detroit and south to Cincinnati. The company is working on a new fiber optic route from Chicago to Los Angeles that would allow it to move more of its own traffic by the end of 1997 instead of leasing from other providers.

Right now, Gronbach said, Ameritech has a lock on local service and all LCI can do is purchase service from it to resell to customers.

"The only way to have true competition is when Ameritech offers companies like LCI unbundled network services. When you're reselling services, you don't have as much control or flexibility in what you provide," he said.

Which is what the federal Telecommunications Act of '96 was supposed to accomplish by requiring local providers like Ameritech to provide competitive conditions at the local level.

"They have a natural monopoly in the ground. All we're asking for is competitive access to that cable," Wynne said.

Evidence of LCI's growth can be seen at its national Network Control Center in Dublin at 4650 Lakehurst Court, which expanded from 500 employees in 1993 to 1,036 late last year. Gronbach said the company plans on adding 500 to 1,000 new employees in Columbus within three to five years, primarily in technical areas.

Overall LCI employs 2,400 in 45 offices across the United States, with Columbus serving as one of two national customer service centers.

In order to accommodate the influx of talent to Columbus, LCI will lease a five-story, 156,000-square-foot facility, one mile north of its Dublin operations headquarters at Parkwood 1 within Corporate Park at Tuttle Crossing. The building is currently under construction and scheduled for completion in late May by Duke Realty Investments Inc.

Albuquerque Journal

Albuquerque, NM

January 4, 1997

(circ. 119,362)

A. Bingaman Named LCI Veep

Will Lead Firm Into Local Market

Bloomberg Business News

McLEAN, Va. — LCI International Inc. named former U.S. antitrust chief Anne Bingaman to lead the push by the corporation, the nation's sixth-largest long-distance company, into the local phone market.

"She is not here as an attorney, she is here as someone who can get something done," said Brian Thompson, LCI chairman and chief executive, in a Bloomberg Forum interview.

Bingaman, 53, was named corporate senior vice president of LCI International and president of LCI's local telecommunications division. She also will oversee the company's relationships with local phone companies and state public utility commissions.

The wife of Sen. Jeff Bingaman, D-N.M., she played a major role in shaping sweeping legislation designed to open the \$100 billion-a-year local phone market to competition. She served as assistant attorney general of the antitrust division at the U.S. Department of Justice for three years.

In her first year at the department, Bingaman opened more than 70 civil investigations — more than the entire decade of the 1980s.

McLean, Va.-based LCI said it has gotten permission to offer local phone service in 17 states and Washington through resale. It

will buy local phone minutes at wholesale rates from the Baby Bells, which have a virtual monopoly on the market, and resell that time to its customers at retail rates.

LCI also has applications to provide local phone services in at least 11 other states. The company is in talks with the Bells and other local phone companies for resale agreements.

Those negotiations — like almost all negotiations between local and long-distance phone companies for competition agreements — have been long and often contentious. Making them more so in many cases is the fact that the Bells are fighting to keep Federal Communications Commission-set resale prices, which the local phone companies say are unfair, from being enacted. Currently, the rules are suspended by a federal appeals court.

Bingaman defended those rules in an interview, saying that the Justice Department, which she left in October, found them "appropriate, fair, and were the appropriate course to take."

Still, she said her aim is to not let the controversy or delay over competition discourage her or the company.

Bingaman said she hopes to use her own perseverance to make a difference. "Eventually, consumers will have a choice of local phone competitors. That's all to the good, and LCI will be right at the forefront."

Since leaving the Justice Department, Bingaman has been a guest scholar in telecommunications at The Brookings Institution in Washington.

LCI shares rose 1/8 to 20 5/8 in today's trading.

LCI International Telecom Corp.

Exhibit F

Executive Biographies

Executive Biographies

H. BRIAN THOMPSON

Chairman and Chief Executive Officer LCI International

H. Brian Thompson was Chairman and Chief Executive Officer of LCI International in July of 1991. He and his team led the turnaround of the company and LCI's emergence as the nation's fastest growing long distance telecommunications carrier.

Under Mr. Thompson's leadership, LCI advanced from an annualized revenue run rate of \$220 million (which had declined by 15% over the previous year) to a run rate of \$460+ million in 1994 (growing by more than 35%), and from a negative net worth to a market value of over \$800 million today. Now serving all segments of the market -- residential, business and government - LCI has operations in over 35 locations, in addition to its international relationships, and the company provides long distance service to over 200 countries around the globe.

Mr. Thompson previously served as Executive Vice President of MCI Communications corporation from 1981 - 1990, with responsibility for the company's eight operating divisions, including MCI International. During his 10 years with MCI as a senior executive, he contributed greatly to that company's growth from \$230 million to \$8 billion, and to the internationalization of the company.

Prior to MCI, Mr. Thompson was a management consultant with McKinsey & Company for nine years in their Washington, D.C. office, where he specialized in the management of technology with a special involvement in the telecom area serving such clients at AT&T, GTE, Comsat and Intelsat. He serves as a member of the board of directors of Comcast UK Cable Partners Limited and Microdyne Corporation. In August 1995, Thompson was also elected to serve as Chairman of the Competitive Telecommunications Association (CompTel).

Mr. Thompson received his MBA from Harvard's Graduate School of Business and holds an undergraduate degree in chemical engineering from the University of Massachusetts.

THOMAS J. WYNNE

**President and Chief Operating Officer
LCI International, Inc.**

Thomas J. Wynne was named President and Chief Operating Officer of LCI International in July 1991, and -- in just a few years -- has led the charge to successfully propel LCI into a complete range of market segments, with an increasing number of both national and international business and residential customers. He was appointed to LCI's Board of Directors in January 1992, and is responsible for all day-to-day operations of the company and oversight of LCI's expanding portfolio of products and technologies.

Bringing more than 20 years of management experience in the telecommunications arena, Mr. Wynne spent 14 years in the executive ranks of MCI Communications Corporation during a time when that company experienced spectacular growth, and the communications industry itself was redefined. Mr. Wynne most recently served as President of MCI's 15-state West Division based in Denver -- among the fastest growing divisions of MCI, whose revenues more than doubled under his leadership to more than \$1 billion.

As division president at MCI, his responsibilities included sales and marketing, customer service, external affairs, regulatory, finance, human resources, advertising, promotions and communications.

Mr. Wynne's previous management positions with MCI include, Vice President of Sales and Marketing for MCI's Mid Atlantic Division headquartered in Washington, D.C.; Vice President in the Midwest Division headquartered in Chicago; Vice President of MCI's School of Telecommunications in New York, and Vice President of the National Account Program.

Prior to joining MCI, he was with Southern Pacific Communications in Philadelphia and Graphic Scanning Corporation in New York. He is a graduate of St. Joseph's University in Philadelphia.

JOSEPH A. LAWRENCE

**Senior Vice President, Finance and Development
Chief Financial Officer
LCI International, Inc.**

Joseph A. Lawrence joined LCI International in October 1993 as Senior Vice President of Finance and Development and Chief Financial Officer. Bringing more than nine years of telecommunications industry experience and more than 25 years of experience in all aspects of finance and administration, Mr. Lawrence is responsible for all of LCI's financial and administrative functions, corporate planning and development, investor relations and new business ventures.

Prior to joining LCI, Mr. Lawrence was Senior Vice President, Finance with responsibilities for nationwide management of all financial functions of the Consumer Markets Division of MCI Communications. He was with the Consumer Markets Division since its inception in 1990 and previously served as Vice President of Finance and Administration for MCI's former Mid-Atlantic Division. He joined MCI in January 1985.

Prior to that time, Mr. Lawrence held finance, marketing, planning and analysis positions for the Continental Group, Inc., a diversified packaging, forest products and resources corporation based in Stamford, Connecticut. He also held corporate accounting positions with Chesebrough-Ponds USA, a consumer products company in Greenwich, Connecticut.

Mr. Lawrence holds a bachelor of science degree in accounting from Manhattan College in Bronx, New York and has done graduate work in finance at Pace University in New York City.

ROY N. GAMSE

**Senior Vice President, Marketing
LCI International, Inc.**

Roy N. Gamse joined LCI International in March 1996 as Senior Vice President of Marketing. Bringing to LCI more than a decade of telecommunications experience, Mr. Gamse is responsible for developing and executing the marketing programs for all of LCI's businesses -- including commercial, residential, international, and services provided by LCI to other long-distance carriers.

Before joining LCI, he held several executive positions at MCI Communications Corporation, during which time that company grew from about \$500 million to more than \$11 billion in annual revenue. Mr. Gamse joined MCI in 1982 as Director of Strategic Planning, responsible for MCI's strategies and programs that penetrated the new "equal access" market. He held a number of other key posts, including Vice President of Marketing, overseeing some of the company's first competitive business services, and management of residential sales and customer service, as well as carrier sales programs. During the roll-out of MCI's Friends & Family program, Mr. Gamse was Senior Vice President of Customer Service for consumer markets. He was Senior Vice President of Consumer Marketing when he left MCI in 1993.

Mr. Gamse's previous management experience includes 10 years as a senior-level economist and key policy advisor at the U.S. Environmental Protection Agency, during the Nixon, Ford, Carter and Reagan administrations. Most recently, Mr. Gamse was President of Earth Force, a national non-profit organization that involves more than 200,000 children and educators in environmental education and community action programs in this country and abroad.

Currently, he serves on the board of Virginians for Baseball, a coalition dedicated to help bring Major League Baseball to northern Virginia.

Mr. Gamse has a bachelor's degree in economics from the Massachusetts Institute of Technology and an M.B.A. from Harvard.

ANNE K. BINGAMAN

**Senior Vice President and President, Local Telecommunications Division
LCI International, Inc.**

Anne K. Bingaman, a former U.S. Department of Justice assistant attorney general and chief of the antitrust division, joined LCI International in January 1997 as Senior Vice President and President of LCI's local telecommunications division. A nationally recognized litigator known for her aggressive enforcement efforts, Bingaman is now responsible for leading LCI's ambitious business plans to provide local telephone service in U. S. markets. Bingaman's organization also oversees LCI's relationships with all local exchange carriers, the FCC and state public utilities commission, as it relates to local competition.

The passage of the Telecommunications Act of 1996 -- which Bingaman played a significant role in crafting -- paved a wide swath of evolving opportunities in the \$100 billion local phone service market and invited competition into firmly entrenched monopoly territories. As an experienced manager and the individual who led one of the broadest attacks on anti-competitive businesses since the 1970's, Bingaman is well poised to assume the lead in an effort to capitalize on market opportunities.

In her first year at the Department of Justice, Bingaman opened more than 70 civil investigations -- more than the entire decade of the 1980s. She challenged more than 60 mergers, most of which resulted in deal restructuring. Bingaman also initiated the first challenges in 11 years of mergers involving companies that sell products and services to each other, rather than selling the same products. These deals included AT&T-McCaw, MCI-British Telecom and TCI-Liberty.

Prior to joining the Department of Justice, she was a partner and head of litigation at Powell, Goldstein, Frazer & Murphy in Washington, D.C. Before coming to the Washington, D.C. area, she was founder and partner of Bingaman & Davenport in Santa Fe, New Mexico and founded the New Mexico state bar's antitrust section. Bingaman is a former guest scholar at The Brookings Institution, and the recipient of numerous awards and fellowships, including Ford Foundation Fellowship for a study of women in society.

Bingaman received her B.A. from Stanford University in 1965, attended the London School of Economics and Political Science, then received her LL.B. from Stanford in 1968.

MARSHALL HANNO
Senior Vice President of Sales
LCI International, Inc.

Marshall Hanno was appointed Senior Vice President of Sales in 1993 after joining LCI International in July of 1991 as Vice President of Sales. As a member of LCI's senior management team, his responsibilities include the direction of all field sales and customer service activities of LCI for the major accounts, general business, residential and carrier markets.

Before joining LCI, Mr. Hanno served as Vice President of Sales with MCI Communications Corporation in Chicago. In this position, Mr. Hanno had responsibility for all sales activity for MCI's complete product line to the general business market. He directed all customer acquisition, retention and service efforts, employing a 500-person sales and field service organization, a 150-person centralized customer service organization, a 10-person Sales Administration group, and the services of a third party telemarketing supplier. His responsibilities also included sales planning and budgeting, measurement and compensation, training and staff personal development and the general operating issues associated with managing a 22 branch office operation. Mr. Hanno was responsible for these activities in Illinois, Ohio, Michigan, Wisconsin and Indiana and had revenue responsibility of more than \$500 million with an annual operating expense budget of \$40 million.

Prior to joining MCI, Mr. Hanno was Vice President, Sales and Marketing with Allnet Communications in Chicago. His responsibilities were to direct the acquisition, retention and service of customers in the general business, national account and residential markets on a nationwide basis. He managed a field sales and service organization of 700 people in 45 branch offices in 40 major markets, two centralized telemarketing centers staffed by 150 people and a centralized customer service organization of 120 people. His responsibilities included all sales and marketing planning, measurement and compensation and other operating issues associated with managing a nationwide sales and service organization. He had responsibility for \$400 million in revenues and \$45 million in operating expenses, including \$10 million in advertising expenditures.

Before joining Allnet, Mr. Hanno was Vice President of Sales with Intelcom, Inc., a telecommunications switching equipment manufacturer, with responsibility for a 14 state Midwest region. He was also Vice President, Sales and Marketing, for Centel Business Systems in Chicago. Centel Business Systems was at that time Northern Telecom's largest distributor of voice and data PBXs.

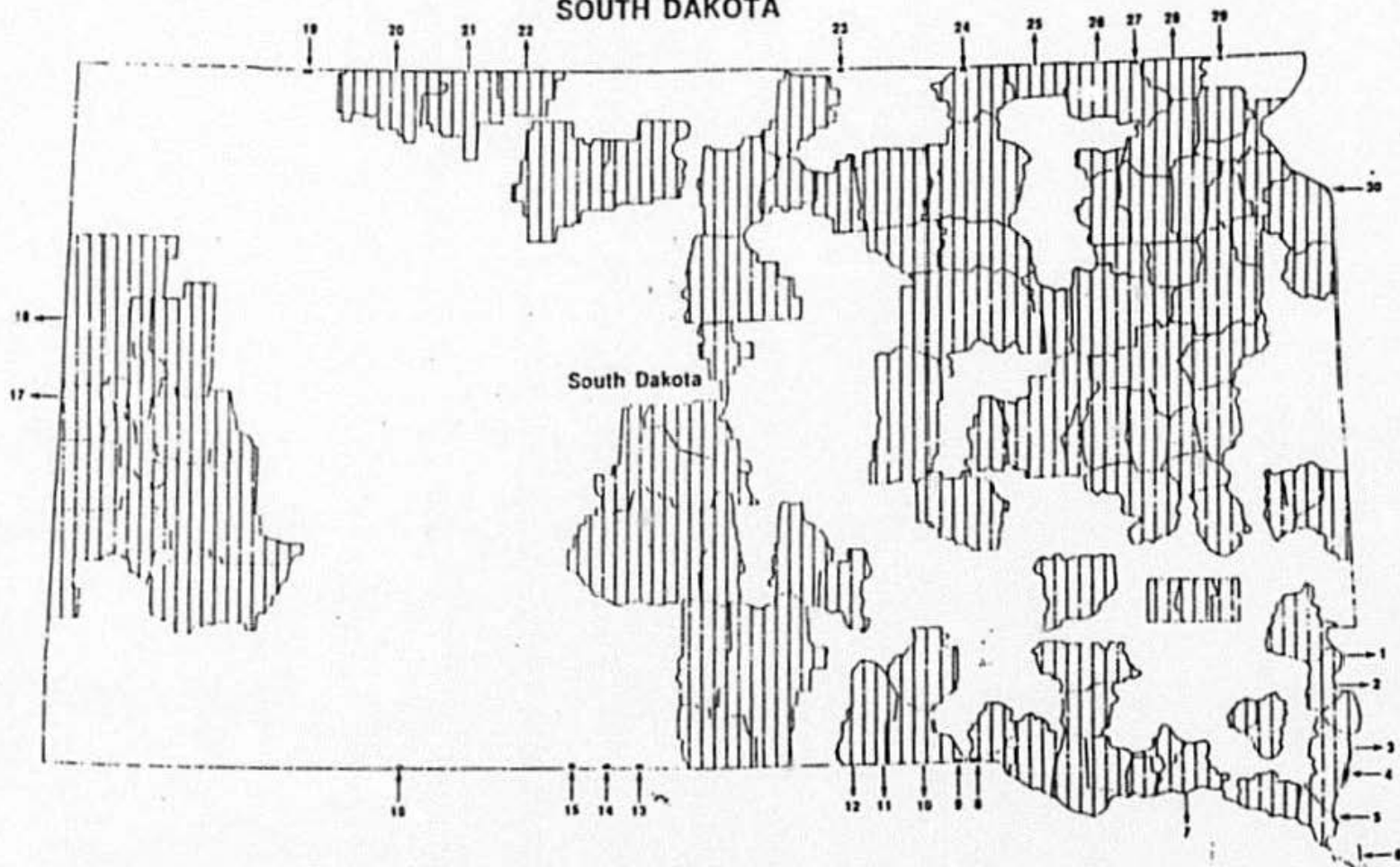
Prior to Mr. Hanno's experience in the telecommunications industry, he was employed by a major Wall Street firm as a stockbroker and began his sales career at IBM upon graduation from college. Mr. Hanno received his bachelor's degree from Roosevelt University in Chicago, with majors in Finance and Accounting.

LCI International Telecom Corp.

Exhibit G

Service Area Map

SOUTH DAKOTA



LCI International Telecom Corp.

Exhibit H

Illustrative Tariff

DRAFT

LOCAL EXCHANGE SERVICE

LCI INTERNATIONAL TELECOM CORP.

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES
APPLYING TO LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF SOUTH DAKOTA

NOTES REGARDING THIS ILLUSTRATIVE TARIFF OF
LCI INTERNATIONAL TELECOM CORP. ("LCI"):

1. This tariff is for illustrative purposes only and is subject to change.
2. Rates and comprehensive service descriptions cannot be included in this tariff until LCI has completed its inter-connection negotiations with the incumbent local exchange carriers.
3. Unless otherwise noted in LCI's application for local service authority, the services contained in this illustrative tariff shall be offered, subject to the terms and conditions stated in this tariff, to all customers throughout the state.

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnow, Manager
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8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

CHECK SHEET

The following sheets inclusive of this tariff are effective as of the date shown at the bottom of the respective sheets. Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

<u>Page</u>	<u>Revision No.</u>	<u>Page</u>	<u>Revision No.</u>	<u>Page</u>	<u>Revision No.</u>
Title Page	Original	SECTION 2 (Cont.)		SECTION 5	
1	Original	16	Original	1	Original
2	Original	17	Original		
3	Original	18	Original	SECTION 6	
4	Original	19	Original	1	Original
5	Original	20	Original		
		21	Original		
SECTION 1		22	Original		
1	Original	23	Original		
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3	Original	25	Original		
4	Original				
5	Original	SECTION 3			
6	Original	1	Original		
		2	Original		
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9	Original	12	Original		
10	Original	13	Original		
11	Original	14	Original		
12	Original				
13	Original	SECTION 4			
14	Original	1	Original		
15	Original				

* New or Revised Page.

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LOCAL EXCHANGE SERVICE

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LOCAL EXCHANGE SERVICE

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LOCAL EXCHANGE SERVICE

EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF TECHNICAL TERMS USED IN THIS TARIFF.

The following symbols shall be used in this tariff for the purpose indicated below:

- C - To signify changed regulation.
- D - To signify discontinued rate or regulation.
- I - To signify increased rate.
- M - To signify a move in the location of text.
- N - To signify new rate or regulation.
- R - To signify reduced rate.
- S - To signify re-issued matter.
- T - To signify a change in text but no change in rate or regulation.

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LOCAL EXCHANGE SERVICE

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate communications service by LCI International Telecom Corp. to customers within the local exchange service area defined herein.

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnow, Manager
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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS

Certain terms used generally throughout this tariff are defined below.

Account Codes

Allows a Customer to allocate local calls to a 4-digit, verified and non-verified account code.

Advanced Payment

Payment of all or part of a charge required before the start of service.

Alternate Answering

In the event that the called telephone number is not answered within three to four rings, this feature automatically forwards incoming calls to a predetermined, dialable telephone number served by the same Central Office switch, or provides interswitch transfer to a predetermined, dialable telephone number where technically available.

Answer Supervision

Answer Supervision must be provided when an LCI service offering is connected to switching equipment or a customer-provided communications system. The customer's equipment or system must provide answer supervision so that the measure of chargeable time begins upon the delivery of the customer's call to the switching equipment or to the equipment connected to the communications system and ends upon termination of the call by the calling party. If a customer's communications system fails to promptly return to LCI an idle (on-hook) state upon completion of the call, the customer will be responsible for all charges that result up until the time the customer's communication system signals LCI's network that the call has been terminated or until such time that LCI's own system terminates the call.

Authorized User

A person, firm, corporation or other entity that either is authorized by the Customer to use local exchange telephone service or is placed in a position by the Customer, either through acts or omissions, to use local exchange telephone service.

Automatic Callback

The telephone number associated with the last incoming call to the customer may be automatically redialed. Activation must occur before another incoming call or a call waiting indication is received by the customer.

Business Service

A switched network service that provides for dial Station Communications origination for which the subscriber pays a rate that is described as a business or commercial rate.

Busy Line Transfer

In the event that the called telephone number is busy, this feature automatically forwards incoming calls to a predetermined, dialable telephone number served by the same Central Office switch, or provides interswitch forwarding to a predetermined, dialable telephone number where technically available.

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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Call Forward Busy

Automatically routes incoming calls to a designated answering point when the called line is busy.

Call Forward No Answer

Automatically routes incoming calls to a designated answering point when the called line does not answer within a pre-specified number of rings.

Call Forward Variable

Automatically routes incoming calls to a designated answering point, regardless of whether the user's Station is idle or busy.

Call Hold

Allows the Customer to hold one call for any length of time provided that neither party goes On Hook.

Call Number Delivery Blocking

Blocks the delivery of the number to the called party on a per call basis.

Call Park

Allows a Customer to "park" a call against their directory number within the business group and "unpark" the call from any other directory number. A business group consists of a series of Customer-defined telephone numbers.

Call Pickup

Allows a Customer to answer incoming calls to another Station line within a defined call Pickup group. Call Pickup is provided as either Group Call Pickup, where the predesignated groups can pickup each other's calls by activating an access code or a feature key, or Directed Call Pickup, where any call can be retrieved by dialing a different access code followed by the extension number.

Call Screening

Allows the Customer to avoid the receipt of certain unwanted calls by programming the line to recognize and screen up to 10 different telephone numbers, whether or not the number is known. Calls from the screened numbers will be diverted to a recorded message which states that calls are not being accepted at this time.

Call Trace

Automatically traces the number of the line used for the last call received by the User.

Call Waiting

Provides the Customer with a burst of tone to indicate that another call is waiting. The second call can either be answered by flashing the switchhook or hanging up the phone and being rung back by the caller.

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ISSUED BY:

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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Call Waiting Cancel

Allows a Customer to cancel the Call Waiting feature on a per call basis by dialing a specific two digit code.

Caller ID

Allows the Customer to view the telephone number of an incoming call, prior to answering the call.

Caller ID with Name

Allows the Customer to view both the listed name and the telephone number of an incoming call, prior to answering the call.

Class of Service (COS)

Used to prevent a Station from dialing certain codes and numbers.

Commission

South Dakota Public Utility Commission.

Company

LCI International Telecom Corp., a Delaware corporation, which is the issuer of this tariff.

Customer

The person, firm, corporation or other entity that orders service and is responsible for the payment of charges and for compliance with the Company's tariff regulations.

Customer Control Option

There are two distinct options - one associated with Busy Line Transfer and the other with Alternate Answering. Each of these options will allow the customer to activate/deactivate the associated feature and to change the telephone number to which calls are set to forward.

Dial Pulse (DP)

The pulse type employed by rotary dial Station sets.

Direct Inward Dialing (DID)

A service attribute that routes incoming calls directly to Stations, by-passing a central answering point.

Direct Connect

Allows for automatic dialing of a single fixed telephone number from an exchange line.

Distinctive Ringing

Allows the Customer to designate up to ten telephone numbers for which incoming calls will have a distinctive ring.

Dual Tone Multi-Frequency (DTMF)

The pulse type employed by tone dial Station sets.

ISSUED:

EFFECTIVE:

ISSUED BY:

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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Easy Call

This feature provides for the automatic dialing of a dialable, telephone number consisting of seven or more digits in the event that the customer's line is taken off-hook and dialing does not commence within a predetermined interval, usually seven seconds.

Individual Case Basis

A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the Customer's situation.

Joint User

A person, firm or corporation designated by the Customer as a user of local exchange service furnished to the Customer by the Company, and to whom a portion of the charges for such facilities are billed under a joint use arrangement.

LATA (Local Access Transport Area)

A geographical area established by the U.S. District Court for the District of Columbia in Civil Action No. 17-49, within which a local exchange carrier provides communications services.

Local Calling

A completed call or telephonic communication between a calling Station and any other Station within the local service area of the calling Station.

Local Exchange Carrier

A company that furnishes exchange telephone service.

Mbos

Megabits, or millions of bits, per second.

Message Waiting

This feature provides an indication to a Station User that a message is waiting. Indications may be visual (lamp) or audible (stuttered dialtone).

Most Idle Trunk Selection (MIDL)

MIDL Trunk selection occurs when a switching unit selects from a Trunk group the Trunk that has been idle for the longest period of time.

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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Multiple Appearance Directory Numbers

A directory number that is assigned more than once to one or more Proprietary Business Sets.

Multi-Frequency (MF)

An inter-machine pulse-type used for signaling between telephone switches, or between telephone switches and PBX/key systems.

Multi Ring Service

Allows the customer to have as many as three telephone numbers associated with a single line. Distinctive ringing will be provided for each of the additional telephone numbers to facilitate identification of incoming calls.

Non-Recurring Charges

The on-time initial charges for services or facilities, including but not limited to charges for construction, installation, or special fees, for which the Customer becomes liable at the time the Service Order is executed.

Off-Hook

The term "off-hook" denotes the active condition of a telephone exchange service line.

On-Hook

The term "on-hook" denotes the idle condition of a telephone exchange service line.

Presubscription-2 (PIC-2)

An arrangement whereby a Customer may select and designate to the Company an Interexchange Carrier it wishes to access, without an access code, for completing intraLATA toll calls. The selected Interexchange Carrier is referred to as the End User's Primary Interexchange Carrier (PIC-2). InterLATA Presubscription is offered pursuant to LCI FCC Tariff No. 2.

Public Service Commission (PSC)

South Dakota Public Utility Commission.

Repeat Dialing

The telephone number associated with the last outgoing call placed by the customer may be automatically redialed. Activation must occur before another outgoing call is placed by the customer.

Recurring Charges

The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Remote Call Forwarding (RCF)

All calls dialed to a telephone number equipped for RCF are automatically forwarded to another dialable exchange or 800 Service telephone number.

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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Service Commencement Date

The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the customer's refusal to accept service which does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance of service. The parties may mutually agree on a substitute Service Commencement Date.

Service Order

The written request for local exchange services executed by the Customer and the Company in a format specified by the Company. The signing of a Service Order by the Customer and acceptance thereof by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Services

The Company's telecommunications services offered on the Company's network.

Shared Facilities

A facility or equipment system subsystem that can be used simultaneously by several Customers.

Special Delivery Feature

When encountering a busy or don't answer condition on outgoing calls, the calling party may be automatically forwarded to a predetermined, dialable telephone number served by the same or a different Central Office switch, where facilities permit.

Speed Calling

Provides a Customer with the option to call other telephone numbers by dialing a code rather than the complete telephone number. The repertory list for such telephone numbers is available in an 8 or 30 number capacity.

Station

Telephone equipment from or to which calls are placed.

Three-Way Calling

The Customer can sequentially call up to two other people and add them together to make up a three-way call.

Trunk

A communications path connecting two switching systems in a network, used in the establishment of an end-to-end connection.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service in connection with one-way and/or two-way information transmission between points within the State of South Dakota under the terms of this tariff.

The Company is responsible under this tariff only for the services and facilities provided herein, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services or to communicate with its own customers.

2.1.2 Shortage of Equipment or Facilities

The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as the facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)2.1.3 Terms and Conditions

- 2.1.3.1 Except as otherwise provided herein, service is provided on the basis of a minimum period of at least one month, and shall continue to be provided until canceled by the Customer, in writing, on not less than 30 days notice. Unless otherwise specified herein, for the purpose of computing charges in this tariff, a month is considered to have 30 days. All calculations of dates set forth in this tariff shall be based on calendar days, unless otherwise specified herein.
- 2.1.3.2 Customers may be required to enter into written Service Orders which shall contain or reference the name of the customer, a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff.
- 2.1.3.3 At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party upon 30 days written notice. Any termination shall not relieve Customer of its obligation to pay any charges incurred under the Service Order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the Service Order shall survive such termination.
- 2.1.3.4 This tariff shall be interpreted and governed by the laws of the State of South Dakota without regard for the State's choice of laws provision.
- 2.1.3.5 The Customer has no property right to the Telephone number or any other call number designation associated with services furnished by the Company. The Company reserves the right to change such numbers, or the central office designation associated with such numbers, or both, assigned to the Customer, whenever the Company deems it necessary to do so in the conduct of its business.
- 2.1.3.6 The Customer agrees to operate Company-provided equipment in accordance with instructions of the Company or the Company's agent. Failure to do so will void Company liability for interruption of service and may make the Customer responsible for damage to equipment pursuant to Section 2.1.3.7 below.
- 2.1.3.7 The Customer agrees to return to the Company all Company-provided equipment delivered to the Customer within five (5) days of the termination of the service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to Customer, normal wear and tear only excepted. Customer shall reimburse the Company, upon demand, for any costs incurred by the Company due to Customer's failure to comply with this provision.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)2.1.4. Liability of the Company

- 2.1.4.1 The liability of the Company for damages arising out of the furnishing of its Service, including but not limited to mistakes, omissions, interruption, delay, or errors, or other defects, representations, or use of these services or damages arising out of the failure to furnish the service, whether caused by acts or omission, shall be limited to the extension of allowances for interruption as set forth in Section 2.6, below. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, lost profits, exemplary or punitive damages to Customer as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company's employees or agents.
- 2.1.4.2 The Company's liability for willful misconduct, if established as a result of judicial or administrative proceedings, is not limited by this tariff. The Company's liability, if any, with regard to delayed installation of Company facilities or commencement of service, shall not exceed \$1,000. With respect to any other claim or suit, by a Customer or by any others, for damage associated with the ordering (including the reservation of any specific number for use with a service), installation (including delays thereof), provision, termination, maintenance, repair, interruption or restoration of any service or facilities offered under this tariff, and subject to the provisions of Section 2.6, the Company's liability, if any, shall be limited as provided herein.
- 2.1.4.3 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; and law, order, regulation, direction, action or request of the United States government or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of these federal, state, or local governments, or of any military authority; preemption of existing service in compliance with national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials, or strikes, lockouts, work stoppages, or other labor difficulties.
- 2.1.4.4 The Company shall not be liable for (a) any act or omission of any entity furnishing the Company or the Company's Customers facilities or equipment used for or with the services the Company offers; or (b) for the acts or omissions of common carriers or warehousemen.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)2.1.4. Liability of the Company (Continued)

- 2.1.4.5 The Company shall not be liable for any damages or losses due to the fault of negligence of the Customer or due to the failure of malfunction of Customer-provided equipment or facilities.
- 2.1.4.6 The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation; failure to operate, maintenance, removal, condition, location, or use of installation provided by the Company. The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this Section as a condition precedent to such installations.
- 2.1.4.7 The Company shall not be liable for any defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by gross negligence or willful misconduct of the Company's agents or employees. No agents or employees of other participating carriers shall be deemed to be agents or employees of the Company.
- 2.1.4.8 Notwithstanding the Customer's obligations as set forth in Section 2.3.2, the Company shall be indemnified, defended, and held harmless by the Customer or by others authorized by it to use the service against any claim, loss or damage arising from Customer's use of services furnished under this tariff, including: claims for libel, slander, invasion of privacy or infringement of copyright arising from the material, data, information, or other content transmitted via the Company's service; and patent infringement claims arising from combining or connecting the service offered by the Company with apparatus and systems of the Customer or others. All other claims arising out of any act or omission of the Customer or others, in connection with any service provided by the Company pursuant to this tariff.
- 2.1.4.9 The entire liability of the Company for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid to the Company by Customer for the specific services giving rise to the claim, and no such action or proceeding against the Company shall be commenced more than one year after the service is rendered.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)2.1.4 Liability of the Company (Continued)

- 2.1.4.10 The Company makes no warranties or representations, express or implied, including warranties of merchantability or fitness for a particular use, except those expressly set forth herein.
- 2.1.4.11 The Company shall not be liable for any act or omission of any other company or companies furnishing a portion of the service, or for damages associated with service, channels, or equipment which it does not furnish, or for damages which result from the operation of Customer-provided systems, equipment, facilities or services which are interconnected with Company services.
- 2.1.4.12 The Company does not guarantee nor make any warranty with respect to service installations at locations at which there is present an atmosphere that is explosive, prone to fire, dangerous or otherwise unsuitable for such installations. The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to, or death of, any person or persons, or for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, locations or use of service furnished by the Company at such locations.
- 2.1.4.13 The Company shall not be liable for the Customer's failure to fulfill its obligations to take all necessary steps including, without limitation, obtaining, installing and maintaining all necessary equipment, or materials and supplies, for interconnection of the terminal equipment or communications system of the Customer, or any third party acting as its agent, to the Company's network. The Customer shall secure all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection. In addition, the Customer shall ensure that its equipment and/or system or that of its agent is properly interfaced with the Company's service, that the signals emitted into the Company's network are of proper mode, band-width, power, data speed, and signal level for the intended use of the Customer and in compliance with the criteria set forth in Section 2.1.6 following, and that the signals do not damage Company equipment, injure its personnel or degrade service to other Customers. If the Customer or its agent fails to maintain and operate its equipment and/or system or that of its agent properly, with resulting imminent harm to Company equipment, personnel, or the quality of service to other Customers, the Company may, upon written notice, require the use of protective equipment at the Customer's expense. If this fails to produce satisfactory quality and safety, the Company may, upon written notice, terminate the Customer's service without liability.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)2.1.4 Liability of the Company (Continued)

2.1.4.14 With respect to Emergency Number 911 Service:

- (a) This service is offered solely as an aid in handling assistance calls in connection with fire, police and other emergencies. The Company is not responsible for any losses, claims, demands, suits or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or person for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused by: (1) mistakes, omissions, interruptions, delays, errors or other defects in the provision of this service, or (2) installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of any equipment and facilities furnishing this service.
- (b) The Company is not responsible for any infringement or invasion of the right of privacy of any person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of emergency 911 service features and the equipment associated therewith, or by any services furnished by the Company including, but not limited to, the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing emergency 911 service, and which arise out of the negligence or other wrongful act of the Company, the Customer, its users, agencies or municipalities, or the employees or agents of any one of them.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.4 Liability of the Company (Continued)

- 2.1.4.15 The Company's liability arising from errors or omissions in Directory Listings, other than charged listing, shall be limited to the amount of actual impairment of the Customer's service and in no event shall exceed one-half the amount of the fixed monthly charges applicable to exchange service affected during the period covered by the directory in which the error or omission occurs. In cases of charged Directory Listings, the liability of the Company shall be limited to an amount not exceeding the amount of charges for the charged listings involved during the period covered by the directory in which the error or omission occurs.
- 2.1.4.16 In conjunction with a non-published telephone number, as described in Section 3.4.5.3, the Company will not be liable for failure or refusal to complete any call to such telephone when the call is not placed by number. The Company will try to prevent the disclosure of the number of such telephone, but will not be liable should such number be divulged.
- 2.1.4.17 When a Customer with a non-published telephone number, as defined herein, places a call to the Emergency 911 Service, the Company will release the name and address of the calling party, where such information can be determined, to the appropriate local governmental authority responsible for the Emergency 911 Service, upon request of such governmental authority. By subscribing to service under this tariff Customer acknowledges and agrees with the release of information as described above.
- 2.1.4.18 In conjunction with the Busy Line Verification and Interrupt Service as described in Section 3.3.2, the Customer shall indemnify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.
- 2.1.4.19 The Company shall not be liable for any act or omission concerning the implementation of Presubscription, as defined herein.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventive maintenance. Generally, such activities are not specific to any individual Customer but affect many Customers services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable, notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)2.1.6 Provisions of Equipment and Facilities

- 2.1.6.1 The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to an Customer.
- 2.1.6.2 The Company shall use reasonable efforts to maintain facilities and equipment that it furnishes to the Customer. The Customer may not, nor may Customer permit others to, rearrange, disconnect, remove, attempt to repair or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- 2.1.6.3 Equipment the Company provided or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the Company has provided it.
- 2.1.6.4 The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Beyond this responsibility, the Company shall not be responsible for:
- (a) the transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
 - (b) the reception of signals by Customer provided equipment; or
 - (c) network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.7 Non-routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in unusual locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.8 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its agents or contractors.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.2 Prohibited Uses

- 2.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.
- 2.2.2 The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

- (a) the payment of all applicable charges pursuant to this tariff;
- (b) reimbursing the Company for damage to, or loss of, the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer's premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company. The Company will, upon reimbursement for damages, cooperate with the Customer in prosecuting a claim against the person causing such damage and the Customer shall be subrogated to the Company's right of recovery of damages to the extent of such payment.
- (c) providing at no charge, as specified from time to time by the Company, any needed personnel, equipment, space, and power to operate Company facilities and equipment installed on the premises of the Customer, at the level of heating and air conditioning necessary to maintain the proper operating environment of such premises.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.3 Obligations of the Customer (Continued)2.3.1 General (Continued)

- (d) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of fiber optic cable and associated equipment used to provide Local Exchange Service to the Customer from the cable building entrance or property line to the location of the equipment space described in Section 2.3.1 (c). Any costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting any order for service;
- (e) providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing, and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;
- (f) complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses, and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1 (d); and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.3 Obligations of the Customer (Continued)

2.3.1 General (Continued)

- (g) not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and
- (h) making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance for interruptions in service will be made for the period during which services are interrupted for such purpose.

2.3.2 Claims

With respect to any service or facility provided by the Company, Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys fees for:

- (a) any loss, destruction of damage to property of the Company or any third party, or the death or injury to persons, including, but not limited to employees or invitees of either the Company or the Customer, to the extent caused by or resulting from the negligent or intentional act or omission of Customer, its employees, agents, representatives or invitees; or
- (b) any claim, loss, damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer, including, without limitation, use of the Company's services and facilities in a manner not contemplated by the agreement between Customer and Company or this tariff.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.4 Customer Equipment and Channels2.4.1 General

A Customer may transmit or receive information or signals via the facilities of the Company.

2.4.2 Station Equipment

2.4.2.1 The Customer is responsible for providing and maintaining any terminal equipment on the Customer premises. The electric power consumed by such equipment shall be provided by, and maintained at the expense of, the Customer. All such terminal equipment must be registered with the FCC under 47 C.F.R., Part 68 and all wiring must be installed and maintained in compliance with those regulations. The Company will, where practicable, notify the Customer that temporary discontinuance of the use of service may be required; however, where prior notice is not practicable, nothing contained herein shall be deemed to impair the Company's right to discontinue forthwith the use of a service temporarily if such action is reasonable under the circumstances. In case of such temporary discontinuance, the Customer will be promptly notified and afforded the opportunity to correct the condition which gave rise to the temporary discontinuance. During such period of temporary discontinuance, credit allowance for service interruptions as set forth in Section 2.6 following is not applicable.

2.4.2.2 The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.4 Customer Equipment and Channels (Continued)2.4.3 Interconnection of Facilities

- 2.4.3.1 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Local Exchange Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.
- 2.4.3.2 Local Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.
- 2.4.3.3 Facilities furnished under this tariff may be connected to Customer provided terminal equipment in accordance with the provisions of this tariff.

2.4.4 Inspections

- 2.4.4.1 Upon reasonable notification to the customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with requirements set forth in Section 2.4.2.2 for the installations, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.
- 2.4.4.2 If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment, and personnel from harm. The Company will, upon a request from the Customer 24 hours in advance, provide the Customer with a statement of technical parameters that the Customer's equipment must meet.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements2.5.1 Payment for Service

The Customer is responsible for payment of all charges for services furnished by the Company to the Customer or its Joint or Authorized Users. Objections must be received by the Company within 60 days after statement of account is rendered, or the charges shall be deemed correct and binding upon the Customer. A bill will not be deemed correct and binding upon the customer if the Company has records on the basis of which an objection may be considered, or if the customer has in his or her possession such Company records. If an entity other than the Company imposes charges on the Company, in addition to its own internal costs, in connection with a service for which a Company non-recurring charge is specific, those charges may be passed on to the Customer.

2.5.1.1 Taxes¹

The customer is responsible for the payment of any sales, use, gross receipts, excise, access or other local, state and federal taxes, charges or surcharges (however designated) excluding taxes on the Company's net income, imposed on or based upon the provision, sale or use of Local Services. Any taxes imposed by a local jurisdiction (e.g., county and municipal taxes) will only be recovered from those Customers located in the affected jurisdictions.

2.5.1.1.1 Other Charges

If an entity other than the Company (e.g. another carrier or a supplier) imposes charges on the Company, in addition to its own internal costs, in connection with a service for which the Company's non recurring charge is specified, those charges will be passed on to the Customer. It shall be the responsibility of the Customer to pay any such taxes that subsequently become applicable retroactively.

¹Pending the conclusion of any challenge to a jurisdiction's or other entity's right to impose a gross receipts or other tax or other charge, the Company may elect to impose and collect a surcharge covering such taxes or other charges, unless otherwise constrained by court order or direction, it may elect not to impose and collect the surcharge. If it has collected a surcharge and the challenged tax or charge is found to have been invalid and unenforceable, the Company will credit or refund such amounts to affected customers (less its reasonable administrative costs), if the funds collected were retained by the Company or if they were delivered over to the taxing jurisdiction or charging entity and returned to the Company.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)

2.5.2 Billing and Collection of Charges

Bills will be rendered monthly to Customer.

2.5.2.1 All service, installation, monthly recurring, and non-recurring charges are due and payable upon receipt.

2.5.2.2 The Company shall present invoices for recurring charges monthly to the Customer, in advance of the month in which such service is provided.

2.5.2.3 For new customers or existing customers whose service is disconnected, the charge for the fraction of the month in which service was furnished will be calculated on a pro rated basis. For this purpose every month is considered to have 30 days.

2.5.2.4 Amounts not paid within 30 days after the date of invoice will be considered past due. If the Company becomes concerned at any time about the ability of a Customer to pay its bills, the Company may require that the Customer pay its bills within 8 mailing days after written notice or 5 days after personal delivery thereof and to make such payments in cash or the equivalent of cash.

2.5.2.5 A check return charge of \$20.00 will be assessed for checks with insufficient funds or non-existing accounts.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)2.5.3 Disputed Bills

The Customer shall notify the Company of any disputed items on a bill within 60 days of receipt of the bill. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the South Dakota Public Utility Commission in accordance with the PUC's rules of procedure.

2.5.3.1 The date of the dispute shall be the date the Company receives sufficient documentation to enable it to investigate the dispute.

The date of the resolution is the date the Company completes its investigation and notifies the Customer of the disposition of the dispute.

2.5.4 Advance Payments

To safeguard its interests, the Company may require a non-residential Customer to make an Advance Payment before services and facilities are furnished. The Advance Payment will not exceed any amount equal to the non-recurring charge(s) and one month's charges for the service to facility. In addition, where special construction is involved, the Advance Payment may also include an amount equal to the estimated non-recurring charges for the special construction and recurring charges (if any) for a period to be set by the Company and the non-residential Customer. The Advance Payment will be credited to the non-residential Customer's initial bill. An Advance Payment may be required in addition to a deposit.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)2.5.5 Deposits

2.5.5.1 Applicants for service or any existing Customer whose financial condition is not acceptable to the Company, or is not a matter of general knowledge, may be required at any time to provide the Company a security deposit. The deposit requested will be in cash or the equivalent of cash, and will be held as a guarantee for the payment of charges. A deposit does not relieve the Customer of the responsibility for the prompt payment of bills on presentation. The deposit will not exceed an amount equal to:

- (a) two month's charges for service or facility which has a minimum payment period of one month; or
- (b) the charges that would apply for the minimum payment period for a service or facility which has a minimum payment period of more than one month; except that the deposit may include an additional amount in event that a termination charge is applicable.

In addition, the Company shall be entitled to require such an applicant or Customer to pay all its bills within a specified period of time, and to make such payments in cash or the equivalent of cash. At the Company's option, such deposit may be refunded to the Customer's account at any time. Also, the Company reserves the right to cease accepting and processing Service Orders after it has requested a security deposit and prior to the Customer's compliance with this request.

2.5.5.2 A deposit may be required in addition to an advance payment.

2.5.5.3 When a service or facility is discontinued, the amount of a deposit, if any, will be applied to the Customer's account and any credit balance remaining will be refunded. Before the service or facility is discontinued, the Company may, at its option, return the deposit or credit it to the Customer's account.

2.5.5.4 Deposits held for business customers will accrue interest at a rate equivalent to the rate paid on two-year United States Treasury notes for the preceding 12 months ending December 31 as reported in the most current Federal Reserve Bulletin monthly publication. Interest is credited to the customer annually, or upon termination of the service, or upon return of the deposit by the Company.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)

2.5.6 Discontinuance of Service

- 2.5.6.1 Upon non-payment of any amounts owing to the Company, the Company may, by giving five days' prior written notice served personally upon the Customer; eight days written notice in postpaid wrapper; or five days after the Customer signs or refuses a registered letter containing written notice, suspend service without incurring any liability.
- 2.5.6.2 Upon violation of any of the other material terms or conditions for furnishing service, the Company may, by giving 30 days prior notice in writing to the Customer, discontinue or suspend service without incurring any liability, if such violation continues during the 30 day period.
- 2.5.6.3 Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.
- 2.5.6.4 Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, failing to discharge and involuntary petition within the time permitted by law, or abandonment of service, the Company may, with prior notice to the Customer, immediately discontinue or suspend service without incurring any liability.
- 2.5.6.5 Upon any governmental prohibition or required alteration of the services to be provided or any violation of any applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)

2.5.6 Discontinuance of Service (Continued)

2.5.6.6 The Company may discontinue the furnishing of any and/or all service(s) to a Customer, without incurring any liability.

2.5.6.6.1 Immediately and without notice if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or services. The Company may discontinue service pursuant to this sub-section 2.5.6.6.1 (a-f) if:

- (a) The Customer refuses to furnish information to the Company regarding the Customer's credit-worthiness, its past or current use of common carrier communications services or its planned use of service(s); or
- (b) The Customer provides false information to the Company regarding the Customer's identity, address, credit-worthiness, past or current use of common carrier communications services, or its planned use of the Company's service(s); or
- (c) The Customer has been given written notices as described in Section 2.5.6.1 by the Company of any past due amount (which remains unpaid in whole or part) for any of the Company's other common carrier communications services to which the Customer either subscribes or has subscribed to used; or
- (d) The Customer uses or attempts to use service with the intent to avoid the payment, either in whole or in part, of the tariffed charges for the service by:
 - (d.1) Using or attempting to use service by rearranging, tampering with, or making connection to the Company's service not authorized by this tariff; or
 - (d.2) Using tricks, schemes, false or invalid numbers, false credit devices, electronic devices; or
 - (d.3) Any other fraudulent means or devices; or
- (e) Use of service in such a manner as to interfere with the services of other users; or
- (f) Use of service for unlawful purposes.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)2.5.6 Discontinuance of Service (Continued)

2.5.6.6 (Continued)

- 2.5.6.6.2 Immediately upon written notice to the Customer of any sum thirty (30) days past due;
 - 2.5.6.6.3 Upon ten (10) days written notice to the Customer, after failure of the Customer to comply with a request made by the Company for security for the payment of service in accordance with Section 2.5.5; or
 - 2.5.6.6.4 Ten (10) days after sending the Customer written notice of noncompliance with any provision of this tariff if the noncompliance is not corrected within the ten (10) day period; or
 - 2.5.6.6.5 Upon five (5) days written notice, excluding Sundays and holidays, for non-payment of a bill for service.
- 2.5.6.7 The suspension or discontinuance of service(s) by the Company pursuant to this Section does not relieve the Customer of any obligation to pay the Company for charges due and owing for service(s) furnished during the time of or up to suspension or discontinuance.
- 2.5.6.8 Upon the Company's discontinuance of service to the Customer under Section 2.5.6.1 or 2.5.6.2, all applicable charges, including termination charges, shall become due. This is in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff.

2.5.7 Interest on Customer Overpayments

A Customer who makes a payment to the Company in excess of the correct charge for telephone service, which overpayment was caused by erroneous billing by the Company, shall be paid interest on the amount of the overpayment. The rate of interest on such amount shall be the greater of the unadjusted Customer deposit rate or the applicable late payment rate. The interest shall be paid from the date when the Customer overpayment was made, adjusted for any changes in the deposit or late payment charge rates and compounded monthly until the date when the overpayment is refunded. No interest will be paid on Customer overpayments that are refunded within 30 days after such overpayment is received by the Company.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.6 Allowances for Interruptions in Service2.6.1 Credit for Interruptions

When the use of service or facilities furnished by the Company is interrupted due to any cause other than the negligence or willful act of the Customer, or the operation or failure of the facilities or equipment provided by the Customer, a pro rata adjustment of the monthly recurring charges subject to interruption will be allowed for the service and facilities rendered useless and inoperative by reason of the interruption, whenever said interruption continues for a period of 24 hours or more from the time the interruption is reported to or known to exist by the Company, except as otherwise specified in the Company's tariffs. If the Customer reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.

For calculating credit allowances, every month is considered to have 30 days. A credit allowance is applied on pro-rata basis against the rates specified hereunder for Local Line or Local Trunk Service and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit. Credit allowances for service outages that exceed 24 hours in duration will be rounded up to the next whole 24 hours.

2.6.2 Limitations on Allowances No credit allowance will be made for:

- (a) interruptions due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer, Authorized User, Joint-User, or other common carrier providing service connected to the service of Company;
- (b) interruptions due to the negligence of any person other than the Company including, but not limited to, the Customer or other common carriers connected to the Company's facilities;
- (c) interruptions due to the failure or malfunction of non-Company equipment;
- (d) interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;
- (e) interruptions of service during a period in which the Customer continues to use the service on an impaired basis;
- (f) interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- (g) interruption of service due to circumstances or causes beyond the control of the Company.

2.6.3 Use of Alternative Service Provided by the Company

Should the Customer elect to use an alternative service provided by the Company during the period that a service is interrupted, the Customer must pay the tariffed rates and charges for the alternative services used.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.7 Cancellation of Service2.7.1 Cancellation of Applications for Service

2.7.1.1 Unless the Company breaches its obligations, applications for service are noncancellable after 48 hours, unless the Company otherwise agrees. Where the Company permits Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

2.7.1.2 Where prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of service ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun.

2.7.1.3 The special charges described in Sections 2.7.1.1 and 2.7.1.2 herein, will be calculated and applied on a case-by-case basis.

2.7.2 Cancellation of Service by the Customer

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.6.1 above), Customer agrees to pay to Company the following sums which shall become due and owing as of the effective date of the cancellation or termination and payable within the period set forth in Section 2.5.2, all costs, fees and expenses incurred in connection with:

- 1) all non-recurring charges reasonably expended by the Company to establish service to Customer, plus
- 2) any disconnection, early cancellation or termination charges reasonable incurred and paid to third parties by Company on behalf of Customer, plus
- 3) all recurring charges specified in the applicable Service Order tariff for the balance of the then current term.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.8 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company (b) pursuant to any sale or transfer of substantially all assets of the Company; (c) pursuant to any financing, merger or reorganization of the Company.

2.9 Notices and Communications

- 2.9.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- 2.9.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- 2.9.3 All notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communications, or bill with the US Mail or a private delivery service prepaid and properly addressed, or when actually received or refused by the Addressee, whichever occurs first.
- 2.9.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS

3.1 Local Exchange Service

The Company's Local Telephone Service provides a Customer with the ability to connect to the Company's switching network which enables the Customer to:

- place or receive calls to any calling Station in the local calling area, as defined herein;
- access 911 Emergency Service;
- access the interexchange carrier selected by the Customer for interLATA, intraLATA, interstate or international calling;
- access Operator Services
- access Directory Assistance for the local calling area;
- place or receive calls to 800 telephone numbers;
- access Telecommunication Relay Service

The Company's service cannot be used to originate calls to other telephone companies' caller-paid information services (e.g., 900, 976). Calls to those numbers and other numbers used for caller-paid information services will be blocked by the Company's switch. If the Customer chooses to have their line unblocked, the Customer will be responsible for all charges associated with caller-paid information services.

3.1.1 Service Area: Where facilities are available, the service area is defined by the NPAs XXX, with those NXX designations serviced by

3.1.1.1 Local Calling Area: Where facilities are available, all exchanges defined as

3.1.1.2 IntraLATA: Where facilities are available, all exchanges defined as

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.2 Local Line: Local Line provides the Customer with a single, voice-grade communications channel. Each Local Line will include a telephone number.

3.1.2.1 Line Types: Each Local Line Customer may choose from the following line types. All line types include Touch Tone:

Line - Loop Start
PBX Trunk - Ground Start
Direct Inward Dialing (DID) Trunk Termination
2 Way DID (Direct Inward Dialing/Direct Outward Dialing)

3.1.2.2 Optional Features: A Customer may order the following optional features. Business rates are set forth in Section 3.1.2.3.3.

Call Waiting	Repeat Dialing
Call Forwarding	Call Trace
Remote Call Forwarding	Busy Line Transfer
Three-Way Calling	Alternate Answering
Speed Call 8	Customer Control Busy Line Transfer
Speed Call 30	Customer Control Alternate Answer
Distinctive Ringing	Message Waiting Tone
Call Screening	Easy Call
Multi Ring Service 1	Special Delivery
Multi Ring Service 2	Scan Alert Basic
Caller ID - Number Only	UL/AA Polling Option
Caller ID - Name and Number	Answer Supervision
Automatic Callback	Direct Connect

3.1.2.3 Local Line Rates and Charges: A Local customer will be charged applicable non-recurring charges, monthly recurring charges and usage charges as set forth below.

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)3.1.2 Local Line (Continued)3.1.2.3 Local Line Rates and Charges (Continued)3.1.2.3.1 Non-Recurring Charges:RATE

Connection Charges:

Line - Loop Start	XX.XX
PBX Trunk - Ground Start	XX.XX
DID Trunk Termination	XX.XX
2 Way DID (DID/DOD)	XX.XX

Premise Visit:

Initial 15 minutes	XX.XX
Each Add'l 15 minute period	XX.XX

Jack Installation:

RJ11C (single line jack)	XX.XX per jack
RJ21X (25 line jack)	XX.XX per jack

DID Numbers:

1st 20	XX.XX
Add'l 20	XX.XX

Move/Change Charges (per Service Order) XX.XX

Line Service Restoral XX.XX

(Applies for line restoral after temporary interruption of service initiated by the Company. If service is temporarily interrupted and payment is not received within 10 days following the interruption, the Company reserves the right to discontinue service. If service is discontinued and subsequently re-established, charges apply as for a new installation of service.)

Local Interrupt Service XX.XX

(Applies for line restoral after Customer - initiated suspension).

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)3.1.2 Local Line (Continued)3.1.2.3 Local Line Rates and Charges (Continued)

3.1.2.3.2	<u>Recurring Charges:</u>	<u>RATE</u>
	Line (Loop Start - per line)	XX.XX
	PBX Trunks (Ground Start)	XX.XX
	DID Trunk Termination	XX.XX
	2 Way DID (DID/DOD)	XX.XX
	EUCL (line, PBX Trunk, 2Way DID)	XX.XX
	DID Trunk Group	XX.XX
	DID Numbers:	
	1st 20	XX.XX
	Add'l 20	XX.XX
	Local Interrupt Service	XX.XX

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.2 Local Line (Continued)

3.1.2.3 Local Line Rates and Charges (Continued)

3.1.2.3.3 Optional Feature: New local customers initially ordering any of these features will not be billed an installation charge. A subsequent change order to add additional features will incur a \$XX.XX per line installation fee. The monthly charge will be billed on a per line, per month basis, unless otherwise indicated.

	<u>MONTHLY CHARGE</u>
Call Waiting	XX.XX
Call Forwarding	XX.XX
Remote Call Forwarding	XX.XX
Three-Way Calling	XX.XX
Speed Call 8	XX.XX
Speed Call 30	XX.XX
Distinctive Ringing	XX.XX
Call Screening	XX.XX
Multi Ring Service 1	XX.XX
Multi Ring Service 2	XX.XX
Caller ID - Number only	XX.XX
Caller ID - Name and Number	XX.XX
Automatic Callback (per occurrence)	XX.XX
Repeat Dialing (per occurrence)	XX.XX
Call Trace (per occurrence)	XX.XX
Busy Line Transfer	XX.XX
Alternate Answering	XX.XX
Customer Control Busy Line Transfer	XX.XX
Customer Control Alternate Answer	XX.XX
Message Waiting Tone	XX.XX
Easy Call	XX.XX
Special Delivery	XX.XX
Scan Alert Basic	XX.XX
UL/AA Polling Option	XX.XX
Answer Supervision	XX.XX
Direct Connect	XX.XX

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.3 Local and IntraLATA Outbound Usage Rates

Following are the rates that will apply to all outgoing direct-dialed calls placed to Stations within the caller's local exchange area, as defined herein. These charges are in addition to the monthly line/trunk rates set forth in Section 3.1.2.3.2.

3.1.3.1 Per Minute Usage Rate:

	<u>DAY</u>	<u>NON-DAY</u>
Local	XX.XX	XX.XX
IntraLATA	XX.XX	XX.XX

3.1.4 Local and IntraLATA Toll-Free Usage Rates

Following are the rates that will apply to all inbound calls placed from Stations within the caller's local exchange area, as defined herein.

3.1.4.1 Per Minute Usage Rate:

	<u>DAY</u>	<u>NON-DAY</u>
Intrastate	XX.XX	XX.XX

3.1.4.2 Toll Free Optional Feature:

	<u>MONTHLY RATE</u>	<u>NON-RECURRING RATE</u>
Day of Week Routing	XX.XX	XX.XX
Time of Day Routing	XX.XX	XX.XX
Holiday Routing	XX.XX	XX.XX
Alternate Call Routing	XX.XX	XX.XX
Percent Allocation Routing	XX.XX	XX.XX
Directory Assistance Setup	XX.XX	XX.XX
Directory Assistance Cancel/Change	XX.XX	XX.XX

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)3.1.5 Timing of Local Exchange Calls

All local calls will be rated in initial sixty (60) second increments with additional six (6) second increments and all intraLATA calls will be rated in initial six (6) second increments with additional six (6) second increments.

For station to station calls, call timing begins when a connection is established between the calling telephone and the called telephone station.

For person to person calls, call timing begins when connection is established between the calling person and the particular person, station or mobile unit specified or an agreed alternate.

Call timing ends when the calling station "hangs up", thereby releasing the network connection. If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released either by automatic timing equipment in the telephone network or by the Company operator.

3.1.5.1 Time Periods Defined

Day: 8:00 a.m. to, but not including 5:00 p.m.
Monday through Friday

Non-Day: 5:00 p.m. to, but not including 8:00 a.m.
Monday through Friday, all day Saturday
and Sunday, and all Holidays.

Holidays include New Year's Day, Independence Day, Labor Day, Thanksgiving, and Christmas.

All times refer to local time.

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.2 Directory Assistance

A Customer may obtain Directory Assistance in determining telephone numbers within its local calling area by calling the Directory Assistance operator.

3.2.1 Each call to Directory Assistance will be charged as follows:

Per Call	XX.XX
----------	-------

The Customer may request a maximum of two telephone numbers per call to Directory Assistance service.

3.2.2 A Customer who has accessed the Directory Assistance operator will have the option of having their call completed either by an operator or by depressing a specific digit on a touch-tone telephone. The charge per call completion is as follows:

Per Call Completion	XX.XX
---------------------	-------

3.2.3 A credit will be given for calls to Directory Assistance as follows:

- The Customer experiences poor transmission or is cut-off during the call; or
- The Customer is given an incorrect telephone number.

To obtain such a credit, the Customer must notify its Customer Service representative within 24 hours of occurrence.

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.3 Operator Assistance

A Customer may obtain the assistance of a local operator to complete local exchange telephone calls in the following manner. Customers will be charged the usage rates specified in Section 3.1.3, in addition to the per call surcharges as specified in Section 3.3.1 below.

Third Number Billed: Provides the Customer with the capability to charge a local call to a third number which is different from the called or calling party. The party answering at the third number has the option to refuse acceptance of the charges in advance or when queried by the operator.

Collect Calls: Provides the Customer with the capability to charge a call to the called party. On the operator announcement of a collect call, the called party has the option to refuse acceptance of charges in advance or when queried by the operator.

Calling Cards: Provides the Customer with the capability to place a call using a calling card of an Interexchange Carrier with or without the assistance of an operator.

Person to Person: Calls completed with the assistance of any operator to a particular Station and person specified by the Caller. The call may be billed to the called party.

Station to Station: Calls complete with assistance of an operator to a particular Station. The call may be billed to the called party.

General Assistance: The Customer has the option to request general information from the operator, such as dialing instructions, country or city codes, area code information and Customer Service 800 Telephone numbers, but does not request the operator to complete a call.

3.3.1 Operator Assisted SurchargesPER CALL

Collect Calling	XX.XX
Station to Station	XX.XX
Person to Person	XX.XX
Third Number Billed	XX.XX

ISSUED:

EFFECTIVE:

ISSUED BY:

Carol P. Kuhnow, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.3 Operator Assistance (Continued)

3.3.2 Busy Line Verification and Interrupt Service: Service is currently not available. Busy Line Verification and Interrupt Service, which is furnished where and to the extent that facilities permit, provides the customer with the following options:

3.3.2.1 Busy Line Verification: Upon request of the calling party, the Company will determine if the line is clear or in use and report to the calling party.

3.3.2.2 Busy Line Verification with Interrupt: The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

3.3.2.3 Rates: Rates for Busy Line Verification and Interrupt Service will apply under the following circumstances:

- | | |
|-----------|--|
| 3.3.2.3.1 | The operator verifies that the line is busy with a call in progress. |
| 3.3.2.3.2 | The operator verifies that the line is available for incoming calls. |
| 3.3.2.3.3 | The operator verifies that the called number is busy with a call in progress and the Customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption. |

Busy Line Verification	XX.XX
Busy Line Interrupt	XX.XX

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnew, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.3 Operator Assistance

A Customer may obtain the assistance of a local operator to complete local exchange telephone calls in the following manner. Customers will be charged the usage rates specified in Section 3.1.3, in addition to the per call surcharges as specified in Section 3.3.1 below.

Third Number Billed: Provides the Customer with the capability to charge a local call to a third number which is different from the called or calling party. The party answering at the third number has the option to refuse acceptance of the charges in advance or when queried by the operator.

Collect Calls: Provides the Customer with the capability to charge a call to the called party. On the operator announcement of a collect call, the called party has the option to refuse acceptance of charges in advance or when queried by the operator.

Calling Cards: Provides the Customer with the capability to place a call using a calling card of an Interexchange Carrier with or without the assistance of an operator.

Person to Person: Calls completed with the assistance of any operator to a particular Station and person specified by the Caller. The call may be billed to the called party.

Station to Station: Calls complete with assistance of an operator to a particular Station. The call may be billed to the called party.

General Assistance: The Customer has the option to request general information from the operator, such as dialing instructions, country or city codes, area code information and Customer Service 800 Telephone numbers, but does not request the operator to complete a call.

3.3.1 Operator Assisted SurchargesPER CALL

Collect Calling	XX.XX
Station to Station	XX.XX
Person to Person	XX.XX
Third Number Billed	XX.XX

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnnow, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.3 Operator Assistance (Continued)

3.3.2 Busy Line Verification and Interrupt Service: Service is currently not available. Busy Line Verification and Interrupt Service, which is furnished where and to the extent that facilities permit, provides the customer with the following options:

3.3.2.1 Busy Line Verification: Upon request of the calling party, the Company will determine if the line is clear or in use and report to the calling party.

3.3.2.2 Busy Line Verification with Interrupt: The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

3.3.2.3 Rates: Rates for Busy Line Verification and Interrupt Service will apply under the following circumstances:

3.3.2.3.1 The operator verifies that the line is busy with a call in progress.

3.3.2.3.2 The operator verifies that the line is available for incoming calls.

3.3.2.3.3 The operator verifies that the called number is busy with a call in progress and the Customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

Busy Line Verification	XX.XX
Busy Line Interrupt	XX.XX

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnle, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.4 Directory Listings

The Company shall provide for a single directory listing, termed the primary listing, in the telephone directory published by the dominant local exchange service provided in the Customer's exchange area of the Station number which is designated as the Customer's main billing number. Directory listings of additional Company Station numbers, other than the Customer's main billing number, associated with a Customer's service will be provided for a monthly recurring charge per listing.

- 3.4.1 The Company reserves the right to limit the length of any listing in the directory by the use of abbreviations when, in its judgment, the clearness of the listing or the identification of the Customer is not impaired thereby. Where more than one line is required to properly list the Customer, no additional charge is made.
- 3.4.2 The Company may refuse a listing which is known to constitute a legally authorized or adopted name, obscenities in the name, or any listing which, in the opinion of the Company, is likely to mislead or deceive calling persons as to the identity of the listed party, or is contrived name used for advertising purposes or to secure a preferential position in the directory or is more elaborate than is reasonable necessary to identify the listed party. The Company, upon notification to the Customer, will withdraw any listing which is found to be in violation of its rules with respect thereto.
- 3.4.3 Each listing must be designated Government or Business to be placed in the appropriate section of the directory. In order to aid the user of the directory, and to avoid misleading or deceiving the calling party as to the identity of the listed party, only business listings may be placed in the Business Section and only residential listings in the Residential section. The Company, upon notification to the Customer, will withdraw any listing which is found to be in violation of its rules and respect thereto.

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnaw, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.4 Directory Listings (Continued)

3.4.4 In order for listings to appear in an upcoming directory, the Customer must furnish the listing to the Company in time to meet the directory publishing schedule.

3.4.5 Directory listings are provided in connection with each Customer service as specified herein.

3.4.5.1 Primary Listing: A primary listing contains the name of the Customer, or the name under which a business is regularly conducted, as well as the address and telephone number of the Customer. This listing is provided at no additional charge.

3.4.5.2 Non-published Listings: Listings that are not printed in directories nor available from Directory Assistance.

A Non-published Telephone Service will be furnished, at the Customer's request, providing for the omission or deletion of the Customer's telephone listing from the telephone directory and, in addition, the Customer's telephone listing will be omitted or deleted from the directory assistance records, subject to the provisions set forth in Section 2.1.4. Rates for Non-published listings are specified in Section 3.4.6.

3.4.5.3 Non-listed Numbers: A Non-listed number will be furnished at the Customer's request, providing for the omission or deletion of the Customer's listing from the telephone directory. Such listings will be carried in the Company's directory assistance and other records and will be given to any calling party. Charges for Non-listed numbers are specified in Section 3.4.6.

3.4.5.4 Foreign Listings: Where available, a listing in a telephone directory which is not in the Customer's immediate calling area. The Customer will be charged the rates specified in the tariff published by the specific local exchange carrier providing the Foreign Listing.

3.4.6 Charges: Monthly Recurring Charges associated with Directory Listings are specified below:

	MONTHLY CHARGE
Additional Listing (per listing)	XX.XX
Non-Listed Number (per number)	XX.XX
Non-Published Number (per number)	XX.XX

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnaw, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

- 3.5 Emergency Services: Both Basic and Enhanced 911 (E911) allow Customers to reach appropriate emergency services including police, fire and medical services. Subject to availability, Enhanced 911 has the ability to selectively route an emergency call to the primary E911 provider so that it reaches the correct emergency service located closest to the caller. In addition, the Customer's address and telephone information will be provided to the primary E911 provider for display at the Public Service Answering Point(PSAP).

3.5.1 Charges:

Basic/Enhanced

Pass through of Municipality charge

- 3.6 Presubscriptions-2 (PIC-2): PIC-2 allows Customers to presubscribe to their carrier of choice for intraLATA calls, without dialing the Access Code. The rates specified below will apply each time the Customer requests a change to their intraLATA PIC, subsequent to the initial designation. InterLATA Presubscription is available pursuant to LCI's FCC Tariff No. 2.

3.6.1 Charges:

PIC Change Charge

XX.XX per occurrence

- 3.7 Vanity Telephone Numbers: Service currently not available. At the request of the Customer, the Company may assigned a telephone number with the last four digits selected by the Customer. The assignment is subject to availability of a particular number and subject to the terms and conditions set forth in Section 2.1.3.

	<u>MONTHLY CHARGE</u>	<u>NON-RECURRING CHARGE</u>
Vanity Telephone Numbers:	XX.XX	XX.XX

- 3.8 Telecommunications Relay Service (TRS): Enables deaf, hard-of-hearing or speech-impaired persons who use a Text Telephone (TT) or similar devices to communicate freely with the hearing population not using TT and visa versa. A Customer will be able to access the state provider(s) to complete such calls.

ISSUED:

EFFECTIVE:

ISSUED BY:

Carol P. Kuhnaw, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.9 Management Reporting: Rates for the following management reporting are set forth below:

800 Traffic Summary
Busy Hour Summary
Busy Day Summary
Frequently Called Number (Top 10)
Account Code Summary
Account Code Detail
Long Duration Call Sum (Top 10)
Most Expensive (Top 10)
International Summary
BTN Summary by State

3.9.1 Rates:

	<u>MONTHLY CHARGE</u>
800 Traffic Summary	XX.XX
Busy Hour Summary	XX.XX
Busy Day Summary	XX.XX
Frequently Called Number (top 10)	XX.XX
Account Code Summary	XX.XX
Account Code Detail	XX.XX
Long Duration Call Sum (top 10)	XX.XX
Most Expensive (top 10)	XX.XX
International Summary	XX.XX
BTN Summary by State	XX.XX

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnow, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 4 - PROMOTIONAL OFFERINGS

4.1 Promotional Offerings

The Company, from time to time, may make promotional offerings to its service which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made.

ISSUED:

ISSUED BY:

Carol P. Kuhnaw, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

EFFECTIVE:

LOCAL EXCHANGE SERVICE

SECTION 5 - INDIVIDUAL CASE BASE (ICB) ARRANGEMENTS

5.1 Individual Case Base (ICB) Arrangements

Competitive pricing arrangements at negotiated rates may be furnished on an individual case basis (ICB) in response to request by customers to LCI, for proposals or for competitive bids. Service offered under this tariff provision will be provided to the Customer pursuant to contract. Unless otherwise specified, the regulations for such arrangements are in addition to the applicable regulations and prices in other sections of this tariff. Specialized rates or charges will be made available to similarly situated Customers on a non-discriminatory basis.

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnow, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

LOCAL EXCHANGE SERVICE

SECTION 6 - RESIDENTIAL SERVICE OFFERING (service currently not available)

ISSUED:

EFFECTIVE:

ISSUED BY: Carol P. Kuhnow, Manager
LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

NEXT

DOCUMENT (S)

DISREGARD

BACKGROUND

TECHNOLOGIES MANAGEMENT, INC.
WINTER PARK, FLORIDA 32789

16761

SD PUC
SOUTH DAKOTA PUBLIC SERVICE CM

16761

06/05/97

INVOICE NUMBER	INVOICE DATE	INVOICE AMOUNT	PREVIOUS PAY/CREDIT	DISCOUNT TAKEN	AMOUNT OF PAYMENT
LCI-LCL	06/05/97	250.00	0.00	0.00	250.00

TC97-067

250.00



P.O. Drawer 200
Winter Park, FL
32790-0200

210 N. Park Avenue
Winter Park, FL 32789
(407) 740-8575



250 PARK AVENUE
WINTER PARK, FLORIDA 32789

63-212631

16761

NUMBER

16761

PAY:

TWO HUNDRED FIFTY DOLLARS

DATE

06/05/97

AMOUNT

*****\$250.00

TO THE
ORDER
OF

SOUTH DAKOTA PUBLIC SERVICE CM
STATE CAPITAL
PIERRE, SD 57501-5070

TECHNOLOGIES MANAGEMENT, INC.

C. M. Wigglesworth

⑈06676⑈ ⑈063103193⑈

2830066505⑈

South Dakota
Public Utilities Commission
State Capitol 500 E. Capitol
Pierre, SD 57501-5070
Phone: (800) 332-1782
Fax: (605) 773-3809

TELECOMMUNICATIONS SERVICE FILINGS

These are the telecommunications service filings that the Commission has received for the period of:

06/06/97 through 06/12/97

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five days of this filing.

DOCKET NUMBER	TITLE/STAFF/SYNOPSIS	DATE FILED	INTERVENTION DEADLINE
REQUEST FOR CERTIFICATE OF AUTHORITY			
TC97-067	Application by LCI International Telecom Corp. for an amended Certificate of Authority to provide local exchange telecommunications services within the state of South Dakota. (Staff: TS/TZ) "The services that LCI intends to offer will be an adjunct to the intrastate interexchange services that LCI currently provides statewide. Initially, LCI plans to offer service through resale arrangements with incumbent local exchange carriers (LECs). LCI plans to commence offering service immediately upon the establishment of the appropriate and necessary resale arrangements with the incumbent LECs."	06/09/97	06/27/97
TC97-072	Application by Speer Virtual Media, Ltd. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/TZ) Applicant seeks authority to serve inbound, outbound, directory assistance, conference, calling card, and prepaid calling card services to presubscribed business customers. Applicant does not and will not offer alternative operator services.	06/10/97	06/27/97
REQUEST FOR ELIGIBLE TELECOMMUNICATIONS COMPANY STATUS			
TC97-068	Vivian Telephone Company d/b/a Golden West Communications, Inc. pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area. Vivian Telephone Company is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges: Avon (286), Bonesteel (654), South Bonesteel, NE (653), Burke (775), South Burke, NE (774), Clearfield (557), Custer (673), Freeman (925), Gregory (835), South Gregory (974), Lesterville (364), Marion (648), Menno (387), Mission (856), Murdo (669), Reliance (473), Rosebud (747), Scotland (583), Springfield (369), Vivian (683), Winner (842) and Witten (879). Vivian Telephone Company, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/CH)	06/09/97	06/27/97
TC97-069	Golden West Telecommunications Cooperative, Inc. pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area. Golden West Telecommunications Cooperative is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges: Ardmore (459), South Ardmore, NE (453), Belvidere (344), Buffalo Gap (833), Creighton (457), Edgemont (662), West Edgemont, WY (663), Enning (985), Faith (Rural) (739), Hayes (567), Hot Springs (745), Interior (433), Kyle (455), Long Valley (462), Martin (685), Maurine (748), Midland (843), Milesville (544), New Underwood (754), Oelrichs (535), South Oelrichs, NE (525), Oral (424), Philip (859), Pine Ridge (867), Quinn (386), Wall (279), Wasta (993), White Clay, NE (862), White River (259), Wicksville (798) and Wood (425). Golden West Cooperative, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/CH)	06/09/97	06/27/97

TC97-070	Valley Cable & Satellite Communications, Inc. pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Valley Cable & Satellite Communications is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges: Eureka (284) and Ipswich (426). Valley Cable & Satellite Communications, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/CH)	06/10/97	06/27/97
TC97-071	Valley Telecommunications Cooperative Association, Inc. pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Valley Telecommunications Coop is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges: Hosmer (283), Herreid (437), Leola (439), Long Lake (577), Glenham (762), Pollock (889) and Mound City (955). Valley Telecommunications Coop, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/CH)	06/10/97	06/27/97
TC97-073	Sioux Valley Telephone Company pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Sioux Valley is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges in South Dakota: Colton (446), Corsica (946), Dell Rapids-Trent (428), Humboldt-Montrose (363), North Larchwood (474), Plankinton (942) and Valley Springs (757). Sioux Valley, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/CH)	06/11/97	06/27/97
TC97-074	Mount Rushmore Telephone Company pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Mount Rushmore is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchange in South Dakota: Keystone (666). Mount Rushmore, to its knowledge, is the only carrier meeting the eligibility requirements of 47 U.S.C. 214(e) and 47 C.F.R. 54.201 in its exchanges. (Staff: HB/CH)	06/12/97	06/27/97
TC97-075	Fort Randall Telephone Company pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Fort Randall is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges in South Dakota: Centerville (563), Hermosa (255), Lake Andes (491,487), Tabor (463), Tyndall (589), Viborg (326) and Wagner (384). Fort Randall, to its knowledge, is the only carrier meeting the eligibility requirements of 47 U.S.C. 214(e) and 47 C.F.R. 54.201 in its exchanges. (Staff: HB/CH)	06/12/97	06/27/97
FILING OF INFORMATIONAL INTRASTATE PAYPHONE TARIFFS			
NA	Faith Municipal Telephone on May 19, 1997.	NA	NA

Important Notice: The Commission is compiling a list of internet addresses. If you have an internet address please notify the Commission by E-mailing it to Terry Norum at terryn@pun.state.sd.us. Faxing the address to the Commission at: 605-773-3809

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF	)	ORDER GRANTING
LCI INTERNATIONAL TELECOM CORP. FOR	)	AMENDED CERTIFICATE OF
AN AMENDED CERTIFICATE OF AUTHORITY	)	AUTHORITY
TO PROVIDE TELECOMMUNICATIONS	)	
SERVICES, INCLUDING LOCAL EXCHANGE	)	TC97-067
SERVICES, IN SOUTH DAKOTA	)	

On June 9, 1997, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for an amended certificate of authority from LCI International Telecom Corp. (LCI).

LCI is requesting authority to provide basic local exchange services to both residence and business customers throughout South Dakota. A proposed tariff was filed by LCI.

On June 12, 1997, the Commission electronically transmitted notice of the filing and the intervention deadline of June 27, 1997, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled September 25, 1997, meeting, the Commission considered LCI's request for an amended certificate of authority. Commission Staff recommended granting an amended certificate of authority, subject to rural safeguards. Commission Staff further recommended a waiver of 20:10:24:02(12).

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that LCI has met the legal requirements established for the granting of an amended certificate of authority. LCI has, in accordance with SDCL 49-31-1, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive subparagraph (12) of ARSD 20:10:24:02.

The Commission approves LCI's application for an amended certificate of authority, subject to rural safeguards. The amended certificate of authority for LCI shall authorize it to offer local exchange services in those areas in South Dakota where U S WEST Communications, Inc. is the incumbent local exchange carrier. In the future, should LCI choose to provide local exchange services statewide, with respect to rural telephone companies, LCI will have to come before the Commission in another proceeding before being able to provide local service in that rural service area pursuant to 47 U.S.C. § 253(f) which allows the Commission to require a company that seeks to provide service in a rural service area to meet the requirements in 47 U.S.C. § 214(e)(1) for designation as an eligible telecommunications carrier. In addition, the granting of statewide certification will not affect the exemptions, suspensions, and modifications for rural telephone companies found in 47 U.S.C. § 251(f). It is therefore

ORDERED, that LCI's application for an Amended Certificate of Authority to provide local exchange services, is granted; and it is

FURTHER ORDERED, that LCI shall file informational copies of tariff changes with the Commission as the changes occur, and it is

FURTHER ORDERED, that the Commission shall authorize LCI to offer its services in those areas in South Dakota where U S WEST Communications, Inc. is the incumbent local exchange carrier, and it is

FURTHER ORDERED, that the Commission finds good cause to waive subparagraph (12) of ARSD 20:10:24.02.

Dated at Pierre, South Dakota, this 3rd day of October, 1997.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By

Arlene Kato

Date

10/8/97

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner

70611-22-0410

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

AMENDED CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted September 25, 1997
Docket No. TC97-067

This is to certify that

LCI INTERNATIONAL TELECOM CORP.

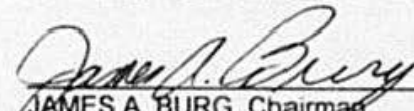
is authorized to provide telecommunications services in South Dakota.

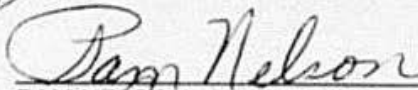
This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 3rd day of October, 1997.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**




JAMES A. BURG, Chairman


PAM NELSON, Commissioner


LASKA SCHOENFELDER, Commissioner