

TC99-060

KC 25

TC99-060

DOCKET NO.

In the Matter of IN THE MATTER OF THE
APPLICATION OF CONVERGENT
COMMUNICATIONS SERVICES, INC.
FOR A CERTIFICATE OF AUTHORITY
TO PROVIDE TELECOMMUNICATIONS
SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE

DESCRIPTION

6/11/99 Filed and Docketed;
6/17/99 Public Hearing;
7/19/99 Revised Tariff Pages;
8/26/99 Revised Tariff Sheets;
9/14/99 Public Hearing C.A.H.;
9/14/99 Docket Closed

TC99-060

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Also Admitted in New York
and Maryland

June 10, 1999

VIA AIRBORNE EXPRESS

Mr. William Bullard
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070
(605) 773-3201

RECEIVED

JUN 11 1999

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

Re: Convergent Communications Services, Inc.

Dear Mr. Bullard:

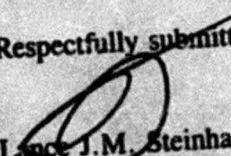
Enclosed please find one original and ten (10) copies of Convergent Communications Services, Inc.'s Application for Registration of a Telecommunications Company.

In order to expedite the processing of this application, I would like to suggest that all requests for information by the analyst be made by either telephone or facsimile. I will make every effort to respond on the day of the request.

I have also enclosed a check in the amount of \$250.00 payable to the "South Dakota Public Utilities Commission" for the filing fee, and an extra copy of this cover letter to be date stamped and returned to me in the enclosed self-addressed prepaid envelope.

If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me.

Respectfully submitted,


Lance J.M. Steinhart
Attorney for Convergent Communications Services, Inc.

Enclosures

cc: Karen Bedell

**APPLICATION FOR REGISTRATION
OF CONVERGENT COMMUNICATIONS SERVICES, INC.
FILED WITH THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE	)	
APPLICATION OF	)	
CONVERGENT COMMUNICATIONS	)	
SERVICES, INC.	)	
FOR AN ORDER	)	Docket No. _____
AUTHORIZING THE REGISTRATION	)	
OF APPLICANT AS A	)	
TELECOMMUNICATIONS COMPANY	)	

APPLICATION

Application is hereby made to the South Dakota Public Utilities Commission for an Order authorizing Convergent Communications Services, Inc. ("Applicant" or "CCSI") to register as a telecommunications company within the State of South Dakota. The following information is furnished in support thereof:

1. Name, Address and Telephone Number of Applicant:

Convergent Communications Services, Inc.
400 Inverness Drive South, Suite 400
Englewood, CO 80112
Telephone: (303) 749-3000

2. The name under which the Applicant will provide these services if different than in 1. above:

3. Applicant's corporate information:

Applicant was incorporated in the State of Colorado on December 5, 1996. A copy of the Applicant's Articles of Incorporation are attached hereto as Exhibit A. A copy of Applicant's Certificate of Authority to transact business as a foreign corporation in the State of South Dakota is attached hereto as Exhibit B. CCSI is a wholly-owned subsidiary of Convergent Communications, Inc. ("CCI"), also a Colorado corporation. CCI has filed a registration statement with the Securities and Exchange Commission, which has not, as of the date of this filing, yet become effective. CCI's ownership structure will remain essentially the same once the registration statement becomes effective, except for the dilution effects of issuance of a minority of shares to public shareholders. CCSI's structure will not change as a result of the transaction, and CCSI will continue to be a wholly-owned subsidiary of CCI after the registration statement becomes effective.

The Applicant has no principal office in South Dakota. The name and address of the Applicant's registered agent is:

National Registered Agents, Inc.
300 South Phillips Avenue, Ste. 300
Sioux Falls, SD 57102

The names and address of each corporation, association, partnership, cooperative, or individual holding a 20% or greater ownership or management interest in the Applicant corporation and the amount and character of the ownership or management interest are as follows:

Name and Address	Shares Owned	Percentage of all Shares Issued and Outstanding and Voting Control
------------------	--------------	--

Convergent Communications, Inc. 400 Inverness Drive South, Suite 400 Englewood, CO 80112		100%
---	--	------

4. Partnership Information:

Not Applicable.

5. Description of Services Applicant intends to offer:

Applicant is a reseller which intends to offer 1+ and 101XXXX direct outbound dialing, 800/888 toll-free inbound dialing, and travel card service.

6. Means by which the Applicant intends to provide services:

Applicant does not own or maintain any transmission facilities or switching equipment in the State of South Dakota. The Applicant will provide services through MCI WorldCom, its underlying carrier. As a reseller, Applicant has no points of presence in the State of South Dakota, thus Applicant neither owns, leases, nor operates any switching, transmission, or other physical facilities in the State of South Dakota, and no such facilities will be used by Applicant in providing service in the State of South Dakota. Rather, Applicant will be engaged in reselling services provided by facilities-based carriers within the State of South Dakota.

7. Geographic Areas in which services will be offered:

Applicant intends to provide services on a statewide basis.

8. Financial Qualifications:

Applicant is financially qualified to provide intrastate interexchange telecommunications services within South Dakota. In particular, Applicant has adequate access to the capital necessary to fulfill any obligations it may undertake with respect to the provision of intrastate telecommunications services in the State of South Dakota. See Exhibit C, which is attached hereto, Convergent Communications, Inc.'s Form 10K for the year ended December 31, 1998, which demonstrate that Applicant has the financial ability to provide the services that it proposes to offer.

9. Applicant's complaints and regulatory matters contact and how Applicant handles customer billings and customer service matters.

All inquiries regarding regulatory matters should be addressed to:

Karen Bedell, Regulatory Manager
400 Inverness Drive South, Suite 400
Englewood, CO 80112
Telephone: (303) 749-3000
Facsimile: (303) 749-3111
E-Mail: kbedell@converg.com

All inquiries regarding complaints should be addressed to:

Denise De Salvo, Director, Customer Care
67 Inverness Drive East, Suite 110
Englewood, CO 80112
Telephone: (800) 335-3811
Facsimile: (303) 749-3111
E-Mail: ddesalvo@converg.com

The Applicant's customers will be direct billed utilizing "real-time" completed call detail information from Applicant's underlying carriers. Applicant's toll-free number will be on all invoices and customer service will be provided in-house by the Applicant.

10. Regulatory Status:

Applicant is currently in the process of obtaining all required authorizations from the state regulatory agencies. Applicant is currently authorized to provide service in Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, New Jersey, North Carolina, Nebraska, Nevada, New Jersey, New Mexico, New York, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, Virginia, Washington, and Wisconsin.

The Applicant is in good standing with the appropriate regulatory agency in the states where it is registered or certified.

11. Description of Marketing

Applicant intends to market its services to primarily to small to mid-sized businesses. All sales personnel will have telecommunications service experience. Applicant will market through direct sales by employees and agents. Applicant does not intend to engage in multilevel marketing. No marketing materials are available at this time.

12. Cost Support:

Applicant intends to provide services at a price above its cost.

13. Federal Tax Identification Number:

84-1387594

14. The Number and Nature of Complaints filed against the Applicant with any state or federal regulatory commission regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered:

None

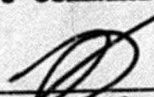
15. Tariff

A copy of Applicant's proposed tariff is attached hereto as Exhibit D.

WHEREFORE, the undersigned Applicant requests that the South Dakota Public Utilities Commission enter an order granting this application.

DATED this 19th day of July, 1999.

Convergent Communications Services, Inc.

By: 

Lance J.M. Steinhart, Its Counsel

6455 East Johns Crossing
Suite 285
Duluth, Georgia 30097
(770) 232-9200

STATE OF COLORADO

COUNTY OF DOUGLAS

Martin E. Freidel, being first duly sworn, deposes and says that he is the Exec. V.P., General Counsel, & Secretary of Convergent Communications Services, Inc., the Applicant in the proceeding entitled above, that he has read the foregoing application and knows the contents thereof; that the same are true of his knowledge, except as to matters which are therein stated of information or belief, and to those matters he believes them to be true.

Martin E. Freidel

Martin E. Freidel

Subscribed and sworn to before this 20th day of March, 1999.

Joanne G. Edmunds
Notary Public

My Commission expires: 6-25-2002



LIST OF EXHIBITS

- A - ARTICLES OF INCORPORATION**
- B - CERTIFICATE OF AUTHORITY**
- C - FINANCIAL INFORMATION**
- D - PROPOSED TARIFF**

EXHIBIT A - ARTICLES OF INCORPORATION

CHANGE OF
P.O.P.A.

AMENDED AND RESTATED
ARTICLES OF INCORPORATION OF
CONVERGENT COMMUNICATIONS SERVICES, INC.

STOCK CHANGE
DPA 1032157575 NEP

Pursuant to Section 7-110-107 of the Colorado Business Corporation Act, Convergent Communications Services, Inc. hereby adopts the following Amended and Restated Articles of Incorporation.

ARTICLE I

Name

1998102617c
\$ 30.00
SECRETARY OF STATE
02-10-98 12:16:48

The name of the corporation is CONVERGENT COMMUNICATIONS SERVICES, INC.

ARTICLE II

Authorized Capital

The aggregate number of shares of stock the corporation is authorized to issue is 11,000,000 shares, of which 10,000,000 shares shall be designated as common stock, par value \$0.01 per share, and 1,000,000 shares shall be designated as preferred stock, par value \$0.01 per share. The relative rights of the shares of the preferred stock and common stock shall be as follows:

1. Preferred Stock The corporation may divide and issue the preferred stock in series. Preferred shares of each series when issued shall be designated to distinguish them from the shares of all other series. The Board of Directors hereby is expressly vested with authority to divide the class of preferred stock into series and to fix and determine the relative rights, limitations and preferences of the shares of any such series so established to the full extent permitted by these Articles of Incorporation and the laws of the state of Colorado in respect of the following:
 - a. The number of shares to constitute such series, and the distinctive designations thereof,
 - b. The rate and preference of any dividends and the time of payment of any dividends, whether dividends are cumulative and the date from which any dividends shall accrue,
 - c. Whether shares may be redeemed and, if so, the redemption price and the terms and conditions of redemption,
 - d. The amount payable upon shares in event of involuntary liquidation,
 - e. The amount payable upon shares in event of voluntary liquidation.

- f. Sinking fund or other provisions, if any, for the redemption or purchase of shares;
- g. The terms and conditions on which shares may be converted, if the shares of any series are issued with the privilege of conversion;
- h. Voting rights, if any, and
- i. Any other relative rights and preferences of shares of such series, including without limitation any restriction on an increase in the number of shares of any series theretofore authorized and any limitation or restriction of rights or powers to which shares of any future series shall be subject.

2. Common Stock

- a. The holders of common stock shall have and possess all rights as shareholders of the corporation except as such rights may be limited by the preferences, privileges and voting powers, and the restrictions and limitations of the outstanding preferred stock. All common stock, when duly issued, shall be fully paid and nonassessable. The holders of common stock shall be entitled to receive such dividends as may be declared from time to time by the Board of Directors.
- b. Each shareholder of record shall have one vote for each share of stock standing in his name on the books of the corporation and entitled to vote, except that in the election of directors each shareholder of common stock shall have as many voters for each share held by him as there are directors to be elected by the common shareholders and for whose election the shareholder has a right to vote. Cumulative voting shall not be permitted in the election of directors or otherwise.
- c. The holders of the shares of common stock shall be entitled to receive the net assets of the Corporation upon dissolution or liquidation, subject to the payment of any preferences thereto applicable to outstanding preferred stock.

3. Preemptive Rights

No shareholder shall have preemptive rights.

ARTICLE III.

Officers And Registered Agent

1. The street address of the registered office of the corporation is 67 Inverness Drive East, Suite 110, Englewood, Colorado 80112, and the name of the registered agent at that address Martin E. Freidel. The written consent of the registered agent to the appointment as such is stated below.

2. The address of the corporation's principal office is 67 Inverness Drive East, Suite 110, Englewood, Colorado 80112.

ARTICLE IV.

Purposes

The corporation shall have and may exercise all of the rights, powers and privileges now or hereafter conferred upon corporations organized under the laws of Colorado. In addition, the corporation may do everything necessary, suitable or proper for the accomplishment of any of its corporate purposes. The corporation may conduct part of all of its business in any part of Colorado, the United States or the world and may hold, purchase, mortgage, lease and convey real and personal property in any of such places.

ARTICLE V.

Board of Directors

1. The corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, a Broad of Directors.
2. The number of directors of the corporation shall be fixed by resolution adopted from time to time by the Broad of Directors.

ARTICLE VI

Limitation on Director Liability

A director of the corporation shall not be personally liable to the corporation or to its shareholders for monetary damages for breach of fiduciary duty as a director, except that this provision shall not eliminate or limit the liability of a director to the corporation or to its shareholders for monetary damages otherwise existing for (i) any breach of the director's duty of loyalty to the corporation or to its shareholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) acts specified in Section 7-108-403 of the Colorado Business Corporation Act, as it may be amended from time to time; or (iv) any transaction from which the director directly or indirectly derived any improper personal benefit. If the Colorado Business Corporation Act is hereafter amended to eliminate or limit further the liability of a director, then, in addition to the elimination and limitation of liability provided by the preceding sentence, the liability of each director shall be eliminated or limited to the fullest extent permitted by the Colorado Business Corporation Act as so amended. Any repeal or modification of this Article VI shall not adversely affect any right or protection of a director of the corporation under this Article VI, as in effect immediately prior to such repeal or modification, with respect to any liability that would have accrued, but for this Article VI, prior to such repeal or modification. Nothing contained herein will be construed to deprive any director of his right to all defenses ordinarily available to a director nor will anything herein be construed to deprive any director of any he may have for contribution from any other director or other person.

ARTICLE VII

Conflicting Interest Transactions and Indemnification

The following provisions are inserted for the management of the business and for the conduct of the affairs of the corporation, and the same are in furtherance of and not in limitation or exclusion of the powers conferred by law.

1. Conflicting Interest Transactions. Are used in this paragraph, "conflicting interest transaction" means any of the following: (i) a loan or other assistance by the corporation to a director of the corporation or to an entity in which a director or the corporation is a director or officer or has a financial interest; (ii) a guaranty by the corporation of an obligation of a director of the corporation or of an obligation of an entity in which a director or the corporation is a director or officer or has a financial interest; or (iii) a contract or transaction between the corporation and a director of the corporation or between the corporation and an entity in which a director of the corporation is a director or officer or has a financial interest. No conflicting interest transaction shall be void or violable, be enjoined, be set aside, or give rise to an award of damages or other sanctions in a proceeding by a shareholder or by or in the right of the corporation, solely because the conflicting interest transaction involves a director of the corporation or any entity in which a director of the corporation is a director or officer or has a financial interest, or solely because the director is present at or participates in the meeting of the corporation's Board of Directors or of the committee of the Board of Directors which authorizes, approves or ratifies a conflicting interest transaction, or solely because the director's vote is counted for such purpose if: (A) the material facts as to the director's relationship or interest and as to the conflicting interest transaction are disclosed or are known to the Board of Directors or he committee, and the Board of Directors or committee in good faith authorizes, approves or ratifies the conflicting interest transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors are less than a quarter; or (B) the material facts as to the director's relationship or interest and as to the conflicting interest transaction are disclosed or are known to the shareholders entitled to vote thereon, and the conflicting interest transaction is specifically authorized, approved or ratified in good faith by a vote of the shareholders; or (C) the conflicting interest transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof, or the shareholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorized, approves or ratifies the conflicting interest transaction.

2. Indemnification. The corporation shall, to the fullest extent permitted by the Colorado Business Corporation Act, as amended from time to time, indemnify all persons whom it may indemnify pursuant thereto. Expenses (including attorneys' fees) incurred by an officer or director of the corporation or any of its direct or indirect wholly-owned subsidiaries in defending any civil, criminal, administrative or investigative action, suit or proceeding, shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation as authorized above. In the event that an officer or director incurs expenses (including attorneys'

fees) in connection with a successful action to enforce the above indemnification rights, such officer or director shall be entitled to indemnification for such expenses. The foregoing right of indemnification shall inure to each such director and officer, whether or not he or she is such director or officer at the time such cost or expenses are imposed or incurred, and whether or not the claim asserted against him or her is based on matters which antedate the adoption of these revised articles, and in the event of his or her death shall extend to his legal representatives. Such right of indemnification shall not be exclusive of any other rights to which such director or officer may be entitled to as a matter of law. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate. The corporation shall further have the authority to the maximum extent permitted by law to purchase and maintain insurance providing such indemnification.

3. Advancement of Expenses. The corporation shall, to the fullest extent permitted by the Colorado Business Corporation Act, as amended from time to time, advance indemnification expenses to all persons whom it may indemnify pursuant thereto.

ARTICLE VIII.

Bylaws

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

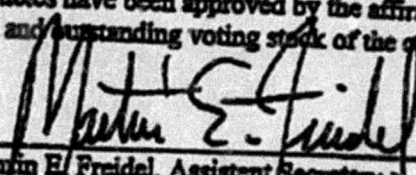
ARTICLE IX.

Existence

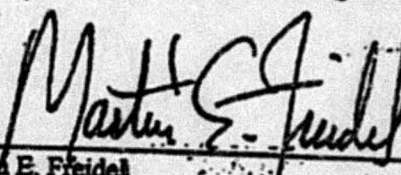
The corporation, if not dissolved, shall have perpetual existence.

[attestation follows]

IN WITNESS WHEREOF, the undersigned Assistant Secretary of the corporation has caused these Amended and Restated Articles of Incorporation to be executed this 10th day of February, 1998, and hereby certifies that the foregoing Articles have been approved by the affirmative vote of shareholders holding 100% of the authorized and outstanding voting stock of the corporation.


Martin E. Freidel, Assistant Secretary

Martin E. Freidel hereby affirms his consent to the appointment as the registered agent for Convergent Communication Services Inc.


Martin E. Freidel

EAC90402.042/3+

EXHIBIT B - CERTIFICATE OF AUTHORITY

State of South Dakota

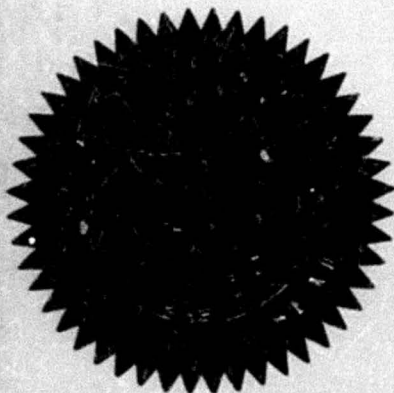


OFFICE OF THE SECRETARY OF STATE

Certificate of Good Standing Foreign Corporation

I, **JOYCE HAZELTINE**, Secretary of State of the State of South Dakota, do hereby certify that **CONVERGENT COMMUNICATIONS SERVICES, INC. (CO)** was authorized to transact business in this state on **September 1, 1998** I, further certify that said corporation has complied with the South Dakota law governing foreign corporations transacting business in this state, and so far as the records of this office show, said corporation is in good standing in this State at the date hereof and duly authorized to transact business in the State of South Dakota. This certificate is not to be construed as an endorsement, recommendation or notice of approval of the corporation's financial condition or business activities and practices. Such information is not available from this office.

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 February 24, 1999.



A handwritten signature in cursive script, reading "Joyce Hazeltine".

Joyce Hazeltine
Secretary of State

EXHIBIT C - FINANCIAL INFORMATION

Item 8. Financial Statements and Supplementary Data

Report of Independent Accountants

To the Board of Directors of Convergent Communications, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Convergent Communications, Inc. at December 31, 1997 and 1998, and the results of their operations and their cash flows for the period January 1, 1996 to December 16, 1996, the period from inception (March 1, 1996) to December 31, 1996 and the years ended December 31, 1997 and 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As explained in Note 1 to the financial statements, the Successor Company purchased all of the net assets of the Predecessor Company as of December 17, 1996. The transaction was accounted for as a purchase whereby the purchase price was allocated to the assets and liabilities of the Predecessor based on their estimated fair values as of December 17, 1996. Accordingly, the financial statements of the Successor Company are not comparable to those of the Predecessor.

PricewaterhouseCoopers LLP

Denver, Colorado

March 5, 1999, except for
Note 16, as to which the date is March 17, 1999

CONVERGENT COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	1997	1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 667,344	\$ 25,597,461
Short-term investments	7,371,303	—
Restricted cash	—	20,800,000
Trade accounts receivable, net of allowance for doubtful accounts of \$21,389 and \$1,908,811, respectively	2,075,150	17,661,220
Inventory	230,809	6,826,732
Prepaid expenses, deposits and other current assets	218,349	2,134,210
Total current assets	<u>10,562,955</u>	<u>73,019,623</u>
Property, network and equipment	5,448,183	28,139,460
Less accumulated depreciation	(610,386)	(4,882,832)
Total property, network and equipment	4,837,797	23,256,628
Restricted cash	405,816	30,549,658
Goodwill, net of amortization of \$475,052 and \$2,967,283, respectively	6,392,600	46,526,288
Other intangible assets, net of amortization of \$358,486 and \$1,470,363, respectively	1,728,575	10,281,016
Investments and other assets	994,426	1,225,626
Leases receivable, net of current portion	—	796,790
Total assets	<u>\$24,922,169</u>	<u>\$185,655,629</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Trade accounts payable	\$ 2,040,457	\$ 15,061,514
Accrued compensation	1,467,587	4,583,140
Accrued interest	—	5,214,133
Other accrued liabilities	691,781	8,666,182
Deferred revenue and customer deposits	61,545	5,211,748
Current portion of notes payable	163,220	603,919
Current portion of capital leases	804,138	5,179,251
Total current liabilities	<u>5,228,728</u>	<u>44,519,887</u>
Long-term notes payable, less current portion	378,761	153,730,573
Long-term capital leases, less current portion	586,950	8,754,054
Total liabilities	<u>6,194,439</u>	<u>207,004,514</u>
Commitments (Note 8)		
Shareholders' equity (deficit):		
Preferred stock, 1 million shares authorized, none issued	—	—
Common stock, no par value, 100 million shares authorized, 26,859,000 and 27,848,270 issued and outstanding, respectively	24,004,297	27,486,554
Warrants	4,773,751	11,719,399
Treasury stock	—	(501,674)
Deferred compensation obligation	—	501,674
Accumulated other comprehensive income	(16,864)	—
Unearned compensation	(204,750)	(150,150)
Accumulated deficit	(9,828,704)	(60,404,688)
Total shareholders' equity (deficit)	<u>18,727,730</u>	<u>(21,348,885)</u>
Total liabilities and shareholders' equity (deficit)	<u>\$24,922,169</u>	<u>\$185,655,629</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONVERGENT COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the period from January 1, 1996 through December 16, 1996	For the period from inception through December 11, 1996	For the year ended December 31,	
	(Predecessor)	(Successor)	1997 (Successor)	1998 (Successor)
Data and voice service revenue	\$1,495,977	\$ 57,754	\$ 2,794,777	\$ 27,922,022
Data and voice product revenue	—	39,387	7,415,247	33,678,089
Total revenue	<u>1,495,977</u>	<u>97,741</u>	<u>10,210,024</u>	<u>61,600,111</u>
Cost of sales, excluding depreciation	1,018,494	79,459	7,368,509	43,703,183
Selling, general and administrative	554,109	552,092	10,982,769	47,861,785
Depreciation and amortization	124,086	40,698	1,453,019	7,493,613
Total operating expenses	<u>1,696,689</u>	<u>672,249</u>	<u>19,804,297</u>	<u>99,058,581</u>
Operating loss	(200,712)	(574,508)	(9,594,273)	(37,458,470)
Interest expense	(20,588)	(884)	(155,450)	(17,501,512)
Interest income	—	—	251,290	4,632,420
Other income (expense)	—	—	(156,346)	(248,422)
Net loss	<u>\$ (221,300)</u>	<u>\$ (575,392)</u>	<u>\$ (9,654,779)</u>	<u>\$ (50,575,984)</u>
Net loss per share (basic)		<u>\$ (0.07)</u>	<u>\$ (0.46)</u>	<u>\$ (1.84)</u>
Weighted average shares outstanding (basic)		<u>7,774,651</u>	<u>20,921,569</u>	<u>27,463,469</u>
Net loss per share (diluted)		<u>\$ (0.07)</u>	<u>\$ (0.46)</u>	<u>\$ (1.84)</u>
Weighted average shares outstanding (diluted)		<u>7,774,651</u>	<u>20,921,569</u>	<u>27,463,469</u>

The accompanying notes are an integral part of these consolidated financial statements.

Predecessor

Successor

The accompanying notes are an integral part of these consolidated financial statements.

CONVERGENT COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period from January 1, 1996 through December 16, 1996	For the period from inception through December 31, 1996	For the year ended December 31,	
	(Predecessor)	(Successor)	1997 (Successor)	1998 (Successor)
Cash flows from operating activities				
Net loss	\$(221,300)	\$ (575,392)	\$(9,654,779)	\$(50,575,984)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	124,076	40,698	1,453,019	7,493,613
Amortization of deferred financing costs and accretion of debt discount	—	—	—	1,162,465
Provision for uncollectible accounts	3,802	—	—	196,532
Stock compensation expense	—	282,267	194,517	633,828
401k contributions through the issuance of stock	—	—	—	435,894
Warrants issued for the payment of consulting fees	—	—	—	79,883
Loss from sale of equipment	312	—	50,751	—
Other	—	—	40,000	—
Change in working capital (net of acquisitions):				
Trade accounts receivable	61,535	(97,741)	(1,527,544)	(10,969,753)
Inventory	—	—	(230,809)	(2,063,102)
Prepaid expenses, deposits and other current assets	1,107	(51,697)	(43,420)	(870,269)
Trade accounts payable	10,341	56,278	1,326,723	12,357,189
Accrued compensation	—	—	1,467,587	2,591,776
Accrued interest	—	—	—	5,214,133
Deferred revenue and customer deposits	—	—	61,545	3,299,802
Other accrued liabilities	(10,544)	103,731	161,127	2,321,332
Net cash used in operating activities	(30,671)	(241,856)	(6,698,283)	(28,697,661)
Cash flows from investing activities				
Additions of property and equipment	(35,742)	(28,713)	(2,042,203)	(6,877,095)
Acquisitions, net of cash acquired	—	(1,157,304)	(1,542,208)	(42,364,328)
Short-term investments	—	—	(7,388,167)	7,388,167
Restricted cash	—	—	(405,816)	(50,943,842)
Leases receivable	—	—	—	(1,174,302)
Intangible and other assets	(115)	(259,637)	(269,425)	(675,206)
Net cash used in investing activities	(35,857)	(1,445,654)	(11,647,819)	(94,646,606)
Cash flows from financing activities				
Proceeds from senior notes and warrants, net	—	—	—	152,377,955
Payments on notes payable	(9,214)	—	(317,927)	(1,397,043)
Payments on capital leases	—	—	—	(2,940,834)
Proceeds from borrowings	100,000	—	—	109,206
Proceeds from initial capital contributions	—	450,000	—	—
Proceeds from sale of common stock, net	—	4,398,897	17,257,366	—
Payment of note to former owner of ICN	—	—	(1,000,000)	—
Cash paid to retire indebtedness of predecessor company	—	—	(132,380)	—
Proceeds from exercise of stock options and warrants	—	—	57,000	125,100
Repurchase of common shares	—	—	(12,000)	—
Net cash provided by financing activities	90,786	4,848,897	15,852,059	148,274,384
Net increase (decrease) in cash and cash equivalents	24,258	3,161,387	(2,494,043)	24,930,117
Cash and cash equivalents at beginning of period	13,438	—	3,161,387	667,344
Cash and cash equivalents at end of period	<u>\$ 37,696</u>	<u>\$3,161,387</u>	<u>\$ 667,344</u>	<u>\$ 25,597,461</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONVERGENT COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, (Continued)

	For the period from January 1, 1996 through December 16, 1996	For the period from inception through December 31, 1996	For the year ended December 31,	
	(Predecessor)	(Successor)	1997 (Successor)	1998 (Successor)
Supplemental disclosure of other cash and non-				
cash investing and financing activities:				
Acquisition of equipment through the assumption of capital lease obligations	\$ —	\$ —	\$1,674,596	\$13,038,529
Interest paid	\$18,190	\$ —	\$ 144,782	\$11,124,914

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The accompanying notes are an integral part of these consolidated financial statements.

CONVERGENT COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION:

References in these footnotes to "Convergent Communications", "us," "we," and "our" refer to Convergent Communications, Inc. and its subsidiaries.

Convergent Communications, Inc. is a single-source provider of data and voice communications systems, services and solutions to small and medium-sized businesses. We design, build, install, monitor and manage data and telephony networks inside enterprises and provide external network services such as data transport long distance, and local service and Internet access. We offer these products and services on a stand-alone basis or as part of a bundled offering that can include owning an enterprise's internal data and voice networks. We are also installing a next-generation, converged data and voice switching platform in each of the markets in which we operate to efficiently handle our customers' traffic. We provide the following products and services:

- Data Services
- Voice Services
- Enterprise Network Services
- Data Products
- Voice Products

In November 1996, we consummated a private placement offering (the "Private Placement") and on December 17, 1996 we acquired all of the assets of Integrated Communication Networks, L.C. ("ICN") in exchange for cash, notes and shares of common stock. This acquisition has been treated as a business combination accounted for by the purchase method of accounting. The accompanying consolidated financial statements include the accounts of ICN from December 17, 1996, the effective date of the acquisition. For purposes of identification and description, ICN is referred to as the "Predecessor" for the period prior to the acquisition. In these financial statements the term "Successor" is used to refer to us since our inception and to ICN since December 17, 1996 (see Note 3).

Our ultimate success depends upon, among other factors, establishment of our nationwide network, funding the development of our enterprise networks, continuing to develop our customer care and sales organizations, integrating acquired businesses, attracting and retaining customers, continuing to develop and integrate our operational support system and other back office systems, responding to competitive developments, continuing to attract, retain and motivate qualified personnel, and continuing to upgrade our technologies and commercialize our services incorporating such technologies. There is no assurance that we will be successful in addressing these matters and failure to do so could have a material adverse effect on our business prospects, operating results and financial condition. Our business plan will continue to require a substantial amount of capital to fund our expansion of our existing and acquired markets. As we continue to expand our business, we will seek additional sources of financing to fund our development. If we are unsuccessful in obtaining such financing, we would be compelled to alter our business strategy or delay or abandon some of our future plans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation:

The accompanying consolidated financial statements include our accounts and the accounts of our wholly owned subsidiaries. All intercompany amounts and transactions have been eliminated.

Use of Estimates:

Our management is required to make estimates and assumptions in order to prepare the financial statements in conformity with generally accepted accounting principles. These estimates and assumptions affect the reported

CONVERGENT COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Short-term Investments:

Short-term investments are classified as available-for-sale securities at December 31, 1997. Gains or losses on the sale of short-term investments are recognized on the specific identification method. Unrealized gains or losses are treated as a separate component of shareholders' equity until the security that the unrealized gain or loss was recorded on is sold. Other than in restricted cash, we had no short-term investments at December 31, 1998, as none of our investments had original maturities greater than three months.

Restricted Cash:

Restricted cash primarily represents funds held in collateral accounts for paying semi-annual interest payments on the 13% Senior Notes through April 1, 2001. The cash is invested in U.S. Government Securities, which mature semi-annually on October 1 and April 1 through April 1, 2001 (see Note 7). Restricted cash also represents cash used to collateralize letters of credit, which are held as collateral for certain of our office leases, capital lease obligations and performance bonds. The amounts invested are classified as held to maturity and carried at amortized cost which approximates fair value.

Fair Value of Financial Instruments:

The carrying amounts reported in the balance sheets for cash and cash equivalents, short-term investments, accounts receivable, accounts payable and short-term borrowings approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amounts reported for long-term debt other than the 13% Senior Notes approximate fair value based upon management's best estimates of what interest rates would be available for the same or similar instruments. The 13% Senior Notes are publicly traded securities. The quoted fair market value and the carrying amount of the 13% Senior Notes at December 31, 1998 are as follows:

	Carrying Amount	Fair Market Value
13% Senior Notes	\$160,000,000	\$76,800,000

Property, Network and Equipment:

Property, network and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the lease term if shorter, which range from two to five years. Expenditures which significantly increase asset values or extend useful lives are capitalized. Maintenance and repairs are expensed as incurred. When property, network and equipment is retired, sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and resulting gains and losses are reflected in operations.

Inventory:

Inventory primarily consists of new and refurbished equipment for resale and is valued at the lower of cost or market using the first-in, first-out method. We evaluate the need for reserves associated with obsolete and excess inventory.

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Intangible Assets:

Intangible assets consist of the following:

- *Goodwill* represents the excess purchase price over the net assets acquired in acquisitions and is being amortized over ten years.
- *Customer lists* were obtained through business combinations and are being amortized over five years.
- *Debt offering costs* represent costs incurred in connection with an offering of 13% senior notes (see Note 7) and are being amortized over the term of the notes, ten years.
- *Deferred finance costs* are costs associated with obtaining certain financing arrangements and are amortized over the life of the financing arrangement, three years.
- *Site location contracts* are exclusive rights to operate public telephones at various locations we acquired through business combinations. The site location contracts are being amortized over the average lives of the contracts, primarily three years.
- *Software license fees* represent proprietary rights to software associated with our public telephones which are being amortized over five years, the estimated life of the related equipment.

We periodically evaluate the carrying amount of our intangible assets based on undiscounted cash flows, or other indicators of fair value, to determine whether adjustments to these amounts are required.

Long-Lived Assets:

We evaluate the recoverability of long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"). SFAS 121 requires an evaluation of indicators of impairment and future undiscounted cash flows to be generated by those assets. Impairment is measured as the amount by which the asset's carrying amounts exceed the future discounted cash flows estimated to be generated by those assets. We do not believe an impairment exists as of December 31, 1998.

Investments:

Investments consist of ownership interests of less than 20% in unrelated entities and are accounted for using the cost method.

Software:

We capitalize certain costs of developing software for internal use. Such costs are amortized on a straight line basis over three years, which is the estimated useful life of the software. In March 1998, the AICPA issued Statement of Position No. 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidance regarding the conditions under which the costs of internal-use software should be capitalized, and is effective for financial statements for years beginning after December 15, 1998. We do not expect the adoption of SOP 98-1 to have a material effect on our financial statements.

Revenue Recognition:

Revenue is recognized for product sales when the product is shipped. Revenues from non-recurring services are recognized when the services are provided. Revenue for long-term service and maintenance contracts is recognized over the term of the contract as the services are provided. Revenue from reselling of long distance service is recognized at the time of performance based on customer usage.

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred Revenue:

Deferred revenue represents the unearned portion of revenue related to our long-term service and maintenance contracts, which is recognized over the term of the contract, generally one year.

Income Taxes:

Deferred tax assets and liabilities are recognized for future tax consequences attributable to the differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured by using enacted tax rates that are applicable to the future years in which deferred tax assets or liabilities are expected to be realized or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in net earnings in the period in which the tax rate change is enacted. We establish a valuation allowance when it is more likely than not that a deferred tax asset will not be recovered.

Stock-Based Compensation:

We use the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," to account for our employee stock-based compensation plans. We account for options and warrants granted to non-employees in accordance with Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), which requires that we recognize an expense based on the fair value of the option or warrant at the time of grant.

Concentrations of Credit Risk:

We sell products and services to small to medium sized businesses on open account and do not obtain collateral for our receivables. We believe our reserves for potential credit losses are adequate and we perform on-going credit evaluations. To date, we have not experienced any significant credit losses.

All of our cash, cash equivalents and investments are maintained at a single financial institution, certain accounts are over insurable limits. The investments consist of high-quality commercial paper.

Reclassifications:

Certain reclassifications have been made to the prior year data to make it consistent with the 1998 presentation. These reclassifications had no impact on net loss.

Recently Adopted Accounting Standards:

Effective January 1, 1998 we adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement established standards for reporting and display of comprehensive income and its components. Comprehensive income generally includes changes in separately reported components of equity along with net income.

We have adopted Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" for the year ended December 31, 1998. We have disclosed the business segments that we operate in along with the financial information that management uses in measuring the operating performance of those segments and for allocating resources to each segment as required by this statement (Note 10). The adoption of this statement had no effect on our results of operations, financial position or cash flows.

The American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 provides guidance on the financial reporting of start-

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

up costs and organization costs. It requires cost of start-up activities and organization costs to be expensed as incurred and is effective for financial statements for fiscal years beginning after December 15, 1998, early adoption is encouraged. We have adopted SOP 98-5 for fiscal year ended December 31, 1998. The amount of start-up costs written off as a result of the adoption of this SOP was not material.

3. Acquisitions:

Integrated Communication Networks, L.C. In December 1996, we acquired Integrated Communication Networks, L.C. (ICN), a public telephone service provider. We paid \$1,232,300 in cash, issued a \$1,000,000 promissory note and issued 3,500,000 shares of our common stock valued at \$3,500,000 for total consideration of \$5,732,300. The note was paid in January 1997.

Communication Services of Iowa, Inc. In April 1997, we acquired Communication Services of Iowa, Inc. (CSI), an Iowa reseller of telephony keyboard PBX telephone equipment to businesses. We paid \$100,000 cash, issued a \$100,000 one-year promissory note at 8% and issued 50,000 shares of our common stock valued at \$50,000 for total consideration of \$250,000. The note was paid in March 1998.

A.T.T.ex Corporation. In September 1997, we acquired A.T.T.ex Corporation (A.T.T.ex) of Des Moines, Iowa, a telecommunications service company that provided direct telephony service support to corporate customers. The purchase price consisted of \$450,000 in cash and the issuance of 75,000 shares of our common stock valued at \$187,500 for total consideration of \$537,500.

Vital Integration Solutions, Inc. In September 1997, we acquired Vital Integration Solutions, Inc. (Vital) of Des Moines, Iowa and Omaha, Nebraska, a full service integration solutions provider which specialized in comprehensive information management and networking solutions. Vital provided its clients with the hardware, software and integration services necessary to build information systems and networks. We paid \$500,000 in cash and issued 750,000 shares of our common stock valued at \$1,875,000 for total consideration of \$2,375,000.

Telephone Communications Corporation. In February 1998, we acquired the assets and assumed certain liabilities of Telephone Communications Corporation ("TCC") of Vail, Colorado. TCC was a long distance switchless reseller providing 1+, 0+, 800, and Calling Card services to cities such as Dillon, Frisco and the Vail Valley. We paid \$400,000 in cash, issued a \$200,000 one-year note at 8% and issued 10,000 shares of our common stock which for purchase accounting purposes were assigned a value of \$4.00 per share. We also assumed a note with National Network Corporation of approximately \$287,000, which was paid in April 1998. Total consideration for the purchase was \$927,000. We negotiated an early discounted payoff of the \$200,000 note in the total amount of \$180,000 (including accrued interest of \$2,250) in May 1998.

Network Computer Solutions, LLC. In February 1998, we acquired the assets and assumed certain liabilities of Network Computer Solutions ("NCS") of Greenwood Village, Colorado. NCS provided network integration services. We paid \$500,000 in cash, issued 100,000 shares of our common stock which for purchase accounting purposes were assigned a value of \$4.00, assumed liabilities of \$438,372 and paid a finders fee of \$150,000 for total consideration of \$1,488,372.

Communication Services of Colorado. In May 1998, we completed a merger with Communication Services of Colorado ("CSC") of Englewood, Colorado. CSC was a long distance switchless reseller providing 1+, 0+, 800, and Calling Card services. The purchase price consisted of \$475,000 in cash, the issuance of a \$530,000 one-year note at 8% and assumed liabilities of \$341,054 for total consideration of \$1,346,054.

HH&H Communications Technologies, Inc. In May 1998, we completed the acquisition of the assets and certain liabilities of HH&H Communications Technologies, Inc. ("CTI"), a voice equipment provider in Texas.

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We paid \$200,000 in cash, issued 30,000 shares of our common stock, which for accounting purposes were assigned a value of \$4.25 per share, and assumed liabilities of \$151,383 for total consideration of \$478,883.

CMB Holdings, Inc. d/b/a Independent Equipment Company. In June 1998, we completed the acquisition of substantially all of the assets of CMB Holdings, Inc. d/b/a Independent Equipment Company ("IEC"), an equipment remarketer in Florida. The purchase price consisted of the issuance of 340,000 shares of our common stock, which for accounting purposes were assigned a value of \$5.00 per share, for total consideration of \$1.7 million.

The Communications, Inc. Effective August 1, 1998 we completed the acquisition of substantially all the assets and certain of the liabilities of The Communications, Inc. ("The"). The purchase price consisted of \$40.0 million in cash and the assumption of certain liabilities, which with legal and professional and other costs resulted in a total purchase price of approximately \$51.4 million. The was a telecommunications equipment provider and a nationwide reseller of long-distance service.

We accounted for these acquisitions as business combinations, which were accounted for by the purchase method of accounting. We valued the acquisitions at the fair market value of the consideration given. With regard to our common stock and warrants, we determined the fair market value based upon a number of factors including a market analysis of publicly traded companies and a discounted cash flow analysis. An option pricing model was also used to value our warrants. In connection with the acquisitions, the excess of consideration given over the fair market value of the net assets acquired is being amortized on a straight line basis over the estimated life of the intangible assets acquired which is five to ten years. The accompanying financial statements include the accounts of the acquired companies from the effective dates of the acquisitions.

In addition to the business acquisitions previously discussed, we have also completed purchases of certain assets of other companies as follows:

Big Planet, Inc. In October 1997, we acquired certain assets and assumed certain liabilities of Big Planet, Inc. of Portland, Oregon. Big Planet is an Internet service provider (ISP) offering a full range of Internet services, including Internet access, Web hosting, maintenance, and site design. We paid \$250,000 in cash for the assets and the assumption of certain trade payables.

Sigmacom Corporation. In December 1997, we acquired certain data integration assets of Sigmacom Corporation. Sigmacom is a systems integrator for corporate audio, video and data communications, providing state-of-the-art systems that combine telecommunications and computer network technologies. Sigmacom is also developing Internet application software for financial institutions such as credit unions. We paid \$875,000 in cash and issued Sigmacom a warrant to purchase 50,000 shares of our common stock at an exercise price of \$7.50 per share, which expires in December 1999. We valued the warrants, at an aggregate value of \$30,000 utilizing an option pricing model and a number of factors including a market analysis of publicly traded companies and a discounted cash flow analysis. We also acquired a minority interest in Sigmacom's software development business to which we allocated \$350,000 of the purchase price.

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The consideration paid for acquisitions in 1996, 1997 and 1998, and the allocation of such consideration to the acquired assets and assumed liabilities is as follows:

	1996	1997	1998
Cash paid, net of cash acquired	\$1,157,304	\$1,542,208	\$42,364,328
Common stock issued to the former owners	3,500,000	2,112,500	2,266,400
Notes payable and liability to former owners	1,000,000	100,000	907,500
Receivable eliminated through the acquisition of ICN	75, 00	—	—
Warrants issued	—	35,000	—
Total amount to be allocated	<u>\$5,732,304</u>	<u>\$3,809,708</u>	<u>\$45,538,228</u>
Allocation to acquired assets and assumed liabilities:			
Goodwill	\$3,212,608	\$3,384,168	\$42,544,447
Accounts receivable	50,164	399,700	4,812,849
Inventory	—	115,971	4,586,188
Equipment	1,904,796	355,959	2,945,343
Customer lists	—	—	1,683,696
Prepaid expenses, deposits and other current assets	7,262	3,950	669,110
Investments	—	350,000	—
Sole contracts	656,682	—	—
Software license	496,643	—	—
Accounts payable and accrued liabilities	(140,107)	(636,747)	(6,804,169)
Deferred revenue, net of costs	—	—	(1,911,946)
Debt	(455,744)	(163,293)	(2,987,290)
Amounts allocated	<u>\$5,732,304</u>	<u>\$3,809,708</u>	<u>\$45,538,228</u>

On a pro forma basis, as though the above combinations had taken place at the beginning of the periods presented, revenue, net loss and net loss per share would have been as follows (unaudited):

	1997	1998
Revenue	\$118,964,021	\$10,666,921
Net loss	\$(26,068,210)	\$(59,562,317)
Net loss per share	\$ (1.19)	\$ (2.14)
Weighted average shares	21,963,316	27,846,802

4. Short-Term Investments:

All of our short-term investments as of December 31, 1997 are classified as available for sale. The investments had an amortized cost basis of \$7,388,167 at December 31, 1997 and a fair value of \$7,371,303 at December 31, 1997. The unrealized loss at December 31, 1997 related to these investments which matured in 1998 was \$16,864.

5. Leases Receivable:

Our wholly owned subsidiary, Convergent Capital Corporation ("CCC"), leases data and telephony equipment to our customers under direct financing leases. The receivables, which are due over two to five years prepaid expenses, deposits and, are collateralized by the equipment being leased. The current portion of leases receivable is included in other current assets. The components of leases receivable and the future minimum payments receivable are as follows:

CONVERGENT COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

<u>Receivable in:</u>	<u>December 31,</u> <u>1998</u>
1999	\$ 468,189
2000	402,864
2001	266,832
2002	174,728
2003	78,670
Gross receivables	1,391,283
Unearned income	(216,981)
Lease receivables	1,174,302
Less: current portion	(377,512)
Long-term lease receivables	<u>\$ 796,791</u>

6. Property, Network and Equipment:

Property, network and equipment consists of the following:

	<u>December 31,</u>	
	<u>1997</u>	<u>1998</u>
Office furniture and equipment	\$2,908,261	\$14,057,009
Network equipment	2,256,942	12,906,012
Leasehold improvements	56,559	938,645
Company vehicles	226,421	237,794
	5,448,183	28,139,460
Less accumulated depreciation	(610,386)	(4,882,832)
Net property, network and equipment	<u>\$4,837,797</u>	<u>\$23,256,628</u>

Depreciation expense was \$70,739 for the period from January 1, 1996 to December 16, 1996, \$5,365 for the period from inception to December 31, 1996, \$515,317 for the year ended December 31, 1997 and \$4.3 million for the year ended December 31, 1998. We enter into capital leases for various equipment. Equipment under capital leases is as follows:

	<u>December 31,</u>	
	<u>1997</u>	<u>1998</u>
Network equipment	\$ —	\$11,865,309
Furniture and equipment	1,674,596	4,020,300
	1,674,596	15,885,609
Less accumulated depreciation	(338,199)	(2,906,152)
	<u>\$1,336,397</u>	<u>\$12,979,457</u>

CONVERGENT COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Notes Payable and Capital Leases:

Notes Payable

Notes payable consist of the following:

	December 31,	
	1997	1998
13% Senior Notes payable, (i) below	\$ —	\$153,630,080
Note payable for acquisition, interest at 8%, principal and accrued interest due May 1999	—	530,000
Note payable assumed in acquisition, interest at 9.75%, payable in monthly installments of \$2,257, through May 2000	—	35,707
Notes payable for vehicles, interest rates ranging from 6.9% to 11.2%, payable in monthly installments totaling \$5,848 through June 2002, (ii) below	147,746	138,705
Note payable, interest at 4%, payable in monthly installments of \$1,963 through September 2014, (iii) below	287,565	—
Note payable for acquisition, interest at 8%, principal and accrued interest due March 1998	106,670	—
Less current portion	541,981	154,334,492
Long term portion	(163,220)	(603,919)
	<u>\$ 378,761</u>	<u>\$153,730,573</u>

- (i) On April 2, 1998, we completed a private offering of \$160.0 million of 13% Senior Notes ("13% Senior Notes") and 640,000 warrant to purchase 1,728,000 of our common shares (the "Warrants") (collectively, the "13% Notes Offering"). The 13% Senior Notes mature on April 1, 2008 and interest is payable semi-annually in arrears on April 1 and October 1 of each year beginning October 1, 1998. At the same time as the closing of the 13% Notes Offering, we deposited U.S. Government Securities in a collateral account. The amount deposited in the collateral account together with the interest earned on those securities, will be enough to pay the first six interest payments on the 13% Senior Notes. The first payment was made on October 1, 1998. The 13% Senior Notes contain certain covenants that restrict our ability to incur additional debt and to make certain payments, including dividends. Each Warrant entitles the holder to purchase 2.7 shares of our common stock at an exercise price of \$0.01 per share. The Warrants are currently exercisable and expire on April 1, 2008. Each Warrant was assigned a value of \$10.76 using an option pricing model, a market analysis of publicly traded companies and a discounted cash flow analysis. The proceeds that were attributable to the Warrants were treated as a discount to the 13% Senior Notes and allocated to shareholders' equity. We received proceeds approximately of \$95.6 million after deducting offering costs of approximately \$7.6 million and making the deposit of \$56.8 million into the collateral account. As of December 31, 1998 the amount outstanding, net of the unamortized discount of \$4.4 million resulting from the allocation of the warrants, was \$153.6 million.

- (ii) In June 1997, we obtained a one-year renewable line of credit with General Motors Acceptance Corporation in the amount of \$538,000 to acquire vehicles for operations. Advances under the line are payable over a four to five year term. We have used \$155,521 of this credit facility on which \$94,893 was outstanding at December 31, 1997 and \$115,803 was outstanding at December 31, 1998. We do not anticipate additional borrowings under this facility.

- (iii) This note was paid in April 1998.

Scheduled maturities on debt outstanding are as follows:

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Due in:	December 31, 1998
1999	\$ 603,919
2000	58,388
2001	37,918
2002	4,127
2003	—
Thereafter	160,000,000
	160,704,412
Less unaccreted discount	(6,369,820)
Total debt	<u>\$154,334,492</u>

Capital Leases

Some of our equipment and equipment used by our customers is leased under capital leases. The following is a schedule of the minimum lease payments under capital leases together with the present value of the minimum lease payments.

Due in:	December 31, 1998
1999	\$6,082,644
2000	5,440,318
2001	3,596,597
2002	529,588
2003	218,450
Total minimum lease payments	15,867,597
Less amount representing interest	(1,934,292)
Present value of minimum lease payments	13,933,305
Less current portion	(5,179,251)
Long-term portion	<u>\$8,754,054</u>

Comdisco Facility. In November 1997 we entered into a three year Program Agreement with Comdisco, Inc. ("Comdisco") which provides for up to \$50 million of equipment lease financing. At December 31, 1998, \$10 million of the \$50.0 million was available for us to use of which \$7.6 million was being utilized. The Program Agreement expires on June 30, 2000.

The Comdisco facility is collateralized by the equipment being financed. In addition, we are required to issue a warrant to acquire shares of our common stock in an amount equal to ten percent (10%) of the facility, divided by the exercise price per share. The exercise price per share is equal to the price paid by investors in recent equity offerings, not less than \$3.00 per share. The warrants will be issued in three installments based upon amounts available under the facility. We issued a warrant in 1997 for the purchase of 333,333 shares of our common stock at an exercise price of \$3.00 per share for the first \$10 million of the facility which were valued utilizing an option pricing model, and a number of factors including a market analysis of publicly traded companies and a discounted cash flow analysis. The warrants are being amortized into interest expense over three years.

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Sun Financial Facility. In May 1997, we entered into a Master Equipment Lease with Sun Financial Group, Inc. to lease equipment, facilities and related items for our internal expansion as well as equipment to be used for customer installations. The facility is collateralized by a \$100,000 standby letter of credit. In connection with the establishment of the facility, we issued a warrant to Sun Financial Group, Inc. for the purchase of 80,571 shares of our common stock at an exercise price of \$3.00 per share. We valued the warrant utilizing a option pricing model and a number of other factors including a market analysis of publicly traded companies and a discounted cash flow analysis. The warrant is being amortized into interest expense over three years. We had amounts outstanding under this facility of \$1.4 million as of December 31, 1997 and \$4.4 million as of December 31, 1998.

8. Commitments:

We lease a portion of our buildings and equipment under operating leases. Future minimum payments under operating leases are as follows:

Due in:	December 31, 1998
1999	\$ 4,961,985
2000	3,943,432
2001	3,245,816
2002	2,442,580
2003	1,076,301
Thereafter	205,596
	<u>\$15,875,710</u>

Rent expense under operating leases was \$45,874 for the period from January 1, 1996 to December 16, 1996, \$17,927 for the period from inception to December 31, 1996, \$431,930 for the year ended December 31, 1997 and \$4.3 million for the year ended December 31, 1998.

9. Shareholders' Equity:

In connection with the acquisition of certain assets of Sigmacom (Note 3), we issued warrants to purchase 50,000 shares of our common stock exercisable at \$7.50 per share through December 1999.

On October 31, 1996, we entered into an exclusive engineering and consulting agreement with Services-oriented Open Network Technologies, Inc. ("SONeTech") for engineering services to our internal engineering staff relating solely to the initial configuration of the architecture of the E-POPTM network strategy and the development of service logic for our call processing design. We issued 375,000 shares of our common stock in exchange for a 10% equity interest in SONeTech and an exclusive engineering and consulting agreement. We will be entitled to reacquire a portion of our common stock that was issued to SONeTech at the original price of \$0.06 per share if SONeTech terminates the agreement.

In February 1997, we completed the second of two tranches of an offering of an aggregate of 7,000,000 units. Each of the units consisted of one share of common stock and one-half warrant to purchase a share of common stock (the first tranche of 4,779,525 units closed in late 1996). The units were sold at a price of \$1.00 each. One warrant entitles the holder to purchase one share of common stock for a price of \$1.50 per share for five years from the date of the offering. As part of the offering, we issued warrants to purchase 3,500,000 of our common shares to investors, which are exercisable at \$1.50 per share. We also issued warrants to purchase

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

741,250 of our common shares to the placement agents, which are exercisable at \$1.20 per share through November 7, 2001.

In October 1997, we completed an offering of 6,800,000 units consisting of one share of our common stock and one-half warrant to purchase a share of our common stock. The units were sold at a price of \$2.50 each. One warrant entitles the holder to purchase one share of our common stock for a price of \$3.75 per share, beginning in November 1998 through July 14, 1999. The proceeds, net of related offering costs, were approximately \$15.2 million. We also issued warrants to purchase 615,860 of our common shares to the placement agents exercisable at \$3.00 per share beginning in May 1998 through November 14, 2002.

In connection with the signing of financing agreements with Comdisco, Inc. and Sun Financial, we granted Comdisco, Inc. warrants to purchase 333,333 shares of our common stock and granted Sun Financial warrants to purchase 80,571 shares of our common stock. All of these warrants are exercisable at \$3.00 per share. The Comdisco warrants are currently exercisable and expire on the earlier of (i) November 2007, or (ii) five years following an initial public offering of our common stock. The Sun Financial warrants are exercisable beginning in May 1998 and expire in May 2002.

In August 1998, we entered into a consulting agreement under which the consultant recruited senior management personnel on behalf of our wholly owned subsidiary, Convergent Capital Corporation. As a result of the services performed under this agreement, we issued warrants to the consultant to purchase 125,000 shares of our common stock at \$5.00 per share. The warrants are currently exercisable and expire on August 3, 2008. We valued the warrants using an option pricing model and recognized consulting expense of \$79,883.

Certain holders of our common stock and the holders of certain warrants have the right to demand that we file a registration statement to register their shares and the shares underlying their warrants in 1999.

Stock Option Plans:

We have adopted the 1996 and 1997 Incentive and Non-Statutory Option Plans and the 1998 Stock Option Plan (the "Plans") which authorize us to grant up to 7,400,000 shares of our common stock to employees, consultants and directors under incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended, and to grant non-statutory stock options.

The Plans require that the exercise price of options we grant must be at least equal to the fair market value of a share of our common stock on the date of the grant and must be exercisable over a period of up to ten years. However, if an employee owns more than 10% of our outstanding common stock, then the exercise price of an incentive option must be at least 110% of the fair market value of a share of our common stock on the date of grant and must be exercisable over a period of five years. All of our options vest over five years.

The Plans are administered by our Board of Directors or a committee thereof which determines the terms of the options granted, including the exercise price, the number of shares of our common stock subject to the option, and the terms and conditions of exercise. No option granted under the Plan is transferable by the optionee other than by will or the laws of descent and distribution and each option is exercisable during the lifetime of the optionee only by such optionee.

In May 1997, we accelerated the vesting provisions related to options of certain employees to purchase 950,000 shares with an exercise price of \$0.06 per share and all of the options were exercised. The underlying shares are subject to a repurchase agreement over a five year period whereby we can repurchase a portion of the shares upon termination of employment. The amount available for repurchase is reduced by 20% each year of employment. In late 1997, we repurchased 200,000 shares for \$0.06 per share, upon the termination of one of the exercising employees. The repurchased shares are included in the authorized but unissued shares of common stock. At December 31, 1998, approximately 370,000 shares were no longer subject to repurchase.

CONVERGENT COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Number of Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at March 1, 1996	—	\$ —	\$ —
Granted			
At market value	785,000	1.09	0.20
Below market value	1,025,000	0.06	0.46
Exercised	—	—	—
Cancelled	—	—	—
Outstanding at December 31, 1996	1,810,000	0.51	—
Granted			
Above market value	2,810,000	1.70	0.26
At market value	985,000	1.95	0.56
Exercised	(950,000)	0.06	—
Cancelled	(12,000)	1.33	—
Outstanding at December 31, 1997	4,643,000	1.69	—
Granted			
Above market value	2,638,000	5.63	0.08
At market value	641,000	3.74	0.87
Exercised	(87,000)	0.19	—
Cancelled	(1,269,500)	2.63	—
Outstanding at December 31, 1998	6,565,500	\$ 3.25	\$ —

The following table indicates the number of shares exercisable and the weighted average exercise prices at December 31:

	1996	1997	1998
Options exercisable	—	345,000	990,100
Weighted average exercise price	—	\$ 1.29	\$ 1.66

At December 31, 1998, the range of exercise prices and weighted average remaining contractual life for options outstanding was as follows:

Number of Shares	Option Price Range	Weighted Average Remaining Contractual Life
2,238,000	\$1.00 to \$1.10	6.6 years
918,000	\$2.00 to \$2.50	8.6 years
932,500	\$3.00	8.9 years
959,500	\$5.00 to \$5.50	7.7 years
1,517,500	\$6.00	9.8 years

If the compensation cost for the Plan was determined based on the fair value at the grant dates for awards using the method prescribed by SFAS 123, our pro forma net loss and net loss per share would have been as follows:

CONVERGENT COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	For the period from Inception through December 31, 1996	Year ended December 31, 1997	1998
Net loss:			
As reported	\$(575,392)	\$(9,654,779)	\$(50,575,984)
Pro-forma	\$(575,808)	\$(9,703,446)	\$(50,957,542)
Net loss per share:			
As reported	\$ (0.07)	\$ (0.46)	\$ (1.84)
Pro-forma	\$ (0.07)	\$ (0.46)	\$ (1.86)

The fair value of each option grant is estimated on the date of grant using the minimum value method with the following assumptions:

	For the period from Inception through December 31, 1996	Year ended December 31, 1997	1998
Dividend yield	—	—	—
Risk-free interest rate	6.06-6.48%	5.65-6.84%	5.38-5.71%
Expected lives	5 years	5 years	5 years

Because the determination of the fair value of all options granted if we become a public entity will include an expected volatility factor in addition to the factors described in the table above and, because additional option grants are expected to be made the above pro forma disclosures are not necessarily representative of pro forma effects on net income to be reported for future years.

We recognized compensation expense for employee stock grants and stock options of \$282,267 for the period ended December 31, 1996, \$194,517 for the year ended December 31, 1997 and \$633,828 for the year ended December 31, 1998.

10. Business Segments:

We classify our business into five fundamental areas: data services, voice services, ENS, data products and voice products. Senior management evaluates and makes operating decisions about each of these operating segments based on a number of factors. We do not account for assets by business segment and, therefore, depreciation and amortization are not factors used in evaluating operating performance. Two of the most significant factors used in evaluating the operating performance are: *revenue and gross margin before depreciation* as presented below:

CONVERGENT COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	For the period from inception through December 31, 1996	Year ended December 31, 1997	1998
Revenue:			
Data services	\$ —	\$ 585,381	\$ 3,620,272
Voice services	57,754	2,203,182	22,298,886
ENS	—	6,210	2,002,914
Data products	39,387	6,656,813	20,892,491
Voice products	—	758,434	12,785,998
Total	\$ 97,741	\$ 10,210,024	\$ 61,600,111
Gross margin before depreciation:			
Data services	\$ —	\$ 534,020	\$ 2,111,684
Voice services	17,739	979,225	8,915,797
ENS	—	3,266	1,307,685
Data products	543	1,056,705	2,249,700
Voice products	—	268,299	3,312,062
Total	\$ 18,282	\$ 2,841,515	\$ 17,896,928
Reconciliation to net loss:			
Selling, general and administrative	\$(552,092)	\$(10,982,769)	\$(47,861,785)
Depreciation and amortization	(40,698)	(1,453,019)	(7,493,613)
Operating loss	(574,508)	(9,594,273)	(37,458,470)
Interest expense	(884)	(155,450)	(17,501,512)
Interest income	—	251,290	4,632,420
Other income (expense)	—	(156,346)	(248,422)
Net loss	\$(575,392)	\$ (9,654,779)	\$(50,575,964)

11. Deferred Compensation:

We have a Deferred Compensation plan whereby certain management employees can elect to defer a portion of their compensation which will be paid in shares of our common stock at a future date. The plan requires that we issue shares of common stock into a rabbi trust which will then be distributed to the employee at a specified date in the future not less than one year from the deferral date. We have recorded the deferred compensation amount as treasury stock (for accounting purposes) and as a deferred compensation obligation in the shareholders' equity section of the balance sheet. As of December 31, 1998, 154,344 shares of our common stock are being held in the rabbi trust.

12. Income Taxes:

We were originally organized as an S corporation under the provisions of Section 1361 of the Internal Revenue Code. As an S corporation, we were not subject to tax on our income; rather our shareholders were taxed on their share of the taxable income, whether or not the income was distributed. Effective December 5, 1996, we rescinded our S Corporation election under the Internal Revenue Code and became subject to tax on our income. No pro forma tax benefit has been provided for either the Convergent or PCN as Predecessor due to their continuing losses.

The Predecessor was a limited liability company which was treated as a partnership for taxation purposes.

For federal income tax purposes we had net operating loss carryforwards of \$44.9 million as of December 31, 1998. Section 382 of the Internal Revenue Code places certain limitations on the annual amount of net

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

operating loss carryforwards which can be utilized if certain changes in ownership occur. As a result, our ability to use these net operating loss carryforwards, which will begin to expire in 2011, may be limited.

The components of the net deferred tax assets are as follows:

	December 31,	
	1997	1998
Deferred tax assets:		
Net operating loss carryforwards	\$ 3,461,765	\$ 17,057,862
Deferred revenue	—	1,924,474
Accrued vacation and bonus	—	1,342,101
Intangibles	—	548,919
Allowance for doubtful accounts	8,127	527,977
Property and equipment	112,105	462,333
Self-insurance and warranty liabilities	—	448,765
Original issue discount	—	384,006
Valuation allowance	(3,581,998)	(22,696,377)
Total net deferred tax assets	\$ —	\$ —

The increase in the valuation allowance of \$3.5 million in 1997 and \$19.1 million in 1998 are due to increased losses during each year. We have recorded a full valuation allowance on the net deferred tax assets due to continuing losses.

Our actual income taxes differed from the expected federal statutory rate of 34% as follows:

	For the period from inception through December 31, 1996	Year ended December 31,	
		1997	1998
Statutory tax rate	34%	34%	34%
State taxes, net of federal benefit	4	4	4
Valuation allowance	(38)	(38)	(38)
Effective tax rate	— %	— %	— %

13. Net Loss Per Share:

The net loss available to common shareholders consists of the following:

	For the period from inception through December 31, 1996	Year ended December 31,	
		1997	1998
Net loss	\$(575,392)	\$(9,654,779)	\$(50,575,984)
The weighted average shares consist of the following:			
Weighted average common shares used for basic earnings per share	7,774,651	20,921,569	27,463,469
Warrants	—	—	—
Stock options	—	—	—

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	For the period from inception through December 31, 1996	Year ended December 31,	
		1997	1998
Weighted average common shares used for fully diluted earnings per share	7,774,651	20,921,569	27,463,469
Anti-dilutive weighted average options and warrants not included	307,181	7,653,035	13,950,110

14. Employee Benefit Plans:

We adopted an employee benefit 401(k) plan for all employees effective March 1, 1997. Under the plan, employees may voluntarily elect to have up to 15% of their salaries deducted from earnings and placed in the plan. We may elect to match up to 6% of the employee contributions by contributing our common stock to the plan. Our contributions are determined on a quarterly basis and the number of shares to be contributed is based upon the estimated fair value of the stock at the end of each quarter. During 1998 we contributed \$182,792 of our common stock for the year ended December 31, 1997 match and contributed \$253,102 of our common stock for the first and second quarters of 1998. An additional \$800,000 was accrued as of December 31, 1998 for the third and fourth quarter 1998 match, which will be contributed in 1999.

15. Related Party Transactions:

In August 1998, we entered into a two year agreement with Strategic Healthcare Solutions, LLC ("SHS") under which SHS was engaged to provide new customers in the healthcare industry to us. One of our directors is a principal of Strategic Asset Management which has an ownership interest in SHS. Under the agreement, we pay SHS a monthly fee and commissions (an aggregate of approximately \$125,000 in 1998). In addition, we issued a warrant to SHS which entitles them to purchase up to a maximum of 262,500 shares of our common stock at an exercise price of \$6.00. The warrant includes performance objectives which are reviewed semiannually. If SHS does not meet those performance objectives, all or a portion of the shares available for each six-month period (65,625 shares) is reduced. The warrant is not exercisable until August 1, 2000 and expires August 1, 2003. For the first six-month period of the agreement which ended February 1, 1999, SHS did not meet the performance objectives and as a result, the 65,625 shares applicable to that period were reduced to zero.

Pursuant to the terms of a non-cancelable license fee related to proprietary telecommunications equipment technology, ICN paid monthly license fees of \$2,500 and management fees of \$1,200 to a shareholder of ICN. During the period from January 1, 1996 through December 16, 1996, ICN incurred costs of \$44,400 under these arrangements.

One of our Directors was a Principal and owner of Shepherd Financial Group. Shepherd Financial Group received total compensation of approximately \$1.5 million and was issued 438,000 warrants to purchase our common stock in exchange for placement agent services provided to us in connection with private placements of our common stock in 1996 and 1997. The Director was also a Principal and owner of Shepherd Capital Group, which was paid approximately \$0.5 million for financial advisory services provided to us during 1997.

16. Subsequent Events:

In January 1999, we entered into a non-binding letter of intent to purchase substantially all of the assets and assume certain liabilities of Business Systems Solutions, Inc. ("BSSI"). BSSI is a provider of data network integration services in Chicago, Illinois. Total consideration for the purchase will be a maximum of \$1.3 million. The acquisition is subject to completion of due diligence, execution of definitive agreements and various other approvals.

CONVERGENT COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In February 1999, we acquired the assets and assumed certain liabilities of Kansas Communications, Inc. ("KCI"). KCI was a telecommunications equipment provider and integrator. The purchase price consisted of \$1.5 million in cash, \$4.5 million in notes payable and 30,000 shares of our common stock which for purchase accounting purposes were assigned a value of \$5.00, and assumed liabilities of \$2.5 million for total consideration of \$8.7 million. Upon the completion of equity or debt financing with net proceeds in excess of \$25.0 million, \$3.5 million of the notes payable would become due.

On March 17, 1999, we executed an agreement pursuant to which various affiliates of the Sandler/21st Century Group agreed to purchase 800,000 shares of Convertible Preferred A Stock and warrants to purchase 1,000,000 shares of our common stock. We sold 640,000 shares of Convertible Preferred A Stock and warrants to purchase 800,000 shares of our common stock on March 17, 1999 for total consideration of \$16.0 million. The balance of the shares and warrants are required to be purchased for \$4.0 million no later than March 31, 1999. Each share of Convertible Preferred A Stock is currently convertible into five shares of our common stock. The Convertible Preferred A Stock will automatically convert into common stock upon a public offering which provides gross proceeds to us in excess of \$50.0 million. At the public offering, each share of Convertible Preferred A Stock will convert into a minimum of 5 and a maximum of 7.14 shares of common stock, depending on the price of common stock in the public offering. Each warrant entitles the holder to purchase one share of our common stock at an exercise price of \$10.00 per share for a period of five years. The proceeds from the first closing, net of related offering costs, were approximately \$15.3 million. One of our directors, Michael Marocco, is a principal of several of the entities in the Sandler/21st Century Group.

EXHIBIT D - PROPOSED TARIFF

TITLE SHEET

SOUTH DAKOTA TELECOMMUNICATIONS TARIFF

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of service or facilities for Telecommunications Services furnished by Convergent Communications Services, Inc. ("CCSI"), with principal offices at 400 Inverness Drive South, Suite 400, Englewood, Colorado 80112. This tariff is on file with the South Dakota Public Utilities Commission, and copies may be inspected, during normal business hours, at the company's principal place of business.

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 2
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

RESERVED FOR FUTURE USE

Issued: June 10, 1999

Effective:

By: Keren Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 3
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

CHECK SHEET

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

<u>SHEET</u>	<u>REVISION</u>
1	Original
2	Original
3	Original
4	Original
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9	Original
10	Original
11	Original
12	Original
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24	Original
25	Original
26	Original
27	Original
28	Original
29	Original
30	Original
31	Original
32	Original
33	Original
34	Original

* New or Revised Sheet

Issued: June 10, 1999	Effective:
By: Karen Bedell, Sr. Director External Affairs	
400 Inverness Drive South, Suite 400	
Englewood, Colorado 80112	

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 3
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

CHECK SHEET

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

<u>SHEET</u>	<u>REVISION</u>
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25	Original
26	Original
27	Original
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30	Original
31	Original
32	Original
33	Original
34	Original

* New or Revised Sheet

Issued: June 10, 1999	Effective:
By: Karen Bedell, Sr. Director External Affairs	
400 Inverness Drive South, Suite 400	
Englewood, Colorado 80112	

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 4
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

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Issued: June 10, 1999

Effective:

By: Kar m Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 5
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

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 pages 11 and 12 would be page 11.1.

B. Sheet Revision Numbers: Revision numbers also appear in the upper right corner of each sheet where applicable. These numbers are used to indicate the most current page version on file with the Commission. For example, 4th Revised Sheet 13 cancels 3rd Revised Sheet 13. Consult the Check Sheet for the sheets currently in effect.

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 Commission, 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 sheets 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 this sheet if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some sheets). The tariff user should refer to the latest Check Sheet to find out if a particular sheet is the most current on Commission file.

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

TELECOMMUNICATIONS SERVICES TARIFF

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

Issued: June 10, 1999

By:

Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

Effective:

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 Customer's location to CCSI's location or switching center.

Authorization Code - A numerical code, one or more of which may be assigned to a Customer, to enable CCSI to identify the origin of the Customer so it may rate and bill the call. Automatic number identification (ANI) is used as the authorization code wherever possible.

Commission - Used throughout this tariff to mean the South Dakota Public Utilities Commission.

Customer - The person, firm, corporation or other legal entity which orders the services of CCSI and is responsible for the payment of charges and for compliance with the Company's tariff regulations.

Company or CCSI - Used throughout this tariff to mean Convergent Communications Services, Inc., a Colorado corporation.

Dedicated Access - The Customer gains entry to the Company's services by a direct path from the Customer's location to the Company's point of presence.

Holiday - New Year's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Holidays shall be billed at the evening rate from 8 a.m. to 11 p.m. After 11 p.m., the lower night rate shall go into effect.

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
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CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 8
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Resp. Org - Responsible Organization or entity identified by an 800 service Customer that manages and administers records in the 800 database and management system.

Switched Access - The Customer gains entry to the Company's services by a transmission line that is switched through the local exchange carrier to reach the Company's point of presence.

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

Underlying Carrier - The telecommunications carrier whose network facilities provide the technical capability and capacity necessary for the transmission and reception of Customer telecommunications traffic.

Issued: June 10, 1999

Effective:

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SECTION 2 - RULES AND REGULATIONS

2.1 Undertaking of the Company

This tariff contains the regulations and rates applicable to intrastate resale telecommunications services provided by CCSI for telecommunications between points within the Rhode Island. Resale services are furnished subject to the availability of facilities and subject to the terms and conditions of this tariff in compliance with limitations set forth in the Commission's rules. The Company's services are provided on a statewide basis and are not intended to be limited geographically. The Company offers service to all those who desire to purchase service from the Company consistent with all of the provisions of this tariff. Customers interested in the Company's services shall file a service application with the Company which fully identifies the Customer, the services requested and other information requested by the Company. The Company reserves the right to examine the credit record and check the references of all applicants and Customers prior to accepting the service order. The service application shall not in itself obligate the Company to provide services or to continue to provide service if a later check of applicant's credit record is, in the opinion of the Company, contrary to the best interest of the Company. The Company may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the Customer, to allow connection of a Customer's location to a service provided by the Company. The Customer shall be responsible for all charges due for such service arrangement.

Issued: June 10, 1999

Effective:

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- 2.1.1 The services provided by CCSI are not part of a joint undertaking with any other entity providing telecommunications channels, facilities, or services, but may involve the resale of the Message Toll Services (MTS) and Wide Area Telecommunications Services (WATS) of underlying common carriers subject to the jurisdiction of this Commission.
- 2.1.2 The rates and regulations contained in this tariff apply only to the resale services furnished by CCSI and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carriers for use in accessing the services of CCSI.
- 2.1.3 The Company reserves the right to limit the length of communications, to discontinue furnishing services, or limit the use of service necessitated by conditions beyond its control, including, without limitation: lack of satellite or other transmission medium capacity; the revision, alteration or repricing of the Underlying Carrier's tariffed offerings; or when the use of service becomes or is in violation of the law or the provisions of this tariff.

2.2 Use of Services

- 2.2.1 CCSI's services may be used for any lawful purpose consistent with the transmission and switching parameters of the telecommunications facilities utilized in the provision of services, subject to any limitations set forth in this Section 2.2.
- 2.2.2 The use of CCSI's services to make calls which might reasonably be expected to frighten, abuse, torment, or harass another or in such a way as to unreasonably interfere with use by others is prohibited.

Issued: June 10, 1999

Effective:

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- 2.2.3 The use of CCSI's services without payment for service or attempting to avoid payment by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards is prohibited.
- 2.2.4 CCSI's services are available for use 24 hours per day, 365 days per year.
- 2.2.5 CCSI does not transmit messages, but the services may be used for that purpose.
- 2.2.6 CCSI's services may be denied for nonpayment of charges or for other violations of this tariff.
- 2.2.7 Customers shall not use the service provided under this tariff for any unlawful purpose.
- 2.2.8 The Customer is responsible for notifying the Company immediately of any unauthorized use of services.

2.3 Liability of the Company

- 2.3.1 The Company shall not be liable for any claim, loss, expense or damage for any interruption, delay, error, omission, or defect in any service, facility or transmission provided under this tariff, if caused by the Underlying Carrier, an act of God, fire, war, civil disturbance, act of government, or due to any other causes beyond the Company's control.

Issued: June 10, 1999

Effective:

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- 2.3.2 The Company shall not be liable for, and shall be fully indemnified and held harmless by the Customer against any claim, loss, expense, or damage for defamation, libel, slander, invasion, infringement of copyright or patent, unauthorized use of any trademark, trade name or service mark, proprietary or creative right, or any other injury to any person, property or entity arising out of the material, data or information transmitted.
- 2.3.3 No agent or employee of any other carrier or entity shall be deemed to be an agent or employee of the Company.
- 2.3.4 Reserved for Future Use
- 2.3.5 Reserved for Future Use

Issued: June 10, 1999

Effective:

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2.3.6 Reserved for Future Use

2.3.7 The remedies set forth herein are exclusive and in lieu of all other warranties and remedies, whether express, implied, or statutory, INCLUDING WITHOUT LIMITATION IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

2.4 Responsibilities of the Customer

2.4.1 The Customer is responsible for placing any necessary orders and complying with tariff regulations. The Customer is also responsible for the payment of charges for services provided under this tariff.

2.4.2 The Customer is responsible for charges incurred for special construction and/or special facilities which the Customer requests and which are ordered by CCSI on the Customer's behalf.

2.4.3 If required for the provision of CCSI's services, the Customer must provide any equipment space, supporting structure, conduit and electrical power without charge to CCSI.

2.4.4 The Customer is responsible for arranging access to its premises at times mutually agreeable to CCSI and the Customer when required for CCSI personnel to install, repair, maintain, program, inspect or remove equipment associated with the provision of CCSI's services.

Issued: June 10, 1999

Effective:

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- 2.4.5 The Customer shall cause the temperature and relative humidity in the equipment space provided by Customer for the installation of CCSI's equipment to be maintained within the range normally provided for the operation of microcomputers.
- 2.4.6 The Customer shall ensure that the equipment and/or system is properly interfaced with CCSI's facilities or services, that the signals emitted into CCSI's network are of the proper mode, bandwidth, power and signal level for the intended use of the subscriber and in compliance with criteria set forth in this tariff, and that the signals do not damage equipment, injure personnel, or degrade service to other Customers. 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, CCSI will permit such equipment to be connected with its channels without the use of protective interface devices. If the Customer fails to maintain the equipment and/or the system properly, with resulting imminent harm to CCSI equipment, personnel or the quality of service to other Customers, CCSI may, upon written notice, require the use of protective equipment at the Customer's expense. If this fails to produce satisfactory quality and safety, CCSI may, upon written notice, terminate the Customer's service.
- 2.4.7 The Customer must pay CCSI for replacement or repair of damage to the equipment or facilities of CCSI caused by negligence or willful act of the Customer or others, by improper use of the services, or by use of equipment provided by Customer or others.

Issued: June 10, 1999

Effective:

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- 2.4.8 The Customer must pay for the loss through theft of any CCSI equipment installed at Customer's premises.
- 2.4.9 If CCSI installs equipment at Customer's premises, the Customer shall be responsible for payment of any applicable installation charge.
- 2.4.10 The Customer must use the services offered in this tariff in a manner consistent with the terms of this tariff and the policies and regulations of all state, federal and local authorities having jurisdiction over the service.

2.5 Cancellation or Interruption of Services

- 2.5.1 Without incurring liability, upon five (5) working days' (defined as any day on which the company's business office is open and the U.S. Mail is delivered) written notice to the Customer, CCSI may immediately discontinue services to a Customer or may withhold the provision of ordered or contracted services:
- 2.5.1.A For nonpayment of any sum due CCSI for more than thirty (30) days after issuance of the bill for the amount due,
- 2.5.1.B For violation of any of the provisions of this tariff,
- 2.5.1.C For violation of any law, rule, regulation, policy of any governing authority having jurisdiction over CCSI's services, or
- 2.5.1.D By reason of any order or decision of a court, state or federal regulatory body or other governing authority prohibiting CCSI from furnishing its services.

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- 2.5.1.A For nonpayment of any sum due CCSI for more than thirty (30) days after issuance of the bill for the amount due,
- 2.5.1.B For violation of any of the provisions of this tariff,
- 2.5.1.C For violation of any law, rule, regulation, policy of any governing authority having jurisdiction over CCSI's services, or
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Issued: June 10, 1999**Effective:**

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- 2.5.2 Without incurring liability, CCSI 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 Customer and CCSI's equipment and facilities and may continue such interruption until any items of noncompliance or improper equipment operation so identified are rectified.
- 2.5.3 Service may be discontinued by CCSI without notice to the Customer, by blocking traffic to certain countries, cities or NXX exchanges, or by blocking calls using certain Customer authorization codes, when CCSI deems it necessary to take such action to prevent unlawful use of its service. CCSI 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.
- 2.5.4 The Customer may terminate service upon thirty (30) days written or oral notice for the Company's standard month to month contract. Customer will be liable for all usage on any of the Company's service offerings until the Customer actually leaves the service. Customers will continue to have Company usage until the Customer notifies its local exchange carrier and changes its long distance carrier. Until the Customer so notifies its local exchange carrier, it shall continue to generate and be responsible for long distance usage.

Issued: June 10, 1999

By:

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Effective:

2.6 Credit Allowance

2.6.1 Credit may be given for disputed calls, on a per call basis.

2.7 Restoration of Service

The use and restoration of service shall be in accordance with the priority system specified in part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

2.8 Deposit

Applicants for service or existing Customers whose financial condition is not acceptable to the Company, or is not a matter of general knowledge, may be required at any time to provide the Company a security deposit. The deposit requested will be in cash or the equivalent of cash, up to any amount equal to the applicable installation charges, if any, and/or up to two month's actual or estimated usage charges for service to be provided. Any applicant or Customer may also be required, at any time, whether before or after the commencement of service, to provide such 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 of payment, pledges or other grants of security interests in the Customer's assets, and similar arrangements. The required deposit or other security may be increased or decreased by the Company as it deems appropriate in the light of changing conditions. In addition, the Company shall be entitled to require such an applicant or Customer to pay all its bills within a specified period of time, and to make such payments in cash or the equivalent of cash. In case of a cash deposit, simple interest at a rate of nine percent (9%) annually will be paid for the period during which the deposit is held by the Company unless a different rate has been established by the appropriate legal authority in the jurisdiction in which the Company service in question is provided.

Issued: June 10, 1999

Effective:

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Also, the Company reserves the right to cease accepting and processing Service Orders after it has requested a security deposit and prior to the Customer's compliance with this request. A deposit may be required in addition to an advance payment.

Deposits shall be sent to Convergent Communications Services, Inc., Department 1001, Denver, Colorado 80291-1001. The Company will maintain records that show the name and address of each depositor, the amount and date of the deposit, and each transaction concerning the deposit. Deposits shall be returned or credited to the Customer after not more than twelve (12) consecutive months of prompt payment of bills, which may include eleven (11) timely payments and one automatic forgiveness of late payment. Unclaimed deposits, together with accrued interest, shall be credited to an appropriate account and shall be disposed of in accordance with the law. The deposit shall be refunded or credited to the customer after not more than twelve (12) consecutive months of prompt payment (which may be eleven (11) timely payments and one automatic forgiveness of late payment). The account shall be reviewed after twelve (12) months of service, and if the deposit is retained, it shall again be reviewed at the end of the Company's accounting year or on the anniversary of the account.

2.9 Advance Payments

To safeguard its interests, the Company may require a Customer to make an advance payment before services and facilities are furnished. The advanced payment will not exceed an amount equal to the Non-Recurring Charge(s) and one month's charges for the service or facility. The advance payment will be credited to the Customer's initial bill. An advance payment may be required in addition to a deposit.

Issued: June 10, 1999**Effective:****By:**

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2.10 Payment and Billing

- 2.10.1 Service is provided and billed on a billing cycle basis, beginning on the date that service becomes effective. Charges are due and payable within 30 days after the invoice date.
- 2.10.2 The customer is responsible for payment of all charges for services furnished to the Customer, as well as to all persons using the Customer's codes, exchange lines, facilities, or equipment, with or without the knowledge or consent of the Customer. The security of the Customer's Authorization Codes, presubscribed exchange lines, and direct connect facilities is the responsibility of the Customer. All calls placed using direct connect facilities, subscribed exchange lines, or Authorization Codes will be billed to and must be paid by the Customer.
- 2.10.3 All bills are presumed accurate, and shall be binding on the customer unless objection is received by the Company in writing within the applicable statute of limitations. No credits, refunds, or adjustments shall be granted if demand therefore is not received by the Company in writing within such limitation period.

Issued: June 10, 1999

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Effective:

2.11 Collection Costs

In the event Company is required to initiate legal proceedings to collect any amounts due to Company for regulated or non-regulated services, equipment or facilities, or to enforce any judgment obtained against a Customer, or for the enforcement of any other provision of this tariff or applicable law, Customer shall, in addition to all amounts due, be liable to Company for all reasonable costs incurred by Company in such proceedings and enforcement actions, including reasonable attorneys' fees, collection agency fees or payments, and court costs. In any such proceeding, the amount of collection costs, including attorneys' fees, due to the Company, will be determined by a court of competent jurisdiction or the Commission.

2.12 Taxes

All federal, state and local taxes, assessments, surcharges, or fees, including sales taxes, use taxes, gross receipts taxes, and municipal utilities taxes, are billed as separate line items and are not included in the rates quoted herein.

If an entity other than the Company (e.g., another carrier or supplier) imposes charges on the company, in addition to its own internal costs, in connection with a service for which the Company's non-recurring charge is specified, those charges will be passed on to the Customer.

2.13 Late Charge

A one-time late fee of 1.5% monthly or the amount otherwise authorized by law, whichever is lower, may be added to any unpaid balance brought forward from the previous month's billing date.

2.14 Returned Check Charge

A fee of \$20 will be charged whenever a check or draft presented for payment for service is not accepted by the institution on which it is written.

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Effective:

TELECOMMUNICATIONS SERVICES TARIFFSECTION 3 - DESCRIPTION OF SERVICE3.1 Computation of Charges

- 3.1.1 The total charge for each completed call will be dependent only on the duration of the call, as a statewide flat rate per minute charge. All calls are measured in increments as set forth in the Rates Section herein. All calls are rounded up to the next whole increment.
- 3.1.2 Where mileage bands appear in a rate table, rates for all calls are based upon the airline distance between the originating and terminating points of the call, as determined by the vertical and horizontal coordinates associated with the exchange (the area code and three digit central office code) associated with the originating and terminating telephone numbers. If the Customer obtains access to the Company's network by a dedicated access circuit, that circuit will be assigned an exchange for rating purposes based upon the Customer's main telephone number at the location where the dedicated access circuit terminates. The vertical and horizontal (V & H) coordinates for each exchange and the airline distance between them will be determined according to industry standards.

Issued: June 10, 1999

Effective:

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- 3.1.3 Timing begins when the called station is answered and two way communication is possible, 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 or the software utilizing audio tone detection. Recognition of answer supervision is the responsibility of the Underlying Carrier. Timing for each call ends when either party hangs up. CCSI will not bill for uncompleted calls.

3.2 Customer Complaints and/or Billing Disputes

Customer inquiries or complaints regarding service or accounting may be made in writing or by telephone to the Company at:

400 Inverness Drive South, Suite 400
Englewood, Colorado 80112
(800) 335-3811

Any objection to billed charges should be reported promptly to FON. Adjustments to Customers' 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. The Company will respond within seventy two (72) hours of receipt of an inquiry. If the Customer is dissatisfied with the Company's response to a complaint or inquiry, the Customer may file a complaint with the Commission for resolution of the conflict. The South Dakota Public Utilities Commission can be reached at:

500 East Capitol
Pierre, SD 57501-5070
(605) 773-3201
(800) 332-1782
TTY through Relay Service South Dakota-
(800) 877-1113

Issued: June 10, 1999

Effective:

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If a Customer accumulates more than One Dollar of undisputed delinquent CCSI 800 Service charges, the CCSI Resp. Org. reserves the right not to honor that Customer's request for a Resp. Org. change until such undisputed charges are paid in full.

3.3 Level of Service

A Customer can expect end to end network availability of not less than 99% at all times for all services.

3.4 Billing Entity Conditions

When billing functions on behalf of CCSI or its intermediary are performed by local exchange telephone companies or others, the payment of charge conditions and regulations of such companies and any regulations imposed upon these companies by regulatory bodies having jurisdiction apply. CCSI's name and toll-free telephone number will appear on the Customer's bill.

Issued: June 10, 1999

Effective:

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3.5 Specialized Pricing Arrangements.

Customized service packages and competitive pricing packages at negotiated rates may be furnished on a case-by-case basis in response to requests by Customers to the Company for proposals or for competitive bids. Service offered under this tariff provision will be filed with the Commission. Specialized rates or charges will be made available to similarly situated Customers on a non-discriminatory basis. The Company will notify the Commission of such offerings as required by Commission rules and regulations.

3.6 Emergency Call Handling Procedures

Emergency "911" calls are not routed to company, but are completed through the local network at no charge.

3.7 Promotional Offerings

The Company may, from time to time, make promotional offerings to enhance the marketing of its services. These offerings may be limited to certain dates, times and locations. The Company will notify the Commission of such offerings as required by Commission rules and regulations.

Issued: June 10, 1999

Effective:

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SECTION 4 - SERVICE OFFERINGS

4.1 Easy Access

A switched Long Distance Product that does not require the customer to purchase any other product or combination of products. Usually purchased by a customer on a call in basis or as a "trial" service to test the services of Convergent Communications.

4.2 Executive Network

A switched Long Distance Product that requires the purchase of at least one other Long Distance Product. Usually purchased by a customer in conjunction with Toll Free type service or travel cards.

4.3 Network Plus

A switched Long Distance Product that requires the purchase of another product not part of the Long Distance Product Family. Usually purchased by a customer in conjunction with other Dedicated services such as Frame Relay, Internet Services, WAN/LAN, and equipment.

4.4 V.I.P. Network

A switched Long Distance Product that requires the purchase of multiple products, not part of the Long Distance Product Family. Usually purchased by a customer in conjunction with other Dedicated services such as Frame Relay, Internet Services, WAN/LAN, and equipment.

4.5 Dedicated One

A dedicated Long Distance Product that requires the purchase of a Dedicated product with Dedicated Access Line charges not included. Usually purchased by a customer in conjunction with other Dedicated services such as Frame Relay, Internet Services, WAN/LAN, and equipment, Dedicated calls will be billed on the basis of 6 seconds minimum and additional increments of 6 seconds thereafter.

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4.6 Dedicated Plus

A dedicated Long Distance Product that requires the purchase of a Dedicated product with Dedicated Access Line charges included. Usually purchased by a customer in conjunction with other Dedicated services such as Frame Relay, Internet Services, WAN/LAN, and equipment. Dedicated Plus calls will be billed on the basis of 6 seconds minimum and additional increments of 6 seconds thereafter.

4.7 Employee Service

A switched Long Distance Product that does not require the employee to purchase any other product or combination of products. Only available to Convergent Communications' employees or designated contractors. Contractors must be approved by the Human Resource Department prior to placing order for service.

Issued: June 10, 1999

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Effective:

4.8 Calling Card Services

4.8.1 Convergent Access Service

Convergent Access Service is designed for Customers who travel or make long distance calls away from their primary service location. Convergent may pass through and bill Customer-initiated charges made to BOC calling. Calling Card calls will be billed on the basis of 60 seconds minimum and additional increments of 6 seconds thereafter.

4.8.2 Travel Card and Conference Services

Travel Card Service and Conference Services are available.

Travel Card Service enables a customer to place phone calls anywhere within the State or to manage card usage through speed dialing and account codes.

Conference Service is an operator established service. It enables a Customer to place a telephone call between a calling party and one or more called parties using the Customer's calling card. Operator handled conference services are established by an operator for parties when at least one of the called parties is in a different state than the calling party. Convergent, upon request, will establish conference call at a Customer specified time.

Issued: June 10, 1999

By: Karen Bedell, Sr. Director External Affairs
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Effective:

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4.8.3

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Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
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CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 29
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Reserved for Future Use

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
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4.9 Toll Free Services

4.9.1 Convergent Standard Toll Free Service

Upon availability, convergent Standard Toll Free Service provides Customers with a Toll Free number using the 1-800-XXX-XXXX format. When switching from their former Toll Free service provider to Convergent standard Toll Free service, Customers may retain their existing Toll Free number.

4.10 Directory Assistance

Access to long distance directory assistance is obtained by dialing 1 + 555-1212 for listings within the originating area code and 1 + (area code) + 555-1212 for other listings. When more than one number is requested in a single call, a charge will apply for each number requested. A charge will be applicable for each number requested, whether or not the number is listed or published.

Issued: June 10, 1999

Effective:

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SECTION 5 - RATES

5.1 Easy Access Rates

\$0.1300 per minute

\$15 minimum usage per month

Calls are billed based on an 18-second minimum and additional increments of six seconds thereafter.

5.2 Executive Network Rates

\$0.1250 per minute

\$15 minimum usage per month

Calls are billed based on an 18-second minimum and additional increments of six seconds thereafter.

5.3 Network Plus Rates

\$0.1200 per minute

Calls are billed based on an 18-second minimum and additional increments of six seconds thereafter.

5.4 VIP Network Plus Rates

\$0.1150 per minute

Calls are billed based on an 18-second minimum and additional increments of six seconds thereafter.

Issued: June 10, 1999

Effective:

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5.5 Dedicated Plus Rates

\$0.0950 per minute

Calls are billed in six-second increments.

5.6 Dedicated One Rates

\$0.08500 per minute

Calls are billed in six-second increments.

5.7 Employee Service Rates

\$0.1200 per minute

Calls are billed based on an 18-second minimum and additional increments of six seconds thereafter.

5.8 Calling Card Service Rates

5.8.1 Travel Cards

Easy Access	\$0.200 per minute
Executive Network	\$0.180 per minute
Network Plus	\$0.170 per minute
VIP Network	\$0.160 per minute
Dedicated Plus	\$0.160 per minute
Dedicated One	\$0.160 per minute
Employee Rate	\$0.170 per minute

Calls are billed based on one-minute minimum and additional increments of six seconds thereafter.

5.8.2 Reserved for Future Use

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 33
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

5.9 Toll Free Service Rates

	<u>Per Minute</u>
Easy Access Service	0.1300
Executive Network	0.1000
Network Plus	0.0900
VIP Network	0.0850
Dedicated One	0.0500
Dedicated Plus	0.0600
Employee Rate	0.0900

A \$10 per month per number service charge applies.

Calls are billed based on an 18-second minimum and additional increments of six seconds thereafter.

5.10 Directory Assistance

\$.75 per listing requested

5.11 Returned Check Charge

\$25.00

5.12 Payphone Dial Around Surcharge

A dial around surcharge of \$.35 per call will be added to any completed INTRASTATE toll access code and subscriber 800/888 type calls placed from a public or semi-public payphone.

Issued: June 10, 1999

By:

Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

Effective:

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 34
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

**5.13 Universal Service Fund Assessment & Presubscribed
Interexchange Carrier Charge**

The Customer will be assessed a monthly federal Universal Service Fund Contribution charge on all telecommunications services, which in no event shall be less than the prevailing contribution percentage rate charged the Company on intrastate traffic by the Universal Service Administrative Company (or any successor). A Presubscribed Interexchange Carrier Charge ("PICC") applies on a monthly basis to all Customer monthly bills at the prevailing rate.

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

CONFIDENTIAL 1

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of June 10, 1999 through June 16, 1999

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact
Delaine Kolbo within five business days of this filing.
Phone: 605-773-3705 Fax: 605-773-3809

TELECOMMUNICATIONS

**TC99-059 In the Matter of the Filing by U S WEST Communications, Inc. for Approval of a
Local Interconnection Agreement between U S WEST Communications, Inc. and
Computer Business Sciences, Inc.**

U S WEST Communications, Inc. and Computer Business Sciences, Inc. (CBS) filed a negotiated Local Interconnection Agreement on June 11, 1999. "The Agreement is a negotiated agreement setting forth the terms, conditions and prices under which U S WEST agrees to provide (a) services for resale, (b) certain unbundled network elements, ancillary functions and additional features to CBS (collectively referred to as "Network Elements") for CBS's offering and provisioning of telecommunications services. The Agreement also sets forth the terms, conditions and prices under which the parties agree to interconnect and pay reciprocal compensation for the exchange of local traffic." Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than July 7, 1999. Parties to the agreement may file written responses to the comments within twenty days of service of the comments.

Staff Analyst: Harlan Best
Staff Attorney: Camron Hoseck
Date Filed: 06/11/99
Comments Due: 07/07/99

**TC99-139 In the Matter of the Application of Convergent Communications Services, Inc. for
a Certificate of Authority to Provide Telecommunications Services in South
Dakota**

Convergent Communications Services, Inc. is a reseller who intends to offer interexchange telecommunication services in South Dakota. Services include 1+ and 101XXXX direct outbound dialing, toll free inbound and travel card services.

Staff Analyst: Keith Senger
Staff Attorney: Jeff Koerselman
Date Filed: 06/11/99
Intervention Date: 07/02/99

You may receive this listing and other PUC publications via our website or via internet e-mail.
You may subscribe or unsubscribe to the PUC mailing lists at <http://www.state.sd.us/puc/>

South Dakota Public Utilities Commission
WEEKLY FILINGS
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JUL 19 1999

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

Telephone: (770) 232-9200
Facsimile: (770) 232-9208

Lance J.M. Steinhart
Attorney At Law
6455 East Johns Crossing
Suite 285
Duluth, Georgia 30097

Also Admitted in New York
and Maryland

July 16, 1999

VIA AIRBORNE EXPRESS

Mr. Keith Senger
Utility Analyst
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070
(605) 773-3201

Re: Convergent Communications Services, Inc.
SD PUC Docket TC99-060

Dear Keith:

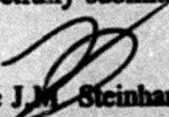
Pursuant to your letter dated July 12, 1999, I provide the following information:

1. Applicant has never been denied registration or certification in any state.
2. Applicant is the operating entity of Convergent Communications, Inc., which is a holding company, therefore, the stand-alone financials of Applicant are the same as the consolidated statements.
3. See revised tariff sheet 19.
4. See revised tariff sheet 20.
5. See revised tariff sheet 22.

I have also enclosed an extra copy of this cover letter to be date stamped and returned to me in the enclosed self-addressed prepaid envelope.

If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me.

Respectfully submitted,


Lance J.M. Steinhart
Attorney for Convergent Communications Services, Inc.

Enclosures
cc: Karen Bedell

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 19
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

2.10 Payment and Billing

- 2.10.1 Service is provided and billed on a billing cycle basis, beginning on the date that service becomes effective. Charges are due and payable within 30 days after the invoice date.
- 2.10.2 The customer is responsible for payment of all charges for services furnished to the Customer, as well as to all persons using the Customer's codes, exchange lines, facilities, or equipment, with or without the knowledge or consent of the Customer. The security of the Customer's Authorization Codes, presubscribed exchange lines, and direct connect facilities is the responsibility of the Customer. All calls placed using direct connect facilities, subscribed exchange lines, or Authorization Codes will be billed to and must be paid by the Customer.
- 2.10.3 All bills are presumed accurate, and shall be binding on the customer unless objection is received by the Company in writing within 180 days from the invoice date. No credits, refunds, or adjustments shall be granted if demand therefore is not received by the Company in writing within such 180 day period.

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 19
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

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Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

2.11 Collection Costs

In the event Company is required to initiate legal proceedings to collect any amounts due to Company for regulated or non-regulated services, equipment or facilities, or to enforce any judgment obtained against a Customer, or for the enforcement of any other provision of this tariff or applicable law, Customer shall, in addition to all amounts due, be liable to Company for all reasonable costs incurred by Company in such proceedings and enforcement actions, including reasonable attorneys' fees, collection agency fees or payments, and court costs. In any such proceeding, the amount of collection costs, including attorneys' fees, due to the Company, will be determined by a court of competent jurisdiction or the Commission.

2.12 Taxes

All federal, state and local taxes, assessments, surcharges, or fees, including sales taxes, use taxes, gross receipts taxes, and municipal utilities taxes, are billed as separate line items and are not included in the rates quoted herein.

If an entity other than the Company (e.g., another carrier or supplier) imposes charges on the company, in addition to its own internal costs, in connection with a service for which the Company's non-recurring charge is specified, those charges will be passed on to the Customer.

2.13 Late Charge

A one-time late fee of 1.5% monthly or the amount otherwise authorized by law, whichever is lower, may be added to any unpaid balance brought forward from the previous month's billing date.

2.14 Returned Check Charge

A fee of \$25 will be charged whenever a check or draft presented for payment for service is not accepted by the institution on which it is written.

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 22
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

- 3.1.3 Timing begins when the called station is answered and two way communication is possible, 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 or the software utilizing audio tone detection. Recognition of answer supervision is the responsibility of the Underlying Carrier. Timing for each call ends when either party hangs up. CCSI will not bill for uncompleted calls.

3.2 Customer Complaints and/or Billing Disputes

Customer inquiries or complaints regarding service or accounting may be made in writing or by telephone to the Company at:

400 Inverness Drive South, Suite 400
Englewood, Colorado 80112
(800) 335-3811

Any objection to billed charges should be reported promptly to CCSI. Adjustments to Customers' 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.

The Company will respond within seventy two (72) hours of receipt of an inquiry. If the Customer is dissatisfied with the Company's response to a complaint or inquiry, the Customer may file a complaint with the Commission for resolution of the conflict. The South Dakota Public Utilities Commission can be reached at:

500 East Capitol
Pierre, SD 57501-5070
(605) 773-3201
(800) 332-1782
TTY through Relay Service South Dakota-
(800) 877-1113

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

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AUG 26 1999

Lance J.M. Steinhart
Attorney At Law
6455 East Johns Crossing
Suite 285
Duluth, Georgia 30097

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

Also Admitted in New York
and Maryland

Telephone: (770) 232-9200
Facsimile: (770) 232-9208

August 25, 1999

VIA AIRBORNE EXPRESS

Mr. Keith Senger
Utility Analyst
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070

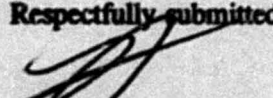
Re: Convergent Communications Services, Inc.; SD PUC Docket TC99-060

Dear Keith:

Pursuant to our telephone conversation this afternoon, please be advised that the company will accept restrictions regarding prepaid calling cards, advance payments and deposits, and I have included herewith an original and ten (10) copies of revised tariff sheets 4, 17 and 18, in which all references to the foregoing were deleted.

I have also enclosed an extra copy of this cover letter to be date stamped and returned to me in the enclosed self-addressed prepaid envelope. If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me.

Respectfully submitted,


Lance J.M. Steinhart
Attorney for Convergent Communications Services, Inc.

Enclosures

cc: Karen Bedell

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 4
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

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Issued: June 10, 1999

Effective:

By: Karen DeBell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

2.6 Credit Allowance

2.6.1 Credit may be given for disputed calls, on a per call basis.

2.7 Restoration of Service

The use and restoration of service shall be in accordance with the priority system specified in part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

2.8 Reserved for Future Use

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

CONVERGENT COMMUNICATIONS SERVICES, INC. ORIGINAL SHEET 18
SOUTH DAKOTA PUC TARIFF NO. 1
TELECOMMUNICATIONS SERVICES TARIFF

2.9 Reserved for Future Use

Issued: June 10, 1999

Effective:

By: Karen Bedell, Sr. Director External Affairs
400 Inverness Drive South, Suite 400
Englewood, Colorado 80112

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

IN THE MATTER OF THE APPLICATION OF)
CONVERGENT COMMUNICATIONS)
SERVICES, INC. FOR A CERTIFICATE OF)
AUTHORITY TO PROVIDE)
TELECOMMUNICATIONS SERVICES IN)
SOUTH DAKOTA)

ORDER GRANTING
CERTIFICATE OF
AUTHORITY

TC99-060

On June 11, 1999, 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 Convergent Communications Services, Inc. (CCSI).

CCSI proposes to offer 1+ and 101XXXX direct outbound dialing, 800/888 toll free inbound dialing and travel card service. A proposed tariff was filed by CCSI. The Commission has classified long distance service as fully competitive.

On June 17, 1999, the Commission electronically transmitted notice of the filing and the intervention deadline of July 2, 1999, to interested individuals and entities. No petitions to intervene or comments were filed and at its September 8, 1999, meeting, the Commission considered CCSI's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to the condition that CCSI not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission.

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 CCSI has met the legal requirements established for the granting of a certificate of authority. CCSI 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 CCSI's application for a certificate of authority, subject to the condition that CCSI not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. As the Commission's final decision in this matter, it is therefore

ORDERED, that CCSI's application for a certificate of authority is hereby granted, subject to the condition that CCSI not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. It is

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

Dated at Pierre, South Dakota, this 14th day of September, 1999.

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: Heldine Lecho

Date: 9/14/99

(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 September 8, 1999
Docket No. TC99-060

This is to certify that

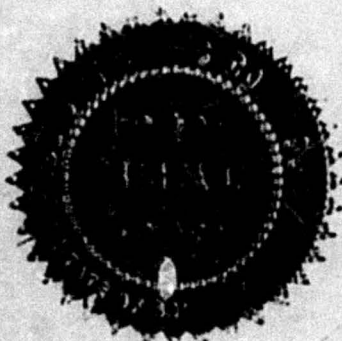
CONVERGENT COMMUNICATIONS SERVICES, INC.

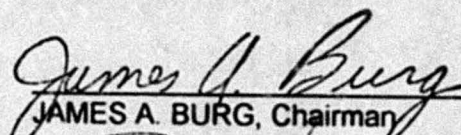
is authorized to provide telecommunications services in South Dakota.

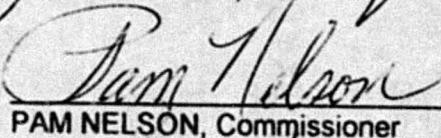
This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

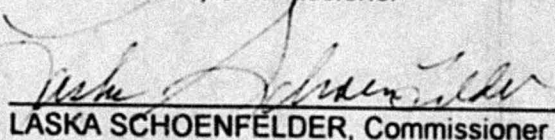
Dated at Pierre, South Dakota, this 14th day of September, 1999.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**




JAMES A. BURG, Chairman


PAM NELSON, Commissioner


LASKA SCHOENFELDER, Commissioner