

TC97-127

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TC97-127

DOCKET NO.

In the Matter of

IN THE MATTER OF THE
APPLICATION OF TELCO HOLDINGS,
INC. D/B/A DIAL & SAVE FOR A
CERTIFICATE OF AUTHORITY TO
PROVIDE TELECOMMUNICATIONS
SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
7/9/97	Filed and Docketed;
7/10/97	TC Fax Filing;
10/17/97	Order Granting COA;
10/17/97	Docket Closed

SWIDLER
&
BERLIN
CHARTERED

TC97-127

July 8, 1997

RECEIVED
JUL 09 1997
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

VIA OVERNIGHT DELIVERY

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

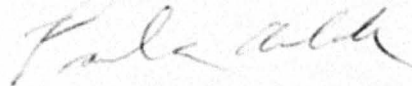
Re: **Application of Telco Holdings, Inc. d/b/a Dial & Save**

Dear Mr. Bullard:

Enclosed for filing please find are an original and ten (10) copies of the above-referenced Petition for Certificate of Authority to Provide Intrastate Interexchange Telecommunications Services Within the State of South Dakota. Also enclosed is a check in the amount of \$250.00 in payment of the requisite filing fee.

Please date-stamp the enclosed extra copy of this filing and return it in the attached self-addressed, stamped envelope. Should you have any questions concerning this filing, please do not hesitate to contact Pamela Arluk at (202) 424-7770.

Very truly yours,



Pamela S. Arluk
Jean M. Gibbons

Counsel for Telco Holdings, Inc.
d/b/a Dial & Save

Enclosures

179927.138

**BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

Application of	)	
	)	
TELCO HOLDINGS, INC. d/b/a	)	
DIAL & SAVE	)	
	)	
For a Certificate of Authority to	)	Docket No. _____
Provide Intrastate Interexchange	)	
Telecommunications Services	)	
Within the State of South Dakota	)	

PETITION FOR CERTIFICATE OF AUTHORITY

Telco Holdings, Inc. d/b/a Dial & Save ("Telco" or "Petitioner"), by its undersigned counsel, hereby submits its Petition for a Certificate of Authority to provide intrastate interexchange telecommunications services pursuant to Section 49-31-3 of the South Dakota Codified Laws and the Rules of the Public Utilities Commission. As part of a *pro forma* corporate reorganization, Telco's wholly owned subsidiary, Dial & Save of South Dakota, Inc. ("Dial & Save"), a certificated carrier providing interexchange services in South Dakota, will be merged with and into Telco. Upon consummation of the transaction, Dial & Save will cease to exist. As such, Telco seeks authority from the Commission for a certificate of authority in its own name.

The management team and ultimate ownership and control of the proposed licensee, Telco, will be the same as that of Dial & Save. Dial & Save has successfully been providing interexchange services to customers in the State of South Dakota for more than two years pursuant to a grant of authority issued by the Commission in Docket No. TC95-010 dated May 22, 1995.

ORIGINAL

After the subject merger is completed and Telco becomes the service provider in South Dakota, there will be no change in the manner in which service is provided to the public. The reorganization is simply a paper transaction that will be virtually transparent to customers in terms of the services that they receive. In light of Dial & Save's proven track record of providing interexchange services to customers in the State, and the fact that Telco will operate in the same manner and under the same management as Dial & Save, Petitioner respectfully requests expedited treatment of the instant application so that its proposed reorganization may be completed in a timely manner.

In support of its application for a certificate of authority in its own name, Telco provides the following information as well as a proposed initial tariff:

1. The legal name of the Petitioner is Telco Holdings, Inc. d/b/a Dial & Save. Telco maintains its principal place of business at:

4219 Lafayette Center Drive
Chantilly, Virginia 20151-1209
Telephone: (703) 631-5600
Facsimile: (703) 803-3430

2. Correspondence or communications pertaining to this application should be directed to:

Pamela S. Arluk, Esq.
Jean Gibbons, Esq..
Swidler & Berlin, Chartered
3000 K Street, N.W., Suite 300
Washington, D.C. 20007-5116
Telephone: (202) 424-7715
Facsimile: (202) 424-7645

with a copy to:

Bryan Rachlin
Chief Operating Officer, Secretary
and General Counsel
Telco Communications Group, Inc.
4219 Lafayette Center Drive
Chantilly, Virginia 20151
Telephone: (703) 631-5600
Facsimile: (703) 803-3430

3. Telco is incorporated under the laws of the State of Delaware. The duration of Telco's incorporation is perpetual. Copies of Telco's Certificate of Incorporation and Authority to Transact Business within the State of South Dakota are attached hereto as Exhibit 1. Telco is a wholly owned subsidiary of Telco Communications, Group, Inc., ("TCG") a Delaware corporation that is publicly traded on the Nasdaq National Market System, and whose principal offices are located at 4219 Lafayette Center Drive, Chantilly, VA 20151-1209. In addition, on June 5, 1997, TCG entered into an Agreement and Plan of Merger with Excel Communications, Inc. to merge the two entities into subsidiaries of a new holding company. As part of the proposed transaction, a new holding company, New Res, Inc. has been created as a subsidiary of Excel. New Res, Inc. has two merger subsidiaries, E-Sub, Inc. and T-Sub, Inc. Excel and TCG will merge with E-Sub, Inc. and T-Sub, Inc. respectively, leaving Excel and TCG as surviving subsidiaries of New Res, Inc. The Commission was informed of this Agreement by letter dated June 26, 1997. The parties plan to consummate this Agreement by September 15, 1997.

The name and address of Telco's registered agent in South Dakota is:

CT Corporation System
319 South Coteau Street
Pierre, SD 57501
(605) 224-5826

4. Telco seeks to provide resold telecommunications services to subscribers to and from all points in the State of South Dakota and therefore seeks statewide authorization.

5. Telco Services: Petitioner proposes to provide 24-hour intrastate interexchange telecommunications services, 800 services, and postpaid debit travel card services to subscribers to and from all points within the state. Telco Holdings, Inc. hereby adopts the tariff of Dial & Save which has been approved and is on file with the Commission. Attached as Exhibit 4 is a proposed tariff reflecting that all of the services being offered to the customers are the same and that the only modification is the change in name.

Telco will provide high quality (digital wherever possible) service with a blocking rate no greater than P.01 to presubscribed business and residential customers. Telco's services will be available on a full-time basis, twenty-four hours a day, seven days a week. Telco's services will use mostly Feature Group D Access and special access facilities. Telco's toll-free number for customer inquiries is (800) 787-3333.

6. Telecommunications Experience: Telco provides interstate services pursuant to a tariff filed at the Federal Communications Commission. In addition, Telco's Dial & Save subsidiaries are currently authorized to provide resold interexchange services, by virtue of certification, registration or on an unregulated basis, in forty-eight states throughout the United States.

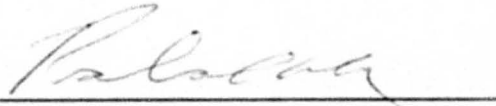
7. Petitioner's officers are well qualified to execute its business plan, having extensive managerial, financial, and technical telecommunications experience. Descriptions of the telecommunications and managerial experience of Petitioner's key personnel are included in TCG's Annual Report to the Securities and Exchange Commission on Form 10-K, which is attached hereto as Exhibit 2.

8. Petitioner is financially qualified to provide interexchange telecommunications services in the State. In particular, Petitioner has access to the financing and capital necessary to conduct its telecommunications operations as specified in this Petition. Petitioner will rely on its existing personnel and technology and financial resources to provide intrastate services; accordingly, no additional investment will be needed to offer the proposed services. Petitioner's financial qualifications to provide interexchange telecommunications services are attached hereto as Exhibit 3.

9. Approval of this Petition will serve the public interest by creating greater competition in the interexchange marketplace and by providing consumers a greater choice of long distance services. Telco, through its Dial & Save of South Dakota subsidiary, has been providing high quality, competitively priced services to customers throughout South Dakota for two years. Petitioner believes that maintaining alternatives in the long distance service market will provide South Dakota callers with the most competitive prices and widest arrangement of service and billing options possible. Information concerning Telco's proposed marketing business structure is attached hereto as Exhibit 5.

WHEREFORE, Telco Holdings, Inc. d/b/a Dial & Save requests that the South Dakota Public Utilities Commission grant the requested authority to resell intrastate telecommunications services in South Dakota.

Respectfully submitted,



Pamela S. Arluk
Jean Gibbons
SWIDLER & BERLIN, CHTD.
3000 K Street, N.W.
Suite 300
Washington, D.C. 20007-5116
Telephone: (202) 424-7715
Facsimile: (202) 424-7645

Counsel for Telco Holdings, Inc.

Dated: July 8, 1997

EXHIBITS

Exhibit 1	Certificate of Incorporation and Certificate of Authority to Transact Business
Exhibit 2	Financial Information
Exhibit 3	Marketing and Business Information
Exhibit 4	Proposed Tariff
Verification	

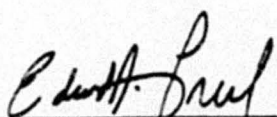
EXHIBIT 1

Certificate of Incorporation and
Certificate of Authority to Transact Business

STATE OF DELAWARE

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "TELCO HOLDINGS, INC.", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF DECEMBER, A.D. 19 6, AT 1:30 O'CLOCK P.M.




Edward J. Freel, Secretary of State

AUTHENTICATION:

DATE:

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971039828

8318991

02-06-97

CERTIFICATE OF INCORPORATION
OF
TELCO HOLDINGS, INC.

FIRST: The name of the Corporation is TELCO HOLDINGS, INC.

SECOND: The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes that the Corporation shall have authority to issue is 5,000 shares, par value \$0.01 per share, to be issued as shares of Common Stock.

FIFTH: Except as otherwise required by law or expressly provided in this Certificate of Incorporation, each share of Common Stock shall entitle the holder thereof to one (1) vote of each matter submitted to a vote of the stockholders.

SIXTH: The name and mailing address of the incorporator of the Corporation are as follows:

<u>Name</u>	<u>Address</u>
Andrew M. Ray	3000 K Street, N.W. Suite 300 Washington, D.C. 20007

SEVENTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized to make, alter or repeal the By-Laws of the Corporation, subject to any specific limitation on such power provided by any By-Laws adopted by the stockholders.

EIGHTH: Elections of directors need not be by written ballot unless the By-Laws of the Corporation so provide.

NINTH: The Corporation is to have perpetual existence.

TENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon the stockholders herein are granted subject to this reservation.

ELEVENTH: A. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware is amended 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. Any repeal or modification of this Section A by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

B. Each person who was or is made a party or is threatened to be made a party to or is or was involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in Section C of this Article Eleventh with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section B shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of any undertaking by or on behalf of such director or officer, to repay

all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section B or otherwise

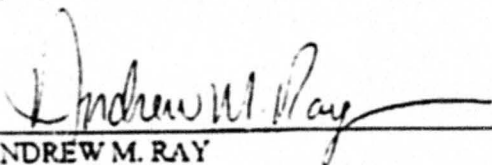
C. If a claim under Section B of this Article Eleventh is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct that make it permissible under the General Corporation Law of the State of Delaware for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or stockholder) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

D. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article Eleventh shall not be exclusive of any other right that any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-Law, agreement, vote of stockholders or disinterested directors or otherwise

E. The Corporation may purchase and maintain insurance or furnish similar protection, including, but not limited to, providing a trust fund, letter of credit or self-insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expenses, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware.

F. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and rights to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any agent of the Corporation to the fullest extent of the provisions of this Article Eleventh with respect to the indemnification and advancement of expenses of directors, officers and employees of the Corporation.

THE UNDERSIGNED, being the incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, makes this Certificate, hereby declaring and certifying that the facts herein stated are true, and accordingly has hereunto set his hand and seal this 20th day of December, 1996.



ANDREW M. RAY

State of South Dakota



OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of TELCO HOLDINGS, INC. (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 Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of TCG HOLDINGS, INC.



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 June 13, 1997.

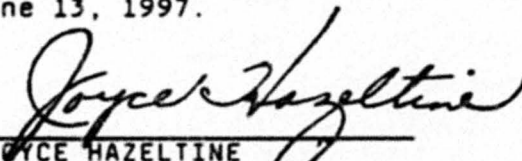

JOYCE HAZELTINE
Secretary of State

EXHIBIT 2

Financial Qualifications

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COVER
COVER LETTER

TELCO COMMUNICATIONS GROUP, INC.
4219 LAFAYETTE CENTER DRIVE
CHANTILLY, VIRGINIA 20151

March 28, 1997

VIA EDGAR ON-LINE

Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, DC 20459

Re: Telco Communications Group, Inc.
Commission File No.: 0-28669
Registrant CIK No.: 000101159

Dear Ladies and Gentlemen:

Telco Communications Group, Inc. (the "Registrant"), transmits herewith for filing by your electronic gathering analysis and retrieval ("EDGAR") system are the following documents:

1. One complete electronic copy of Form 10-K Annual Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 of the Registrant for the period ending December 31, 1996;
2. Exhibit 10.43, Credit Agreement between Telco Communications Group, Inc. and NationsBank of Texas, N.A. as Administrative Lender and Lenders, dated December 20, 1996;
3. Exhibit 10.44, Carrier Agreement between AT&T Corp. and Telco Communications Group, Inc., dated December 23, 1996;
4. Exhibit 10.45, Network Purchase Agreement between Advantis and Telco Network Services, Inc., dated March 11, 1997;
5. Exhibit 10.46, Lease Agreement between Telco Communications Group, Inc. and Frederic C. Stein, dated May 1, 1996 (Fort Lauderdale, Florida Switch Site);
6. Exhibit 10.47, Lease Agreement between Telco Communications Group, Inc. and Hudson Telegraph Associates, dated September 26, 1996 (New York, New York Switch Site);
7. Exhibit 11.1, Schedule of Computation of Earnings Per Share;
8. Exhibit 13.1, Portions of the Telco Communications Group, Inc. Annual Report to Shareholders for the year ended December 31, 1996;
9. Exhibit 21.1, Subsidiaries of Telco Communications Group, Inc.;
10. Exhibit 23.1, Independent Auditor's Consent; and
11. Exhibit 27.1, Financial Data Schedule.

Should you have any questions regarding this filing, please phone the undersigned at (703) 631-5632.

Respectfully submitted,

/s/ Nicholas A. Merrick

Nicholas A. Merrick
Chief Financial Officer

Enclosures

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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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: 0-28668

TELCO COMMUNICATIONS GROUP, INC.
Exact name of registrant as specified in its charter)

Virginia 54-1674283
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

4219 Lafayette Center Drive, Chantilly, Virginia 20151-1209
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (703) 631-5600

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, no par value

Indicate by check mark whether the Registrant (1) had 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 X No _____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _____

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 18, 1997 was approximately \$166,839,689 (based upon the closing price of the Registrant's Common Stock on the Nasdaq National Market on such date.) The number of shares outstanding of the Registrant's Common Stock, as of the close of business on March 18, 1997 was 33,062,662 shares.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1996 are incorporated by reference into Parts II and IV hereof, as specifically set forth in Parts II and IV.

(2) Portions of the Registrant's definitive Proxy Statement filed in connection with its Annual Meeting of Shareholders to be held May 15, 1997, are incorporated by reference in Part III, as specifically set forth in Part III.

Exhibit Index on Page 30

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TELCO COMMUNICATIONS GROUP, INC.

Form 10-K

For the fiscal year ended December 31, 1996

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long distance carriers, AT&T, MCI and Sprint, which, according to a recent report issued by the Federal Communications Commission (the "FCC"), together accounted for approximately 81% of the \$72 billion in aggregate revenues generated by all U.S. long distance carriers in 1995. Other long distance carriers, some with national transmission and marketing capabilities, accounted for the remainder of the market. The three largest long distance providers and certain other carriers own transmission and switching facilities, and are therefore sometimes referred to as facilities-based carriers. Non-facilities-based carriers lease transmission lines from facilities-based carriers and are either switch-based carriers, like the Company, or switchless resellers which rely on third-party carriers for all aspects of call transmission.

The structure of the telecommunications industry since 1984 has been shaped largely by the AT&T divestiture decree, which required the divestiture by AT&T of its Bell Operating Companies ("BOCs") and divided the country into 201 local access and transport areas ("LATAs") (the "AT&T Divestiture Decree"). The 22 Bell operating companies were combined into seven RBOCs and were permitted to provide local telephone service, local access service to long distance carriers and long distance ("IntraLATA") service within the LATAs. However, the Bell operating companies were prohibited from providing long distance service, or service between LATAs ("InterLATA"). To encourage competition in the long distance market, the AT&T Divestiture Decree and certain regulations of the FCC require most LECs to provide carriers with access to local exchange service that is equal in type, quality and prices to that provided to AT&T and with the opportunity to be selected by customers as a preferred long distance service provider ("equal access").

For each long distance call, the originating and terminating LECs charge an access fee to the long distance carrier. The long distance carrier charges its customers a fee for its transmission of the call, a portion of which covers the cost of the access fees charged by the LECs. Access charges represent a significant portion of the Company's cost of services and, generally, such access charges are regulated by the FCC. The FCC has commenced a proceeding to reform the rules governing interstate access charges which is designed to foster a more efficient pricing of access, competition for access services, and to reflect the development of local services prompted by the 1996 Telecommunications Act.

Thus, judicial, legislative and regulatory factors have helped to create a foundation for smaller companies, such as the Company, to emerge as competitive alternatives to the larger facilities-based carriers for long distance services. Equal access, combined with the FCC's policy mandating that carriers not unreasonably restrict resale of their services, allows resellers such as the Company to lease transmission facilities from facilities-based long distance carriers and to offer consumers long distance telecommunications services having the same quality and convenience as those of the facilities-based carriers.

For policy reasons, equal access was fully implemented for InterLATA long distance service only. For IntraLATA long distance service, a modified form of equal access was adopted, which enables customers to reach a preferred carrier (other than the customers LEC) on a call-by-call basis by dialing a CIC Code. Where equal access is available, a customer can reach the preferred carrier by dialing an access code, such as 10XXX, or 950-0XXX (or on a toll-free basis), where XXX is the CIC. The use of access codes to reach a preferred long distance carrier has recently gained significant exposure and customer acceptance, as evidenced by marketing campaigns of the larger facilities-based carriers, such as AT&T's "1-800-CALLATT" and MCI's "1-800-COLLECT".

In view of anticipated exhaustion of CIC Codes, in April 1996 the FCC initiated a proceeding on the issue and concluded that the expansion of CIC Codes is important because it increases access to the public switched telephone network by both end users and carriers. The FCC tentatively proposed to expand codes from 10XXX to a 101XXXX format, with a transition period of six years, during which both formats could be utilized. Under the FCC's proposal, after expiration of the transition period only the 101XXXX codes will be utilized. The FCC has not yet acted upon its proposal to finally determine the length of the transition period. On April 30, 1996, the FCC released a Public Notice in which it requested additional public comment on the issue of the appropriate length of the transition period. Comments were required to be filed with the FCC by May 21, 1996. It is not known when the FCC will take final action in this proceeding. However, all of the 10XXX CIC Codes have been allocated. Since March 31, 1995, Bell Communications Research, Inc., the administrator of the North American Numbering Plan, has been issuing 101XXXX codes.

The 1996 Telecommunications Act removed the restrictions concerning the provision of long distance service by the RBOCs and GTE Operating Companies ("GTOCs"), although the RBOCs will need to obtain specific FCC approval and satisfy other conditions, including a checklist of interconnection and other requirements on LECs, prior to providing long distance service in the regions in which they provide local exchange service.

In addition to promoting competition in the U.S. long distance telecommunications market, the 1996 Telecommunications Act also opened U.S. local service telecommunication markets to competition by preempting state and local laws to the extent they prevent competitive entry into the provision of any telecommunications service, and by imposing a variety of new duties on LECs to promote competition in local exchange services. Among other requirements, all LECs are required to permit resale of their telecommunications services without

unreasonable restrictions or conditions, and on a non-discriminatory basis. The law and its accompanying regulations will enable the Company, upon receipt of all necessary regulatory approvals, to resell local telecommunication services in addition to its long distance services. The bases upon which such local services will be available to carriers such as the Company for resale are to be determined in proceedings of the various state public service commissions. Significantly, the 1996 Telecommunications Act mandates that LECs make their services available to resellers at wholesale rates, defined as retail rates less any marketing, bill collection and other costs that will be avoided by the LEC by providing the wholesale service. The Company believes that the opening of the local telecommunication services market to resellers provides the Company with significant growth opportunities.

BUSINESS STRATEGY

The Company's strategy is to achieve continued growth by providing a broad array of competitively priced long distance services. The Company's primary objectives in pursuing this strategy are to:

Continue to Expand the Consumer Division's Dial Around Distribution Channel and Brand Awareness by increasing its direct mail and telesales marketing efforts for both the Dial & Save and Long Distance Wholesale Club brand names. The Company continues to explore innovations within this product line including the use of advertising media that are alternative or complementary to direct mail, the development of dial around advertising targeting existing and former customers, specific affinity groups and the creation of new dial around products and services. The Company's goal in all of these efforts is to increase advertising response rates and customer usage and to lower customer attrition, thereby decreasing customer acquisition costs. During 1997 the Company intends to continue its re-marketing efforts in the contiguous 48 states and the District of Columbia, including the ten western states in which the Company began marketing in late 1996 and January 1997.

Expand CSD to enhance the growth prospects of the Company and to optimize the use of the network. CSD's sales strategy is to build its sales force, including direct and independent sales representatives and telesales marketing agents targeting commercial and carrier accounts. The Company intends to supplement this sales force with its existing strong customer support functions and field service operations and Tel Labs direct billing capabilities. Currently, usage of the Company's network occurs mostly during the evenings and on weekends. By increasing the number of commercial customers, the Company intends to more effectively use the significant available daytime capacity of its network.

Decrease Network Cost per minute of use through the continued expansion and development of the Company's network. The Company completed its national network in the third quarter of 1996 with the deployment of its Las Vegas, NV switch. The Company further intends to continue to add low cost fixed capacity to its network in order to keep pace with the Company's growth and to reduce off-network transmission expenses. To enhance the efficiency of the fixed-cost elements of its network, the Company seeks to increase both overall traffic volume and business-driven daytime traffic in order to balance the existing night and weekend off-peak traffic from residential customers. Low cost transmission expenses, coupled with an expansive network, are expected to provide the Company with the continued ability to grow its existing dial around distribution segment and to expand into new distribution channels. Such growth may also be facilitated by select strategic alliances, investments or acquisitions as the Company deems appropriate.

Offer Innovative Products and Services while leveraging its Network and Operating Infrastructure and Business Information Systems, to meet the needs of the Company's residential and commercial customer base. During December 1996, Tel Labs, the Company's wholly owned billing subsidiary, processed approximately 94 million call records. The Company believes that accurate and sophisticated information systems are key to growth and success in the telecommunications industry. Tel Labs provides the support that will enable the Company to grow its existing customer base and to provide new products and services to its residential and commercial customers, including the provision of direct bills to commercial customers. Such products and services may also include the resale of local exchange services, internet services, voice mail, FAX broadcast, paging, video conferencing and conference calling. The Company believes that its network intelligence, billing and reporting systems enhance the Company's competitive ability and provide a platform for future growth and product expansion.

MARKETING AND SERVICES

Since it commenced operations in 1993, the Company's primary focus has been residential sales through the Consumer Division's marketing of dial around services. The Company intends to expand its customer base by adding business customers through CSD. A discussion of the Company's service offerings and residential and commercial marketing follows.

Consumer Division. The Company markets its residential dial around services through marketing subsidiaries under the Dial & Save and Long Distance Wholesale Club brand names. The two brands are differentiated by rate structure and marketing approach, and the Company believes that its dual brand strategy heightens market penetration by broadening customer exposure to dial around and appealing to different segments of the population. Customers access the Company's network by dialing a five digit code before the number they are

calling 10457 for Dial & Save, 10297 for the Long Distance Wholesale Club, and therefore are not required to permanently change or cancel their existing long distance carrier in order to use the Company's service. Since inception, the Company has targeted the domestic residential market, with an estimated 110 million households, and typically offers its customers savings off of the basic direct dialed "1 plus" rates charged by AT&T, MCI and Sprint. Recently, the Consumer Division also introduced a flat rate per minute product with a monthly fee. Approximately 99% of the Company's total customers were residential customers at December 31, 1996. Customers who prefer to access the Company's network by dialing "1 plus" rather than dialing the Company's CIC Codes may select Dial & Save or Long Distance Wholesale Club as their presubscribed long distance carrier. Whether a residential customer dials the Company's access codes or is presubscribed, their calls will appear on the customers regular monthly local telephone bill.

The Company markets its residential services primarily through direct mail pieces that seek to educate potential customers regarding dial around and its benefits. Direct mail is targeted towards residential customers within a specified geographic region and includes a service explanation and dialing instructions, a general pricing comparison and a set of reminder stickers highlighting the Company's CIC Codes for customers to keep near their telephone.

Prospective customers do not need to sign-up or call the Company to take advantage of its discounted service offerings upon receiving a Company mail solicitation. The Company works with various outside advertising agencies to design the copy and creative components of the direct mail marketing pieces and contracts with various vendors of mail shop and printing services in an effort to ensure that mail is sent out in a timely and cost-effective manner. The Company's data processing resources allow for prompt monitoring of customer long distance usage and permit the Company to carefully measure response rates to its direct mail campaigns. The Company constantly strives to improve response rates by varying the design and components of its direct mail marketing packages, and seeks to engineer the timing of its initial and follow-on direct mail campaigns to maximize response rate and grow overall market penetration. In addition, the Company also utilizes other media to supplement direct mail.

The Company typically has targeted new and existing geographical areas for a mailing campaign when its switch network, marketing and back office infrastructure have allowed it to effectively manage incremental growth. Initial mailings to new states are usually sequenced over a time period of several weeks in an effort to ensure proper customer support and efficient call transmission. The Company has periodically conducted subsequent mailings into its existing territory to stimulate incremental usage by new and existing customers and to build brand awareness. The Company's experience indicates that subsequent mailings into its geographic markets have generated incremental new customer usage, in some cases with response rates equal to initial mailings into such markets.

The Company's in-bound telesales customer service department is designed to complement the Company's direct mail marketing strategy. Customer service representatives ("CSRs") are available 24 hours a day, 7 days a week to answer marketing inquiries generated by the Company's marketing campaigns, as well as to support existing customers. CSRs are trained to answer a broad range of inquiries from prospective customers relating to service, pricing and optional features.

Commercial Sales Division. In order to provide an additional distribution channel for the Company's telecommunications products and services, the Company implemented a plan during 1996 to build a direct commercial sales force. In April 1996, the Company hired Stephen G. Canton as the President of its newly formed CSD as part of the Company's plan to sell voice, data and enhanced telecommunications services to business customers. By December 1996, the Company had opened 22 regional sales offices and employed approximately 220 sales personnel in 13 states to market these services. Sales personnel will market the Company's services through personal contacts which emphasize customer service, term plans, network quality, value-added services, reporting, rating and promotional discounts. The expenses associated with the growth of CSD are expected to reduce net income at least through 1997.

Current products offered by the Commercial Sales Division include long distance, calling card, 800/888 services, call accounting and enhanced billing services and dedicated T-1. In addition to competitive rates and a wide variety of products, the Company is able to offer business customers a highly specialized direct bill summary package that includes call summaries by service type, call type, originating number, account code, area code, country code, time-of-day and most frequently called numbers.

The Company also markets basic long distance services on a presubscribed basis to small business customers through telemarketing campaigns. As of December 31, 1996, CSD employed approximately 37 people in its telesales group.

CSD also sells transmission capacity and services to other long distance carriers. The Company believes that the combination of the Company's nationwide network and Tel Labs' data processing resources provides an avenue of continuing growth through the wholesaling of one-stop telecommunications services to long distance resellers. The Company offers a complete package of networking, billing and customer service, eliminating the need for resellers to coordinate with multiple vendors and giving them the ability to obtain all of their long distance services from a single source. Additionally, the Company provides

reseller clients with a customized version of the Tel Labs' customer account database software, the Telephone Maintenance system ("PM"). While revenue per minute from wholesale service sales is generally lower than the Company's average sales to end users, the cost of sales and overhead involved in servicing carrier customers is also lower. Moreover, the Company has used this market segment to more effectively utilize its network during the daytime hours, the busiest time of day for many carrier and reseller customers.

The Company is positioning itself to resell local exchange services and, accordingly, has filed or intends to file applications in all 50 states seeking authorization to resell local exchange telecommunications products and services. As of March 16, 1997, local exchange resale authorization has been obtained from 21 states.

CUSTOMER SERVICES

To ensure that in-bound telesales marketing and customer service are always available, the Company's customer service department operates 24 hours a day, 7 days a week to provide full-service support for its residential and commercial customer base and to handle marketing inquiries from potential and existing customers. During December 1996, the Company's customer telesales and service department personally responded to approximately 230,000 customer inquiries and service calls.

As of December 31, 1996 the Company employed approximately 245 CSRs and related customer service personnel. In connection with its mailing campaigns, the Company also employs additional personnel through a temporary employment agency on an ongoing basis, particularly in connection with mass mailings. An intensive two week training program (including hands-on training in the Company's PM system and computer software, participation in role playing exercises, and monitoring of actual customer calls), as well as regular training and repeated quality assurance assessments ensure that CSRs are properly prepared to handle customer calls. The Company maintains a relationship with an inbound telemarketing service provider capable of handling incoming customer service calls should the Company's customer telesales and service department become disabled.

The Company's call centers are equipped with state-of-the-art computer and telecommunications technology. Incoming calls are managed efficiently with the help of a Mitel Phone System, which includes an automatic call distributor and an automated attendant. This high-powered, multi-tasked system allows for swift management of call queue time, the formation of distinct work groups for different projects and on-line monitoring of customer service calls for quality assurance purposes. Bilingual CSRs are available during day and evening shifts.

CSRs use the Company's PM proprietary software which delivers prompt access to accurate, up-to-date customer account information. This customized software is a powerful database which provides CSRs the capability to respond swiftly to customer needs. CSRs are able to issue credits while speaking with a customer, log service trouble tickets for treatment by the Company's Network Control Center, record pertinent customer information into an account memo field to maintain customer history, enter new customers into the database and assign appropriate billing codes. The software also generates actual credit vouchers, as well as letters responding to customer requests for additional stickers and other marketing materials. While Tel Labs has customized the software to accommodate the Company's specific needs, Tel Labs also has made this software available to its other long distance clients.

BILLING AND DATA PROCESSING

The Company believes that accurate and sophisticated information systems are key to growth and success in the telecommunications industry. The Company has dedicated substantial resources to its information systems and believes that the strong growth of its dial around business is largely attributable to the existence of the Tel Labs back office and billing platform. The Company's information systems enable the Company to (i) monitor and respond to the evolving needs of its customers by developing new and customized services; (ii) provide sophisticated billing information that can be tailored to meet the requirements of its customer base; (iii) provide high quality customer service; (iv) detect and minimize fraud; (v) verify payables to suppliers; and (vi) integrate additions to its customer base. The Company believes that its network intelligence, billing and financial reporting systems enhance the Company's competitive ability and provide a platform for future growth and the expansion of its product line.

Tel Labs processes raw switch data into a format that can be used to produce end-user invoices. During December 1996, Tel Labs processed approximately 94 million call records for 20 telecommunications companies, including the Company. This data processing is executed on specially designed personal computers operating a proprietary software program. Tel Labs receives the Company's raw call records directly from the Company's switches, and prepares them for rating by determining the answer status, originating location, terminating location and mileage. The calls are then rated according to standard rates or according to customer specific rates, if applicable. Rated calls are then sorted depending on which LEC will actually bill the end-user and placed in an industry standard format ("DMI"). Tel Labs then prepares management reports which provide the Company with the total number of calls, minutes and dollars billed during that bill cycle.

Since its inception, TSC Company has billed all of its residential traffic through LECs. The Company has entered into billing and collection agreements with LECs, including all of the RBOCs, that cover substantially all of the switched access lines in the U.S. These agreements permit the Company to place its customers' call detail records on the customers' regular monthly local phone bill. In addition, by billing through the LECs, the Company benefits from the LECs' extensive collections infrastructure. The Company believes that LEC billing agreements are the most effective mechanism for billing the Company's residential customers because consumers can receive one bill for both local and long distance service. The Company also provides billing clearinghouse services through Tel Labs to other unaffiliated long distance carriers.

Since April 1995, the Company has contracted with a third party to manage its billing and collection agreements ("Contract Manager"). After receiving rated call records from Tel Labs, the Contract Manager transmits them to the LEC and ensures that incoming and outgoing call records and revenues are properly tracked. The Company is considering managing its own contracts to enable it to realize greater operating efficiencies and more effectively manage its cash flow.

NETWORK AND OPERATIONS

The Company operates a nationwide advanced telecommunications network consisting of six switches, leased transmission lines and sophisticated network management systems designed to optimize traffic routing. The Company's network currently originates traffic in all or some part of 48 states and the District of Columbia. The Company operates an "open network", meaning that any individual within the Company's originating service area whose LEC provides equal access can access the Company's long distance network by dialing either of the Company's CIC codes, 10437 or 10297, or by presubscribing to the Company as their long distance service provider. Because customers do not need to register with the Company before accessing its network, the Company must determine capacity needs and install and test circuits before entering a new geographic market.

The Company's network provides high quality, reliable transmission and switching. The Company's network surveillance capabilities, including self-diagnostic software, generally enable the Company to anticipate and correct problems before they result in service interruption. The Company's technicians remotely monitor the Company's entire network 24 hours a day, 7 days a week, from its two Network Control Centers located in Chantilly, Virginia and Austin, Texas. To reduce the potential impact of any equipment or transmission failure, the Company can reroute or restore transmissions through the Company's standby transmission facilities or reroute traffic over the networks of other carriers. The Company's technicians also monitor the network for fraud on a real-time basis, using computer systems that detect unusual or high volume calling patterns.

Switching facilities. The Company currently operates six DSC DEX 600S, 600 and 600E digital telecommunications switches in Fort Lauderdale, Florida; Davenport, Iowa; Chattanooga, Tennessee; Austin, Texas; Washington, D.C. and Las Vegas, Nevada. Additionally, the Company is installing a DEX 600E switch in metropolitan New York City which is expected to be operational in 1997 and has acquired an eighth switch for a yet-to-be-determined location. Switches are digital computerized routing facilities that receive calls, route calls through transmission lines to their destination and record information about the source, destination and duration of the calls. In order for a call to be completed through a switch, there must be two ports available -- an incoming port and an outgoing port. For example, if a switch is equipped with 10,000 ports, the switch can accommodate up to 10,000 simultaneous telephone calls. The Company's switches are currently configured with between 13,824 and 42,420 equipped ports. The Company's DEX 600 switches can be expanded to a configuration with 10,720 equipped ports while the Company's four DEX 600E switches can be expanded to a configuration with 107,520 equipped ports. The Company continually evaluates the capacity of its switches and in the future may expand its switches' capacity or add new switches in selected markets where the volume of its customer traffic makes such an investment economically viable.

Leased Transmission Lines. The Company leases transmission lines from a variety of facilities-based and resale long distance carriers. The Company's contracts with these entities typically have terms ranging from 18 to 36 months. The Company supplements its leased "on-network" capacity with "off-net" services from a variety of resale and facilities-based long distance carriers. In addition, the Company does not have any on-network international network arrangements and exclusively resells the network capacity of other resale and facilities-based long distance carriers to international destinations.

Network Management Systems. Once calls are originated over the Company's circuits, the calls are routed over leased digital, fiber optic transmission facilities to the Company's nearest switch location and then routed on a least-cost basis to either the Company's leased network or to an off-net supplier for termination. The Company utilizes state-of-the-art Digital Access Cross Connect Systems ("DACS") to electronically cross-connect circuits thereby increasing call routing and circuit provisioning efficiency and providing better network monitoring capabilities. The Company has installed Tellabs ABS Titan 5500 3/1 and 550 1/0 DACS equipment on five of the Company's switches. Additional DACS systems are expected to be installed on the remaining operational switches by the end of 1997. In addition, the Company has configured a large portion of its network with Signaling System 7 Common Channel Signaling

"SS7". This network protocol reduces connect time delays and provides additional technical capabilities and efficiencies for call routing. The Company is currently in the process of deploying SS7 in additional portions of its network.

COMPETITION

The telecommunications industry is highly competitive and affected by rapid regulatory and technological change. The Company believes that the principal competitive factors in its business include pricing, customer service, network quality, service offerings and the flexibility to adapt to changing market conditions. The Company's future success will depend upon its ability to compete with AT&T, MCI, Sprint and other carriers (including the RBOCs when approved to enter the long distance market) and other dial around companies, many of which have considerably greater financial and other resources than the Company.

The Company believes it competes favorably in its targeted markets, due to its dial around service and billing services, competitive pricing, high network quality and customer service infrastructure. The Company also believes that its success will depend increasingly on its ability to offer on a timely basis new services based on evolving technologies and industry standards. There can be no assurance that new technologies or services will be available to the Company on favorable terms.

Regulatory trends have had, and may have in the future, significant effects on competition in the industry.

REGULATION

The services which the Company provides are subject to varying degrees of federal, state and local regulation. The FCC exercises jurisdiction over all facilities of, and services offered by, telecommunications common carriers to the extent that they involve the provision, origination or termination of jurisdictionally interstate or international communications. The state Public Service Commissions ("PSCs") retain jurisdiction over jurisdictionally intrastate communications.

1996 Telecommunications Act. The 1996 Telecommunications Act was enacted in February, 1996. The legislation is intended to introduce increased competition in U.S. telecommunication markets. The legislation opens the local services markets by requiring local exchange carriers to permit interconnection to their networks and by establishing local exchange carrier obligations with respect to unbundled access, resale, number portability, dialing parity, access to rights-of-way, mutual compensation and other matters. In addition, the legislation codifies the local exchange carriers' equal access and nondiscrimination obligations and preempts inconsistent state regulation. The legislation also contains special provisions that eliminate the restrictions on the RBOCs and the GTOCs from providing long distance services. These new provisions permit an RBOC to enter the "out-of-region" long distance market immediately, upon the receipt of any state and/or federal regulatory approvals otherwise applicable to the provision of long distance service, and the "in-region" long distance market if it satisfies several procedural and substantive requirements, including obtaining FCC approval upon a showing that in certain situations facilities-based competition is present in its market, and that it has entered into interconnection agreements which satisfy a 14-point "checklist" of competitive requirements.

The legislation defines in-region service to include every state, in its entirety, in which the RBOC provides local exchange service, even if the RBOC is not the incumbent local exchange service provider in all portions of that state. The GTOCs are permitted to enter the long distance market as of the date of enactment of the 1996 Telecommunications Act, without regard to limitations by region, although necessary regulatory approvals to provide long distance services must be obtained, and the GTOCs are subject to the provisions of the 1996 Telecommunications Act that impose interconnection and other requirements on LECs. The Company will be facing new competition from the RBOCs and the GTOCs that are able to obtain the necessary state and/or FCC approvals to provide out-of-region and/or in-region long distance service, and at last search RBOCs have announced their intention to request permission from the FCC to enter the long distance market in one or more of their state markets. The legislation provides for certain safeguards to protect against anti-competitive abuse by the RBOCs. Among other things, the legislation limits the ability of the RBOCs to market jointly for a certain time period interLATA long distance service, equipment, and certain information services together with local services. The RBOCs must pursue such activities only through separate subsidiaries with separate books and records, financing, management, and employees. All affiliate transactions must be conducted on an arms length and nondiscriminatory basis. The RBOCs are also prohibited from jointly marketing local and long distance services, equipment, and certain information services unless they permit competitors to offer similar packages of local and long distance services. Further, the RBOCs must obtain in-region long distance authority before jointly marketing local and long distance service in a particular state. It is unknown whether these safeguards will provide adequate protection against anti-competitive conduct by the RBOCs, and the impact of anti-competitive conduct on the Company, if such conduct occurs, is uncertain. In addition, long distance service providers such as the Company will be significantly affected by the implementation and enforcement of statutory and regulatory provisions designed to prevent the RBOCs and the GTOCs from capitalizing on their monopolistic provision of local services to existing subscribers to win

InterLATA business.

The 1996 Telecommunications Act also addresses a wide range of other telecommunications issues that will potentially impact the Company's operations, including a sunset provision pertaining to when safeguards designed to prevent RBOCs from capitalizing on the local exchange monopolies will cease to apply; provisions pertaining to regulatory forbearance by the FCC; the creation of new opportunities for competitive local service providers; and requirements pertaining to the treatment and confidentiality of subscriber network information. The legislation also restricts for some period AT&T and other long distance carriers serving more than five percent of the nation's presubscribed access lines from packaging their long distance services with local services provided over RBOC facilities. It is unknown at this time precisely the nature and extent of the impact that the legislation will have on the Company. As required by the legislation, the FCC is still in the process of conducting a large number of proceedings to adopt rules and regulations to implement the new statutory provisions and requirements.

Depending on the exact nature and timing of GTOC and RBOC out-of-region and in-region entry into the long distance market, such entry and the ability of the Company's competitors to market jointly local and long distance services could have a material adverse effect upon the Company's results of operations. It is expected by the Company that most or all of the RBOCs will file applications for out-of-region (and also eventually in-region) long distance service authority. Certain of the RBOCs have already obtained the necessary authority to provide out-of-region long distance services in multiple states. It is not known when, and under what specific conditions, other applications for long distance authority will be filed by the RBOCs and/or granted by state utility commissions.

FCC Interconnection Orders. As required by the 1996 Telecommunications Act, in August 1996, the FCC adopted new rules implementing certain provisions of the 1996 Telecommunications Act (the "Interconnection Orders"). These rules are designed to implement the pro-competitive, deregulatory national policy framework of the new statute by removing or minimizing the regulatory, economic, and operational impediments to competition for facilities-based and resold local services, including switched local exchange service. Although setting minimum, uniform, national rules, the Interconnection Orders also rely heavily on states to apply these rules and to exercise their own discretion in implementing a pro-competitive regime in their local telephone markets.

The Interconnection Orders are primarily important to the Company at this time insofar as they establish the basis for the cost to the Company of providing resold local services. Consistent with the 1996 Telecommunications Act, the Interconnection Orders require incumbent LECs to offer their telecommunications services at retail prices minus avoided costs. The Interconnection Orders also require, among other things, that intraLATA presubscription (pursuant to which LECs must allow customers to choose different carriers for intraLATA toll service without having to dial extra digits) be implemented no later than February 1999.

Petitions seeking reconsideration of one or more aspects of the Interconnection Orders have been filed with the FCC and are pending. Also, Interconnection Orders have been appealed to various U.S. Court of Appeals. These appeals have been consolidated into proceedings currently pending before the U.S. Eighth Circuit Court of Appeals. Certain of the rules adopted in the Interconnection Orders, including rules that concern the pricing of local services such as resold local service, have been stayed by the Court pending resolution of the appeal. Although a number of state regulatory Commissions have voluntarily adopted pricing rules similar to those mandated in the Interconnection Orders, there can be no assurance of how the Interconnection Orders will be implemented or enforced, or what effect they will have on competition within the telecommunications industry, generally, or on the competitive position of the Company, specifically. Nonetheless, the Company believes the trend toward increased competition and deregulation of the telecommunications industry will be accelerated by the 1996 Telecommunications Act and subsequent developments.

Federal. The FCC has classified the Company as a non-dominant inter-exchange carrier. As a non-dominant carrier, the Company may provide domestic interstate communications without prior FCC authorization, although FCC authorization is required for the provision of international telecommunications by non-dominant carriers. Non-dominant carriers currently are required to file tariffs listing the rates, terms and conditions of interstate and international services provided by the carrier. However, generally the FCC has chosen not to exercise its statutory power to closely regulate the charges or practices of non-dominant carriers. Nevertheless, non-dominant carriers are required by statute to offer interstate and international services under rates, terms and conditions that are just, reasonable, and not unduly discriminatory, and the FCC acts upon complaints against such carriers for failure to comply with statutory obligations or with the FCC's rules, regulations and policies. The FCC also has the power to impose more stringent regulatory requirements on the Company and to change its regulatory classification. The Company believes that, in the current regulatory environment, the FCC is unlikely to do so.

Until October 1995, AT&T was classified as a dominant carrier, but AT&T successfully petitioned the FCC for non-dominant status in the domestic interstate market. Therefore, certain pricing restrictions that once applied to AT&T have been eliminated, which could result in increased prices for services

the Company purchases from AT&T and more competitive retail prices offered by AT&T to customers. AT&T is, however, still classified as a dominant carrier for international services.

Currently, the Company maintains two types of tariffs on file with the FCC containing the rates, terms and conditions of its services. One governs interstate service and the other governs international service. (As is required, the Company obtained authority from the FCC prior to providing international services.) Changes to either tariff can be made on one-day notice, without need for cost support. The 1996 Telecommunications Act, however, grants the FCC the authority to "forbear" from regulating any provider or service if the agency determines that it is in the public interest to do so. In an exercise of its "forbearance authority," the FCC has recently issued an order changing this and, following a transition period which is currently scheduled to conclude in November 1997, nondominant carriers will no longer be able to file tariffs with the FCC concerning their interstate long distance services. (International services will continue to be tariffed.) In lieu of tariffs, nondominant carriers such as the Company will be required to maintain at their offices, and to provide to customers or regulators upon request, information concerning their long distance services.

The FCC order eliminating tariffs has been appealed to the U.S. Court of Appeals for the District of Columbia. That appeal is pending. The court has stayed the FCC's order pending the resolution of the appeal. The appellants argue that tariffing establishes a legally binding relationship between carriers and customers, and that detariffing eliminates certainty with regard to those relationships. They also argue that detariffing imposes costs upon carriers because carriers will need to enter into alternative forms of legally binding relationships with customers. There can be no assurance of whether the appeal will be successful or, if successful, what effect it may have on the Company. However, if mandatory detariffing ultimately takes effect, the Company, like other long distance companies, would likely incur some additional costs in establishing legally binding relationships with customers.

The 1996 Telecommunications Act mandated several other important federal regulatory developments. The first concerns universal service. As required by the 1996 Telecommunications Act, a joint board of federal and state regulators were convened to consider possible changes to the FCC's existing universal service support mechanisms - mechanisms designed to ensure affordable telephone service is available to all customers, including low-income consumers - in light of the pro-competitive paradigm for local competition established by the 1996 Telecommunications Act. In November 1996, the FCC initiated a proceeding to examine universal service issues, and has received comment on the proposals set forth by the joint board. Any decision is expected to comply with the policy principles for preservation and advancement of universal telephone service set forth in the Act: quality service, affordable rates, access to advanced services, access to service in rural and high-cost areas, specific and predictable support mechanisms, equitable and non-discriminatory contribution to support mechanisms, and access to advanced telecommunications for schools, health care providers, and libraries. An initial decision is expected in May 1997. It is uncertain how any decision might affect the Company.

Another issue that may affect the Company is access charge reform. Access charges are charges imposed by LECs on long distance providers for access to the local exchange network, and are designed to compensate the LEC for its investment in the local network. In addition to economic considerations, when adopted in 1984, at the time AT&T was required to divest the BOCs, access charges rates reflected public policy considerations related to universal service and the desirability of low local rates. Interstate access charges are regulated by the FCC and intrastate access charges are regulated by the state public service commissions. As required by the 1996 Telecommunications Act, in December 1996, the FCC issued an order which, among other things, requested comment on a number of access charge reform issues designed to foster efficient pricing of access, competition for access services, and to reflect the development for local services prompted by the 1996 Telecommunications Act. The FCC has also sought comment on whether Internet service providers and other information service providers should be subject to access charges. An initial decision is expected in May 1997. It is uncertain how any decision might affect the Company.

An additional issue that may affect the Company relates to the manner in which carriers will be required to compensate payphone owners when a payphone is used to originate a long distance call. The 1996 Telecommunications Act requires carriers to compensate payphone owners on a per call basis. In Orders issued in September and October of 1996, the FCC imposed a compensation scheme that called for certain carriers, including the Company, to compensate payphone owners a flat amount per month for one year before transitioning to a per call compensation system. This flat rate compensation scheme would effectively require the Company to pay for services it does not receive. The Company and other carriers such as AT&T, have appealed these decisions to the U.S. Court of Appeal for the District of Columbia. The appeal is pending. There can be no assurance of whether the appeal will be successful or, if successful, what effect it may have on the Company.

The FCC also imposes prior approval requirements on transfers of control and assignments of operating authorizations. The FCC has the authority to generally condition, modify, cancel, terminate or revoke operating authority for failure to comply with federal laws and/or the rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations.

There can be no assurance that the FCC or third parties will not raise issues with regard to the Company's compliance with applicable laws and regulations.

Among domestic local carriers, only the incumbent local exchange carriers are currently classified as dominant carriers. Thus, the FCC regulates many of the local exchange carriers' rates, charges and services to a greater degree than the Company's, although FCC regulation of the local exchange carriers is expected to decrease over time, particularly in light of the 1996 Telecommunications Act. As a result of the Act, incumbent local exchange carriers have recently been afforded a degree of pricing flexibility in setting interstate access charges where adequate competition is perceived to exist. In January 1997, the FCC issued an order streamlining the process by which incumbent LECs file tariffs for switched and special access services. The new streamlined rules allow LECs to change tariffs on no more than 15-days' notice. The shortened notice periods adopted by the FCC may prompt LECs to file tariffs containing discriminatory and anti-competitive rates. It is unclear whether the order will be subject to reconsideration or appeal and, if not, what effect it may have on the Company.

Like other long distance carriers, the Company has been the subject of informal complaints before the FCC regarding certain marketing and billing issues. The Company has filed timely responses to these informal complaints. The Company believes that such matters will be satisfactorily resolved without a material adverse impact upon the Company's results of operations.

State. The Company's intrastate long distance and anticipated local exchange operations are subject to various state laws and regulations including, in most jurisdictions, certification and tariff filing requirements. The vast majority of the states require the Company to apply for certification to provide intrastate local and long distance telecommunications services, or at least to register or to be found exempt from regulation, before commencing intrastate service. The vast majority of states also require the Company to file and maintain detailed tariffs listing their rates for intrastate service. Many states also impose various reporting requirements and/or require prior approval for transfers of control of certified carriers, and/or for corporate reorganizations; acquisitions of telecommunications operations; assignments of carrier assets, including subscriber bases; carrier stock offerings; and incurrence by carriers of significant debt obligations. Certificates of authority can generally be conditioned, modified, canceled, terminated, or revoked by state regulatory authorities for failure to comply with state law and/or the rules, regulations, and policies of the state regulatory authorities. Fines and other penalties also may be imposed for such violations.

The Company has received the necessary FCC authorization and state certificate and tariff approvals to provide interstate and intrastate long distance service in 48 states and the District of Columbia. In addition, the Company has received the necessary authorization to provide local exchange telecommunications service in 21 states as of March 18, 1997. Applications are pending for multiple subsidiaries for additional state certifications. Although the Company intends and expects to obtain operating authority in each jurisdiction in which operating authority is required, there can be no assurance that one or more of these jurisdictions will not deny the Company's request for operating authority. The Company monitors regulatory developments in all 50 states to ensure regulatory compliance.

Informal complaints concerning certain marketing and billing issues have been lodged against the Company before certain state PSCs. The Company believes that such matters will be satisfactorily resolved without a material adverse impact upon the Company's results of operations.

PSCs also regulate access charges and other pricing for telecommunications services within each state. The RBOCs and other local exchange carriers have been seeking reduction of state regulatory requirements, including greater pricing flexibility. This could adversely affect the Company in several ways. If regulations are changed to allow variable pricing of access charges based on volume, the Company could be placed at a competitive disadvantage over larger long distance carriers. The Company also could face increased price competition from the RBOCs and other local exchange carriers for intraLATA and interLATA long distance services, which may be increased by the removal of former restrictions on long distance service offerings by the RBOCs as a result of the 1996 Telecommunications Act.

INTELLECTUAL PROPERTY

The Company has registered several trademarks for use in its marketing materials. The original logo used to market Dial & Save residential long distance service is a registered trademark of the Company. The logo is used in a limited fashion today, as it has been replaced by a more updated logo design. The new logo used to market the Dial & Save residential long distance service is actively used on all Dial & Save marketing materials. The Company filed a registration application to obtain a trademark for the new logo design and to trademark the words "Dial & Save" in late 1994. The registration application has been suspended pending the disposition of one other application before the Patent and Trademark Office ("PTO"). While each of the Company and the other applicant filed an opposition to the other's application, they commenced discussions to resolve the matter. In December 1996, however, the Company was named as a defendant in litigation brought by An Apple A Day, Inc. d/b/a Dial and Save ("Apple"), a company involved in telephone order sales of electronic equipment. The suit claims that the new logo design accompanied by the words

"Dial & Save" is confusingly similar to a trademark held by Apple so as to constitute trademark infringement and violations of related laws. The Company believes it has strong defenses to Apple's claims, including that the marks and markets at issue are dissimilar. See "Item 3 - Legal Proceedings." The Company's CIO Code for its Long Distance Wholesale Club brand is a registered trademark of the Company.

"Prime Business" is the name of the Company's commercial product line. The Company filed registration applications to obtain trademarks for the phrase "Prime Business" and for its logo in 1995. The registration was granted in September 1996.

EMPLOYEES

As of December 31, 1996, the Company has approximately 603 full-time employees, 8 part-time employees, and approximately 185 workers who are employed through various temporary agencies. The temporary agency workers are CSRs who handle inbound marketing inquiries from customers. None of these employees are represented by a union. The Company believes that it has good relations with its employees.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements which express the current beliefs and expectations of Telco's management, 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 the forward-looking statements in this press release. Among the risks, factors and uncertainties that could cause actual results to differ materially from those referred to above are: the Company's ability to maintain its current pace in attracting and retaining customers, the development of price competition in the long distance industry, an increase in rates for access and transmission facilities, the costs associated with the continued expansion of the Company's Commercial Sales Division and the ability of the Company to integrate the pending acquisition of the Advantis assets and to generate the anticipated earnings and cash flow.

Item 2. Properties

The Company currently leases approximately 36,327 square feet of space for its corporate headquarters at 4219 Lafayette Center Drive, 4215 Lafayette Center Drive and 4200 Pleasant Valley Road in Chantilly, Virginia, pursuant to various agreements. See "Certain Transactions- Leases of Real Property from Affiliate of Shareholder." The average monthly rent (not including electricity) as of March 1997 is approximately \$29,906. In addition, the Company occupies approximately 14,508 square feet of leased office space on the 11th floor of 1401 Wilson Boulevard in Arlington, Virginia, which also houses the Company's Washington, D.C. Commercial Sales Division. The monthly rental for this space as of December 1996 is approximately \$25,651. The lease expires on May 31, 2000 with an option to renew for one additional term of five years. The Company also leases an aggregate of 27,432 square feet of space in seven locations in Florida, Iowa, Nevada, Tennessee, Texas, and Washington, D.C., to house its telecommunications switching equipment sites and one of its network control centers. Due to the rapid expansion and growth of the Company, there may be a need to lease additional office space. If this need arises, the Company believes additional space can be readily obtained as needed. The Company's Commercial Sales Division is currently utilizing temporary office space in twenty-one of its twenty-two existing locations. The Company expects to secure longer term office space in 1997.

Item 3. Legal Proceedings

In December 1996, Telco Communications Group, Inc. and Long Distance Wholesale Club ("LDWC") became involved in a civil action, AT&T Corp. v. Telco Communications Group, Inc. and Long Distance Wholesale Club, pending in the United States District Court for the District of New Jersey. In this litigation, AT&T claims that Long Distance Wholesale Club advertisements that consumers can save up to 50% off AT&T's basic rates are false and misleading under federal and state law. AT&T seeks treble damages, statutory attorneys' fees and costs, and an injunction. The Company denies the allegations in this litigation and is vigorously defending against them, including that all disclosures are clearly contained in LDWC's advertisements and that it is possible for consumers in any geographic location of the United States to place calls that will achieve up to a 50% savings. Toward that end, the Company is preparing to stipulate the transfer of its own false advertising and tortious interference claims against AT&T, presently pending in the United States District Court for the Eastern District of Virginia, to the District of New Jersey for consolidation with AT&T's action. The Company also plans to file additional counterclaims against AT&T based on AT&T's advertising which the Company believes contains a variety of misleading and deceptive statements. The Company could be found liable for damages and an injunction might issue against future use of the LDWC advertisements, although such advertisements are no longer in use.

On December 31, 1996, Apple filed suit against the Company in the United States District Court for the Eastern District of Maryland alleging trademark and tradename infringement, unfair competition, false designation of origin, federal trademark dilution, trade dress dilution and violations of Missouri common law. According to the complaint, Apple holds a Dial and Save service mark for telephone order services in the field of electronic equipment. Apple alleges that the Company's use of a Dial & Save logo and tradename in connection with

its sale to consumers of long distance service infringes Apple's mark. Apple seeks an injunction against the Company's further use of the Dial & Save logo and name, disgorgement of all profits made from use of the Dial & Save logo and name, damages for loss of sales, loss of good will and damage to reputation, treble of damages and payment of attorneys fees and costs. The Company denies the allegations and is vigorously defending against them, including on the grounds, among others, that there is no competitive proximity of the electronic equipment that Apple sells and the long distance service that the Company offers and no likelihood of, or actual, confusion regarding the seller, and therefore the source, of each. If the Company is found to have infringed Apple's mark, and/or to have liability for Apple's other claims, then it may be found liable to Apple in whole, or in part, for damages of the nature sought by Apple.

On May 8, 1995, the Company, and its subsidiary, Dial & Save of Nevada, Inc., filed suit against Central Telephone Company-Nevada, d/b/a Sprint/Central Telephone Company-Nevada, a division of the Central Telephone Company, Sprint, Inc., et al., in the District Court of Clark County, Nevada. The suit includes claims for breach of contract, promissory and equitable estoppel, unfair trade practices, and breach of the duty of good faith and fair dealing, all in violation of the laws of Nevada. The Company and its subsidiary seek an order for temporary injunctive relief preventing the defendant from denying possession of certain commercial real property in Las Vegas to the Company and its subsidiary and compelling the defendant to execute and honor a commercial real property lease with the Company, as well as compensatory and punitive damages, attorneys fees and costs.

In related litigation, on May 5, 1995, Central Telephone Company-Nevada, d/b/a Sprint/Central Telephone Company-Nevada, a division of the Central Telephone Company, filed suit against the Company in the United States District Court for the District of Nevada. The suit includes claims for negligent and/or malicious omission or concealment of material facts, conversion of personal property and trespass to chattel in violation of the common laws of Nevada, in connection with certain commercial real property and telecommunications facilities owned by the plaintiff in Las Vegas, Nevada. The plaintiff seeks damages and a declaratory judgment specifying the respective rights of the plaintiff and the Company regarding occupancy of the commercial real property and use of the telecommunications facilities in Las Vegas, and requiring the Company to present any complaint against the plaintiff to the FCC prior to bringing any court action. The Company denies the allegations, intends to defend vigorously against them and has filed the suit described above against the plaintiff.

On March 14, 1997, Frontier Corporation and Frontier Communication Services, Inc. filed suit against the Company, and three (3) of the Company's employees, in the United States District Court for the Southern District of Indiana, alleging breach of contract, tortious interference with contractual relations and tortious interference with prospective economic relations. The plaintiffs allege that three (3) of the Company's employees, who were employed formally by the plaintiffs, left the employ of plaintiffs, joined the Company, and thereafter solicited on behalf of the Company plaintiffs' employees, and plaintiffs' customers, in breach of written agreements between the plaintiffs and the employees, and in violation of the common laws of Indiana. The plaintiffs also allege that the Company breached a written agreement between the Company and the plaintiffs in which the Company agreed not to allow solicitation of the plaintiffs' employees or customers by the Company's employees who were formerly employed by the plaintiffs. The plaintiffs seek an injunction preventing the Company and the three (3) employees from breaching their respective written agreements with plaintiffs and preventing the Company from aiding or abetting the employees in breach of the employees' written agreements with the plaintiffs; an accounting and disgorgement of all profits made by the Company and the employees arising from the breach of the written agreements with the plaintiffs; a declaratory judgment that the Company and the employees have breached their respective written agreements with the plaintiffs, and have tortiously interfered with the plaintiffs' existing contractual and prospective economic relations; damages for breach of contract and interference with plaintiffs' existing contractual and prospective economic relations; and payment of attorneys' fees, and costs. The Company denies the allegations and intends to defend vigorously against them.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

The following table sets forth, as of March 18, 1997, certain information regarding the Company's executive officers and certain other significant employees.

Name	Age	Position
Henry G. Luken, III	37	Chairman of the Board
Donald A. Burns	33	Vice Chairman of the Board, Chief Executive Officer and President
Thomas J. Cirrito	48	President-Consumer Division and Director
Stephen G. Canton	41	President-Commercial Division
Bryan K. Rachlin	40	Chief Operating Officer, Secretary and General Counsel
Nicholas A. Merrick	34	Chief Financial Officer, Treasurer and

		Vice President
Natalie J. Marine-Street	28	Executive Vice President
Janet D. Anastasi	30	Vice President and Corporate Controller
Mark J. Stodter	37	Vice President-Electronic Data Processing

Henry G. Luken, III, a co-founder of the Company, has served as the Chairman of the Company's Board of Directors since its formation in July 1993. Mr. Luken served as the Company's Chief Executive Officer and Treasurer from July 1993 to April 1996. Mr. Luken has also served as chairman of Tel Labs since 1991 and chairman of Telco Development Group, Inc., a computer systems company owned by Mr. Luken, since 1987, both of which entities he founded.

Donald A. Burns, a co-founder of the Company, has served as Chief Executive Officer and Vice Chairman of the Company's Board of Directors since April 1996, and has served as the President and as a director of the Company since its formation in July 1993. Mr. Burns served as the Company's Secretary from July 1993 to April 1996. Prior to joining the Company, Mr. Burns held several positions with Mid Atlantic Telecom, Inc. ("Mid Atlantic"), a regional long distance carrier based in Washington, D.C., including executive vice president and chief operating officer from October 1992 to July 1993 and director of operations from 1988 to October 1992.

Thomas J. Cirrito has served as the President of the Company's Consumer Division since April 1996 and as a director of the Company since June 1996. Mr. Cirrito is a co-founder of LDMC and has served as its president and chief executive officer since its formation in September 1993. From November 1991 through September 1993, Mr. Cirrito served as president and chief executive officer of Telecommunications Associates, Inc., an operator assisted services company. Mr. Cirrito was vice president of marketing/sales with Mid Atlantic from November 1988 to November 1991.

Stephen G. Canton has served as the President of the Company's Commercial Division since April 1996. Prior to joining the Company, Mr. Canton held several positions with Allnet Communications Services, Inc., a long distance telecommunications company, including vice president of the sales division and regional sales director from 1988 to 1995.

Bryan K. Rachlin has served as the Chief Operating Officer and Secretary of the Company since April 1996. Mr. Rachlin has served as Vice President and General Counsel of the Company since its inception, and as the Chief Executive Officer of Tel Labs since May 1994. Prior to joining the Company, Mr. Rachlin was a partner in the law firm of Rachlin & Fitzgerald.

Nicholas A. Merrick has served as Chief Financial Officer of the Company since March 1996. Prior to joining the Company, from July 1990 to March 1996, Mr. Merrick held several positions as an investment banker in the corporate finance department of The Robinson-Humphrey Company, Inc. In this capacity, Mr. Merrick was involved in numerous public and private financing and merger and acquisition transactions involving companies in the telecommunications industry.

Natalie J. Marine-Street has served as an Executive Vice President of the Company since February 1996. Ms. Marine-Street served in several other positions with the Company since its formation in July 1993, including vice president of administration from February 1995 to February 1996 and marketing manager/special projects from July 1993 to February 1995. Prior to joining the Company, Ms. Marine-Street served as marketing coordinator and in other capacities at Mid Atlantic from April 1991 to July 1993.

Janet D. Anastasi has served as Vice President and Corporate Controller of the Company since October 1994. Prior to joining the Company, Ms. Anastasi served as a manager at Chase and Associates CPAs, P.C., certified public accountants, from 1988 to 1994.

Mark J. Stodter has served as Vice President-Electronic Data Processing of the Company since its formation in July 1993. Additionally, Mr. Stodter served as Chief Operating Officer of the Company from July 1993 to March 1996. Prior to joining the Company, Mr. Stodter served as director of management information systems with Long Distance Service, Inc., a regional long distance carrier based in Washington, D.C. from 1986 to 1993.

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PART II

Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters

The Common Shares are traded on the Nasdaq National Market under the symbol "TODX". The following table sets forth, on a per share basis, the range of the high and low sales price information of the Common Shares as reported by the Nasdaq National Market, for the periods indicated.

	1996	
	High	Low
Third Quarter (from August 9, 1996)	\$19 1/2	\$14
Fourth Quarter	\$19 1/4	\$15

As of March 18, 1997, the closing price of the Common Shares as reported by the Nasdaq National Market was \$20.38. As of March 18, 1997, there were approximately 2,877 registered holders of Common Shares.

The Company has never paid any dividends. The Company currently intends to retain all future earnings for use in the operation of its business and, therefore, does not anticipate paying any cash dividends in the foreseeable future. The declaration and payment in the future of any cash dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, the earnings, capital requirements and financial position of the Company, existing and/or future loan covenants and general economic conditions.

Recent Sales of Unregistered Securities

On March 19, 1996, options to acquire 425,000 Common Shares were issued to Mr. Merrick at an exercise price of \$7.53 per share.

On April 1, 1996, Bonita Anderson, James Szadler, Dennis Jarman and Mr. Rachlin exchanged their options in LDWC for options to acquire 25,511; 51,021; 113,267 and 102,043 Common Shares, respectively, under the Company's Stock Option Plan.

On April 1, 1996, the Company issued 5,102,125 Common Shares in exchange for the remaining minority interest in LDWC.

On April 4, 1996, options to acquire 1,062,500 Common Shares were issued to Mr. Canton at an exercise price of \$7.53 per share.

On June 1, 1996, the Company agreed to issue 593,334 Common Shares to the shareholders of Tel Labs in exchange for all of their shares in Tel Labs.

On June 21, 1996, Mr. Rachlin exercised options to purchase 649,198 Common Shares at a weighted average exercise price of \$0.44 per share.

On August 9, 1996, Ms. Marine-Street exercised options to purchase 169,575 shares at a weighted average exercise price of \$1.76 per share.

Each issuance of securities described above was made in reliance on the exemption from the registration provided by Section 4(2) of the Securities Act as a transaction by an issuer not involving any public offering. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates issued in such transactions. All recipients had adequate access, through their relationships with the Company, to information about the Company.

Item 6. Selected Financial Data

The information called for by Item 6 is incorporated herein by reference to page 10 of the Registrant's Annual Report to Shareholders for the year ended December 31, 1996 (the "1996 Annual Report").

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information called for by Item 7 is incorporated herein by reference to pages 11 through 15, inclusive, of the 1996 Annual Report.

Item 8. Financial Statements and Supplementary Data

The information called for by Item 8 is incorporated herein by reference to pages 16 through 30, inclusive, of the 1996 Annual Report.

With the exceptions of the aforementioned information and the additional information incorporated by reference in Parts II and IV hereof, the 1996 Annual

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Report is not deemed to be filed as part of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 and Item 401 of Regulation S-K as to the Directors of the Company, and the information required by Item 405 of Regulation S-K, is incorporated herein by reference to the Company's definitive proxy statement dated April 9, 1997 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Company's Annual Meeting of Shareholders to be held on May 15, 1997 (the "Proxy Statement").

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference to the Proxy Statement, except for the sections entitled "Board Report on Executive Compensation" and "Performance Graph" which shall not be deemed to be incorporated herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is incorporated herein by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is incorporated herein by reference to the Proxy Statement.

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PART IV

Item 14 Exhibits, Financial Statement Schedules and Reports on Form S-K

(a) 1. Financial Statements:

The following consolidated financial statements of the Company are included in Part II, Item 8 (which incorporates information by reference to the 1996 Annual Report):

Consolidated balance sheets as of December 31, 1996 and December 31, 1995.

Consolidated statements of income and retained earnings for the years ended December 31, 1996, December 31, 1995 and December 31, 1994.

Consolidated statements of cash flows for the years ended December 31, 1996, December 31, 1995 and December 31, 1994.

Notes to Consolidated Financial Statements and Independent Auditors' Report.

2. Financial Statement Schedules:

Independent Auditors' Report

3. Exhibits: See Exhibit Index on pages 30 to 34.

The Registrant hereby agrees to furnish the Commission a copy of each of the indentures or other instruments defining the rights of security holders of the long-term debt securities of the Registrant and any of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.

(b) Reports on Form S-K:

The Company filed no reports on Form S-K during the quarter ended December 31, 1996.

(c) Refer to Item 14 (a) (3) above for Exhibits required by Item 601 of Regulation S-K.

(d) Schedules other than set forth in response to Item 14(a)(2) above for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

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TELCO COMMUNICATIONS GROUP, INC.

EXHIBIT INDEX

Exhibit Number	Exhibit Description
*2.1	Share Exchange Agreement between Telco Communications Group, Inc., Henry G. Luken, III, Bryan Rachlin, Michael Cheng and Kevin Yang dated as of June 1, 1996 (Tel Labs, Inc., Share Exchange Agreement)
*2.2	Share Exchange Agreement between Telco Communications Group, Inc., Thomas Cirrito, Nicole Cirrito and Michael Cirrito dated as of April 1, 1996 (Long Distance Wholesale Club Share Exchange Agreement)
*3.1	Restated Articles of Incorporation of Telco Communications Group, Inc.
*3.2	Amended and Restated Bylaws of Telco Communications Group, Inc.
*4.1	Form of Common Stock Certificate of Telco Communications Group, Inc.
*10.1	Agreement for the Provision of Billing and Collection Services between Telco Development Group of Delaware, Inc. and the Ameritech Companies dated July 1, 1995
*10.2	Agreement for the Provision of Billing and Collection Services between the Bell Atlantic Operating Telephone Companies and Telco Development Group of Delaware, Inc. dated June 10, 1994
*10.3	Clearinghouse Billing and Collection Services Operating Contract between Telco Development Group of Delaware, Inc. and Bell South Communications dated January 3, 1994
*10.4	Agreement for Billing Services by Tel Labs, Inc. and Esprit Telecom dated December 29, 1995
*10.7	Agreement between Nevada Bell and Telco Development Group of Delaware, Inc. for Billing and Collection Services dated September 3, 1995

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Exhibit Number	Exhibit Description	Page
*10.8	Agreement for Interstate Billing and Collection Services Agreement between New England Telephone and Telcogroup Company and Telco Development Group of Delaware, Inc. dated July 31, 1995	
*10.9	Agreement for Interstate Billing and Collection Services between New York Telephone Company and Telco Development Group of Delaware, Inc. dated July 31, 1995	
*10.10	Agreement for the Provision of Billing and Collection Services between Pacific Bell and Telco Development Group of Delaware, Inc. dated July 12, 1996	
*10.11	Casual Billing Services Agreement between the Southern New England Telephone Company and Telco Development Group of Delaware, Inc. dated February 9, 1996	
*10.12	Agreement for the Provision of Billing and Collection Services between Southwestern Bell Telephone Company and Telco Development Group of Delaware, Inc. dated December 16, 1994, and Amendment to the Agreement for the Provision of Billing and Collection Services between Southwestern Bell Telephone Company and Telco Development Group of Delaware, Inc. dated December 19, 1994	
*10.15	Agreement for the Provision of Billing and Collection Services for Clearing Agents between US West, Inc. and Telco Development Group of Delaware, Inc. dated April 1, 1995; Amendment dated June 6, 1996	
*10.16	Standard Agreement for the Provision of Billing and Collection Services between United Telephone Company of Florida and Telco Development Group of Delaware, Inc. dated October 19, 1994	
*10.17	Service Agreement between INC Carrier, Inc. and Telco Communication Group, Inc. dated December 15, 1995	
*10.18	Telco Communications Group, Inc. Wholesale Customer Agreement for Special International Pricing with Esprit Telecom dated February 21, 1996	
*10.19	Telco Communications Group, Inc. Amended and Restated 1994 Stock Option Plan	
*10.20	Lease Agreement between CPL Properties and Telco Communications Group, Inc. effective March 1, 1995 (Davenport, Iowa Switch Site)	
*10.21	Lease Agreement between Thomas Kurschner and Telco Communications Group, Inc. effective November 2, 1995 (Las Vegas, Nevada Switch Site)	
*10.22	Deed of Lease Agreement between Bricks in the Sticks, Ltd. and Telco Communications Group, Inc. effective March 1, 1995 (Chattanooga, Tennessee Switch Site)	
*10.23	Lease Agreement between The University of Texas System and Telco Communications Group, Inc. effective August 22, 1994 (Austin, Texas Switch Site)	
*10.24	Agreement of Lease between 13th and L Associates and Telco Communications Group, Inc. effective August 23, 1994 (Washington, DC Switch Site)	
*10.25	Deed of Lease Agreement between Bricks in the Sticks, Ltd. and Tel Labs, Inc. effective July 1, 1994 (Corporate Office)	
*10.26	Deed of Lease Agreement between Bricks in the Sticks, Ltd. and Telco Communications Group, Inc. effective March 1, 1995 (Corporate Office)	
*10.29	Equipment Leases between DSC Finance Corporation and Telco Communications Group, Inc. (Master Lease dated January 1, 1994 and Schedules A-P1)	
*10.30	Credit Agreement between Telco Communications Group, Incorporated, Signet Bank and the Banks listed therein, dated as of January 24, 1996	
*10.31	Employment Agreement between Telco Communications Group, Inc. and Donald A. Burns dated as of July 10, 1996	
*10.32	Employment Agreement between Telco Communications Group, Inc. and Thomas J. Cirrito dated as of April 1, 1996	

*10.33 Employment and Stock Option Agreement between Telco Communications Group, Inc. and Stephen G. Canton dated as of April 4, 1996

*10.34 Employment Agreement between Telco Communications Group, Inc. and Bryan K. Rachlin dated as of July 10, 1996

*10.35 Employment Agreement between Telco Communications Group, Inc. and Nicholas A. Merrick dated as of March 19, 1996

*10.36 Employment Agreement between Telco Communications Group, Inc. and Janet D. Anastasi dated as of May 2, 1996

*10.37 Employment Agreement between Telco Communications Group, Inc. and Natalie Marine-Street dated as of May 3, 1996

*10.38 Employment Agreement between Telco Communications Group, Inc. and Mark J. Stodter dated as of May 2, 1996

*10.39 Employment Agreement between Telco Communications and Henry G. Luken, III dated as of July 10, 1996

*10.41 Form of Registration Rights Agreement between Telco Communications Group, Inc. and holders of certain shares of common stock of the Company and certain options to purchase common stock

*10.42 Billing and Collection Services Agreement between GTE Telephone Operations and Telco Development Group of Delaware, Inc. dated March 15, 1995

10.43 Credit Agreement between Telco Communications Group, Inc. and NationsBank of Texas, N.A. as Administrative Lender and Lenders, dated December 20, 1996

10.44 Carrier Agreement between AT&T Corp. and Telco Communications Group, Inc., dated December 23, 1996

*10.45 Network Purchase Agreement between Advantis and Telco Network Services, Inc., dated March 11, 1997

10.46 Lease Agreement between Telco Communications Group, Inc. and Frederic C. Stein, dated May 1, 1996 (Fort Lauderdale, Florida Switch Site)

10.47 Lease Agreement between Telco Communications Group, Inc. and Hudson Telegraph Associates, dated September 26, 1996 (New York, New York Switch Site)

11.1 Schedule of Computation of Earnings Per Share

13.1 Portions of the Telco Communications Group, Inc. Annual Report to Shareholders for the year ended December 31, 1996

21.1 Subsidiaries of Telco Communications Group, Inc.

23.1 Independent Auditors' Consent

27.1 Financial Data Schedule

* Incorporated by reference from the Company's Registration Statement on Form S-1 (Commission File No. 333-05857)

* Portions of this Exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the Commission.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

TELCO COMMUNICATIONS GROUP, INC.

/s/Donald A. Burns

By:

Donald A. Burns
President and Chief Executive Officer
March 28, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature

Date

/s/Henry G. Luxen, III

March 28, 1997

Henry G. Luxen, III
Chairman of the Board and Director

/s/Donald A. Burns

Donald A. Burns
Vice Chairman of the Board, President,
Executive Officer and Director (Principal
Chief Executive Officer)

/s/Thomas J. Cirrito

Thomas J. Cirrito
President of Consumer Division and Director

/s/Robert W. Ross

Robert W. Ross
Director

/s/Gary L. Nelson

Gary L. Nelson
Director

/s/Nicholas A. Merrick

Nicholas A. Merrick
Chief Financial Officer and Treasurer
(Principal Financial Officer)

/s/Janet D. Anastasi

Janet D. Anastasi
Vice President and Corporate Controller

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 TELCO COMMUNICATIONS GROUP, INC.
 SCHEDULE OF COMPUTATION OF EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

WEIGHTED AVERAGE NUMBER OF COMMON SHARES

The weighted average number of shares of common stock and common stock equivalents, after adjusting for the 425-to-1 stock split, was determined as follows:

For all periods presented prior to the initial public offering, outstanding options for common stock granted within 12 months of the initial filing date of the IPO have been included in the calculations of common and common equivalent shares outstanding using the treasury stock method based on the initial public offering price of \$14 per share as the market price.

(in thousands, except per share data)

	1994	1995	1996
Common Stock:			
Shares outstanding beginning of period	20,188	20,864	20,864
Shares issued during period, net (1)	217	-	2,127
SEC SAB 83 shares (2)	5,889	5,889	5,889
	26,294	26,753	28,880
Common Stock Equivalents:			
Options (3)	219	865	1,653
Warrants (4)	171	636	0
	590	1,531	1,653
Weighted average number of common shares	26,884	28,284	30,533
Net Income	\$2,006	\$10,765	\$22,877
Net Income per share	\$ 0.07	\$ 0.38	\$ 0.75

(1) Weighted average common shares issued, net of repurchase of shares

(2) Common shares and employee options issued June 14, 1995 to June 13, 1996 7,094

Less shares reacquired under treasury stock method 1,205

Net SAB 83 common shares 5,889

(3) Options granted, less common shares reacquired under treasury stock method, on a weighted average basis.

(4) Represents warrants held by Signet Media Capital Group to purchase 636,158 common shares at a nominal exercise price, which were exercised concurrent with the IPO.

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Selected Consolidated Financial Data
Years Ended December 31.

<S>	<C> 1993(1)	<C> 1994	<C> 1995	<C> 1996
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(in thousands, except per share
and per minute of use amounts)

Statement of Operations Data:

Revenues, net	\$ 1,135	\$ 44,707	\$ 215,376	\$ 428,552
Cost of services	993	27,736	133,728	252,036
Gross margin	142	16,971	81,648	176,516
Selling, general and administrative	1,310	12,018	55,936	125,575
Depreciation and amortization	54	496	3,326	7,967
Operating income (loss)	(1,222)	4,457	22,386	42,974
Interest expense	25	897	2,952	3,515
Other income (expense)	--	15	(92)	501
Provision for income taxes	--	1,432	7,531	16,394
Minority interest	--	137	1,046	689
Net income (loss)	\$ (1,247)	\$ 2,006	\$ 10,765	\$ 22,877
Net income (loss) per share	\$ (0.05)	\$ 0.07	\$ 0.38	\$ 0.75
Weighted average number of shares outstanding (in thousands)	26,077	26,884	28,285	30,533

Balance Sheet Data (at Period End):

Cash and cash equivalents	\$ 146	\$ 475	\$ 937	25,373
Total assets	2,051	33,533	87,124	210,596
Total debt (including capital lease obligations)	1,559	19,884	44,411	3,301
Minority interest	--	137	1,183	--
Shareholders' equity (deficit)	(376)	1,655	12,420	145,720

Other Operating Data:

Billed minutes of use			1,384,300	2,963,080
Revenue per billed minute of use			\$ 0.156	\$ 0.145
Cost of services per billed minute of use			\$ 0.097	\$ 0.085

(1) The Company commenced operations in November 1993.

</TABLE>

Forward-Looking Information

Statements in this report concerning future results, performance, achievements, expectations or trends, if any, are forward-looking statements. Actual results, performance, achievements, events or trends could differ materially from those expressed or implied by such forward-looking statements as a result of known and unknown risks, uncertainties and other factors including those described below and those identified by the Company in the Company's other filings with the Securities and Exchange Commission.

Introduction

Telco Communications Group, Inc. and its wholly owned subsidiaries (collectively "Telco" or "the Company") is a rapidly growing switch-based provider of domestic and international long distance telecommunication services primarily to residential customers in the United States. Substantially all of the Company's customers access its network by dialing a unique five digit Carrier Identification Code (CIC) before dialing the number they are calling. Using a CIC Code to access the Company's network is known as "dial around" or "casual calling" because customers can use the Company's services at any time without changing their existing pre-subscribed long distance carrier. The Company markets its residential long distance services through marketing subsidiaries under two brands, each with a unique CIC Code: Dial & Save (CIC Code 10457) and the Long Distance Wholesale Club (LDWC) (CIC Code 10297), and prices its services at a discount to the basic "1 plus" rates offered by the three major long distance carriers: AT&T, MCI and Sprint. During December 1996, the Company provided long distance services to approximately 2.6 million customers (switched access lines) in 48 states and the District of Columbia. All dial around operations are conducted through marketing subsidiaries that are referred to collectively as the Consumer Division.

To increase its volume of call traffic, Telco has begun to sell its daytime capacity on a wholesale basis to other long distance carriers and in addition has created a Commercial Sales Division ("CSD") to target business and carrier customers. Because the Company's existing customer base is primarily residential, the majority of calls are handled during off-peak evening and weekend periods. As of December 31, 1996, CSD had opened 22 sales offices in 13 states and employed approximately 220 sales personnel. For the fourth quarter of 1996, CSD revenues were 39.3 million, or approximately 7.8% of total consolidated revenues.

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The Company bills its dial around customers through local exchange carrier ("LEC") billing and collection agreements which enable the Company to place its charges on the monthly local phone bills of its casual calling customers. The Company has agreements with LECs, including all of the Regional Bell Operating Companies ("RBOCs"), that cover substantially all of the switched access lines in the United States. The Company believes that these billing arrangements are the most effective mechanism for billing the Company's residential customers, because of the convenience to its customers of receiving one bill for both local and long distance service and the benefits derived from the LECs' extensive collections infrastructure. The Company's billing information systems and services are provided by Tel Labs, Inc. ("Tel Labs"), a wholly owned telecommunications billing company started in 1991 by Telco's Chairman of the Board.

The Company's switch-based network currently consists of six DSC DEX 600S, 600 and 600E switches located in Washington, D.C.; Fort Lauderdale, Florida; Davenport, Iowa; Chattanooga, Tennessee; Austin, Texas and Las Vegas, Nevada. Additionally, the Company is installing a DEX 600E switch in the New York City metropolitan area which is expected to be made operational during the first half of 1997 and has taken receipt of an eighth switch to be installed later in 1997 in a yet undetermined location.

Future issues affecting the Company's operations for 1997 and beyond are as follows:

Competitive Factors. The Company has observed new entrants and increased competition in the Company's dial around segment. Additionally, although the basic rates of the largest long distance carriers available to most residential customers increased during 1996, the Company has also observed an increase in the number of promotional, discounted calling plans available to long distance consumers.

Regulatory Changes. The operations of the Company will continue to be affected by the ongoing events associated with the 1996 Telecommunications Act. Such events include access charge reform which could materially reduce transmission costs for both the Company and other long distance companies, the entrance of the RBOCs into the long distance marketplace and the ability of long distance companies like Telco to begin marketing local telephone services.

Availability of Transmission Facilities. The Company has observed a tightening in the market for the availability of leased fiber optic facilities connecting the Company's switches. The Company leases these facilities under multi-year contracts with three major vendors and, to date, has been able to secure the necessary facilities.

Expansion of the Commercial Sales Division. The costs associated with the continuing expansion of CSD are expected to reduce the Company's net income at least through 1997. The Company expects that the revenue growth associated with this division will represent a material portion of the overall growth of the Company.

Integration of Voice Network Acquisition. On March 11, 1997, the Company announced the proposed acquisition of certain voice network assets which include the capacity rights to 100,000 DS-3 miles of transmission capacity, 5 Nortel DMS 250 switches and other associated telecommunications equipment. The ability of the Company to generate adequate cash flow from this asset acquisition will be based on the integration of these network assets into Telco's existing network and the resale of surplus capacity to third party customers.

Results of Operations

The following table sets forth for the periods indicated certain financial data as a percentage of revenues:

<TABLE>

<CAPTION>

<S>	Percentage of Revenues Year Ended December 31,			
	<C> 1993	<C> 1994	<C> 1995	<C> 1996
Revenues, net	100.0%	100.0%	100.0%	100.0%
Cost of services	87.3	62.0	62.1	58.8
Gross margin	12.5	38.0	37.9	41.2
Operating expenses:				
Selling, general and administrative	115.3	26.9	26.0	29.3
Depreciation and amortization	4.8	1.1	1.5	1.9
Operating income	(107.6)	10.0	10.4	10.0
Interest and other	2.2	2.0	1.4	0.7
Income taxes	--	3.2	3.5	3.8
Net income	(109.6%)	4.5%	5.0%	5.3%

</TABLE>

1996 Compared to 1995

Revenues. Revenues increased 99%, or \$213.2 million, from \$215.4 million

for 1995 to \$428.6 million for 1996. The increase in revenue was due to an increase in billed customer minutes from both the Company's Consumer and Commercial Sales Divisions offset by a decline in revenue per billed minute of use. Total billed minutes of use were 2,963.1 million for 1996, a 114% increase, versus 1,384.3 million minutes for 1995. Revenue per minute of use was \$0.145 for 1996 versus \$0.156 per minute of use for 1995. This revenue per minute decrease was primarily attributable to an increase in carrier revenue both as a percentage of total revenue and in aggregate, which is a lower revenue per minute of use product than the Company's other product lines.

Revenues for the Consumer Division were \$405.7 million, a 96% increase versus \$206.9 million for 1995. The Consumer Division expanded its marketing efforts during 1996 into new states through both LDMC and Dial 4 Save, and also targeted its marketing efforts into many of its existing geographical markets. Revenues for CDS, which consists of revenue from commercial and carrier customers, were \$22.1 million for 1996 versus \$8.5 million for 1995, a 160%, or \$13.6 million increase. The total for both 1995 and for the first six months of 1996 consists solely of carrier revenue.

The Company generated \$0.8 million in revenue from its Tel Labs subsidiary for 1996, all of which occurred after Telco's acquisition of Tel Labs in the third quarter of 1996. The offsets to revenue increased during 1996 compared to 1995 both as a percentage of revenue and in the aggregate due to increased billed customer minutes and increases in revenue allowances, principally due to increases in revenues in geographical areas where LECs require higher holdback percentages.

Cost of Services. Cost of services increased 88%, or \$118.3 million, from \$133.7 million for 1995 to \$252.0 million for 1996. Approximately \$101.8 million of this increase was attributable to direct costs relating to LEC access charges and the Company's transmission of on-net and off-net traffic, all of which was partially offset by a decrease in per minute costs. The remaining \$16.5 million increase was the result of higher facilities lease costs associated with the expanded transmission network and Tel Labs expenses offset by a \$0.9 million reduction in installation charges. The cost per minute for 1996 was \$0.085 versus \$0.097 for 1995. The cost per minute decrease was largely the result of a higher percentage of on-net traffic coupled with greater network efficiencies and improved off-net pricing.

Gross Margin. Gross margin increased 116%, or \$94.9 million, from \$81.6 million for 1995 to \$176.5 million for 1996, due to the reasons discussed above. As a percentage of revenues, gross margin increased from 37.3% for 1995 to 41.2% for 1996.

Selling, General and Administrative Expense. Selling, general and administrative expense increased \$69.7 million, or 125%, from \$55.9 million for 1995 to \$125.6 million for 1996. Approximately \$11.4 million of this increase was attributable to the direct expenses of the Commercial Sales Division, commenced in June 1996. Approximately \$31.0 million of the increase was the result of higher Consumer Division marketing expenses for 1996 compared to 1995, and the remaining \$27.3 million increase was the result of higher LEC billing expenses, customer service costs and other corporate general and administrative expense generally associated with increased customer minutes of use. As a percentage of revenues, selling, general and administrative expense increased to 29.3% for 1996 from 26.0% for 1995.

Depreciation and Amortization Expense. Depreciation and amortization expense increased by \$4.7 million, from \$3.3 million for 1995 to \$8.0 million for 1996. As a percentage of revenues, depreciation and amortization expense increased to 1.9% for 1996 from 1.3% for 1995. The aggregate increase in this expense was primarily attributable to increased depreciation expense related to the expansion of the Company's switch network and amortization of goodwill associated with the Long Distance Wholesale Club and Tel Labs acquisitions during 1996.

Interest Expense. Interest expense increased by \$0.3 million, from \$3.0 million for 1995 to \$3.3 million for 1996. This increase was due primarily to increased borrowings and an increase in the Company's capital lease obligations, partially offset by the net proceeds generated by the Company's initial public offering (IPO) in August 1996, which substantially reduced outstanding borrowings and capital lease obligations for the remainder of the year.

Net Income. Net income increased \$12.1 million from \$10.8 million for 1995 to net income of \$22.9 million for 1996.

1995 Compared to 1994

Revenues. Revenues increased 382%, or \$170.7 million, from \$44.7 million in 1994 to \$215.4 million in 1995. This increase was due primarily to an increase in billed customer minutes of use from Consumer Division customers. During 1994, the Consumer Division marketed dial around services in Florida, five mid-Atlantic states and the District of Columbia. During 1995, the Consumer Division expanded its mail campaigns into 21 additional states and conducted remailings in certain states targeted during 1994. Dial 4 Save and Long Distance Wholesale Club products were jointly marketed in two states and nine states during 1994 and 1995, respectively, and in the District of Columbia. The Company's offsets to revenues increased in the aggregate due to an increase in billed customer minutes.

Cost of Services. Cost of services increased 382%, or \$106.0 million, from approximately \$27.7 million in 1994 to approximately \$133.7 million in 1995. Approximately \$93.4 million of this increase was attributable to direct costs relating to LEC access charges and from the Company's transmission of on-net and off-net traffic, all of which increased primarily as a result of the increase in the Company's billed minutes of use. Facilities lease costs increased by \$8.9 million from \$1.3 million in 1994 to \$10.2 million in 1995 due to the expansion of the Company's transmission network. Installation expenses increased from \$0.5 million in 1994 to \$4.2 million in 1995 primarily as a result of one-time expenses associated with provisioning local network circuits at Company switch facilities brought on-line during 1995. During 1995, the Company deployed three switches, in Austin, Texas, Chattanooga, Tennessee and Davenport, Iowa, while in 1994 the Company deployed one switch in Washington, D.C.

Gross Margin. Gross margin increased 381%, or \$64.6 million, from \$17.0 million in 1994 to \$81.6 million in 1995, due to the reasons discussed above. As a percentage of revenues, gross margin decreased from 38.0% in 1994 to 37.9% in 1995.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 363%, or \$45.9 million, from \$12.0 million in 1994 to \$57.9 million in 1995. Approximately \$29.3 million of this increase was due to increased mail marketing expenses as the Company expanded geographically and remained to certain existing markets and to increased LEC billing costs which are directly related to the increase in the minutes of use. In addition, customer service expense increased \$6.8 million primarily as a result of an increase in customer service personnel required to service the Company's expanding customer base. As a percentage of revenues, selling, general and administrative expense decreased from 26.9% in 1994 to 26.0% in 1995 primarily as a result of operating efficiencies associated with the Company's growth in revenues.

Depreciation and Amortization Expense. Depreciation and amortization expense increased by \$2.8 million, from \$0.5 million in 1994 to \$3.3 million in 1995. As a percentage of revenues, depreciation and amortization increased from 1.1% in 1994 to 1.3% in 1995. These expenses were primarily attributable to depreciation related to the expansion of the Company's switch network.

Interest Expense. Interest expense increased \$2.1 million from \$0.9 million in 1994 to \$3.0 million in 1995. This increase was due primarily to interest expense associated with borrowings under the Credit Facility used primarily to fund working capital requirements and increases in capital leases outstanding as a result of the expansion of the Company's switch network.

Net Income. Net income increased \$8.8 million from \$2.0 million in 1994 to \$10.8 million in 1995.

Liquidity and Capital Resources

The Company conducts its operations through its direct and indirect wholly owned subsidiaries. There are no restrictions on the movement of cash within 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 Flows.

On August 14, 1996 the Company sold 4,681,000 shares of Common Stock (of which 925,000 shares were sold on August 27, 1996 in conjunction with the underwriters' exercise of the over-allotment option) in its IPO. The net proceeds to the Company (after expenses) of approximately \$60.0 million were used to repay existing indebtedness, including capital lease obligations and the outstanding balance on the Company's existing credit facility. The remaining proceeds, coupled with the Company's cash and borrowing capacity under the credit facility, were used to fund working capital and capital expenditures and for general corporate purposes.

Since commencing operations in 1993, the Company has experienced rapid growth requiring substantial investments in working capital, capital expenditures and mail marketing expenses. Additionally, start-up costs associated with the formation of CSD are expected to reduce the Company's consolidated net income at least through 1997. In December 1996, the Company entered into a new credit facility for borrowings up to \$100 million (the "New Credit Facility"). Borrowings under the New Credit Facility are subject to limitations within various financial covenants and ratios including Total Leverage Ratio, Interest Coverage Ratio and Current Ratio. The interest rate on the New Credit Facility is based on the prevailing Total Leverage Ratio not to exceed 2.5 times and ranges on a Eurodollar (LIBOR) option from a spread of 0.75% to 1.625%, and on a Base (Prime) Rate option from a spread of 0% to 0.625%.

Net cash from operating activities increased \$24.8 million from \$0 for 1995 to \$24.8 million for 1996. The increase was largely the result of increases in net income and depreciation and amortization expense offset by an increase in working capital accounts. Net cash used for investing activities increased \$2.2 million from \$9.8 million for 1995 to \$12.0 million for 1996. Including equipment acquired under capital leases, net cash used for investing activities decreased \$5.6 million from \$25.0 million for 1995 to \$19.4 million for 1996. The decrease was the result of reducing expenditures on the Company's nationwide transmission network. Net cash from financing activities increased \$1.3 million

from \$10.3 million for 1995 to \$11.6 million for 1996. This increase was the result of the receipt of proceeds from the IPO offset by the use of proceeds from the IPO to reduce the outstanding debt under Company's existing Credit Facility and capital lease obligations.

In connection with the Company's March 11, 1997 announcement of the proposed acquisition of certain voice network assets for \$170 million, the Company has received a commitment for a \$100 million increase in the New Credit Facility, bringing the total facility, upon completion of documentation and the satisfaction of the other requirements stated in the bank's commitment letter, to a total of \$200 million. The commitment calls for an increase in the overall interest costs of the New Credit Facility versus those discussed above. The Company intends to utilize a portion of the \$200 million facility along with its existing cash balances, to fund the purchase price of the voice network asset acquisition. There can be no assurance that the Company will be able to satisfy the requirements stated in such commitment letter necessary to obtain the \$100 million increase in the New Credit Facility and, in such circumstances, the Company may be forced to seek other alternatives.

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To the Shareholders and Board of Directors of Telco
Communications Group, Inc.,

We have audited the accompanying consolidated balance sheets of Telco Communications Group, Inc. and subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of income and retained earnings, and of cash flows for each of the three years in the period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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.

/s/DeLoitte & Touche

Richmond, Virginia
February 7, 1997

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<PAGE>
 <TABLE>
 Consolidated Balance Sheets
 (In thousands, except share data)
 December 31

<CAPTION>	<C>	<C>
<S>	1995	1996
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 937	\$ 25,373
Accounts receivable, trade (net of allowances of \$3,771 and \$7,972 at December 31, 1995 and 1996, respectively)	55,824	89,114
Prepaid income taxes	333	2,394
Deferred income tax asset	885	357
Other	1,112	8,947
Total current assets	59,091	126,185
Property and Equipment		
Leasehold improvements	1,148	2,189
Network equipment	4,534	34,749
Office furniture	1,958	5,474
Network equipment under capital lease	19,290	--
Network facilities under development	4,076	7,375
Accumulated depreciation	(3,479)	(10,121)
Total property and equipment, net	27,527	39,666
Other Assets		
Goodwill	245	43,663
Other assets	261	1,082
	506	44,745
Total Assets	\$ 87,124	\$210,596
Liabilities and Shareholders' Equity		
Current Liabilities		
Capital lease obligation, current portion	2,973	681
Excise taxes payable	1,289	3,103
Accounts payable	15,303	21,062
Accrued network access and transmission expense	9,429	21,450
Other accrued expenses	1,322	12,670
Deferred income taxes payable	--	1,225
Payable to related parties	414	--
Total current liabilities	30,730	60,191
Long Term Liabilities		
Long-term debt	28,262	--
Capital lease obligation, noncurrent	13,176	2,620
Deferred income taxes	1,353	2,065
Total long term liabilities	42,791	4,685
Minority Interest	1,183	0
Commitments and Contingencies (Note 14)		
Shareholders' Equity	--	--
Common stock (no par value; 130,000,000 shares authorized; 12,754,869 shares outstanding)	896	111,309
Preferred stock (15,000,000 shares authorized, unissued)	--	--
Additional paid-in capital-accumulated deficit remaining upon termination of S-corporation election	(1,247)	(1,247)
Unrealized gain on marketable securities, net of tax	--	10
Retained earnings	12,771	35,648
Total shareholders' equity	12,420	145,720
Total Liabilities and Shareholders' Equity	\$ 87,124	\$ 210,596

</TABLE>

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<TABLE>

Consolidated Statements of Income and

Retained Earnings

(in thousands, except per share data)

Years ended December 31

<CAPTION>

<S>

	<S> 1994	<S> 1995	<S> 1996
Revenues, net	\$ 44,707	\$215,376	\$428,552
Cost of services	27,736	133,728	252,036
Gross margin	16,971	81,648	176,516
Operating Expenses:			
Selling, general and administrative	12,018	55,936	125,575
Depreciation and amortization	496	3,326	7,967
Total operating expenses	12,514	59,262	133,542
Operating income	4,457	22,386	42,974
Interest expense	897	2,952	3,315
Other income (expense)	15	(92)	501
Income taxes:			
Current	1,075	7,420	14,175
Deferred	357	111	2,219
Total income taxes	1,432	7,531	16,394
Minority interest	137	1,046	689
Net income	2,006	10,765	22,877
Retained earnings (deficit), beginning of period	(1,247)	2,006	12,771
Conversion of S-Corporation tax status	1,247	--	--
Retained earnings, end of period	\$ 2,006	\$ 12,771	\$ 35,648
Net income per common and common equivalent share	\$ 0.07	\$ 0.38	\$ 0.75
Average common and common equivalent shares	26,884	28,285	30,533

</TABLE>

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<TABLE>

Consolidated Statements of Cash Flows

(In thousands)

Year Ended December 31

<CAPTION>

<\$>

	<C> 1994	<C> 1995	<C> 1996
Cash Flows From (Used For) Operations			
Net income	\$ 2,006	\$ 10,765	\$ 22,877
Adjustments to reconcile net income to net cash from (used for) operating activities:			
Depreciation and amortization	496	3,326	7,968
Minority interest	137	1,046	689
Loss on disposal of fixed assets	--	110	526
Deferred income taxes	357	123	2,465
Change in current assets and liabilities:			
Trade accounts receivable	(24,115)	(30,838)	(33,290)
Prepaid and other assets	(1,617)	514	(6,964)
Accounts payable	1,300	13,828	7,158
Accrued expenses	8,796	2,172	23,369
Income taxes payable	741	(1,075)	--
Net cash from (used for) operating activities	(11,859)	(29)	24,798
Cash Flows Used For Investing Activities:			
Equipment purchases	(1,301)	(9,815)	(11,987)
Investments, net of cash acquired	(8)	--	--
Net cash from (used for) investing activities	(1,309)	(9,815)	(11,987)
Cash Flows From Financing Activities:			
Proceeds from the line of credit	29,127	28,262	--
Payments on the line of credit	(13,759)	(15,447)	(28,262)
Payments on capital leases	(1,267)	(2,376)	(20,281)
Payments on short-term debt	(583)	(213)	--
Proceeds from contributed capital	50	--	--
Repurchase of common shares	(25)	--	--
Proceeds from sale of options	--	--	256
Proceeds from sale of stock	--	--	59,912
Net cash from financing activities	13,543	10,306	11,625
Increase in Cash	335	462	24,436
Cash, beginning of the period	140	475	937
Cash, end of the period	\$ 475	\$ 937	25,373

</TABLE>

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1. Nature of the Business and Significant Accounting Policies

Nature of Operations-The Company is a switch-based long distance telephone company headquartered in Chantilly, Virginia. The Company principally provides service to residential and commercial customers in 48 states and the District of Columbia.

Significant Accounting Policies:

Basis of Consolidation-The consolidated financial statements include the accounts of Telco Communications Group, Inc. and its wholly owned Dial & Save subsidiaries as well as Long Distance Wholesale Club, Telco Development Group of Delaware, Inc. and Tel Labs, Inc. (collectively, the Company). All intercompany transactions and accounts have been eliminated in consolidation (see Note 3).

Revenue Recognition-Revenue is recorded when service is rendered, which is measured when a long distance call is completed and is recorded net of an allowance for revenues which the Company estimates will ultimately be refunded, rebated, uncollectible or unbillable.

Sales, Advertising and Related Marketing Expenses-Costs incurred in connection with sales, advertising and marketing activities are recognized in the period in which they are incurred. Costs incurred in advance of utilization in sales, advertising or marketing activity are recognized as prepaid assets until such activity occurs. The Company had recorded prepaid advertising and mail marketing costs of \$1,055,414, \$377,745 and \$1,681,898 at December 31, 1994, 1995 and 1996, respectively. These expenditures were utilized in promotional activities and mailings in subsequent periods and were expensed in the periods in which the items were mailed. The Company defers the recognition of certain sales commissions paid pursuant to long-term customer commitments (one year or greater) and recognizes the expense for the commissions over an estimated time in which the commissions are earned. All other sales commissions are expensed when incurred. As of December 31, 1996, the Company had recorded prepaid commissions of \$737,987.

Cash and Cash Equivalents-For the purposes of reporting cash flows, the Company considers all highly liquid instruments with original maturities of less than three months to be cash equivalents.

Accounts Receivable-Accounts receivable principally consists of amounts due from customers. The Company contracts with Local Exchange Carriers (LECs), or an authorized clearinghouse, to bill and collect from its residential customers. The fees vary by LEC.

Marketable Securities-Marketable securities are classified as available for sale. These are reported at fair value with unrealized gains and losses reported in shareholders' equity, net of tax.

Property and Depreciation-Property, plant and equipment is recorded at cost. Depreciation is computed using the straight-line method on estimated useful lives (or lease terms, if shorter for facilities under capital leases and leasehold improvements) of five years. Expenditures for maintenance and repairs are charged to expense as incurred whereas expenditures for additions and replacements are capitalized. The cost and related accumulated depreciation of assets sold or otherwise disposed of during the period are removed from the accounts. Any gain or loss is reflected in the year of disposal.

Income Taxes-Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes.

Excise Taxes Payable-Excise taxes payable represent sales and excise tax amounts collected which are subsequently remitted to taxing authorities.

Reclassification-Certain amounts in the 1994 and 1995 consolidated financial statements have been reclassified to conform to the 1996 presentation.

Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Income Per Share-Net income per share is based on the weighted average number of shares of common stock and common stock equivalent shares outstanding using the treasury stock method. Pursuant to Securities and Exchange Commission requirements, common and common equivalent shares issued during the twelve-month period prior to the initial filing of the Company's public offering were included in the calculation as if they were outstanding for all periods presented using the treasury stock method, based on an estimated initial public offering price of \$15.

Long-Lived Assets, Identifiable Intangibles and Goodwill-The Company has recorded goodwill and certain identified intangibles in connection with its acquisitions of Long Distance Wholesale Club, Tel Labs and Dial & Save of

Pennsylvania. These assets are amortized over periods ranging from 5 to 35 years. Telco reviews long-lived assets, certain identifiable intangibles, and goodwill pertaining to those assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

Stock Based Compensation-The Company, as permitted by the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), has chosen to continue to account for stock based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. The Company has adopted the disclosure requirements of SFAS No. 123 (see Note 9).

2. Initial Public Offering

In August 1996, a total of 6,325,000 shares of the Company's common stock, no par value (the Common Shares), were sold in an initial public offering (IPO) at \$14 per share. Certain selling stockholders sold 1,644,000 Common Shares, and 4,681,000 Common Shares were sold by the Company which resulted in net proceeds to the Company of approximately \$60.0 million after deducting the expenses of the offering.

3. Business Combinations

Long Distance Wholesale Club-Pursuant to an agreement dated April 1, 1996, the Company acquired the remaining minority interest in LDWC in a transaction in which all of the remaining LDWC shares were exchanged for a total of 3,102,123 shares of the Company's common stock and LDWC became a wholly owned subsidiary of the Company. In connection with such transaction, all outstanding options under the LDWC stock option plan were converted into options to purchase a total of 291,842 shares of common stock under the Company's Stock Option Plan and the LDWC stock option plan was terminated.

In June 1995, the Company exercised its option to convert a \$250,000 short-term note receivable from its majority-owned subsidiary Long Distance Wholesale Club to equity in that entity. 3,046 shares of Long Distance Wholesale Club common stock were issued in the transaction, resulting in an increase in the Company's ownership interest from 55% to 55.55%.

Tel Labs, Inc.- Pursuant to the Share Exchange Agreement dated as of June 1, 1996 and concurrent with the completion of the IPO, Tel Labs became a wholly owned subsidiary of the Company, and the Tel Labs shareholders received an aggregate of 593,334 shares of the Company's common stock in exchange for all of their shares in Tel Labs. As a result of the Tel Labs share exchange described above, the remaining minority interest in Telco Development Group of Delaware, Inc. was acquired. (see Note 4)

The following represents the results of operations on a proforma basis as though the LDWC and Tel Labs combinations had occurred at the beginning of the respective periods presented:

<TABLE>		
<CAPTION>		
<\$>		
	<1995>	<1996>
(in thousands)		
Revenues, net	\$ 217,011	\$ 430,434
Net income	10,688	23,144
Net income per share	\$.37	\$.76
</TABLE>		

4. Related Party Transactions

The Company leases office and switch site facilities from Bricks In The Sticks, Ltd., which is controlled by the Company's Chairman who is also a shareholder of the Company. The Company paid total rents of \$63,500, \$179,420 and \$221,868 for these facilities, for the years ended December 31, 1994, 1995 and 1996, respectively.

Total annual future minimum operating lease payments due to the related party for the above lease are as follows for the years ending December 31:

1997	\$ 251,901
1998	265,127
1999	213,669
2000	13,913
2001	2,539

The Company purchased data processing services for call translation and rating from Tel Labs, which prior to its acquisition by Telco in August 1996 was controlled by the Company's Chairman. The Company paid \$155,000, \$1,260,000, and \$751,382 for these services for the years ended December 31, 1994, 1995 and 1996, respectively. Concurrent with the Company's initial public offering, Tel Labs became a wholly owned subsidiary of Telco (see Note 3).

The Company purchased computer equipment and support until May 1996 from Telco Development Group, Inc. which is controlled by the Company's Chairman, who is also a shareholder of the Company. The Company paid \$229,100, \$779,919 and \$552,424 for these services for the years ended December 31, 1994, 1995 and 1996, respectively.

A non-management shareholder of the Company also holds a minority ownership interest in an international long distance services provider. This international provider and the Company purchase transmission services from one another pursuant to service agreements.

5. Allowances

Changes in the allowance for unbillable or uncollectible accounts and billing services fees were as follows at December 31:

<TABLE>

<CAPTION>

<S>	<C> 1994	<C> 1995	<C> 1996
Balance at the beginning of year	\$ 59,763	\$ 1,078,442	\$ 3,771,413
Provision charged to operations	2,545,350	11,517,017	22,525,369
Write-offs, net of recoveries	(1,526,671)	(6,824,046)	(18,324,678)
Balance at the end of year	\$ 1,078,442	\$ 3,771,413	\$ 7,972,104

</TABLE>

Amounts reducing gross revenues as a result of refunds, rebates, and unbilled or uncollectible revenue totaled \$2,625,451, \$9,143,602 and \$23,045,788 for the years ended 1994, 1995 and 1996, respectively.

6. Long Term and Other Debt

On December 27, 1996, the Company entered into a credit agreement with a group of banks under which the company may borrow up to \$100,000,000 (the Facility). The Facility expires on December 27, 1999. The interest rate on the Facility is determined either at a Prime Rate or an Eurodollar (LIBOR) option based on the Company's prevailing total leverage ratio as defined in the loan agreement. The applicable margin on the Prime Rate is from 0% to 0.625% and on the Eurodollar Rate from 0.75% to 1.625%. The Facility is secured by a pledge of stock of all the Company's subsidiaries and a negative pledge of its assets. The Facility contains certain financial covenants which prescribe certain leverage, interest coverage and working capital ratios as well as limitations on capital expenditures. There were no borrowings under the Facility as of December 31, 1996.

As of December 31, 1995 the long term debt consisted of a \$25,000,000 line of credit, plus interim financing of \$10,000,000. The credit agreement also included a warrant agreement which was exercised concurrent with the Company's IPO (see note 11). Also concurrent with the IPO, the Company utilized the proceeds from the IPO to reduce the line of credit. On January 24, 1996, the Company entered into a two year credit agreement with a group of banks totaling \$45,000,000. On March 20, 1996, the credit agreement was amended to provide \$20,000,000 of additional financing. The credit agreement was secured by substantially all of the Company's assets and required the Company to maintain certain financial ratios, restricted the payment of dividends, and required all subsidiary companies' stock to be pledged as collateral. As a result of the new financing in January and March 1996, \$28,261,527 was reclassified to long term debt at December 31, 1995.

7. Obligations Under Capital and Operating Leases

The Company leases certain equipment under capital leases. Accordingly, the Company has capitalized such equipment in the amount of \$4,819,099, \$22,214,849 and \$4,886,175 less accumulated depreciation of \$412,372, \$2,587,847 and \$ -0- as of December 31, 1994, 1995 and 1996, respectively. At December 31, 1996, 100% of such equipment was leased from one vendor. Total equipment under capital leases includes \$1,685,000, \$2,925,000 and \$4,886,175 classified as network facilities under development, as of December 31, 1994, 1995 and 1996, respectively.

During September and October of 1996, the Company utilized proceeds from the IPO to retire \$20,177,000 in capital lease obligations.

- 0

<PAGE>

Future minimum lease payments for assets under capital leases at December 31, 1996 are as follows:

1997	\$ 720,131
1998	823,006
1999	823,007
2000	823,007
2001	720,131
Thereafter	102,876
Total minimum payments	4,012,158
Imputed interest	(711,426)
Net obligation	3,300,732
Current portion	681,000
Capital lease obligation, noncurrent	\$ 2,619,732

In addition to operating leasing activities discussed in Note 4, the Company leases switch sites and office space in various cities throughout the United States. The total minimum rental commitment as of December 31, 1996 due in future years is as follows:

Years ending December 31,	\$ 718,875
1997	718,465
1998	617,454
1999	362,818
2000	49,760
2001	

Total rent expense under these leases was \$68,809, \$206,534 and \$614,256 for the years ended December 31, 1994, 1995 and 1996, respectively.

9. Income Taxes

The Company accounts for income taxes using the liability method, whereby deferred tax liabilities and assets are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities by applying enacted statutory tax rates applicable to future years in which the differences are expected to reverse.

Significant components of income taxes are as follows for the years ended December 31, 1994, 1995 and 1996:

<TABLE>				
<CAPTION>				
<S>				
	1994	1995	1996	
Current:				
Federal	\$ 822,612	\$6,023,084	\$11,618,476	
State	252,225	1,397,387	2,556,995	
Total Current	\$1,074,837	\$7,420,471	\$14,175,471	
Deferred:				
Federal	\$ 320,389	\$ 91,780	\$1,878,830	
State	36,200	19,341	339,744	
Total Deferred	\$ 356,589	\$ 111,121	\$2,218,574	

</TABLE>
Temporary differences which give rise to significant components of the Company's deferred tax liabilities and assets for the years ended December 31, 1994, 1995 and 1996 are as follows:

<TABLE>		
<CAPTION>		
<S>		
	1995	1996
Deferred Tax Liabilities (current):		
Bad debts-non-accrual method	\$ --	\$ (1,035,505)
Other	--	(189,652)
	--	(1,225,157)
Deferred Tax Liabilities (non-current):		
Book over tax basis in property, plant and equipment	(1,161,939)	(1,726,877)
Other	(191,443)	(338,802)
	(1,353,382)	(2,065,679)
Deferred Tax Assets (current):		
Bad debts-non-accrual method	580,643	--
Other	304,126	357,212
	884,769	357,212
Deferred Tax Liability, net	\$ (468,613)	\$ (2,933,624)

</TABLE>
No valuation allowance has been recorded for the realization of the deferred tax asset resulting from the temporary differences as management believes that it will, more likely than not, be able to realize the deferred tax asset.

<PAGE>

Reconciliation of income taxes computed at the federal statutory tax rate to actual income tax expense for the years ended December 31, 1994, 1995 and 1996 are as follows:

<TABLE>

<CAPTION>

<S>	<C>		
	1994	1995	1996
Federal Statutory Rate	34.00%	35.00%	35.00%
Effect of:			
State taxes-net of Federal benefit	6.23	4.76	4.66%
Other	1.42	1.40	2.09%
Income Tax Expense	41.65%	41.16%	41.75%

</TABLE>

9. Incentive Stock Options

On July 1, 1994, the Company adopted a stock plan which provides for the granting of one or any combination of incentive stock options, nonqualified stock options, restricted stock awards and bargain purchases of Company stock. In April 1996, the Board of Directors of the Company adopted and the shareholders of the Company approved the Telco Communications Group, Inc. Amended and Restated 1994 Stock Option Plan, (the "Plan") which provides for the grant to officers, key employees and directors of the Company and its subsidiaries of both "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and stock options that are non-qualified for federal income tax purposes. The total number of shares for which options may be granted pursuant to the Plan and the maximum number of shares for which options may be granted to any person is 7,500,000 shares, subject to certain adjustments reflecting changes in the Company's capitalization. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". Accordingly, no compensation cost has been recognized for the Plan. Had compensation cost for the Company's Plan been determined on the fair value at the grant date for awards in 1996 consistent with the provisions of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>

<CAPTION>

<S>	<C>	
	1995	1996
Net income - as reported	\$ 10,764,912	\$22,876,735
Net income - pro forma	\$ 10,734,973	\$22,125,831
Earnings per share - as reported	\$ 0.38	\$ 0.75
Earnings per share - pro forma	\$ 0.38	\$ 0.72

</TABLE>

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in the following periods:

<TABLE>

<CAPTION>

<S>	<C>		
	1995	1996(pre-IPO)	1996(post-IPO)
Expected lives	5 years	5 years	5 years
Expected volatility	Near 0%	Near 0%	110%
Dividend yield	0%	0%	0%
Risk-free interest rate	6.383%	6.175%	6.175%

</TABLE>

Information regarding the Plan for 1994, 1995 and 1996 is as follows:

<TABLE>

<CAPTION>

<S>	<C>		<C>	
	1994	1995	1996	1996
	Shares	Shares	Weighted-Average Exercise Price	Weighted-Average Exercise Price
Options outstanding, beginning of year	--	1,633,487	\$1.22	2,137,829
Options exercised	--	--	\$0.80	(878,151)
Options granted	1,633,487	504,342	\$2.61	2,482,000
Options outstanding, end of year	1,633,487	2,137,829	\$1.54	3,741,678
Option price range at end of year	\$0.31 to \$1.85	\$0.31 to \$3.55		\$0.67 to \$18.75
Option price range for exercised shares				\$0.31 to \$3.55
Options available for grant at end of year	5,866,513	5,362,171		2,880,171
Weighted-average fair value of options, granted during the year		\$0.70		\$6.09

</TABLE>

The following table summarizes information about fixed price stock options outstanding at December 31, 1996:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/96	Weighted-Average Exercise Price
\$0.67	109,101	8.0 years	\$0.67	109,101	\$0.67
\$1.76 to \$1.85	803,080	7.9 years	\$1.78	803,080	\$1.78
\$2.51 to \$3.55	347,497	8.7 years	\$2.56	171,111	\$3.01
\$7.53	1,487,500	9.3 years	\$7.53	--	--
\$14.00 to \$18.75	994,500	9.7 years	\$15.08	--	--
Total	3,741,678			1,083,292	

10. Supplemental Cash Flow Information

The following represents supplemental cash flow information for the years ended December 31, 1994, 1995 and 1996:

<TABLE>

<CAPTION>

<S>	<C> 1994	<C> 1995	<C> 1996
Cash paid for:			
Interest	\$ 656,958	\$ 2,939,472	\$ 3,324,870
Income taxes	336,598	8,223,750	10,611,427
Non-cash investing and financing activities:			
Conversion of note receivable to equity	--	250,000	--
Equipment purchased through capital leases	2,821,353	15,220,222	7,433,469
Business Combination:			
Fair value of assets acquired	1,025,533	--	47,388,826
Stock issued	--	--	(46,629,000)
Liabilities assumed	(855,173)	--	(759,826)
Cash paid for common stock	\$ 170,360	\$ --	\$ --

</TABLE>

11. Capital Stock

	Shares Outstanding	Common Stock	Accumulated Deficit Remaining Upon Termination of S-Corporation Election (in thousands)	Unrealized Gains On Securities Held For Sale
Balance December 31, 1995:	20,864	\$ 896	\$ (1,247)	--
Issuance of common shares	5,317	59,912	--	--
Loans to option holders		(584)	--	--
Purchase of subsidiary	5,696	47,725	--	--
Proceeds from exercise of options	878	840	--	--
Tax benefit from net warrant activity	--	2,520	--	--
Unrealized gain on marketable securities	--	--	--	\$ 10
Net income	--	--	--	--
Balance December 31, 1996:	32,755	\$111,309	\$ (1,247)	\$ 10

Stock Split-On June 12, 1996, the shareholders and directors executed a joint consent in lieu of a meeting. The joint consent provided that effective immediately prior to the completion of the Company's IPO, the Company declared a 425 to 1 stock split to shareholders of record on that date. Per share amounts in the accompanying financial statements and footnotes have been adjusted for the split.

Preferred Stock-The Company has authorized but not issued 15,000,000 shares of Preferred Stock. Such shares may be issued in one or more series with rights, designations, preferences, qualifications, limitations and restrictions as may be authorized by the Board of Directors of the Company.

Warrants-As part of the consideration for establishing the Company's credit facility in June 1994, the Company issued to Signet Media Capital Group, a division of Signet Bank, the Signet Warrant to acquire 20 of the common stock of the Company on a fully diluted basis. The exercise price for the warrant was a nominal price which was negotiated at the time the Company entered into the credit agreement. Concurrent with the Company's IPO, Signet Media Capital Group exercised the Signet Warrant in full for 636,158 shares of common stock and sold all shares of common stock issuable upon exercise of such warrant in the IPO.

Shareholder Loans-As of December 31, 1996 the Company had outstanding loans to shareholders in the amount of \$584,147. The loans were made in connection with the concurrent exercise of options to acquire \$19,771 shares of the Company's common stock. As a result, such loans are recorded as a separate component of stockholders' equity. Each of the loans were made at the lowest interest rate permitted by law and either will become due and payable upon the earlier of three years from the date of the loan, or three days after the shares purchased from the exercised options are sold; or due and payable the day the shares purchased upon exercise of the options are marginable.

12. Employee Benefit Plans

The Company implemented a 401(k) pension plan in December 1996. Employees are eligible to participate in the plan if they have been employed by the Company for six months. Generally, employees can defer up to 15% of their gross bi-weekly salary into the plan. The Company's contribution is to be determined annually by the Board of Directors. In 1995 the Company's subsidiary Long Distance Wholesale Club implemented a 401(k) pension plan. Concurrent with the formation of the Company's plan, no more contributions by the employees or the employer will be made to the LDMC plan. The Company contributed \$11,781 and \$65,605 to the plan for the years ended December 31, 1995 and 1996.

13. Compensation Plan

The Company, through its wholly owned subsidiary LDMC, provided a deferred compensation plan for one of its officers. The plan provided for annual elections to be made by the officer of deferral amounts, such deferral to be made only from compensation amounts earned and otherwise payable. The plan required funding of the deferred compensation amount equal to the officer's deferral plus interest at an annual rate that was determined by the Board of Directors from time to time. The Company recognized expense of \$257,661 in 1995 and \$274,506 in 1996 related to this agreement. Amounts funded by the Company were \$215,877 in 1995 and \$363,636 in 1996.

14. Commitments and Contingencies

The Company is a party from time to time to litigation in the ordinary course of business including employment related litigation. No provision has been reflected in the accompanying financial statements for any litigation. Based upon information presently available, management believes the final disposition of these items will not have an adverse material effect on operations or the financial position of the Company.

During 1996, the Company entered into employment and consulting agreements with certain members of management. The agreements provide for the employees to receive amounts not less than specified base annual salaries through the terms of the agreements, which have terms of one to five years. Certain of the contracts also include non-competition covenants and options to purchase shares of the Company's common stock.

15. Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these items.

The carrying amounts of notes payable and debt issued pursuant to the Company's bank credit agreements approximate fair value because the interest rates on these instruments change with market interest rates.

16. Quarterly Operating Results (Unaudited)

The following amounts reflect all adjustments, consisting of only normal recurring accruals (except as disclosed below), necessary in the opinion of the Company's management for a fair statement of the results for the interim periods.

	1995			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$45,276,969	\$47,317,674	\$58,341,464	\$64,439,376
Earnings (loss)				
before income taxes	5,863,870	6,122,628	6,526,647	(216,640)
Net earnings (loss)	3,538,031	3,735,088	3,766,887	(275,094)
Net earnings (loss) per common and common equivalent share	\$ 0.13	\$ 0.13	\$ 0.13	\$(0.01)

	1996			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$91,927,548	\$104,078,360	\$113,760,316	\$118,778,212
Earnings before income taxes	6,415,231	8,727,375	10,412,800	13,715,374
Net earnings	3,280,690	5,185,541	6,165,852	8,244,651
Net earnings per common and common equivalent				

share	\$	0.12 \$	0.18 \$	0.20 \$	0.24
-------	----	---------	---------	---------	------

The Company's results for the fourth quarter of 1995 were affected by increased allowances, significant switch installation charges, and end of quarter mail marketing expenses materially exceeding those of any previous quarter.

17. Subsequent Events (Unaudited)

On March 11, 1997, the Company signed a definitive asset purchase agreement to acquire the voice networks of Advantis, a data and voice network partnership of International Business Machines Corp. and Sears, Roebuck and Co., for approximately \$170 million in cash. The Advantis assets include service rights to approximately 100,000 network miles of DS-3 fiber optic capacity (under a long term lease), five Nortel DMS 250 switches and other ancillary network equipment. In conjunction with the agreement, the Company has received a commitment for an increase in its credit facility to \$200 million. The bank financing commitment calls for an increase in the prevailing interest costs, other fees and related items. The transaction is conditioned upon, among other things, receiving governmental approval under Hart-Scott-Rodino Act. It anticipated that the acquisition will be completed during the second quarter of 1997.

</TEXT>
</DOCUMENT>

EXHIBIT 3

Marketing and Business Information

Telco Holdings, Inc. ("Telco") will market long distance telecommunications services to residential and small to mid-sized business customers. Telco expects that initial marketing vehicles will include direct mail and limited printed advertising. Telco has no current plans to deploy a sales force within the region, but will assess whether and to what extent to deploy such a force as business develops. Telco will initially be billing through the LEC.

EXHIBIT 4

Proposed Tariff

TITLE SHEET

RESALE TELECOMMUNICATIONS SERVICES

This tariff applies to the Resold Telecommunications Services furnished by Telco Holdings, Inc. d/b/a Dial & Save ("Carrier") between one or more points in the State of South Dakota. This tariff is on file with the South Dakota Public Utilities Commission, and copies may be inspected, during normal business hours, at Carrier's principal place of business, 4219 Lafayette Center Drive, Chantilly, Virginia 20151.

Issued: July 8, 1997

Effective:

Issued by:

Donald A. Burns, President
4219 Lafayette Center Drive
Chantilly, Virginia 20151
703/631-5600

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CHECK SHEET

The sheets of this tariff are effective as of the date shown at the bottom of the respective sheet(s). 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>SHEET</u>	<u>REVISION</u>	<u>SHEET</u>	<u>REVISION</u>
1	Original	27	Original
2	Original	28	Original
3	Original	29	Original
4	Original	30	Original
5	Original	31	Original
6	Original	32	Original
7	Original	33	Original
8	Original	34	Original
9	Original	35	Original
10	Original	36	Original
11	Original	37	Original
12	Original	38	Original
13	Original	39	Original
14	Original	40	Original
15	Original	41	Original
16	Original	42	Original
17	Original	43	Original
18	Original	44	Original
19	Original	45	Original
20	Original	46	Original
21	Original	47	Original
22	Original	48	Original
23	Original	49	Original
24	Original		
25	Original		
26	Original		

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CHECK SHEET

<u>SHEET</u>	<u>REVISION</u>	<u>SHEET</u>	<u>REVISION</u>
50	Original	80	Original
51	Original	81	Original
52	Original	82	Original
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72	Original		
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74	Original		
75	Original		
76	Original		
77	Original		
78	Original		
79	Original		

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SYMBOLS

The following are the only symbols used for the purposes indicated below:

- D - Delete or Discontinue
- I - Change Resulting In An Increase to A Customer's Bill
- M - Moved From Another Tariff Location
- N - New
- R - Change Resulting In A Reduction to A Customer's Bill
- T - Change In Text or Regulation But No Change In Rate or Charge

TARIFF FORMAT

- A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.
- B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Department. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. the Department follows in their tariff approval process, the most current sheet number on file with the Department is not always the tariff page in effect.

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TARIEF FORMAT (cont'd)

- C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a).
2.1.1.A.1.(a).I.
2.1.1.A.1.(a).I.(i).
2.1.1.A.1.(a).I.(i).(1).

- D. Check Sheets - When a tariff filing is made with the Department, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on the check sheet if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the Department.

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SECTION 1. TECHNICAL TERMS AND ABBREVIATIONS

Access Line - An arrangement from a local exchange telephone company or other common carrier, using either dedicated or switched access, which connects a subscriber's location to Carrier's location or switching center.

Authorization Code - A numerical code, one or more of which may be assigned to a subscriber, to enable Carrier to identify the origin of service user so it may rate and bill the call. All authorization codes shall be the sole property of Carrier and no subscriber shall have any property or other right or interest in the use of any particular authorization code. Automatic numbering identification (ANI) may be used as or in connection with the authorization code.

Automatic Numbering Identification (ANI) - A type of signalling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

Carrier - Refers to Telco Holdings, Inc. d/b/a Dial & Save.

Common Carrier - A company or entity providing telecommunications services to the public.

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Effective:

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703/631-5600

SECTION 1. TECHNICAL TERMS AND ABBREVIATIONS (Cont'd)

Customer - The party utilizing Carrier's services and responsible for payment of charges.

Commission - Refers to the South Dakota Public Utilities Commission.

Holiday - New Year's Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

Local Access and Transport Area (LATA) - The term "Local Access Transport Area" denotes a geographical area established by the U.S. District Court for the District of Columbia in Civil Action No. 82-0192, within which a local exchange company provides communications services.

Measured Charge - A charge assessed on a per minute basis in calculating a portion of the charges due for a completed interexchange call.

Peak Calling Period - Peak Calling Period is 8am-5pm, Monday through Friday.

Responsible Organization (Resp. Org.) - The entity that has responsibility for the management of 800 numbers in the Service Management System (SMS/800) including maintaining Customer records in the SMS/800 system. Also, the entity which accesses the SMS/800 to: (a) search for and reserve 800 numbers; (b) create and maintain 800 number Customer records, including call processing records; and (c) provide a single point of contact for trouble reporting. The SMS/800 recognizes one Resp. Org. for each 800 number.

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SECTION 1. TECHNICAL TERMS AND ABBREVIATIONS (Cont'd)

Subscriber - The person or legal entity which enters into arrangements for Carrier's telecommunications services and is responsible for payment of a Carrier's services.

Telecommunications - The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission of data, facsimile, signaling, metering, or other similar communications.

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SECTION 2. RULES AND REGULATIONS

2.1 Application of Tariff

2.1.1 This tariff contains the regulations and rates applicable to intrastate resale telecommunications services provided by Carrier for telecommunications between points within the state. Carrier's services are furnished subject to the availability of facilities and subject to the terms and conditions of this tariff.

- A. Carrier may, from time to time, offer various enhanced services and information services within the state. Such services will be provided pursuant to contract and will not be governed by this tariff.
- B. Carrier may also, from time to time, offer switching and/or transmission to other telecommunications carriers for resale to such companies' customers. The rates for any such services will be determined pursuant to contract, to the extent authorized by the Department, and Section 4 of this Tariff will not apply thereto.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.1 Application of Tariff (Cont'd)

- 2.1.2 Carrier's services are not part of a joint undertaking with any other entity providing telecommunications channels, facilities or services, but do involve the resale of the Message Toll Services (MTS) and Wide Area Telecommunications Services (WATS) of underlying common carriers.
- 2.1.3 The rates and regulations contained in this tariff apply only to the services furnished by Carrier and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of Carrier.
- 2.1.4 The subscriber is entitled to limit the use of Carrier's services by users at the subscriber's facilities, and may use other common carriers in addition to or in lieu of Carrier.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.2 Use of Services (Cont'd)

2.2.5 Carrier does not transmit messages pursuant to this tariff, but its services may be used for that purpose.

2.2.6 Carrier's services may be denied for nonpayment of charges or for other violations of this tariff.

2.3 Liability of Carrier

2.3.1 Carrier shall not be liable for loss or damage sustained by reason of any failure in or breakdown of facilities associated with Carrier's services or for any interruption or delay of services, whatever shall be the cause of such failure, breakdown, or interruption and whether negligent or otherwise and however long it shall last. In no event shall Carrier's liability for any service exceed the charges applicable under this tariff to such service.

2.3.2 Carrier shall be indemnified and saved harmless by any subscriber, user or by any other entity against claims for libel, slander or the infringement of copyright arising from the material transmitted over its services; and against all other claims arising out of any act or omission of a subscriber or of any other entity in connection with the services provided by Carrier.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.3 Liability of Carrier (Cont'd)

2.3.3 Carrier is not liable for any act or omission of any entity furnishing facilities or services connected with or provided in conjunction with Carrier's services.

2.3.4 Carrier shall not be liable for any personal injury, or death of any person or persons, and for any loss or damage sustained by reason of acts, mistakes, omissions, errors or defects in providing its services, whatever shall be the cause and whether negligent or otherwise.

2.3.5 Carrier shall not be liable for and shall be indemnified and saved harmless by any subscriber, user or other entity from any and all loss, claims, demands, suits, or other action or any liability whatever, whether suffered, made, instituted, or asserted by any subscriber, user or any other entity for any personal injury to, or death of, any person or persons, and for any loss, damage, defacement or destruction of the premises of any subscriber, user or any other entity or any other property whether owned or controlled by the subscriber, user or others, caused or claimed to have been caused, directly or indirectly, by any act or omission of the subscriber, user or others or by any installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of facilities or equipment provided by Carrier which is not the direct result of Carrier's negligence. No agents or employees of any other entity shall be deemed to be the agents or employees of Carrier.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.3 Liability of Carrier (Cont'd)

2.3.6 Carrier shall not be liable for any failure of performance due to causes beyond its control, including, without being limited to, acts of God, fires, floods or other catastrophes, national emergencies, insurrections, riots or wars, strikes, lockouts, work stoppage or other labor difficulties, acts or omissions of other carriers, and any law, order, regulation or other action of any governing authority or agency thereof.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.4 Responsibilities of the Subscriber

- 2.4.1 The subscriber is responsible for placing any necessary orders; for complying with tariff regulations; and for assuring that users comply with tariff regulations. The subscriber shall ensure compliance with any applicable laws, regulations, orders or other requirements (as they exist from time to time) of any governmental entity relating to services provided or made available by the subscriber to users. The subscriber is also responsible for the payment of charges for calls originated at the subscriber's numbers which are not collect, third party, calling card, or credit card calls.
- 2.4.2 The subscriber is responsible for charges incurred for special construction and/or special facilities which the subscriber requests and which are ordered by Carrier on the subscriber's behalf.
- 2.4.3 If required for the provision of Carrier's services, the subscriber must provide any equipment space, supporting structure, conduit and electrical power without charge to Carrier.
- 2.4.4 The subscriber is responsible for arranging access to its premises at times mutually agreeable to Carrier and the subscriber when required for Carrier personnel to install, repair, maintain, program, inspect or remove equipment with the provision of Carrier's services.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.4 Responsibilities of the Subscriber (Cont'd)

2.4.5 The subscriber shall ensure that the equipment and/or system is properly interfaced with Carrier facilities or services, that the signals emitted into Carrier's network are of the proper mode, bandwidth, power, and signal level for the intended use of the subscriber and in compliance with the criteria set forth in this tariff, and that the signals do not damage equipment, injure personnel, or degrade service to other subscribers. If the Federal Communications Commission or some other appropriate certifying body certifies terminal equipment as being technically acceptable for direct electrical connection with interstate communications service, Carrier will permit such equipment to be connected with its channels without the use of protective interface devices.

If the subscriber fails to maintain the equipment and/or the system properly, with resulting imminent harm to Carrier equipment, personnel, or the quality of service to other subscribers, Carrier may, upon written notice, require the use of protective equipment at the subscriber's expense. If this fails to produce satisfactory quality and safety, Carrier may, upon written notice, terminate the subscriber's service.

2.4.6 The subscriber must pay Carrier for replacement or repair of damage to the equipment or facilities of Carrier caused by negligence or willful act the subscriber, users, or others, by improper use of the services, or by use of equipment provided by the subscriber, users, or others.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.4 Responsibilities of the Subscriber (Cont'd)

2.4.7 The subscriber must pay for the loss through theft of any Carrier equipment installed at subscriber's premises.

2.4.8 The subscriber is responsible for payment of the charges set forth in this tariff.

2.4.9 The subscriber is responsible for compliance with the applicable regulations set forth in this tariff.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.5 Cancellation or Interruption of Services

2.5.1 Without incurring liability, Carrier may discontinue services to a subscriber or may withhold the provision of ordered or contracted services, subject to the procedures set forth in 2.5.2:

- (A) For nonpayment of any sum due Carrier for more than thirty (30) days after issuance of the bill for the amount due,**
- (B) For violation of any of the provisions of this tariff,**
- (C) For violation of any law, rule, regulation or policy of any governing authority having jurisdiction over Carrier's services, or**

By reason of any order or decision of a court, public service commission or federal regulatory body or other governing authority prohibiting Carrier from furnishing its services.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.5 Cancellation or Interruption of Services (Cont'd)

2.5.2 Procedures for discontinuance of existing service:

- A. Carrier may discontinue service without notice for any of the following reasons:**
 - 1. If a subscriber or user causes or permits any signals or voltages to be transmitted over Carrier's network in such a manner as to cause a hazard or to interfere with Carrier's service to others.**
 - 2. If a subscriber or user uses Carrier's services in a manner to violate the law.**
- B. In all other circumstances, Carrier will provide the subscriber with written notice stating the reason for discontinuance, and will allow the subscriber not less than ten (10) days to remove the cause for discontinuance. In cases of non-payment of charges due, the subscriber will be allowed at least five (5) days, excluding Sundays and holidays, to make full payment of all undisputed charges, and in no event will service be discontinued on the day preceding any day on which Carrier is not prepared to accept payment of the amount due and to reconnect service.**

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.5 Cancellation or Interruption of Services (Cont'd)

2.5.3 Without incurring liability, Carrier may interrupt the provision of services at any time in order to perform tests and inspections to assure compliance with tariff regulations and the proper installation and operation of subscriber and Carrier's equipment and facilities and may continue such interruption until any items of non-compliance or improper equipment operation so identified are rectified.

2.5.4 Service may be discontinued by Carrier, without notice to the subscriber, by blocking traffic to certain countries, cities, or NXX exchanges, or by blocking calls using certain customer authorization codes, when Carrier deems it necessary to take such action to prevent unlawful use of its service. Carrier will restore service as soon as it can be provided without undue risk, and will, upon request by the customer affected, assign a new authorization code to replace the one that has been deactivated.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.6 Billing Arrangements

- 2.6.1** Subscribers will either be billed directly by Carrier or its intermediary, or charges will be included in the subscribers' regular telephone bill pursuant to billing and collection agreements established by Carrier or its intermediary with the applicable telephone company.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.7 Validation of Credit

Carrier reserves the right to validate the credit worthiness of subscribers or users.

2.8 Contested Charges

Any objection to billed charges should be promptly reported to the Company. Adjustments to customer's bills shall be made to the extent that records are available and/or circumstances exist which reasonably indicate that such charges are not in accordance with approved rates or that an adjustment may otherwise be appropriate. Where any undercharge in billing of the subscriber is the result of a Company mistake, the Company may not backbill in excess of twelve months. Where overbilling of a subscriber occurs, due either to Company or subscriber error, no liability exists which will require the Company to pay any interest, dividend, or other compensation on the amount overbilled.

If there is still a disagreement about the disputed amount after the investigation and review by a manager of the Carrier, the user may file an appropriate complaint with the Department. The Department's address is:

South Dakota Public Utilities Commission
500 E. Capitol
State Capitol Building
Pierre, South Dakota 57501
605-773-3201 or 1-800-332-1782

Users may also contact Dial & Save's customer service representatives at 4219 Lafayette Center Drive, Chantilly, Virginia or through its toll free telephone number 1-800-787-3333.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.9 Billing Entity Conditions

When billing functions on behalf of Carrier are performed by local exchange telephone companies, or others, the payment conditions and regulations of such companies apply, including any applicable interest and/or late payment charge conditions.

2.10 Advance Payments and Deposits

2.10.1 Advance Payments

Carrier may require a Customer to make an advance payment before services or facilities are furnished. The advance payment will not exceed an amount equal to two-months estimated charges, as determined by Carrier. The advance payment will be credited to the Customer's bill. An advance payment may be required in addition to a deposit.

2.10.2 Deposits

Carrier may require a Customer to make a deposit to 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. A deposit may be required in addition to an advance payment. The deposit will not exceed an amount equal to:

- (A) two month's charges for a service or facility which has a minimum payment period of one month; or

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.10 Advance Payments and Deposits (Cont'd)

2.10.2 Deposits (Cont'd)

- (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 the event that a termination charge is applicable.

2.10.2.1 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, Carrier may, at its option, return the deposit or credit it to the Customer's account.

2.10.2.2 Deposits held will accrue interest at a rate no lower than that specified by the applicable regulatory commission.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.10 Advance Payments and Deposits (Cont'd)

2.10.2 Deposits (Cont'd)

2.10.2.3 Customers whom Carrier believes present a credit risk may also be required, at any time, to provide other assurances of, or security for, the payment of the Company's charges for its Services as the Company may deem necessary, including without limitation, advance payments for Service, third party guarantees or payment, pledges or other grants of security interests in the Customers' assets, and similar arrangements. The required deposits or other security may be increased or decreased by the Company as it deems appropriate in the light of changing conditions.

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SECTION 2. RULES AND REGULATIONS (Cont'd)

2.11 Credit Limits

Carrier reserves the right to impose a \$250.00 credit limit per telephone line for non-residential customers. Carrier reserves the right to request reasonable credit assurance, in its sole discretion, to allow spending in excess of \$250.00 per billing cycle.

2.12 Taxes

All federal excise taxes, and state and local sales, use, and similar taxes, are billed as separate line items and are not included in the quote rates.

2.13 Late Payment Charges

Any charges accrued under this tariff that are not paid in full within the time provided will be subject to a late payment charge of 1.5% per month.

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SECTION 3. DESCRIPTION OF SERVICE

3.1 Timing of Calls

Billing for calls placed over the Carrier network is based in part on the duration of the call. There shall only be timing for conversation time and there shall be no charge for uncompleted calls. Conversation time is defined as the elapsed time when two-way communication between the calling and called party is possible. The call ends when either the calling or called party hangs up. Timing begins when the called station is answered, as determined by standard industry methods generally in use for ascertaining answer, including hardware answer supervision in which the local telephone company sends a signal to the switch.

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SECTION 3. DESCRIPTION OF SERVICE (Cont'd)

3.2 Calculation of Distance

Usage charges for all mileage sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the call. Carrier uses the rate centers, associated vertical and horizontal coordinates, and method of computing mileage set forth in AT&T Tariff F.C.C. No. 10.

FORMULA=

$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

3.3 Minimum Call Completion Rate

Carrier will ensure an industry standard blocking rate of P.01.

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SECTION 3. DESCRIPTION OF SERVICE (Cont'd)

3.4 Time Periods

Unless otherwise indicated, the following time periods apply:

Day Rate Period: Calls placed from 8:00 a.m. to 5:00 p.m.
Monday - Friday.

Evening Rate Period: Calls placed from 5:00 p.m. to 11:00 p.m. Sunday -
Friday and Carrier recognized holidays.

Night/Weekend Rate Period: Calls placed from 11:00 p.m. to 8:00 a.m.
Sunday - Friday, all day Saturday, and from midnight to 5:00 p.m.
Sunday.

3.5 Promotions

In limited instances, Carrier may offer free promotional service to customers in the form of Long Distance Certificates. Long Distance Certificates will be offered to customers to promote new Dial & Save services and options, to stimulate use of existing Dial & Save services, and to maintain existing customer usage and satisfaction. Also, Dial & Save Long Distance Certificates will be offered to customers from time to time at various locations including, but not limited to, trade shows, county fairs, exhibits, meetings, seminars and similar events, during promotions such as seasonal/holiday promotions, regional sales campaigns, carrier selection activities, and in certain customer complaint situations.

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SECTION 4. RATES

This section sets forth the rates and charges applicable to Carrier's service offerings. The total charge for each completed direct-dialed call consists of the required usage charge incurred. Unless otherwise stated calls are billed in initial and additional one minute increments. Any fractional portion of a call is rounded up to the next highest billing increment.

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SECTION 4. RATES (Cont'd)

4.1 Dial & Save Residential Calling Program

This is a non-operator assisted, direct dial service available to residential customers. The Customer accesses the service via standard switched access service. The Customer may access Carrier either by selecting Carrier as the presubscribed interexchange carrier or by dialing the Carrier's "10XXX" access code.

4.1.1 IntraLATA Rates

Rate Mileage	<u>Day</u>		<u>Eve</u>		<u>Night/Weekend</u>	
	<u>1st</u>	<u>Add'l</u>	<u>1st</u>	<u>Add'l</u>	<u>1st</u>	<u>Add'l</u>
0 - 10	0.2100	0.1500	0.1575	0.1125	0.1181	0.0844
11 - 16	0.2600	0.1600	0.1950	0.1200	0.1463	0.0900
17 - 22	0.3000	0.1800	0.2250	0.1350	0.1688	0.1013
23 - 30	0.2550	0.1575	0.1913	0.1181	0.1434	0.0886
31 - 40	0.2700	0.1800	0.2025	0.1350	0.1519	0.1013
41 - 55	0.2925	0.1875	0.2194	0.1406	0.1645	0.1055
56 - 85	0.3000	0.1950	0.2250	0.1463	0.1688	0.1097
86 - 124	0.3075	0.2025	0.2306	0.1519	0.1730	0.1139
125 - 244	0.3225	0.2175	0.2419	0.1631	0.1814	0.1223
245 - 475	0.3300	0.2250	0.2475	0.1688	0.1856	0.1266

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SECTION 4. RATES (Cont'd)

4.1 Dial & Save Residential Calling Program (Cont'd)

This is a non-operator assisted, direct dial service available to residential customers. The Customer accesses the service via standard switched access service. The Customer may access Carrier either by selecting Carrier as the presubscribed interexchange carrier or by dialing the Carrier's "10XXX" access code.

4.1.2 InterLATA Rates

Rate Mileage	Day		Eve		Night/Weekend	
	1st	Add'l	1st	Add'l	1st	Add'l
0 - 10	0.3000	0.1800	0.2400	0.1440	0.1800	0.1080
11 - 16	0.3800	0.2000	0.3040	0.1600	0.2280	0.1200
17 - 30	0.4200	0.2376	0.3340	0.1901	0.2580	0.1440
31 - 40	0.4400	0.2574	0.3500	0.2059	0.2700	0.1560
41 - 55	0.4700	0.2871	0.3740	0.2297	0.2880	0.1740
56 - 85	0.5000	0.3168	0.3980	0.2534	0.3060	0.1920
86 - 125	0.5300	0.3564	0.4220	0.2851	0.3240	0.2160
126+	0.5400	0.3762	0.4300	0.3010	0.3300	0.2280

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SECTION 4. RATES (Cont'd)

4.2 Prime Calling Program

Prime Calling Program is a direct dial service available to business and residential customers. Customers may access the service either from an access line presubscribed to Carrier or by dialing the Carrier's "10XXX" code. In order to be billed at Prime Calling Program rates, Customer must register for the service during a contact with Carrier and be entered into the Carrier billing database prior to utilizing the service.

4.2.1. Customers are billed through the local exchange carrier or directly by Carrier. If billed by Carrier, payment is due upon receipt of Carrier's bill. Bills are delinquent twenty-one (21) days from date of bill. Service may be terminated, at Carrier's discretion, without notice if payment is not received thirty (30) days from the billed date. Service termination, or waiver of termination by Carrier, is in addition to any other right Carrier may have in law or equity to collect delinquent charges.

4.2.2. If customer fails to pay charges within the specified time period, terms, Carrier reserves the right to change customer from Prime Calling Program to Dial & Save Residential Calling Program rates, and commence billing customer through the local exchange carrier without notice. This remedy is in addition to any other right Carrier may have in law or equity to collect delinquent charges.

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SECTION 4. RATES (Cont'd)

4.2 Prime Calling Program (Cont'd)

4.2.3. Customer must notify Carrier of billing disputes, otherwise charges shall be deemed valid, correct, due and payable.

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SECTION 4. RATES (Cont'd)

4.2 Prime Calling Program (cont'd)

4.2.4. Rates - Calls are billed in initial 18 second increments, and in six second increments thereafter.

Peak Period Calls placed from 8:00 a.m. to 5:00 p.m., Monday - Friday.

Off-Peak Period All other times, including carrier holidays.

<u>PEAK</u>		<u>OFF-PEAK</u>	
<u>1st Min</u>	<u>Add'l Min</u>	<u>1st Min</u>	<u>Add'l Min</u>
.160	.135	.160	.135

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SECTION 4. RATES (Cont'd)

4.3 Directory Assistance

Directory assistance calls will be completed at .67 per call.

4.4 Discounts for Hearing Impaired Customers

A telephone toll message which is communicated using a telecommunications device for the deaf (TDD) by properly certified hearing or speech impaired persons or properly certified business establishments or individuals equipped with TDDs for communicating with hearing or speech impaired persons will receive, upon request, credit on charges for certain intrastate toll calls placed between TDDs. The credit to be given on a subsequent bill for such calls placed between TDDs will be equal to applying the evening rate during business day hours and the night/weekend rate during the evening rate period.

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SECTION 4. RATES (Cont'd)

4.5 USA Savings Plan

USA Savings Plan is a non-operator assisted, direct dial service available to residential and business customers. The Customer accesses the service via standard switched access service. The Customer may access Carrier either by selecting Carrier as the presubscribed interexchange carrier or by dialing the Carrier's "10XXX" access code. In order to receive USA Savings Plan rates, the Customer must enroll in the plan and provide the Carrier with necessary data for entry into the Carrier billing database prior to utilizing the service. Customers may enroll in USA Savings Plan by dialing a designated toll-free number and speaking with a Carrier representative, by completing and submitting an enrollment form to the Carrier, or during a marketing contract with a representative of the Carrier. This service is offered in conjunction with interstate, international, and travel card service.

Call ratings are determined by mileage, time of day, duration, and originating location. A monthly minimum usage requirement, monthly recurring fee, and usage charges apply. Calls are billed in one minute increments, after an initial minimum call duration of one minute. Any fractional portion of a call is rounded up to the next highest billing increment.

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SECTION 4. RATES (Cont'd)

4.5 USA Savings Plan (Cont'd)

4.5.1 IntraLATA Rates

Rate <u>Mileage</u>	<u>Day</u>		<u>Even</u>		<u>Night/Weekend</u>	
	1st <u>Min</u>	Add'l <u>Min</u>	1st <u>Min</u>	Add'l <u>Min</u>	1st <u>Min</u>	Add'l <u>Min</u>
1-10	0.3230	0.1995	0.2423	0.1501	0.1938	0.1197
11-16	0.3230	0.1995	0.2423	0.1501	0.1938	0.1197
17-22	0.3230	0.1995	0.2423	0.1501	0.1938	0.1197
23-30	0.3230	0.1995	0.2423	0.1501	0.1938	0.1197
31-55	0.3420	0.2280	0.2565	0.1710	0.2052	0.1368
56-70	0.3705	0.2375	0.2779	0.1786	0.2223	0.1425
71-124	0.3800	0.2470	0.2850	0.1853	0.2280	0.1482
125 +	0.3895	0.2565	0.2921	0.1929	0.2337	0.1539

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SECTION 4. RATES (Cont'd)

4.5 USA Savings Plan (Cont'd)

4.5.2 InterLATA Rates

Rate Mileage	1st Min	Day	1st Min	Even	1st Min	Night/Weekend	
		Add'l Min		Add'l Min		1st Min	Add'l Min
0-22	0.3900	0.2200	0.3120	0.1760	0.2340	0.1320	
23-30	0.3780	0.2138	0.3006	0.1711	0.2322	0.1296	
31-40	0.3960	0.2317	0.3150	0.1853	0.2430	0.1404	
41-55	0.4230	0.2584	0.3366	0.2067	0.2592	0.1566	
56-85	0.4500	0.2851	0.3582	0.2281	0.2754	0.1728	
86-124	0.4680	0.3029	0.3726	0.2424	0.2862	0.1836	
125-244	0.4770	0.3208	0.3798	0.2566	0.2916	0.1944	
245-475	0.4860	0.3386	0.3870	0.2709	0.2970	0.2052	

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SECTION 4. **RATES** (Cont'd)

4.6 **Calling Club Referral Program**

Customers who have selected Carrier as their primary interexchange carrier or who access Carrier service via "10XXX" dialing are eligible to participate in the Calling Club Referral Program. Participants in the Calling Club Referral Program will receive a discount equal to five percent (5%) of the monthly Carrier long distance usage generated by customers whom they refer to Carrier.

For the purposes of this program, "usage" is defined as charges for intrastate and interstate long distance calls placed over the Carrier's network. International long distance usage, offered under the Carrier's International Tariff FCC No. 2, is also eligible for the Calling Club Referral Program discount. Directory assistance, non-recurring, or recurring fees and taxes are not considered usage and are, therefore, not eligible for the monthly discount.

The discount will be calculated monthly and applied to the Calling Club Participant's monthly bill in the form of an electronic credit or a check made payable to the Participant or jointly to the Participant and the LEC.

4.6.1 In order to receive Calling Club discounts, the following conditions must be observed:

- A. Calling Club Participant and Referral Customer must maintain separate LEC accounts within Carrier's originating service area.
- B. Calling Club Participant must make at least one (1) billable Carrier long distance call per month or they forfeit that month's referral discount.

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SECTION 4. RATES (Cont'd)

4.6 Calling Club Referral Program (Cont'd)

- C. Calling Club Participant's Referral Customer must make at least one (1) billable Carrier long distance call every three (3) months. Should a Referral Customer cease using Carrier for a period longer than three (3) months, the Referral may be purged from the Carrier billing database and disassociated from the Calling Club Participant's account.
- D. Calling Club Participant must properly register the Referral Customer with Carrier prior to accumulating or receiving discounts. Participant may register the Referral Customer by dialing a designated toll-free number and speaking with a Carrier representative or by completing a special enrollment form and submitting it to Carrier. In order to receive discounts, Participant must provide Carrier with accurate information regarding the Referral Customer for entry into the Carrier billing database. Participant is responsible for notifying Carrier of changes in the Referral Customer's billing information.
- E. The Referral Customer must be a new Carrier user, defined as not having used Carrier within the past twelve (12) months.

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SECTION 4. RATES (Cont'd)

4.6 Calling Club Referral Program (Cont'd)

4.6.2 Carrier reserves the right to discontinue or change this plan at any time. Carrier also reserves the right to suspend the Calling Club Referral Program on a case-by-case basis, should the Carrier believe that the program is being used for fraudulent purposes. At the discretion of the Carrier, the program may be reinstated to suspended Participants or Referral Customers.

4.7 Travel Card Service

4.7.1 Travel Card Service is available to Customers of Carrier's long distance services. Customers will reach Carrier's network via a toll-free number, and enter an authorization code and a personal identification number. Customers will be charged rates as identified in Section 4.7.2 plus a per-call surcharge. Calls are billed in initial and additional one minute increments.

4.7.2 Dial & Save Travel Card Service

Residential Customers:

Per Minute Rate	
Day	\$0.2000
Evening	0.1600
Night/Weekend	0.1600

Per-Call Surcharge: \$.60

Business Customers:

Per Minute Rate	\$.025
Per Call Surcharge	\$0.00

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SECTION 4. RATES (Cont'd)

4.8 Small Business 800 Service

Small Business 800 Service is an inbound calling service utilizing switched access facilities. This service permits the Customer to receive incoming calls from all locations within the state of South Dakota. With Small Business 800 service, the Customer is charged for the call, not the calling party. Calls are billed in six (6) second increments with a minimum initial calling period of eighteen (18) seconds.

4.8.1 Small Business 800 Service

Per Minute Rate:

Initial Minute	\$0.2200
Each Additional Minute	\$0.2000

Monthly Recurring Charge: \$3.00

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SECTION 4. RATES (Cont'd)

4.9 Dial & Save Flat Rate Residential Program

Dial & Save Residential Program is a flat rate outbound residential only calling service. Calls are originated from presubscribed switched residential Customer access lines. This service permits the residential Customers to make direct dialed 1+ calls from locations within the state of South Dakota. Calls are billed in six (6) second increments with a minimum initial calling period of eighteen (18) seconds.

4.9.1 Dial & Save Flat Rate Residential Program

Per Minute Rate:	\$0.1000
Monthly Recurring Charge:	\$ 3.00

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SECTION 4. RATES (Cont'd)

4.10 Commercial Plan

The Commercial Plan is available to business Customers who meet the Company's credit approval guidelines. Customers may select a Month to Month or a Term Commitment Option. Customers electing a Term Commitment Option must sign a contract with the Company. Customers will either be billed directly by the Company or by their local exchange telephone Company. Commercial Plan rates apply to direct dial, toll free (800/888) and calling card calls. A monthly recurring charge may also apply.

Account Codes are available under the Commercial Plan. Account Codes assist Customers in managing and tracking their long distance usage. Customers may select validated account codes which are specific, pre-defined combinations of digits registered with Company's switch database, any only those pre-defined codes can be used to complete a call, or Customer may select non-validated codes of a specific length and any code of that specific length can be used to complete a call.

4.10.1 Month to Month Option

Calls will be rated at the rates indicated below with a volume discount applied in accordance with the Customer's Monthly Revenue Level. The Customer's Monthly Revenue Level consists of all intrastate, interstate and international outbound, inbound, calling card usage and surcharges, excluding monthly recurring fees and directory assistance charges. The Customer will receive the applicable discount percentage which corresponds with Customer's Monthly Revenue Level as determined by the Discount Schedule shown in Section 4.10.1 B. The discount percentage will be applied to intrastate and interstate outbound and inbound usage only. The Discount Percentage will not be applied to calling card usage, directory assistance charges, or other fees.

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SECTION 4. RATES (Cont'd)

4.10 Commercial Plan (Cont'd)

4.10.1 Month to Month Option (Cont'd)

Calls are billed in initial 30 second and additional 6 second increments, with any fractional portion of call rounded up to the next highest billing increment.

Customers subscribing to the Commercial Plan Month to Month Option are eligible for the Company's 100% Satisfaction Guarantee, which is as follows:

If Company fails to correct Customer's valid complaint regarding network quality or service support or if Company fails to deliver the stated rate plan within 15 days of Company receiving written notification regarding the problem, the Company will (1) refund to the Customer all PIC change charges assessed by the Customer's LEC as a result of Company switching its long distance service to the Company from the Customer's previous long distance carrier; and (2) refund to the Customer all PIC change charges assessed by the Customer's LEC in order to switch the Customer's long distance service back. The Guarantee is valid for a period of 90 days from the start of Customer's service.

Customer shall not be entitled to the refunds described above if Customer has an account balance with the Company which has aged beyond net 30 days or if Customer's complaint is not attributable to facilities or causes within Company's reasonable control.

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SECTION 4. RATES (Cont'd)

4.10 Commercial Plan (Cont'd)

4.10.1 Month to Month Option (Cont'd)

A. Rates

Direct Dial and Toll Free Rate:	\$.165 per minute
Calling Card Rate:	\$.25 per minute
Calling Card Surcharge:	\$.50 per call

B. Discount Schedule

<u>Monthly Revenue Level</u>	<u>% Discount</u>
\$ 0.00 - \$ 99.99	0%
\$100.00 - \$ 199.99	3.64%
\$200.00 - \$ 499.99	6.67%
\$500.00 - \$ 749.99	9.70%
\$750.00 - \$ 999.99	12.73%
\$1,000.00 - \$4,999.99	15.76%
\$5,000 +	21.82%

C. Monthly Recurring Fees

Toll Free Numbers (800/888):	\$3.00 per month per line
Account Codes:	\$5.00 (Non-validated)
Account Codes:	\$10.00 (Validated)

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SECTION 4. RATES (Cont'd)

4.10 Commercial Plan (Cont'd)

4.10.2 Term Commitment Option

Users subscribing to this option will select a Term Commitment Period and a Monthly Revenue Commitment. Calls will be rated at the rates indicated in Section 4.10.2 A, which corresponds with the Term Commitment Period and Monthly Revenue Commitment selected by the Customer. The Company will calculate the Customer's Monthly Revenue level to determine if Customer's Monthly Revenue Commitment has been fulfilled. The customer's Monthly Revenue Level consists of all intrastate, interstate and international, outbound, inbound, calling card usage and surcharges, excluding monthly recurring fees and directory assistance charges. Calls are billed in initial 30 second and additional 6 second increments, with any fractional portion of call rounded up to the next highest billing increment.

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SECTION 4. RATES (Cont'd)

4.10 Commercial Plan (Cont'd)

4.10.2 Term Commitment Option (Cont'd)

Customers subscribing to the Commercial Plan Term Commitment Option are eligible for the Company's 100% Satisfaction Guarantee which is as follows:

If Company fails to correct Customer's valid complaint regarding network quality or service support or if Company fails to deliver the stated rate plan within 15 days of Company receiving written notification regarding the problem, the Company will (1) refund to the Customer all PIC change charges assessed by the Customer's LEC as a result of Company switching its long distance service to the Company from the Customer's previous long distance Carrier; (2) refund to the Customer 11 PIC change charges assessed by the Customer's LEC in order to switch the Customer's long distance service back to their previous carrier; (3) refund to the Customer the amount of their first Commercial Plan invoice; and (4) cancel Customer's term agreement without liability for the Termination Penalty.

Customer shall not be entitled to the items described above if Customer has an account balance with the Company which has aged beyond net 30 days or if Customer's complaint is not attributable to facilities or causes within Company's reasonable control. This Guarantee is valid for 90 days from the start of Customer's service.

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SECTION 4. RATES (Cont'd)

4.10 Commercial Plan (Cont'd)

4.10.2 Term Commitment Option

A. Rates

Monthly Revenue Commitment	12 Months	18 Months	24 Months
\$100	\$0.139	\$0.134	\$0.129
\$250	\$0.134	\$0.129	\$0.124
\$500	\$0.129	\$0.124	\$0.119
\$750	\$0.124	\$0.119	\$0.114
\$1000	\$0.119	\$0.114	\$0.109
\$5000	\$0.109	\$0.104	\$0.099

Calling Card Surcharge: \$0.25 per call
Calling Card Rate Per Minute: \$0.20 per minute

B. Deficiency Charge

In the event Customer's Monthly Revenue Level does not meet the Monthly Revenue Commitment selected by the Customer in any invoice period during the Term Commitment Period, for that invoice period Customer will pay a Deficiency Charge which is equal to the difference between the Monthly Revenue Commitment and the actual Monthly Revenue Level. The Deficiency Charge will be due at the same time payment is due for service provided to the Customer. Deficiency Charges will not be assessed prior to the third invoice period.

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SECTION 4. RATES (Cont'd)

4.10 Commercial Plan (Cont'd)

4.10.2 Term Commitment Option

C. Termination Penalty

In the event Customer terminates service with the Company prior to the end of the Term Commitment Period or in the event that the Company terminates service based upon Customer's default, Customer will pay a Termination Penalty to the Company equivalent to the Customer's Monthly Revenue Commitment multiplied by the number of months remaining in the Term Commitment Period. The Termination Penalty will be due immediately upon termination of service. The Customer will be made aware of the Termination Penalty as it will be described in the term contract signed by the Customer at the initiation of service.

D. Monthly Recurring Fees:

Toll Free Numbers (800/888)	\$ 3.00 per month per line
Account Codes:	\$ 5.00 (Non-validated)
Account Codes:	\$10.00 (Validated)

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SECTION 4. RATES (Cont'd)

4.11 Prepaid Debit Card Service

Prepaid debit card service is a prepaid long distance calling card service, under which Customers purchase cards in predetermined amounts for long distance usage. Customers access the service by dialing a Company specified access code. As a Customer accesses the service, usage rates and taxes are automatically deducted from the remaining card balance. Customers are notified with a usage remaining message each time a call is placed. Customers will also receive a reminder message when the balance of the card reaches one (1) minute of usage. Calls in progress will be terminated if the balance on the Pre-paid card is insufficient to cover the charges associated with the call. When the card balance reaches zero, the user must purchase another card or have the card recharged pursuant to instructions the Company provides to users purchasing the cards. Calls are billed in initial and additional one minute increments, with any fractional portion of call rounded up to the next highest billing increment.

4.11.1 Rates:

Calls are measured and consumed on a per unit basis

Per Unit: \$0.25 Per Minute

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SECTION 4. RATES (Cont'd)

4.12 Dial & Win Sweepstakes Service

Dial & Win Sweepstakes Service is a direct mail promotional offering afforded to residential long distance Customers. Customers under this promotional offering will be offered the Residential Calling Plan rates as identified in Section 4.1 from the period of August 23, 1996 until June 30, 1997. At the expiration of the promotion, customers may continue to utilize the promotional rates by dialing the Carriers access code before placing long distance calls. Calls are billed in initial and additional one minute increments after a minimum call duration, for billing purposes, of one minute. No minimum usage commitment is required. Calls originate from Customer-provided standard residential switched access lines. Customers may make calls from either a presubscribed access line or by dialing the Carrier's (10XXX) access code.

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SECTION 4. RATES (Cont'd)

4.13 Prime Business Select II

Prime Business Select II is available to business Customers who meet the Company's credit approval guidelines. Customers may select a Month to Month or a Term Commitment Option. Customers electing a Term Commitment Option must sign a contract with the Company. Customers will either be billed directly by the Company or by their local exchange telephone Company. Prime Business Select II rates apply to direct dial, toll free (800/888) and calling card calls. A monthly recurring charge may also apply.

Account Codes are available under Prime Business Select II. Account Codes assist Customers in managing and tracking their long distance usage. Customers may select validated account codes which are specific, pre-defined combinations of digits registered with Company's switch database, and only those pre-defined codes can be used to complete a call, or Customer may select non-validated codes of a specific length and any code of that specific length can be used to complete a call.

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SECTION 4. RATES (Cont'd)

4.13 Prime Business Select II (Cont'd)

4.13.1 Month to Month Option

Calls will be rated at the rates indicated below with a volume discount applied in accordance with the Customer's Monthly Revenue Level. The Customer's Monthly Revenue Level consists of all intrastate, interstate and international outbound, inbound, calling card usage and surcharges, excluding monthly recurring fees and directory assistance charges. The Customer will receive the applicable discount percentage which corresponds with Customer's Monthly Revenue Level as determined by the Discount Schedule shown in Section 4.13.1 B. The discount percentage will be applied to intrastate and interstate outbound and inbound usage only. The Discount Percentage will not be applied to calling card usage, directory assistance charges, or other fees. Calls are billed in initial 30 second and additional 6 second increments, with any fractional portion of call rounded up to the next highest billing increment.

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SECTION 4. RATES (Cont'd)

4.13 Prime Business Select II (Cont'd)

4.13.1 Month to Month Option (Cont'd)

Customers subscribing to the Prime Business Select II Month to Month Option are eligible for the Company's 100% Satisfaction Guarantee, which is as follows:

If Company fails to correct Customer's valid complaint regarding network quality or service support or if Company fails to deliver the stated rate plan within 15 days of Company receiving written notification regarding the problem, the Company will (1) refund to the Customer all PIC change charges assessed by the Customer's LEC as a result of Company switching its long distance service to the Company from the Customer's previous long distance carrier; and (2) refund to the Customer all PIC change charges assessed by the Customer's LEC in order to switch the Customer's long distance service back. The Guarantee is valid for a period of 90 days from the start of Customer's service.

Customer shall not be entitled to the refunds described above if Customer has an account balance with the Company which has aged beyond net 30 days or if Customer's complaint is not attributable to facilities or causes within Company's reasonable control.

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SECTION 4. RATES (Cont'd)

4.13 Prime Business Select II (Cont'd)

4.13.1 Month to Month Option (Cont'd)

A. Rates

Direct Dial and Toll Free Rate:	\$.165 per minute
Calling Card Rate:	\$.25 per minute
Calling Card Surcharge:	\$.50 per call

B. Discount Schedule

<u>Monthly Revenue Level</u>		<u>% Discount</u>
\$ 0.00 -	\$ 99.99	0%
\$100.00 -	\$ 199.99	3.64%
\$200.00 -	\$ 499.99	6.67%
\$500.00 -	\$ 749.99	9.70%
\$750.00 -	\$ 999.99	12.73%
\$1,000.00 -	\$4,999.99	15.76%
\$5,000 +		21.82%

C. Monthly Recurring Fees

Toll Free Numbers (800/888):	\$3.00 per month per line
Account Codes:	\$5.00 (Non-validated)
Account Codes:	\$10.00 (Validated)

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SECTION 4. RATES (Cont'd)

4.13 Prime Business Select II (Cont'd)

4.13.2 Term Commitment Option

Users subscribing to this option will select a Term Commitment Period and a Monthly Revenue Commitment. Calls will be rated at the rates indicated in Section 4 .13.2A, which corresponds with the Term Commitment Period and Monthly Revenue Commitment selected by the Customer. The Company will calculate the Customer's Monthly Revenue level to determine if Customer's Monthly Revenue Commitment has been fulfilled. The customer's Monthly Revenue Level consists of all intrastate, interstate and international, outbound, inbound, calling card usage and surcharges, excluding monthly recurring fees and directory assistance charges. Calls are billed in initial 30 second and additional 6 second increments, with any fractional portion of call rounded up to the next highest billing increment.

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SECTION 4. RATES (Cont'd)

4.13 Prime Business Select II (Cont'd)

4.13.2 Term Commitment Option (Cont'd)

Customers subscribing to the Prime Business Select II Term Commitment Option are eligible for the Company's 100% Satisfaction Guarantee which is as follows:

If Company fails to correct Customer's valid complaint regarding network quality or service support or if Company fails to deliver the stated rate plan within 15 days of Company receiving written notification regarding the problem, the Company will (1) refund to the Customer all PIC change charges assessed by the Customer's LEC as a result of Company switching its long distance service to the Company from the Customer's previous long distance Carrier; (2) refund to the Customer all PIC change charges assessed by the Customer's LEC in order to switch the Customer's long distance service back to their previous carrier; (3) refund to the Customer the amount of their first Prime Business Select II invoice; and (4) cancel Customer's term agreement without liability for the Termination Penalty.

Customer shall not be entitled to the items described above if Customer has an account balance with the Company which has aged beyond net 30 days or if Customer's complaint is not attributable to facilities or causes within Company's reasonable control. This Guarantee is valid for 90 days from the start of Customer's service.

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SECTION 4. RATES (Cont'd)

4.13 Prime Business Select II (Cont'd)

4.13.2 Term Commitment Option (Cont'd)

A. Rates:

Monthly Revenue Commitment	No Term Commitment	12 Months	18 Months	24 Months	36 Months
\$0	0.1600	N/A	N/A	N/A	N/A
\$100	0.1550	0.1375	0.1325	0.1275	0.1200
\$250	0.1500	0.1325	0.1275	0.1225	0.1150
\$500	0.1450	0.1275	0.1225	0.1175	0.1100
\$750	0.1400	0.1225	0.1175	0.1125	0.1050
\$1,000	0.1350	0.1175	0.1125	0.1075	0.1025
\$2,500	0.1300	0.1125	0.1075	0.1025	0.0975
\$5,000	0.1250	0.1075	0.1025	0.0975	0.0925
\$10,000	0.1200	0.1025	0.0975	0.0950	0.0900
\$25,000	0.1150	0.0975	0.0950	0.0925	0.0875
\$50,000	0.1100	0.0950	0.0925	0.0900	0.0850

B. Deficiency Charge

In the event Customer's Monthly Revenue Level does not meet the Monthly Revenue Commitment selected by the Customer in any invoice period during the Term Commitment Period, for that invoice period Customer will pay a Deficiency Charge which is equal to the difference between the Monthly Revenue Commitment and the actual Monthly Revenue Level. The Deficiency Charge will be due at the same time payment is due for service provided to the Customer. Deficiency Charges will not be assessed prior to the third invoice period.

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SECTION 4. RATES (Cont'd)

4.13 Prime Business Select II (Cont'd)

4.13.2 Term Commitment Option (Cont'd)

C. Termination Penalty

In the event Customer terminates service with the Company prior to the end of the Term Commitment Period or in the event that the Company terminates service based upon Customer's default, Customer will pay a Termination Penalty to the Company equivalent to the Customer's Monthly Revenue Commitment multiplied by the number of months remaining in the Term Commitment Period. The Termination Penalty will be due immediately upon termination of service. The Customer will be made aware of the Termination Penalty as it will be described in the term contract signed by the Customer at the initiation of service.

D. Monthly Recurring Fees:

Toll Free Numbers (800/888)	\$ 3.00 per month per line
Account Codes:	\$ 5.00 (Non-validated)
Account Codes:	\$10.00 (Validated)

E. Travel Card Rates:

Per Minute Rate:	\$ 0.20
Per Call Surcharge:	\$ 0.25

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SECTION 4. **RATES** (Cont'd)

4.14 **Affinity Association Program**

The Affinity Association Program is made available to Affinity Vendors of the Company. All Affinity Association calls will be billed in six (6) second increments after an initial period, for billing purposes, of eighteen (18) seconds.

4.14.1 **Business Affinity Association Program**

Business Affinity Association is a flat rate program designed for use by large and medium sized business customers.

(A) Per Minute Rate \$0.1250

4.14.2 **Residential Affinity Association Program**

Residential Affinity Association Program is available in two options, a flat rate and a time of day sensitive rate.

(A) Flat Rate Affinity Program

Per Minute Rates \$0.1250

(B) Time of Day Sensitive Affinity Program

Day	\$0.1550
Evening	0.1250
Night/Weekend	0.1050

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SECTION 4. RATES (Cont'd)

4.15 Dial & Save Flat Rate II

Dial & Save Flat Rate II is a flat rate outbound residential only calling service. Calls are originated from presubscribed switched residential Customer access lines. This service permits the residential Customers to make direct dialed 1+ calls from locations within the State. Calls are billed in one minute increments, after an initial period, for billing purposes, of one minute.

4.15.1 Rates:

Day	\$0.15
Evening	\$0.10
Night	\$0.10

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SECTION 4. RATES (Cont'd.)

4.16 Prime Business Select II - Dedicated Service

Prime Business Select II Dedicated Service is an outbound service, available to business customers who meet the company's credit approval guidelines. Calls are originated from presubscribed locations or by dialing the Company's designated "10XXX" access code.

This service permits large account business customers to make direct dial 1+ calls from locations within the state. In addition, customers may also subscribe to toll free (800/888) service, per the rates specified in Section 4.16.1 (A). All conditions that apply to the Prime Business Select II Term Commitment as specified in Section 4.13.2(B) and 4.13.2(C) of this tariff, also apply to Prime Business Select II Dedicated Service. Customers must commit to a \$2,500 monthly minimum under this plan.

All direct dial 1+ and toll free (800/888) calls are billed in six (6) second increments after an initial calling period, of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

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SECTION 4. RATES (Cont'd.)

4.16.1 Access Methods and Usage Rates:

(A) Direct Dial and Toll Free (800/888) Rates:

PER MINUTE RATES			
Monthly Revenue Commitment	12 Month Term	24 Month Term	36 Month Term
\$2,500 +	\$0.0650	0.0600	\$0.0550

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SECTION 4. RATES (Cont'd.)

4.16 Prime Business Select II - Dedicated (Cont'd.)

4.16.1 Access Methods and Usage Rates (Cont'd.)

(B) Travel Card Access:

Calls are billed in six (6) second increments after an initial period, of thirty (30) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

	12 Month Term	24 Month Term	36 Month Term
Per Minute Rate	\$0.20	\$0.20	\$0.20
Surcharge	\$0.25	\$0.25	\$0.25

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SECTION 4. RATES (Cont'd.)

4.17 Prime Business Select Association Program

Prime Business Select Association Program is available to certified non-profit Associations, Chambers of Commerce, and other non-profit business trade groups. Members of such organizations who enroll in the Prime Business Select Association Program are eligible to receive program-specific discounted rates for direct dial, calling card & toll free (800/888) long distance services. All Prime Business Select Association Program calls will be billed in six (6) second increments after an initial period of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

4.17.1 Access Method and Usage Rates:

(A) Direct Dial Access:

Prime Business Select Association Program customers will be charged \$0.09 per minute for all direct dial intrastate calls.

(B) Travel Card Access:

Prime Business Select Association customers will be charged \$0.20 per minute for all intrastate travel card calls.

1. Travel Card Access Surcharges:

All Prime Business Select Association travel card calls will be charged a \$0.20 per call surcharge.

(C) Toll Free (800/888) Access:

Prime Business Select Association customers subscribing to toll free services will be charged \$0.09 per minute for all terminating calls. The Prime Business Select Association customer will be charged for the calls rather than the call originator.

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SECTION 4. RATES (Cont'd.)

4.18 Prime Business VI

Prime Business VI is available to business Customers, on a limited and promotional basis, who meet the Company's credit approval guidelines. Customers may select a Month to Month or a Term Commitment Option. Customers electing a Term Commitment Option must sign a contract with the Company. Customers will either be billed directly by the Company or by their local exchange telephone Company. Prime Business VI rates apply to direct dial, toll free (800/888) and calling card calls. A monthly recurring charge may also apply.

Account Codes are available under Prime Business VI. Account Codes assist Customers in managing and tracking their long distance usage. Customers may select validated account codes which are specific, pre-defined combinations of digits registered with Company's switch database, and only those pre-defined codes can be used to complete a call, or Customers may select non-validated codes of a specific length and any code of that specific length can be used to complete a call.

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SECTION 4. RATES (Cont'd.)

4.18 Prime Business VI (Cont'd.)

4.18.1 Month to Month Option (Cont'd.)

Customers subscribing to the Prime Business VI Month to Month Option are eligible for the Company's 100% Satisfaction Guarantee, which is as follows:

If Company fails to correct Customer's valid complaint regarding network quality or service support or if Company fails to deliver the stated rate plan within 15 days of Company receiving written notification regarding the problem, the Company will (1) refund to the Customer all PIC change charges assessed by the Customer's LEC as a result of Company switching its long distance service to the Company from the Customer's previous long distance carrier; and (2) refund to the Customer all PIC change charges assessed by the Customer's LEC in order to switch the Customer's long distance service back. The Guarantee is valid for a period of 90 days from the start of Customer's service.

Customer shall not be entitled to the refunds described above if Customer has an account balance with the Company which has aged beyond net 30 days or if Customer's complaint is not attributable to facilities or causes within Company's reasonable control.

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SECTION 4. RATES (Cont'd.)

4.18 Prime Business VI (Cont'd.)

4.18.1 Month to Month Option (Cont'd.)

(A) Rates:

Direct Dial and Toll Free Rate:	\$.165 per minute
Calling Card Rate:	\$.25 per minute
Calling Card Surcharge:	\$.50 per call

(B) Discount Schedule:

<u>Monthly Revenue Level</u>	<u>% Discount</u>
\$ 0.00 - \$ 99.99	0%
\$100.00 - \$ 199.99	3.64%
\$200.00 - \$ 499.99	6.67%
\$500.00 - \$ 749.99	9.70%
\$750.00 - \$ 999.99	12.73%
\$1,000.00 - \$4,999.99	15.76%
\$5,000 +	21.82%

(C) Monthly Recurring Fees:

Toll Free Numbers (800/888):	\$3.00 per month per line
Account Codes:	\$5.00 (Non-validated)
Account Codes:	\$10.00 (Validated)

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SECTION 4. RATES (Cont'd.)

4.18 Prime Business VI (Cont'd.)

4.18.2 Term Commitment Option

Users subscribing to this option will select a Term Commitment Period and a Monthly Revenue Commitment. Calls will be billed at the rates indicated in Section 4.18.2(A) of this tariff, which corresponds with the Term Commitment Period and Monthly Revenue Commitment selected by the Customer. The Company will calculate the Customer's Monthly Revenue level to determine if Customer's Monthly Revenue Commitment has been fulfilled. The customer's Monthly Revenue Level consists of all intrastate, interstate and international, outbound, inbound, calling card usage and surcharges, excluding monthly recurring fees and directory assistance charges. Calls are billed in initial six (6) second and additional six (6) second increments. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

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SECTION 4. RATES (Cont'd.)

4.18 Prime Business VI (Cont'd.)

4.18.2 Term Commitment Option (Cont'd.)

Customers subscribing to the Prime Business VI Term Commitment Option are eligible for the Company's 100% Satisfaction Guarantee which is as follows:

If Company fails to correct Customer's valid complaint regarding network quality or service support or if Company fails to deliver the stated rate plan within 15 days of Company receiving written notification regarding the problem, the Company will (1) refund to the Customer all PIC change charges assessed by the Customer's LEC as a result of Company switching its long distance service to the Company from the Customer's previous long distance Carrier; (2) refund to the Customer all PIC change charges assessed by the Customer's LEC in order to switch the Customer's long distance service back to their previous carrier; (3) refund to the Customer the amount of their first Prime Business VI invoice; and (4) cancel Customer's term agreement without liability for the Termination Penalty.

Customer shall not be entitled to the items described above if Customer has an account balance with the Company which has aged beyond net 30 days or if Customer's complaint is not attributable to facilities or causes within Company's reasonable control. This Guarantee is valid for 90 days from the start of Customer's service.

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SECTION 4. RATES (Cont'd.)

4.18 Prime Business VI (Cont'd.)

4.18.2 Term Commitment Option (Cont'd.)

(A) Rates:

Monthly Revenue Commitment	No Term Commitment	12 Months	18 Months	24 Months	36 Months
\$0	0.1600	N/A	N/A	N/A	N/A
\$100	0.1550	0.1375	0.1325	0.1275	0.1200
\$250	0.1500	0.1325	0.1275	0.1225	0.1150
\$500	0.1450	0.1275	0.1225	0.1175	0.1100
\$750	0.1400	0.1225	0.1175	0.1125	0.1050
\$1,000	0.1350	0.1175	0.1125	0.1075	0.1025
\$2,500	0.1300	0.1125	0.1075	0.1025	0.0975
\$5,000	0.1250	0.1075	0.1025	0.0975	0.0925
\$10,000	0.1200	0.1025	0.0975	0.0950	0.0900
\$25,000	0.1150	0.0975	0.0950	0.0925	0.0875
\$50,000	0.1100	0.0950	0.0925	0.0900	0.0850

(B) Travel Card Rates: Customers committing to a twelve (12), eighteen (18), twenty-four (24), or thirty-six (36) month term commitment will be charged the following rates for Travel Card Services:

Per Minute Rate: \$0.20
Per Call Surcharge: \$0.25

(C) Deficiency Charge:

In the event Customer's Monthly Revenue Level does not meet the Monthly Revenue Commitment selected by the Customer in any invoice period during the Term Commitment Period, for that invoice period Customer will pay a Deficiency Charge which is equal to the difference between the Monthly Revenue Commitment and the actual Monthly Revenue Level. The Deficiency Charge will be due at the same time payment is due for service provided to the Customer. Deficiency Charges will not be assessed prior to the third invoice period.

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SECTION 4. RATES (Cont'd.)

4.18 Prime Business VI (Cont'd.)

4.18.2 Term Commitment Option (Cont'd.)

(D) Termination Penalty:

In the event the Customer terminates service with the Company prior to the end of the Term Commitment Period or in the event that the Company terminates service based upon Customer's default, Customer will pay a Termination Penalty to the Company equivalent to the Customer's Monthly Revenue Commitment multiplied by the number of months remaining in the Term Commitment Period. The Termination Penalty will be due immediately upon termination of service. The Customer will be made aware of the Termination Penalty as it will be described in the term contract signed by the Customer at the initiation of service.

(E) Monthly Recurring Fees:

Toll Free Numbers (800/888)	\$ 3.00 per month per line
Account Codes:	\$ 5.00 (Non-validated)
Account Codes:	\$10.00 (Validated)

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SECTION 4. RATES (Cont'd.)

4.19 Prime Business VI - Dedicated Service

Prime Business VI Dedicated Service is an outbound service, available to business customers, on a limited and promotional basis, who meet the company's credit approval guidelines. Calls are originated from presubscribed locations or by dialing the Company's designated "10XXX" access code.

This service permits large account business customers to make direct dial 1+ calls from locations within the state. In addition, customers may also subscribe to toll free (800/888) services, per the rates specified below. All conditions that apply to the Prime Business Select II Term Commitment as specified in Sections 4.13.2(B) and 4.13.2(C) tariff, also apply to Prime Business VI Dedicated Service. Customers must commit to a \$2,500 monthly minimum under this plan.

All direct dial 1+ and toll free (800/888) calls are billed in initial six (6) second and additional six (6) seconds increments. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

4.19.1 Access Methods and Usage Rates:

(A) Direct Dial and Toll Free (800/888):

Monthly Revenue Commitment	PER MINUTE RATES		
	12 Month Term	24 Month Term	36 Month Term
\$2,500 +	\$0.0650	\$0.0600	\$0.0550

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SECTION 4. RATES (Cont'd.)

4.19 Prime Business VI - Dedicated Service (Cont'd.)

4.19.1 Access Methods and Usage Rates (Cont'd.)

(B) Travel Card Access:

Calls are billed in initial six (6) second and additional six (6) second increments. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

	12 Month Term	24 Month Term	36 Month Term
Per Minute Rate	\$0.20	\$0.20	\$0.20
Surcharge	\$0.25	\$0.25	\$0.25

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SECTION 4. RATES (Cont'd.)

4.20 FBBA Business Calling Program

FBBA Business Calling Program is a flat rate outbound and inbound calling plan. This service permits business customers to make direct dial 1+ calls and receive toll free (800/888) calls from within the state. In addition, customers can also place calling card calls. All calls will be billed in six (6) second increments after an initial period, for billing purposes, of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

4.20.1 Access Methods and Usage Rates:

- (A) **Direct Dial Access:** FBBA Business Calling Plan customers will be charged \$0.09 minute for all intrastate calls.
- (B) **Travel Card Access:**
FBBA customers will be charged the following per minute rates based on a customer selected term commitment:
 - 1. **Month to Month Option:** Customers will be charge \$0.25 per minute for all intrastate calling card calls. A \$0.50 per call surcharge will apply.
 - 2. **Term Commitment Option:** Customers selecting a term commitment option of twelve (12), eighteen (18), sixteen (16) or twenty-four (24) months will be charged \$0.20 per minute for all intrastate calling card calls. A \$0.25 per call surcharge will apply.
- (C) **Toll Free (800/888):**
FBBA Business Calling Plan customers subscribing to toll free service will be charged \$0.09 per minute for all terminating calls. The FBBA customer will be charged for the call rather than the call originator.

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SECTION 4. RATES (Cont'd.)

4.21 Protech Access One Service

Protech Access One Service is an outbound and inbound service for business customers only. Customers must meet the Company's credit approval guidelines to be eligible for service. Protech Access One Service rates apply to direct dial, calling card and toll-free (800/888) service. All inbound calls are made through a designated toll free number and the Protech Access One Service customer is billed rather than the call originator. All Protech Access One Service calls will be billed in six (6) second increments after an initial period of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

4.21.1 Access Method and Usage Rates:

- (A) Direct Dial Access:
Protech Access One Service customers will be charged \$0.1290 per minute for all direct dial intrastate calls.
- (B) Travel Card Access:
Protech Access One Service customers will be charged the following per minute rates based on a customer selected term commitment:
 - 1. Month to Month Option: Customers will be charge \$0.25 per minute for all intrastate travel card calls. A \$0.50 per call surcharge will apply.
 - 2. Term Commitment Option: Customers selecting a term commitment option of twelve (12), eighteen (18), sixteen (16) or twenty-four (24) months will be charged \$0.20 per minute for all intrastate travel card calls. A \$0.25 per call surcharge will apply.
- (C) Toll-Free (800/888) Access:
Protech Access One Service customers utilizing toll free services will be charged \$0.1290 per minute for all terminating calls. The Protech Access One Service customer will be charged for the calls rather than the call originator.

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4.22 Winners Unlimited Service

Winners Unlimited is an inbound service available to residential and business customers, who meet the Company's credit approval guidelines, presubscribed to the Company's service by completing a Letter of Agency ("LOA") provided by a specific authorized sales agent of the Company. All inbound Winners Unlimited calls will be billed in six (6) second increments after an initial period of thirty (30) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

4.22.1 Access Method and Usage Rates:

- (A) Toll Free (800/888) Access:
Winners Unlimited customers subscribing to toll free services will be charged \$0.18 per minute for all terminating calls. The Winners Unlimited customer will be charged for the calls rather than the call originator.
1. Toll Free Access Service Fees: A \$3.00 monthly fee applies for each toll free number.
- (B) Toll Free Access With Personal Identification Number (PIN): Winners Unlimited customers subscribing to toll free services with a PIN will be charged \$0.21 per minute for all terminating calls.
- (C) Directory Assistance:
For all calls placed using Directory Assistance the following per call charges will apply:
- | | |
|--------------|---------|
| Business: | \$0.750 |
| Residential: | \$0.670 |

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SECTION 4. RATES (Cont'd.)

4.23 American Society of Travel Agents (ASTA) Affinity Association Program

ASTA Affinity Association Program offers members of the ASTA association combined outbound 1+ and inbound toll free services. No minimum or monthly term commitments are required for this service. All direct dial, travel card, and toll free calls will be billed in six (6) second increments after an initial period for billing purposes of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment. Customers who wish to enroll in this service must present at the time of enrollment documentation to the Company showing that they are a member in good standing with the ASTA association. Customers subscribing to this program will be eligible to request a travel card at no extra cost to the customer, and will be charged the rates specified below for the calling card service.

4.23.1 Access Methods and Usage Rates

(A) Direct Dial and Toll Free Access:

Per Minute Rates: \$0.0900

(B) Travel Card Access:

Per Minute Rate: \$0.20

Per Call Surcharge: \$0.25

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SECTION 4. RATES (Cont'd.)

4.23 American Society of Travel Agents (ASTA) Affinity Association Program

ASTA Affinity Association Program offers members of the ASTA association combined outbound 1+ and inbound toll free services. No minimum or monthly term commitments are required for this service. All direct dial, travel card, and toll free calls will be billed in six (6) second increments after an initial period for billing purposes of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment. Customers who wish to enroll in this service must present at the time of enrollment documentation to the Company showing that they are a member in good standing with the ASTA association. Customers subscribing to this program will be eligible to request a travel card at no extra cost to the customer, and will be charged the rates specified below for the calling card service.

4.23.1 Access Methods and Usage Rates

(A) Direct Dial and Toll Free Access:

Per Minute Rates: \$0.0900

(B) Travel Card Access:

Per Minute Rate: \$0.20

Per Call Surcharge: \$0.25

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SECTION 4. RATES (Cont'd.)

4.24 Prime Business 9.9 Service

Prim. Business 9.9 Service is a flat rate outbound and inbound calling plan available to large business customers. This service permits business customers to make direct dial 1+ calls and receive inbound toll free (800/888) calls. In addition, customers can also place calling card calls. All calls are billed in six (6) second increments after an initial calling period for billing purposes of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

4.24.1 Access Methods and Usage Rates

(A) Direct Dial and Toll Free Access:

Per Minute Rate: \$0.099

(B) Travel Card Access:

Per Minute Rate: \$0.20
Per Call Surcharge: \$0.25

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SECTION 4. RATES (Cont'd.)

4.25 Toll Free PIN Service

Toll-Free PIN Service is an inbound calling service utilizing switched access facilities. This service permits the Customer to receive incoming calls from all location within the State. With Toll-Free PIN Service, the Customer is charged for the call, not the calling party. The Customer will be issued a four (4) digit PIN number which must be utilized in combination with a designated toll free number in order to use this service. Individuals dialing the designated toll-free number must dial the PIN number for termination of the call to the Customer. The toll-free number is the property of the Company and the Customer cannot transport the toll-free number to another responsible organization. Calls are rebilled in six (6) second increments with a minimum initial calling period of thirty (30) seconds.

4.25.1 Per Minute Rates: \$0.2100

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SECTION 4. RATES (Cont'd.)

4.26 Intrastate Preferred Customer Plan

Intrastate Preferred Customer Plan is a direct dial service available to residential customers. The Customer may access Carrier either by selecting Carrier as the presubscribed interexchange carrier or by dialing the Carrier's "10XXX" access code. Customers must enroll in Intrastate Preferred Customer Plan by dialing a designated toll-free number and speaking with a Carrier representative. Calls are billed in one minute increments, after an initial minimum call duration of one minute. Any fractional portion of a call thereafter, is rounded up to the next highest billing increment.

4.26.1 IntraLATA Rates

Rate Mileage	Day	Even	Night/Weekend		1st Min	Add'l Min
	1st Min	Add'l Min	1st Min	Add'l Min		
1-10	0.3230	0.1995	0.2423	0.1501	0.1938	0.1197
11-16	0.3230	0.1995	0.2423	0.1501	0.1938	0.1197
17-22	0.3230	0.1995	0.2423	0.1501	0.1938	0.1197
23-30	0.3230	0.1995	0.2423	0.1501	0.1938	0.1197
31-55	0.3420	0.2280	0.2565	0.1710	0.2052	0.1368
56-70	0.3705	0.2375	0.2779	0.1786	0.2223	0.1425
71-124	0.3800	0.2470	0.2850	0.1853	0.2280	0.1482
125 +	0.3895	0.2565	0.2921	0.1929	0.2337	0.1539

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SECTION 4. RATES (Cont'd.)

4.26 Intrastate Preferred Customer Plan

Intrastate Preferred Customer Plan is a direct dial service available to residential customers. The Customer may access Carrier either by selecting Carrier as the presubscribed interexchange carrier or by dialing the Carrier's "10XXX" access code. Customers must enroll in Intrastate Preferred Customer Plan by dialing a designated toll-free number and speaking with a Carrier representative. Calls are billed in one minute increments, after an initial minimum call duration of one minute. Any fractional portion of a call thereafter, is rounded up to the next highest billing increment.

4.26.2 InterLATA Rates

Rate Mileage	<u>Day</u>		<u>Eve</u>		<u>Night/Weekend</u>	
	1st Min	Add'l Min	1st Min	Add'l Min	1st Min	Add'l Min
0-10	0.3000	0.1800	0.2400	0.1440	0.1800	0.1080
11-16	0.3800	0.2000	0.3040	0.1600	0.2280	0.1200
17-22	0.3900	0.2200	0.3120	0.1760	0.2340	0.1320
23-30	0.3150	0.1782	0.2505	0.1426	0.1935	0.1080
31-40	0.3300	0.1931	0.2625	0.1544	0.2025	0.1170
41-55	0.3525	0.2153	0.2805	0.1723	0.2160	0.1305
56-85	0.3750	0.2376	0.2985	0.1901	0.2295	0.1440
86-124	0.3900	0.2524	0.3105	0.2020	0.2385	0.1530
125-244	0.3975	0.2673	0.3165	0.2138	0.2430	0.1620
245-475	0.4050	0.2822	0.3225	0.2258	0.2475	0.1710

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SECTION 5. CONTRACT SERVICES

At the option of the Company, service may be offered on a contract basis to meet specialized requirements of the Customer not contemplated in this tariff. The terms of each contract shall be mutually agreed upon between the Customer and Company and may include discounts off of rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in the Company's general service offerings, or other customized features. The terms of the contract may be based partially or completely on the term and volume commitment, type of originating or terminating access, mixture of services or other distinguishing features. Service shall be available to all similarly situated Customers for six months after the initial offering to the first contract Customer for any given set of terms unless otherwise indicated.

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SECTION 5. CONTRACT SERVICES (Cont'd)

5.1 Carrier Intrastate Domestic Termination Service

Carrier Intrastate Domestic Termination Service is available only to Other Certificated Carriers ("OCC") who wish to utilize the Dial & Save network to terminate intrastate traffic. The OCC must meet certain Company specified credit evaluations in order to purchase this service offering. In addition, the OCC must have obtained the required operating authority. The OCC must have use of their own Primary Interexchange Carrier Code. OCCs who qualify for this service will receive call termination at the rates specified below. Rates are based upon the LATA and the LEC to which the call terminates, as well as the Customer's Monthly Minimum Minutes of Use Commitment.

Traffic provided under this service offering must meet the following specifications:

- 5.1.1 A minimum of 80% of the OCC's total minutes of use which terminate on the Dial & Save network under this service offering must be during the times of 8:00 AM up to, but not including, 5:00 PM Monday through Friday. If the minutes of use terminating during this time frame drops below the 80% threshold, Dial & Save reserves the right to discontinue the service upon written notice to the OCC or rate the intrastate domestic minutes at \$0.065 per minute.
- 5.1.2 Calls will be billed in six (6) second increments after an initial calling period of six (6) seconds. Any fractional portion of a call thereafter will be rounded up to the next highest billing increment.
- 5.1.3 In addition to the appropriate LATA termination rate specified in Section 5.1.4 (A) a surcharge of \$0.02 per minute will be charged for all calls terminating to non US West exchanges.

Issued: July 8, 1997

Effective:

Issued by:

Donald A. Burns, President
4219 Lafayette Center Drive
Chantilly, Virginia 20151
703/631-5600

SECTION 5. CONTRACT SERVICES (Cont'd.)

5.1 Carrier Intrastate Domestic Termination Service, (Cont'd.)

5.1.4 Rate Level Definitions:

Per Minute Termination Rates listed below are available in four (4) different Rate Levels, determined by the Customer's Monthly Minimum Minutes of Use Commitment. A Customer's domestic interstate, intrastate, and international minutes of use under this service offering will be counted toward the Monthly Minimum Minutes of Usage Commitment. At the Company's sole discretion, minutes of use under other Company service offerings, term commitments, revenue commitments, ramp-up periods, or other criteria may be used in combination with minutes of use in order to determine whether or not a Customer is eligible for a particular Rate Level.

(A) Per Minute Rates:

Rate Level	Monthly Minutes Commitment Level	Per Minute Rate
1	Less than 1,000,000 minutes per month	\$0.0450
2	1,000,000 to 4,999,999 minutes per month	\$0.0430
3	5,000,000 to 9,999,999 minutes per month	\$0.0415
4	Greater than 10,000,000 minutes per month	\$0.0400

5.1.6. Directory Assistance Rate:

Per call charge:

	<u>Rate Level</u>	
1		\$0.44
2		\$0.42
3		\$0.40
4		\$0.38

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SECTION 5. CONTRACT SERVICES (Cont'd.)

5.2 Carrier 800 Origination - Dedicated

Carrier 800 Origination Dedicated Service is available only to Other Certificated Carriers ("OCC"). The OCC must meet certain Company specified credit evaluations in order to purchase this service offering. In addition, the OCC must have obtained the required operating authority. The OCC must have use of their own Primary Interexchange Carrier Code. Company may also, at its sole discretion, require that subscribers to this service offering have an existing billing or data processing arrangement with the Company. OCCs who qualify for this service will receive 800 origination at the rates specified below. Rates are based upon the LATA and the LEC from which the call originates, as well as the Customer's Monthly Minimum Minutes of Use Commitment. OCCs must also pay for facility installation and monthly recurring dedicated access fees which will be determined on an individual case basis.

Traffic provided under this service offering must meet the following specifications:

- 5.2.1 A minimum of 80% of the OCCs total minutes of use must originate on the Company's network under this service offering and must be during the times of 8:00 AM up to, but not including, 5:00 PM Monday through Friday. If the minute of use terminating during this time frame drops below the 80% threshold, Dial & Save reserves the right to discontinue the service upon written notice to the OCC or rate the intrastate minutes at 0.065 per minute.
- 5.2.2 Calls will be billed in initial and additional six (6) second increments. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.
- 5.2.3 In addition to the appropriate LATA origination rate specified in Section 5.2.4 (A), a surcharge of \$0.02 per minute will be charged for all calls originating from non US West exchanges.

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Donald A. Burns, President
4219 Lafayette Center Drive
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SECTION 5. CONTRACT SERVICES (Cont'd.)

5.2 Carrier 800 Origination - Dedicated (Cont'd.)

5.2.4 Rate Level Definitions

Per Minute Origination Rates listed below are available in four (4) different Rate Levels, determined by the Customer's Monthly Minimum Minutes of Use Commitment. A Customer's domestic interstate, intrastate, and international minutes of use under this service offering will be counted toward the Monthly Minimum Minutes of Usage Commitment. At the Company's sole discretion, minutes of use under other Company service offerings, term commitments, revenue commitments, ramp-up periods, or other criteria may be used in combination with minutes of use in order to determine whether or not a Customer is eligible for a particular Rate Level.

(A) Per Minute Rates:

Rate Level	Monthly Minutes Commitment Level	Per Minute Rate
1	Less than 1,000,000 minutes per month	\$0.0650
2	1,000,000 to 4,999,999 minutes per month	\$0.0630
3	5,000,000 to 9,999,999 minutes per month	\$0.0615
4	Greater than 10,000,000 minutes per month	\$0.0600

5.2.5 Directory Assistance Rate:

Per call charge:

Rate Level	
1	\$0.44
2	\$0.42
3	\$0.40
4	\$0.38

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SECTION 5. CONTRACT SERVICES (Cont'd.)

5.3 CIC Association Service II

CIC Association Service II available only to Other Certificated Carriers ("OCC"). The OCC must meet certain Company specified credit evaluations in order to purchase this service offering. In addition, the OCC must have obtained the required reporting authority. The OCC must have use of their own Primary Interexchange Carrier Code. OCCs subscribing to this service offering must pay for their own originating access service. Company may also, at its sole discretion, require that subscribers to this service offering have an existing billing or data processing arrangement with the Company. OCCs who qualify for this service will receive call termination at the rates specified in Section 5.3.4 (A) of this Tariff. Rates are based upon the LATA and the LEC to which the call terminates, as well as the Customer's Monthly Minimum Minutes of Use Commitment.

Traffic provided under this service offering must meet the following specifications:

- 5.3.1 A minimum of 80% of the OCCs total minutes of use which terminates on the Dial & Save network under this service offering must be during the times of 8:00 AM up to, but not including, 5:00 PM Monday through Friday. If the minutes of use terminating during this time frame drops below the 80% threshold, Dial & Save reserves the right to discontinue the service upon written notice to the OCC or rate the intrastate minutes at \$0.065 per minute.
- 5.3.2 Calls will be billed in six (6) second increments after an initial calling period of six (6) seconds. Any fractional portion of a call thereafter will be rounded up to the next highest billing increment.
- 5.3.3 In addition to the appropriate LATA termination rate specified in Section 5.3.4 (A), a surcharge of \$0.02 per minute will be charged for all calls terminating to all non US West exchanges.

Issued: July 8, 1997

Effective:

Issued by: Donald A. Burns, President
4219 Lafayette Center Drive
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703/631-5600

SECTION 5. CONTRACT SERVICES (Cont'd.)

5.3 CIC Association Service II (Cont'd.)

5.3.4 Rate Level Definitions:

Per Minute Termination Rates listed below are available in four (4) different Rate Levels, determined by the Customer's Monthly Minimum Minutes of Use Commitment. A Customer's domestic interstate, intrastate, and international minutes of use under this service offering will be counted toward the Monthly Minimum Minutes of Usage Commitment. At the Company's sole discretion, minutes of use under other Company service offerings, term commitments, revenue commitments, ramp-up periods, or other criteria may be used in combination with minutes of use in order to determine whether or not a Customer is eligible for a particular Rate Level.

(A) Per Minute Rates:

Rate Level	Monthly Minutes Commitment Level	Per Minute Rate
1	Less than 1,000,000 minutes per month	\$0.0450
2	1,000,000 to 4,999,999 minutes per month	\$0.0430
3	5,000,000 to 9,999,999 minutes per month	\$0.0415
4	Greater than 10,000,000 minutes per month	\$0.0400

5.3.5 Directory Assistance Rate:

Per call charge \$.50

Issued: July 8, 1997

Effective:

Issued by:

Donald A. Burns, President
4219 Lafayette Center Drive
Chantilly, Virginia 20151
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SECTION 5. CONTRACT SERVICES (Cont'd.)

5.4 Switchless 1+ and Toll Free Resale Service

Switchless 1+ and Toll Free Resale Service is available only to Other Certificated Carriers ("OCC") who wish to utilize the Dial & Save network to originate, switch, and terminate domestic traffic. The OCC must meet certain Company specified credit evaluations in order to purchase this service offering. In addition, the OCC must have obtained the required operating authority. The OCC must have use of their own Primary Interexchange Carrier Code. The Company may also, at its sole discretion, require that subscribers to this service offering have an existing billing or data processing arrangement with the Company.

OCCs who qualify for this service will receive the rates specified below. Rates are based upon the LATA and the LEC from which the call originates and to which the call terminates, as well as the Customer's Monthly Minimum Revenue Commitment. Orders for service will only be accepted from OCCs for provision of service to Customers residing in areas served by US West.

Calls will be billed in six (6) second increments after an initial calling period of eighteen (18) seconds. Any fractional portion of a call thereafter will be rounded up to the next highest billing increment.

Issued: July 8, 1997

Effective:

Issued by:

Donald A. Burns, President
4219 Lafayette Center Drive
Chantilly, Virginia 20151
703/631-5600

SECTION 5. CONTRACT SERVICES (Cont'd.)

5.4 Switchless 1+ and Toll Free Resale (Cont'd.)

5.4.1 Per Minute Rates

Customers will be charged the rate specified below for all rate levels (1-4).

(A) Per Minute Rates:

Rate Level	Monthly Revenue Commitment Level	Per Minute Rate
1	Less than 100,000 monthly billing	\$0.0750
2	\$100,000 to \$249,999 in monthly billing	\$0.0750
3	\$250,000 to \$499,999 in monthly billing	\$0.0750
4	\$500,000 + in monthly billing	\$0.0750

5.4.2 Directory Assistance Rate:

Per call charge: \$0.75

5.4.3 Toll-Free Number Monthly Recurring Fees:

The OCCs will pay no monthly recurring fees for the first ten (10) toll-free numbers which they reserve or install using the Company as the designated Responsible Organization. For each additional number in excess of ten (10), a \$1.00 monthly recurring fee is charged.

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Issued by:

Donald A. Burns, President
4219 Lafayette Center Drive
Chantilly, Virginia 20151
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SECTION 5. CONTRACT SERVICES (Cont'd.)

5.5 Switchless 1+ Dedicated and Toll Free Resale Service

Switchless 1+ Dedicated and Toll Free Resale Service is available only to Other Certificated Carriers ("OCC") who wish to utilize the Company's network to originate, switch, and terminate traffic. OCC must meet certain Company specified credit evaluations in order to purchase this service offering. In addition, OCC must have obtained required operating authority in the states in which they conduct business and file tariffs, when required by law, with a state or federal authority. Company may also, at its sole discretion, require that subscribers to this service offering have an existing billing or data processing arrangement with the Company.

A Customer's 1+ and toll-free domestic interstate, intrastate, and international revenue under this service offering will be counted toward the Monthly Minimum Revenue Commitment. At the Company's sole discretion, revenue under other Company Service offerings, term commitments, minutes of use commitments, ramp-up periods, or other criteria may be used in combination with revenue in order to determine whether or not a Customer is eligible for a particular Rate Level. Calls will be billed in six (6) second increments after an initial calling period of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

OCCs who qualify for this service will receive the rates specified below. Rates are based upon the LATA and the LEC from which the call originates and to which the call terminates, if applicable, as well as the Customer's Monthly Minimum Revenue Commitment. Orders for service will only be accepted from OCCs for provision of service to Customers residing in areas served by the RBOCs, GTE or Sprint-United.

A \$0.0125 surcharge is applied for all non-peak minutes above 20%. In addition, a \$0.02 per minute charge will apply for all 1+ calls terminating to and all toll-free calls originating from the Local Exchange Carrier's Operator Carrier Number "OCN" other than: US West, OCNs: 9600, 9636, 9631, 9638.

Issued: July 8, 1997

Effective:

Issued by:

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4219 Lafayette Center Drive
Chantilly, Virginia 20151
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SECTION 5. CONTRACT SERVICES (Cont'd.)

5.5 Switchless 1+ Dedicated and Toll Free Resale Service (Cont'd.)

5.5.1 Rate Level Definitions:

Per Minute Rates are available in four (4) different Rate Levels, determined by the Customer's Monthly Minimum Revenue Commitment.

(A) Per Minute Rates:

Rate Level	Monthly Commitment Level	Per Minute Rate
1	Less than \$100,000 in monthly billing	\$0.0590
2	\$100,000 to \$249,999 in monthly billing	\$0.0560
3	\$250,000 to \$499,999 in monthly billing	\$0.0530
4	\$500,000 + in monthly billing	\$0.0500

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Issued by:

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4219 Lafayette Center Drive
Chantilly, Virginia 20151
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SECTION 5. CONTRACT SERVICES (Cont'd.)

5.5 Switchless 1+ Dedicated and Toll Free Resale Service (Cont'd.)

5.5.2 Directory Assistance Rate:

Per call charge: \$0.75

5.5.3 Toll-Free Number Monthly Recurring Fees:

OCCs will pay no monthly recurring fees for the first ten (10) toll-free numbers which they reserve or install using the Company as the designated Responsible Organization. For each additional number in excess of ten (10), a \$1.00 monthly recurring fee is charged.

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703/631-5600

SECTION 5. CONTRACT SERVICES (Cont'd.)

5.6 Global-Tel Long Distance Service

Global-Tel Long Distance is an outbound service offered to business Customers that presubscribe to the Company's service through specific authorized sales agents of the Company.

Calls will be billed in six (6) second increments after an initial calling period of eighteen (18) seconds. Any fractional portion of a call thereafter will be rounded up to the next highest billing increment.

5.6.1 Access Method and Usage Rates:

(A) Direct Dial Rates:

Rate Per Minute: \$0.1290

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Effective:

Issued by:

**Donald A. Burns, President
4219 Lafayette Center Drive
Chantilly, Virginia 20151
703/631-5600**

SECTION 5. CONTRACT SERVICES (Cont'd.)

5.6 Global-Tel Long Distance Service (Cont'd.)

5.6.1 Access Method and Usage Rates (Cont'd.)

(B) Toll Free (800/888) Access:

Global-Tel Long Distance Toll-Free service is an inbound calling service utilizing switched access facilities. This service permits the Customer to receive incoming calls from all locations within the state. With Global-Tel Toll-Free service, the Customer is charged for the call, not the calling party. Calls are billed in six (6) second increments after an minimum initial calling period of eighteen (18) seconds. Any fractional portion of a call thereafter, will be rounded up to the next highest billing increment.

Per Minute Rate: \$0.1290

(C) Travel Card Services

(A) Per Minute Rate: \$1.990

Issued: July 8, 1997

Effective:

Issued by:

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4219 Lafayette Center Drive
Chantilly, Virginia 20151
703/631-5600

SECTION 5. CONTRACT SERVICES (Cont'd.)

5.7 Master Dealer Program

The Master Dealer Program is available to business customers through an authorized agent of the Company. Calls are originated from presubscribed locations. This service permits the Customers to make direct dial calls from locations within the state. Calls are billed in (6) six second increments with a minimum calling period of (18) eighteen seconds. Any fractional portion of a call thereafter, will be round up to the next highest billing increment.

Rates specified below apply to direct dial, toll free (800/888) and calling card calls. There are no monthly fees or recurring fees.

5.7.1 Switched Intrastate Rates for Direct Dial and Toll Free Services:

(A) Rates per minute: \$0.0900

5.7.2 Travel Card Rates:

(A) Rate Per Minute: \$0.20
Per Call Surcharge: \$0.25

Issued: July 8, 1997

Effective:

Issued by:

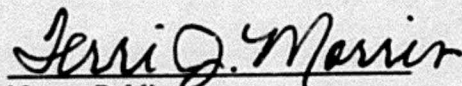
Donald A. Burns, President
4219 Lafayette Center Drive
Chantilly, Virginia 20151
703/631-5600

VERIFICATION

I, Bryan K. Rachlin, hereby declare under penalty of perjury, that I am Chief Operating Officer of Telco Communications Group, Inc.; that I am authorized to make this verification on the Applicant's behalf; that I have read the foregoing application and exhibits; and that the facts stated therein are true and correct to the best of my knowledge, information and belief. In addition, I hereby declare that the Applicant agrees to adhere to all state laws and all commission policies, rules and orders.


Bryan K. Rachlin

Subscribed and sworn to before me this 8 day of July 1997.


Notary Public

My Commission expires: _____ My Commission Expires February 29, 2000

**SWIDLER & BERLIN
CHARTERED**
3000 K STREET, N.W., SUITE 300
WASHINGTON, D.C. 20007

FIRST UNION NATIONAL BANK
WASHINGTON, D.C.

0057958

NO. 057958

15-122/540

****EXACTLY*****250 DOLLARS AND*00*CENTS**

DATE

AMOUNT

07/08/97

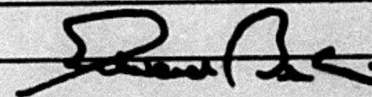
*****250.00

PAY
TO THE
ORDER
OF

South Dakota Public
Utilities Commission

GENERAL ACCOUNT

TWO SIGNATURES REQUIRED ABOVE \$10,000



⑈057958⑈ ⑆054001220⑆ 2030000087305⑈

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:

07/04/97 through 07/10/97

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			
TC97-122	Application by Access Point, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/TZ) "Applicant is a switchless reseller which intends to offer 1+ direct dialing, 800 toll free, and travel card (no prepaid calling cards) service through the resale of telephone services provided by facilities-based interexchange carriers."	07/07/97	07/25/97
TC97-123	Application by USBG, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/TZ) "Applicant seeks authority to offer a full range of 1+ interexchange telecommunications services on a resale basis. Specifically, Applicant seeks authority to provide MTS, out-WATS, in-WATS and Calling Card services. Applicant does not intend to provide operator services, 900 or 700 services."	07/07/97	07/25/97
TC97-124	Application by Electric Lightwave, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/TZ) "Applicant seeks ... authority to provide 1+, business 800, business calling cards, and prepaid calling cards to the general public and to small and large business."	07/07/97	07/25/97
TC97-127	Application by Telco Holdings, Inc. d/b/a Dial & Save for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: DJ/TZ) "Petitioner proposes to provide 24-hour intrastate interexchange telecommunications services, 800 services, and postpaid debit travel card services....Telco Holdings, Inc. hereby adopts the tariff of Dial & Save which has been approved and is on file with the Commission."	07/09/97	07/25/97
TC97-128	Application by Clarity Telecom LD Network Services, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: DJ/TZ) "The specific services to be offered by Clarity include switched inbound and outbound services to employees of Clarity and switched and dedicated inbound and outbound services for commercial customers, calling cards and directory assistance services for presubscribed commercial and residential customers."	07/10/97	07/25/97

TC97-129	Application by Telco Holdings, Inc. d/b/a Del & Sene for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: DUTZ) Telco proposes to provide local exchange service to subscribers from all points within the state of South Dakota and, therefore, seeks statewide authorization. Specifically, Telco seeks authority to provide local exchange service in the existing service areas of U S WEST The specific manner in which Telco will provide local exchange service depends upon the result of negotiations with the incumbent local exchange carrier currently operating within the State."	07/10/97	07/25/97
REQUEST FOR ELIGIBLE TELECOMMUNICATIONS COMPANY STATUS			
TC97-125	Brookings Municipal Utilities - Telephone Department 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. Brookings Telephones is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchange prefixes in South Dakota: 668, 662, 665 and 667 - serving within the corporate limits of Brookings, SD. Brookings Telephones, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified service area. (Staff: H966C)	07/07/97	07/25/97
TC97-124	Husson Communications d/b/a Husson County 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. Husson is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges in South Dakota: 696, 698, 699, 697, 695 and 694 - serving within the corporate limits of Brookings, SD. Husson, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified service area. (Staff: H966C)	07/10/97	07/25/97

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)
TELCO HOLDINGS, INC. D/B/A DIAL & SAVE)
FOR A CERTIFICATE OF AUTHORITY TO)
PROVIDE TELECOMMUNICATIONS)
SERVICES IN SOUTH DAKOTA)

ORDER GRANTING
CERTIFICATE OF
AUTHORITY

TC97-127

On July 9, 1997, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from Telco Holdings, Inc. d/b/a Dial & Save (Telco).

Telco seeks to provide intrastate interexchange telecommunications services. This application is pursuant to a corporate reorganization in which Dial & Save will be merged into Telco. Dial & Save will cease to exist after the merger is complete and Telco seeks a certificate of authority in its own name. A proposed tariff was filed by Telco. The Commission has classified long distance service as fully competitive.

On July 10, 1997, the Commission electronically transmitted notice of the filing and the intervention deadline of July 25, 1997, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled October 9, 1997, meeting, the Commission considered Telco's request for a certificate of authority. Commission Staff recommended granting a certificate of authority.

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 Telco has met the legal requirements established for the granting of a certificate of authority. Telco has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission approves Telco's application for a certificate of authority. As the Commission's final decision in this matter, it is therefore

ORDERED, that Telco's application for a certificate of authority is hereby granted. It is

FURTHER ORDERED, that Telco shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 17th 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 first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Nadine Kelds

Date: 10/20/97

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

**To Conduct Business As A Telecommunications Company
Within The State Of South Dakota**

Authority was Granted October 9, 1997
Docket No. TC97-127

This is to certify that

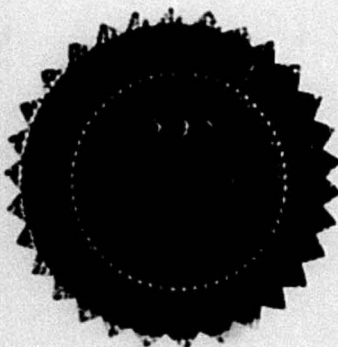
TELCO HOLDINGS, INC. D/B/A DIAL & SAVE

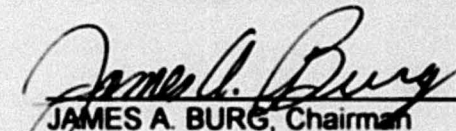
is authorized to provide telecommunications services in South Dakota.

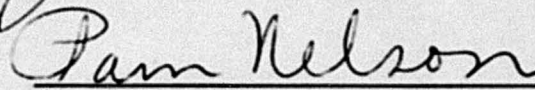
This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

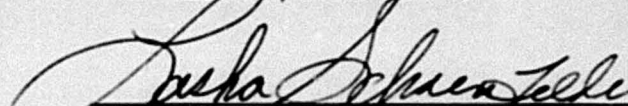
Dated at Pierre, South Dakota, this 17th day of October, 1997.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**




JAMES A. BURG, Chairman


PAM NELSON, Commissioner


LASKA SCHOENFELDER, Commissioner