TC00-189

TC00-189

K4/25

DOCKET NO. TC00-189

In the Matter of IN THE MATTER OF THE APPLICATION OF CLARICOM NETWORKS, INC. D/B/A STAPLES COMMUNICATIONS - NETWORKS FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
11/21/00	Filed and Docketed;
11/22/00	Weekly Filing;
1/29/01	Revised Application;
3/12/01	Revised Tariff Pages;
3/22/01	Letter Requesting Withdrawal of Application;
3/9/01	Order Permitting Withdrawal of Application and Closing Docket;
3/9/01	Docket Closed.

TC00-199

ORIGINAL

DICKSTEIN SHAPIRO MORIN & OSHINSKY LLP

2101 L Street NW • Washington, DC 20037-1526
Tel (202) 785-9700 • Fax (202) 887-0689

Writer's Direct Dial: (202) 833-5017
E-Mail Address: FurmanV@dsmo.com

RECEIVED
NOV 21 2000
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

November 20, 2000

VIA FEDERAL EXPRESS
Secretary
South Dakota Public Utilities Commission
State Capitol
500 East Capitol Street
Pierre, South Dakota 57501

Re: Application of Claricom Networks, Inc. d/b/a Staples Communications – Networks for Authority to Operate as a Reseller of Local Exchange Telecommunications Services within the State of South Dakota

Dear Sir or Madam:

On behalf of Claricom Networks, Inc. d/b/a Staples Communications – Networks ("Claricom"), we hereby submit an original and ten (10) copies of its application and tariff for authority to operate as a reseller of local exchange telecommunications services within the State of South Dakota.

A sealed envelope, marked "Confidential," which contains copies of Claricom's financial statements, is also enclosed herewith. Claricom seeks to have the documents contained in the sealed envelope treated as confidential, and respectfully requests that the Commission treat them as such.

We have included an extra copy of this filing, marked "Stamp and Return," as well as a self-addressed, pre-paid overnight airbill and delivery envelope. Please stamp and return the extra copy to confirm your receipt.

Please direct any inquiries regarding this filing to the undersigned.

Respectfully submitted,
CLARICOM NETWORKS, INC. D/B/A STAPLES COMMUNICATIONS – NETWORKS

By _____
Valerie M. Furman

VMF/clh
Enclosures

1177 Avenue of the Americas • 41st Floor • New York, New York 10036-2714
Tel (212) 835-1400 • Fax (212) 997-9880
http://www.dsmo.com

TC00-189

RECEIVED
NOV 21 2000
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

In the Matter of	)	
	)	
Claricom Networks, Inc. d/b/a	)	
Staples Communication-Networks	)	
	)	Docket No. _____
For Authority to Operate as a Reseller of Local	)	
Exchange Telecommunications Service Within the	)	
State of South Dakota	)	

APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Claricom Networks, Inc. d/b/a Staples Communications-Networks ("Claricom"), by its undersigned counsel and pursuant to 20:10:32:03 of the South Dakota Administrative Rules hereby submits its application for a Certificate of Public Convenience and Necessity authorizing Claricom to provide basic local exchange telecommunications services as a reseller throughout the State of South Dakota. In support of its application, Claricom hereby states as follows:

1. Applicant's Name, Address, and Telephone and Fax Numbers

Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484
Voice: (203) 402-7500
Fax: (203) 402-7873

2. Contact Persons

All inquiries, correspondence, communications, pleadings, notices, orders, and decisions relating to the case should be addressed to:

Albert H. Kramer, Esq.
Valerie M. Furman, Esq.
Dickstein Shapiro Morin & Oshinsky LLP
2101 L Street, N.W.
Washington, D.C. 20037
Voice: (202) 833-5017
Fax: (202) 887-0689

Counsel for Claricom Networks, Inc. d/b/a Staples Communications-Networks

and

Joyce E. Johnson, Esq.
Corporate and Regulatory Counsel and Assistant Secretary
Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484
Voice: (203) 402-7526
Fax: (203) 402-7873

3. Corporate Information

Claricom, formerly known as Clarity Telecom LD Network Services, Inc., was incorporated in the State of Delaware on May 20, 1996. On December 15, 1997, Claricom Telecom LD Network Services, Inc. formally changed its name to Claricom Networks, Inc. Claricom recently added the "d/b/a" name "Staples Communications-Networks" to its name, and the Company is now known as Claricom Networks, Inc. d/b/a Staples Communications-Networks. A copy of Claricom Networks, Inc.'s certificate of incorporation and amended articles of incorporation are attached hereto as Exhibit A.

Claricom Networks, Inc. is a privately-held, wholly-owned subsidiary of Claricom Holdings, Inc., which is also a Delaware corporation. Claricom experienced an indirect change in control last year as a result of the merger of its parent corporation, Claricom Holdings, Inc, with Sigma Acquisition Corp., a newly-formed, wholly-owned subsidiary of Staples, Inc. The merger was consummated on February 26, 1999. Prior to the merger,

Claricom Holdings, Inc. owned 100% of Claricom's outstanding capital stock. Pursuant to the merger agreement between the parties, Sigma Acquisition Corp. merged with and into Claricom Holdings, Inc. Claricom Holdings, Inc. was the surviving corporation of the merger. As a result of the merger, Staples, Inc. now owns in excess of 90% of the shares of Claricom Holdings, Inc. and no other shareholder of Claricom Holdings, Inc. owns in excess of 5% of the shares. Claricom remains a wholly-owned subsidiary of Claricom Holdings, Inc.

4. Officers, Directors and Stockholders

A complete list of Claricom's officers and directors is attached hereto as Exhibit B. As stated above, Claricom is a wholly-owned subsidiary of Claricom Holdings, Inc. and, therefore, Claricom Holdings, Inc. is the only entity owning twenty percent (20%) or more of Claricom's stock.

5. Federal Tax Identification Number

Claricom's federal taxpayer identification number is 043314894.

6. Certificate of Authority to Transact Business in South Dakota

Claricom is registered as a foreign corporation in State of South Dakota. A copy of Claricom's Certificate of Authority to transact business in South Dakota is attached hereto as Exhibit C.

7. Registered Agent for the State of South Dakota

CT Corporation System
319 South Coteau St.
Pierre, SD 57501

8. Location of Claricom's Principal Office in the State of South Dakota

Claricom does not currently have, and does not at this time intend to have, any offices in the State of South Dakota. Claricom's principal offices are located in Shelton, Connecticut.

9. Managerial and Technical Expertise

Claricom's officers and directors have extensive experience in the provision of telecommunications services and the operation of telecommunications companies. Claricom currently operates as a reseller of intrastate interexchange (toll) telecommunications services within the states of Alabama (9/16/97), Arizona (interim authority only – 6/13/97), Arkansas (3/20/97), California (5/6/97), Colorado (5/1/97), Connecticut (9/3/97), Delaware (2/18/97), Florida (7/18/97), Georgia (6/5/97), Idaho (10/15/96), Illinois (11/19/97), Indiana (3/26/97), Iowa (not regulated), Kansas (3/11/97), Kentucky (3/7/97), Louisiana (5/8/97), Maine (9/14/98), Maryland (5/28/97), Massachusetts (2/19/97), Michigan (9/16/96), Minnesota (9/9/97), Mississippi (9/12/97), Missouri (9/25/97), Montana (5/21/96), Nebraska (9/3/97), Nevada (8/7/97), New Hampshire (1/20/98), New Jersey (10/2/96), New Mexico (6/20/00), New York (2/24/97), North Carolina (7/23/97), North Dakota (3/19/97), Ohio (2/28/97), Oklahoma (6/19/97), Oregon (4/14/97), Pennsylvania (2/11/99), Rhode Island (12/17/97), South Carolina (9/9/97), South

Dakota (9/17/97), Tennessee (7/30/97), Texas (8/21/96), Utah (9/12/96), Vermont (2/2/00), Virginia (5/7/97), Washington (6/10/97), West Virginia (10/23/97) and Wyoming (7/16/97), and has an application pending for authority to resell intrastate interexchange (toll) telecommunications services within the state of Arizona.

As of the date of this filing, Claricom has been granted authority or is otherwise authorized to resell local exchange telecommunications services in the states of Connecticut (5/17/00), Florida (5/5/00), Indiana (5/17/00), Maryland (7/12/00), Massachusetts (9/13/99), New Hampshire (6/8/00), New Jersey (1/19/00), New York (2/24/97), Oregon (7/12/00), Pennsylvania (2/16/00), Rhode Island (11/2/99), South Carolina (9/25/00), Vermont (2/2/00), Wisconsin (4/7/00) and West Virginia (2/29/00). In addition, Claricom currently has applications for authority to resell local exchange telecommunication services pending in the District of Columbia and the states of Arizona, Arkansas, California, Delaware, Kentucky, Louisiana, Maine, Montana, New Mexico, North Carolina and Ohio. The services proposed in the pending applications are the same as those proposed herein. Claricom plans to seek authority to resell local exchange telecommunications services in the remaining states in coming months. Claricom's sister corporation, Clarity Telecom Local Network Services, Inc., is authorized to resell local exchange telecommunications services in the states of Illinois and Washington. Claricom has attached hereto as Exhibit D biographical descriptions of the company officers who will have primary management responsibility for Claricom's business operations, as evidence that Claricom's management team possesses more than sufficient technical and managerial expertise to resell local exchange telecommunications services to customers in the State of South Dakota.

[illegible].DOC

As of the date of this filing, Claricom has not been denied registration or certification in any state, and is in good standing with the appropriate regulatory agency in the states in which it is registered or certified.

10. Affiliates, Subsidiaries and Parent Organizations

Claricom has no subsidiaries. Claricom Holdings, Inc., Claricom's immediate parent company, and Claricom, Inc. and Clarity Telecom Local Network Services, Inc., Claricom's sister corporations, are all located at the same address as Claricom. Staples, Inc., Claricom's ultimate parent company, is located at:

500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

11. Description of Applicant's Proposed Operations in the State of South Dakota

Claricom intends to operate as a non-facilities based reseller of local exchange telecommunications services, and intends to resell all available incumbent local exchange carrier ("ILEC") services. Claricom intends to provide service primarily to business customers, but requests authority to provide service to both business and residential customers in the State of South Dakota. Claricom intends to offer service within the existing South Dakota service territories of US West Communications, Inc. (now Qwest Communications).

As a non-facilities based reseller of local exchange telecommunications services, Claricom will rely exclusively on the facilities of its underlying carrier, US West, to provide the services proposed herein, and will not construct any plant, property or facilities in the State of South Dakota. Claricom intends to begin providing service to business and

residential customers as soon as practicable after receiving certification from the Commission and having its resale agreement with US West approved by the Commission.

12. Geographic Service Area

Claricom intends to resell the local exchange telecommunications services of US West in US West's exchange areas throughout the State of South Dakota. The US West exchange areas in which Claricom will provide service are located in all or part of the following counties (where facilities permit):

Aurora	Davison	Hyde	Pennington
Beadle	Day	Jackson	Perkins
Bennett	Deuel	Jerauld	Potter
Bon Homme	Dewey	Jones	Roberts
Brookings	Douglas	Kingsbury	Sanborn
Brown	Edmunds	Lake	Shannon
Brule	Fall River	Lawrence	Spink
Buffalo	Faulk	Lincoln	Stanley
Butte	Grant	Lyman	Sully
Campbell	Gregory	McCook	Todd
Charles	Haakon	McPherson	Tripp
Mix	Hamlin	Marshall	Turner
Clark	Hand	Meade	Union
Clay	Hanson	Mellette	Walworth
Codington	Harding	Miner	Yankton
Corson	Hughes	Minnehaha	Ziebach
Custer	Hutchinson	Moody	

Claricom's local calling areas will correspond with US West's local calling areas. Because Claricom's proposed calling and service areas will not vary from those of US West, Claricom hereby incorporates by reference the maps of US West — whose services it will be reselling — and requests that it not be required to furnish the identical maps herein.

13. Customer Service

A. Deposits

Claricom will not, as a matter of course, collect deposits or advance payments from its customers. However, in situations where a given customer of Claricom has bad credit *directly with Claricom*, Claricom *may* require an advance payment of the estimated charges for one (1) month of service from such customer, to be applied to future charges incurred by that customer.

B. Complaint Procedures

Claricom will make service available to customers 24 hours per day, 7 days per week throughout the year. Customer inquiries and complaints will be handled by representatives at Claricom's National Customer Service Center, which is staffed 24 hours per day, 7 days per week. The toll-free number for Claricom's National Customer Service Center is (800) 678-9866. Customer service matters and complaints may also be directed to Claricom's customer service contact person by writing to:

Thomas Maier
Vice President, Network Division
Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

C. Repair and Maintenance

As a non-facilities based reseller of local exchange telecommunications services, Claricom will rely primarily on its underlying carrier, US West, to perform the facility and

equipment maintenance necessary to ensure compliance with the Commission's quality of service requirements. Thomas Maier, the Vice President of Claricom's Network Division, is knowledgeable about Claricom's operations, and is responsible for monitoring and overseeing Claricom's maintenance and repair systems. Mr. Maier may be contacted at the following address and/or telephone number:

Thomas Maier
Vice President, Network Division
Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484
Voice (203) 402-7500

D. Description of New Customer Verification Procedures

Claricom will send new customers an order package which contains service order verification forms to be completed and signed by the customer including a letter of authorization identifying Claricom as the Primary Interexchange Carrier, which must be photocopied on to the customer's letterhead. An order placed without these forms properly executed will be rejected. Upon receipt of properly executed forms, Claricom will make a follow-up telephone call to the customer to verbally verify the new order. Each sales agent must attend multiple sales training sessions and follow the protocol outlined above to ensure that new customers affirmatively select Claricom to provide services.

E. Billing and Collection

Claricom will bill and collect charges for service from customers directly using industry accepted methods.

14. Access to Emergency Services, Operator Services, Interexchange Services, Directory Assistance and Telecommunications Relay Services

In compliance with the Commission's rules, Claricom will coordinate with US West, its underlying carrier, to provide Claricom's customers with access to emergency services (*e.g.*, 911 and E-911), operator services, interexchange services, directory assistance and telecommunications relay services.

15. Financial Information

Claricom has attached hereto as Exhibit E the unaudited consolidated financial statements of Claricom, its parent corporation, Claricom Holdings, Inc., and its sister corporations, Claricom, Inc. and Clarity Telecom Local Network Services, Inc. that reflect the financial performance of the Claricom family of companies for the twelve months ending December 31, 1998, as evidence of its more than sufficient financial resources and qualifications to resell local exchange telecommunications services within the State of South Dakota. Since the acquisition of its parent company, Claricom Holdings, Inc., by Staples, Inc. in February, 1999, Claricom has reported on a consolidated basis with its ultimate parent company, Staples, Inc. Copies of the 1999 SEC Form 10-K and most recent SEC Form 10-Q reports of Staples, Inc. are also attached hereto as Exhibit E.

Although Claricom has more than sufficient financial resources and qualifications to resell local exchange telecommunications services within the State of South Dakota, if necessary, Claricom may draw upon the resources of its ultimate parent, Staples, Inc., for its proposed operations in the State of South Dakota. Staples, Inc. is a publicly-traded company that operates a nationwide chain of office supply stores with annual sales in excess of seven billion dollars. As the SEC Form 10-K and 10-Q reports included in Exhibit E

show, Staples, Inc.'s financial resources are considerable. The financial statements and other financial information attached as Exhibit E confirm that Claricom has the financial resources necessary for its proposed South Dakota operations.

16. Interconnection with Local Exchange Carriers

As stated above, Claricom intends to operate as a non-facilities based reseller of local exchange services. As such, Claricom will not interconnect with any carrier. Claricom does, however, intend to enter into a resale agreement with US West and plans to submit a letter to US West in the near term requesting the negotiation of a resale agreement.

17. Proposed Initial Tariff

A proposed initial tariff containing the rules, regulations, terms, and conditions for service is attached hereto as Exhibit F.

18. Marketing of Claricom's Local Exchange Services

Claricom will market its services to primarily business customers in the State of South Dakota by direct sales, and will not engage in multi-level marketing of its services. Because Claricom is currently in the initial stages of developing its marketing materials for the State of South Dakota, Claricom has not included any such materials as part of its application.

19. Service in Areas Served by Rural Telephone Companies

Claricom does not request authority to provide local exchange service in the service areas served by any rural telephone companies. As stated above, Claricom requests authority to provide service in the South Dakota service territories served by US West only.

20. Number and Nature of Complaints with any State or Federal Commission Regarding the Unauthorized Switching of a Customer's Telecommunications Provider and the Act of Charging Customers for Services That Have Not Been Ordered

Information regarding complaints filed with any state or federal commission regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered is attached hereto as Exhibit G.

21. Maintenance and Location of Books and Records

Claricom's corporate books and records are kept in accordance with Generally Accepted Accounting Principles ("GAAP"), and are maintained at its corporate headquarters in Shelton, Connecticut. Claricom will permit Commission inspections of its books and records upon request, and will pay for all costs associated with such inspection by the Commission.

22. Commission's Grant of Claricom's Application to Provide Local Telecommunications Service is in the Public Interest

Claricom submits that Commission approval of its application to resell local exchange telecommunications services in the State of South Dakota is in the public interest, because Claricom's market entry will bring a host of benefits to the State's telecommunications users. Included among those benefits are the following:

(i) increased diversity in the supply of telecommunications providers, which will offer additional and new consumer choices;

(ii) the entry of new telecommunications providers into the State's telecommunications marketplace, which will have no adverse impact upon prices; instead, it will introduce competitive pressures that will foster lower prices; and

(iii) the entry of new telecommunications providers into the State telecommunications marketplace, which will enhance competitive pressures that will foster higher quality service from all providers.

23. Exhibits

Exhibit A: Certificate of Incorporation and Amended Articles of Incorporation

Exhibit B: Claricom's Officers and Directors

Exhibit C: Certificate of Authority to Conduct Business in South Dakota

Exhibit D: Biographies of the Claricom Officers and Other Senior Management Personnel That Will Have Primary Responsibility for Claricom's Business Operations

Exhibit E: Financial Information

Exhibit F: Proposed Initial Tariff

Exhibit G: Information Regarding Complaints Filed with State or Federal Commissions Regarding the Unauthorized Switching of a Customer's Telecommunications Provider and the Act of Charging Customers for Services That Have Not Been Ordered

CONCLUSION

WHEREFORE, applicant Claricom Networks, Inc. d/b/a Staples Communications-Networks respectfully requests that the Commission grant it a certificate of service authority to operate as a reseller of local exchange telecommunications servicesin the State of South Dakota.

Respectfully submitted,
CLARICOM NETWORKS, INC. D/B/A
STAPLES COMMUNICATIONS-NETWORKS

By: _____

Albert H. Kramer, Esq.
Valerie M. Furman, Esq.
Dickstein Shapiro Morin & Oshinsky LLP
2101 L Street, N.W.
Washington, D.C. 20037
Voice: (202) 833-5017
Fax: (202) 887-0689

Counsel for Claricom Networks, Inc.
d/b/a Staples Communications-Networks

Dated: November 20, 2000

VERIFICATION

State of Connecticut)
) ss. Milford
County of New Haven)

I, Joyce E. Johnson, being duly sworn, declare that:

(1) I am Corporate and Regulatory Counsel and Assistant Secretary of Claricom Networks, Inc. d/b/a Staples Communications - Networks;

(2) I am authorized to make the following verification on behalf of Claricom Networks, Inc. d/b/a Staples Communications - Networks, the Applicant in the foregoing application;

(3) I have read the foregoing application and exhibits, and that the same are true and correct to the best of my knowledge, information, or belief; and

(4) Claricom Networks, Inc. d/b/a Staples Communications - Networks will comply with all Commission rules, regulations and orders.

Joyce E. Johnson
Corporate and Regulatory Counsel
and Assistant Secretary
Claricom Networks, Inc. d/b/a Staples
Communications - Networks

Sworn and subscribed before me this 7th day of December, 1999.

Notary Public

My commission expires October 31, 2001.

KAREN M. LONGO
NOTARY PUBLIC
MY COMMISSION EXPIRES OCT. 31, 2001

EXHIBIT A

Certificate of Incorporation and Amended Articles of Incorporation

RECEIVED
DEC 30 1997
Dept. of Commerce & Consumer Affairs
STATE OF HAWAII

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THAT THE SAID "CLARITY TELECOM LD NETWORK SERVICES, INC.", FILED A CERTIFICATE OF AMENDMENT, CHANGING ITS NAME TO "CLARICOM NETWORKS, INC.", THE FIFTEENTH DAY OF DECEMBER, A.D. 1997, AT 9 O'CLOCK A.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE NOT HAVING BEEN CANCELLED OR DISSOLVED SO FAR AS THE RECORDS OF THIS OFFICE SHOW AND IS DULY AUTHORIZED TO TRANSACT BUSINESS.

Edward J. Freel, Secretary of State

AUTHENTICATION: 8826469

DATE: 12-22-97

2622965 8320

971440293

NEXT

DOCUMENT (S)

BEST IMAGE

POSSIBLE

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
CLARITY TELECOM LD NETWORK SERVICES, INC.

Clarity Telecom LD Network Services, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST. That the Board of Directors of said corporation by the unanimous written consent of its members, filed with the minutes of the Board, adopted the following resolution:

"RESOLVED: That, subject to approval by the stockholders of the corporation, Article 1 of the Certificate of Incorporation of the corporation be amended and restated in its entirety as follows:

1. The name of this corporation is Claricom Networks, Inc."

SECOND: That the said amendment has been consented to and authorized by the sole holder of the issued and outstanding stock entitled to vote by written consent given in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.

THIRD: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 242 and 228 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said corporation has caused this Certificate to be signed by an officer thereunto duly authorized this 15th day of December, 1997.

CLARITY TELECOM LD
NETWORK SERVICES, INC.

By: [signature]
Title: VICE PRESIDENT
AND SECRETARY
JAMES A. GRAHAM

** TOTAL PAGE

CERTIFICATE OF INCORPORATION

of

CLARITY TELECOM LD NETWORK SERVICES, INC.

1. The name of this corporation is Clarity Telecom LD Network Services, Inc.

2. The registered office of this corporation in the State of Delaware is located at 1013 Centre Road, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is Corporation Service Company.

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

4. The total number of shares of stock that this corporation shall have authority to issue is 3,000 shares of Common Stock, $.01 par value per share. Each share of Common Stock shall be entitled to one vote.

5. The name and mailing address of the incorporator is: Jonathan S. Lavine, Two Copley Place, 7th Floor, Boston, Massachusetts 02116.

6. Except as otherwise provided in the provisions establishing a class of stock, the number of authorized shares of any class of stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the corporation entitled to vote irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware.

7. The election of directors need not be by written ballot unless the by-laws shall so require.

8. In furtherance and not in limitation of the power conferred upon the board of directors by law, the board of directors shall have power to make, adopt, alter, amend and repeal from time to time by-laws of this corporation, subject to the right of the stockholders entitled to vote with respect thereto to alter and repeal by-laws made by the board of directors.

9. A director of this corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that exculpation from liability is not permitted under the General Corporation Law of the State of Delaware as in effect at the time such liability is determined. No amendment or repeal of this paragraph 9 shall apply to or have any effect on the liability or alleged liability

of any director of the corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

10. This corporation shall, to the maximum extent permitted from time to time under the law of the State of Delaware, indemnify and upon request advance expenses to any person who is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was or has agreed to be a director or officer of this corporation or while a director or officer is or was serving at the request of this corporation as a director, officer, partner, trustee, employee or agent of any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines, penalties and amounts paid in settlement incurred (and not otherwise recovered) in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim; provided, however, that the foregoing shall not require this corporation to indemnify or advance expenses to any person in connection with any action, suit, proceeding, claim or counterclaim initiated by or on behalf of such person. Such indemnification shall not be exclusive of other indemnification rights arising under any by-law, agreement, vote of directors or stockholders or otherwise and shall inure to the benefit of the heirs and legal representatives of such person. Any person seeking indemnification under this paragraph 10 shall be deemed to have met the standard of conduct required for such indemnification unless the contrary shall be established. Any repeal or modification of the foregoing provisions of this paragraph 10 shall not adversely affect any right or protection of a director or officer of this corporation with respect to any acts or omissions of such director or officer occurring prior to such repeal or modification.

11. The books of this corporation may (subject to any statutory requirements) be kept outside the State of Delaware as may be designated by the board of directors or in the by-laws of this corporation.

12. If at any time this corporation shall have a class of stock registered pursuant to the provisions of the Securities Exchange Act of 1934, for so long as such class is so registered, any action by the stockholders of such class must be taken at an annual or special meeting of stockholders and may not be taken by written consent.

THE UNDERSIGNED, the sole incorporator named above, hereby certifies that the facts stated above are true as of this 16th day of May, 1996.

Jonathan S. Lavine

EXHIBIT B

Claricom's Officers and Directors

CLARICOM NETWORKS, INC.
D/B/A STAPLES COMMUNICATIONS – NETWORKS

Directors:

Ronald L. Sargent
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Thomas G. Stemberg
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Joseph S. Vassalluzzo
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Officers:

Thomas G. Stemberg
Chairman
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Ronald L. Sargent
Chief Operating Officer
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Joseph S. Vassalluzzo
President, Realty and Development
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

John J. Mahoney
Executive Vice President,
Chief Financial Officer and Chief Administrative
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

John K. Barton
Senior Vice President, Real Estate
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Jack A. VanWoerkom
Senior Vice President, General Counsel and Secretary
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Kristin Campbell
Vice President and Assistant Secretary
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Bernard I. Schacter
Vice President, Property Management
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

Joyce E. Johnson
Corporate and Regulatory Counsel
and Assistant Secretary
Claricom Networks, Inc. d/b/a
Staples Communications – Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484
(203) 402-7500

Patrick Hickey
Treasurer
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

L. Jamison Hudson
Assistant Treasurer
Staples, Inc.
500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

EXHIBIT C

Certificate of Authority to Conduct Business in South Dakota

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

AMENDED CERTIFICATE OF AUTHORITY

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

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

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this December 24, 1997.

Joyce Hazeltine

JOYCE HAZELTINE
Secretary of State

SECRETARY OF STATE
STATE CAPITOL
500 E. CAPITOL
PIERRE, S.D. 57501 - 5077
605-773-4845

DEC 24 1997

APPLICATION FOR AMENDED CERTIFICATE OF AUTHORITY

Pursuant to the provisions of SDCL 47-8-22, the undersigned corporation hereby applies for an amended Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is Clarity Telecom LD Network Services, Inc.
(Exact corporate name)

(2) The name of the corporation as amended is Claricom Networks, Inc.

(3) State where incorporated Delaware Federal Taxpayer ID# 04-3114894

(4) The date of its incorporation is May 16, 1996 and the period of its duration is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is 1013 Centre Road, Wilmington, DE Zip Code 19805

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is 503 South Pierre Street, Pierre, South Dakota Zip 57501 and the name of its proposed registered agent in the State of South Dakota at that address is Corporation Service Company.

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: SEE ATTACHED

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
See attached list of directors and officers					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
3,000	Common	(No series)	$0.01

(S. D. - 1419 - 10/20/95)
CT SYSTEM

Nature of Business or Purpose: Telecommunications sales and service and any business or other activity which may be lawfully carried on by a corporation under the laws of the State of .....

CLARITY TELECOM LD NETWORK SERVICES, INC.
OFFICERS AND DIRECTORS

I. Officers.

Name	Office(s)	Office Address	Residential Address
Stephen G. Pagliuca	Chairman	Two Copley Place, 7th Floor Boston, MA 02116	25 Sewell Street Newton, MA 02165
Edward H. Lavin	Chief Executive Officer	478 Wheelers Farms Road Milford, CT 06460	21 Bianca Drive Milford, CT 06460
Gary Tessitore	President and Chief Operating Officer	478 Wheelers Farms Road Milford, CT 06460	775 Longboat Club Road #808, Longboat Key, FL 34228
Dwight M. Poler	Vice President and Treasurer	Two Copley Place, 7th Floor Boston, MA 02116	24 Dartmouth Street Boston, MA 02116
Jonathan S. Lavine	Vice President and Assistant Treasurer	Two Copley Place, 7th Floor Boston, MA 02116	11 Brent Road Lexington, MA 02173
James Graham	Vice President -- Finance and Administration and Secretary	478 Wheelers Farms Road Milford, CT 06460	82 Under Cliff Road Trumbull, CT 06611
Steven Barnes	Vice President and Assistant Secretary	Two Copley Place, 7th Floor Boston, MA 02116	1 Jackson Circle Franklin, MA 02038

II. Directors.

Name	Office Address	Residential Address
Stephen G. Pagliuca	Two Copley Place, 7th Floor Boston, MA 02116	25 Sewell Street Newton, MA 02165
Dwight M. Poler	Two Copley Place, 7th Floor Boston, MA 02116	24 Dartmouth Street Boston, MA 02116
Jonathan S. Lavine	Two Copley Place, 7th Floor Boston, MA 02116	11 Brent Road Lexington, MA 02173
Edward H. Lavin, Jr.	478 Wheelers Farms Road Milford, CT 06460	21 Bianca Drive Milford, CT 06460
Neil Lichtman	478 Wheelers Farms Road Milford, CT 06460	30951 Via Etroeatte San Juan Capistrano, CA 92675
Steven Barnes	Two Copley Place, 7th Floor Boston, MA 02116	1 Jackson Circle Franklin, MA 02038

EXHIBIT D

Biographies of the Claricom Officers and Other Senior Management Personnel That Will Have Primary Management Responsibility For Claricom's Business Operations

Joyce E. Johnson

Since 1996, Ms. Johnson has served as Claricom's Corporate and Regulatory Counsel and Assistant Secretary. Ms. Johnson established and currently manages Claricom's corporate and regulatory legal department, and is responsible for handling day-to-day activities such as telecommunications regulatory and state certification matters, contract negotiations, corporate litigation, labor and employment issues, and corporate transactions.

From 1994 to 1996, Ms. Johnson was a regulatory attorney at Executone Information Systems, Inc., managing all legal matters for the Company's corrections and long distance resale divisions.

From 1993 to 1994, Ms. Johnson served as Special Assistant Attorney General of the Regulated Industries Division of the Massachusetts Attorney General's Office, where she worked primarily on telecommunications regulatory matters. Prior to accepting continued employment as a consultant Special Assistant Attorney General, from 1992 to 1994, Ms. Johnson held the position of Assistant Attorney General of the same division. In her capacity as Assistant Attorney General, Ms. Johnson represented consumer interests in regulatory proceedings affecting telephone, gas and electric utilities.

From 1981 to 1992, Ms. Johnson held various managerial, technical and engineering positions at NYNEX Corporation, which provided leading-edge understanding of the telecommunications industry.

From 1990 to 1992, in her capacity as the Associate Director of Docket and Issue Management, she analyzed federal regulatory issues, oversaw compliance with FCC regulations, and provided guidance and information to high level managers to establish company positions

From 1987 to 1990, Ms. Johnson was the Central Office Supervisor. In that position, she supervised and trained over 20 switching equipment technicians and frame attendants to work on complex telecommunications equipment, which required knowledge of six diverse proprietary computer systems as well as a high level of expertise regarding telecommunications equipment such as fiber optics, packet switches, digital data systems, data and private line circuitry, and switching systems.

From 1982 to 1987, Ms. Johnson was a Switching Equipment Technician, and was responsible for repairing and installing toll circuits for transmission of voice and data grade telecommunications over the New York Telephone network.

From 1981 to 1982, Ms. Johnson was an Engineering Assistant, and was responsible for preparing reports and long range plans to upgrade office telecommunications equipment in the State of New York.

Ms. Johnson holds a B.S. in Business Administration from State University College (Oswego, NY) and holds a J.D. from Pace University School of Law. She is a member of the bars of the states of New York, Connecticut, and Massachusetts.

Thomas Maier

Mr. Maier currently serves as Vice-President of Claricom's Network Services Division.

From June 1996 to May 1999, Mr. Maier served as Vice President of Finance in Claricom's Network Services Division.

From July 1990 to May 1996, Mr. Maier was the Controller of Executone Information Systems, Inc.'s Network Services Division — a start up operation that has since grown to a $28 million division. His responsibilities included handling finance and collections matters, and order processing.

From June 1988 to June 1990, Mr. Maier was the Accounting Manager at D'Addario Industries, Inc., a $100 million, multi-project company including construction as its major source of revenue.

From March 1986 to May 1988, Mr. Maier was an Internal Auditor for Reichhold Chemicals, Inc. Reichhold was a $250 million chemical company that sold specialty chemicals in the U.S. and international markets.

From January 1981 to February 1986, Mr. Maier was an International Internal Auditor for Richardson Vicks, Inc., a $2 billion consumer product company. His responsibilities included monitoring internal controls in finance, production and computer processing.

Mr. Maier holds a BBA in Accounting from Temple University. Mr. Maier is a CPA licensed by the State of Connecticut, and is a member of the Connecticut Society of Certified Public Accountants and the AICPA.

Ronald L. Sargent

Mr. Sargent currently serves as President and Chief Operating Officer of Claricom Networks, Inc. d/b/a Staples Communications – Networks and Staples, Inc. In this capacity, Mr. Sargent is responsible for Staples, Inc.'s worldwide operations, including U.S., Canadian and European retail superstores, Staples Contract and Commercial worldwide (including the Quill brand), and the Company's supply chain management and marketing activities.

Mr. Sargent joined Staples in 1989 and has worked in a number of roles throughout the organization, most recently as President of North American Operations.

Prior to joining Staples, Inc. Mr. Sargent spent 15 years with The Kroger Co., the nation's largest supermarket retailer, where he held a variety of assignments, including store operations, human resources, strategic planning, sales management and marketing.

Mr. Sargent is a graduate of Harvard College and Harvard Business School.

EXHIBIT E

Financial Information

Claricom hereby identifies certain portions of the information produced in accord with the Commission's Rules, which reports Claricom Networks, Inc.'s financial information, as highly sensitive confidential information. Claricom has requested that the Commission treat as confidential those portions of Exhibit E that it considers to be highly proprietary and competitively sensitive.

Staples, Inc.'s SEC Form 10-K Form and 10-Q Reports, which are public and non-proprietary, follow this page.

SEC FORM 10-K REPORT OF STAPLES, INC.

NEXT

DOCUMENT (S)

BEST IMAGE

POSSIBLE

Prepared by MERRILL CORPORATION www.edgaradvantage.com

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

or

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

For the fiscal year ended January 29, 2000

Commission File Number 0-17586

STAPLES, INC.

(Exact name of registrant as specified in its charter)

Delaware	04-2896127
(State of Incorporation)	(I.R.S. Employer Identification No.)

Five Hundred Staples Drive, Framingham, Massachusetts 01702
(Address of principal executive offices and zip code)

508-253-5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act

None

Securities registered pursuant to Section 12(g) of the Act

Staples Retail and Delivery Common Stock, par value $0.0006 per share
(Title of each class)

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the last sale price of Staples Retail and Delivery Common Stock on January 29, 2000, as reported by Nasdaq, was approximately $9.6 billion. In determining this number of non-affiliate voting stock, shares of Staples Retail and Delivery Common Stock beneficially owned by executive officers and directors have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 7, 2000, there were outstanding 447,442,409 shares of Staples Retail and Delivery Common Stock and 27,348,094 shares of Staples.com Common Stock, each par value $0.0006 per share.

Prepared by MERRILL CORP

Documents Incorporated By Reference

Listed below is the document incorporated by reference and the part of the Form 10-K into which the document is incorporated

Portions of the Proxy Statement for the 2000 Annual Part III
Meeting of Stockholders

This Annual Report on Form 10-K contains a number of forward-looking statements. Any statements contained herein (including without limitation statements to the effect that Staples or its management "believes", "expects", "anticipates", "plans" and similar expressions) that are not statements of historical fact should be considered forward-looking statements. There are a number of important factors that could cause Staples' actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Operating Results."

PART I

Item 1. Business

Staples

Staples, Inc. and subsidiaries ("Staples" or "the Company") pioneered the office products superstore concept and is a leading office products distributor, with a total of 1,129 retail stores located in the United States, Canada, the United Kingdom, Germany, the Netherlands and Portugal as of January 29, 2000. In addition, Staples has a catalog business, an electronic commerce business and contract stationer operations.

During 1999, our stockholders approved a Tracking Stock Proposal which allowed us to issue a new series of common stock, Staples.com Stock, intended to reflect the performance of our electronic commerce business, which operates under the name Staples.com. Staples' existing common stock was reclassified as Staples Retail and Delivery common stock. Staples Retail and Delivery stock is intended to reflect the performance of our non electronic commerce businesses and a retained interest in Staples.com. From an accounting standpoint, we have separated Staples.com from Staples Retail and Delivery ("Staples Retail and Delivery"). We have allocated all of our consolidated assets, liabilities, revenue, expenses and cash flow between Staples.com and Staples Retail and Delivery. These two businesses are each sometimes referred to in this 10-K as a "*Business*" and collectively as the "*Businesses*".

Staples' executive offices are located at 500 Staples Drive, Framingham, Massachusetts 01702 (telephone: (508) 253-5000). Staples was organized in November 1985 and is incorporated in the State of Delaware.

Staples Retail and Delivery

Staples Retail and Delivery includes Staples retail stores, catalog business, contract stationer operations and a retained interest in Staples.com. The retained interest in Staples.com was 88% as of January 29, 2000, but will decline as we issue Staples.com stock under stock plans or in one or more public or private financings.

Staples.com

Staples.com is creating a leading business-to-business electronic marketplace offering a comprehensive solution for the purchasing needs of business customers. We currently provide an electronic marketplace where small, mid-sized and large businesses can efficiently purchase office products and business services and obtain business information and expert content. Our Staples.com, Staples Office Products and Business Services and Staples4me.com, leverage the brand recognition and fulfillment capabilities of Staples. By aggregating business customers, we are creating a sales channel that will provide buyers and sellers with opportunities to realize operating efficiencies by streamlining complex purchasing and distribution decisions and by creating a broader customer base.

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Business Strategy—Staples Retail and Delivery

We view the office products market as a large, diversified market for office supplies and equipment, business machines and computers, and various business services. Although there are no clear demarcations among segments, we target four principal end-user groups:

- consumers and home offices;
- small businesses and organizations with fewer than 100 office workers;
- medium-size businesses and organizations, which have between 100 and 499 office workers;
- large businesses with more than 500 office workers.

Our ability to address all four major end-user groups increases and diversifies our available market opportunities, increases awareness of the Staples name among customers in all four end-user groups, who often shop across distribution channels, and allows us to enjoy a number of important economies of scale such as increased buying power, enhanced efficiencies in distribution and advertising, and improved capacity to leverage general and administrative functions.

We effectively reach different sectors of the office products market through different channels of distribution designed to be convenient to each targeted market sector. Our in-store operations seek to address the retail needs of customers, while our delivery operations focus on customers who desire delivery of their office products and other specialized services.

We maintain our historical focus on being a low cost operator and believe that we have significant opportunities to reduce costs as a percentage of sales. We believe that our future expansion will enable us to leverage certain fixed costs in store operations, marketing, distribution and administration. We also seek to enhance productivity through improvements in operating practices.

We continue to increase staffing levels in stores and delivery operations and to make other investments to provide better customer service. In addition, we continue to drive a corporate-wide C.A.R.E. (Customers, Associates, Real Communications and Execution) program designed to empower associates to exceed customer expectations for service by providing "great service, every day, every way" and have implemented programs that tie a portion of incentive compensation to achievement of customer satisfaction goals.

North American Superstores

Our North American retail operations, consisting of 991 stores as of January 29, 2000, are our core business, generating a substantial majority of our sales and profits. Our retail operations focus on serving the needs of customers, primarily in the consumer, home office and small business segments of the office products market. We are devoting significant resources and efforts to profitably increasing our retail sales per store in both North America and Europe. These initiatives cover a wide-range of store operations, including product and service offerings, inventory planning, staffing, customer satisfaction and improvements in store design.

We are continuing our store growth program. In fiscal year 1999, we opened 152 stores in North America and 23 stores in Europe. In fiscal 2000, we intend to open approximately 150 stores in North America and 20 stores in Europe. Our store growth strategy follows a three-pronged approach of continuing the growth of our store network in existing markets, entering contiguous markets within both existing and new geographic areas, and entering major new markets. To support this expansion, we are also taking steps to strengthen our infrastructure, including our distribution capabilities.

Superstores. Our North American superstores are located in 44 states, the District of Columbia and 10 Canadian provinces in both major metropolitan markets and smaller outlying markets. Our current superstore prototype is approximately 24,000 square feet. Our strategy for our North American superstores focuses on four key objectives:

- provide superior customer value through a combination of broad product selection, everyday low prices, outstanding customer service and convenient locations;
- increase our presence in targeted markets by adding new superstores and achieving economies of scale in most of the major markets where we compete;
- reduce operating costs to the lowest level consistent with providing quality merchandise and service; and
- offer a comfortable, easy to shop store environment with skilled sales associates available to assist the customer.

Express Stores. In select urban markets, we operate a smaller store format, "Staples Express", which offers a more focused assortment of products. These smaller stores give us the opportunity to meet the office supply needs of customers in a store format that is efficient and economical in an urban environment. Staples Express stores range from approximately 6,000 to 10,000 square feet. During fiscal year 1999, Staples introduced two airport stores to meet the needs of the business traveler, each of which are approximately 1,500 square feet.

North American Delivery Operations

Our delivery operations of Staples RD are comprised of two principal operations:

- our catalog businesses, operating under the names "Staples Direct" and "Quill Corporation;" and
- our contract stationer businesses, operating under the names "Staples National Advantage" and "Staples Business Advantage."

We are implementing a number of actions to grow our delivery business. These actions include: broadening product offerings; offering specialized, more focused marketing initiatives; and expanding distribution capacity.

Staples Direct. Operating since 1990, Staples Direct, our direct mail catalog business, reaches all targeted segments of the office products market seeking the convenience of telephone ordering and free next day delivery for orders over $50. Delivered orders are shipped from our delivery distribution centers and are distributed through dedicated delivery hubs. In some markets, we also deliver products directly from our retail stores. We market Staples Direct through both direct mail catalogs and a sales force primarily focused on generating new accounts.

Quill Operations. Acquired in May 1998, Quill is a direct mail catalog business with a targeted approach to servicing the office products needs of more than 750,000 medium sized businesses in the United States. Quill markets primarily through the distribution of catalogs designed to meet the needs of specific customer segments. Quill offers outstanding customer service, a selection of private label product, and special services to attract and retain its customers.

Staples National Advantage and Staples Business Advantage. Our contract stationer operations focus primarily on serving the needs of medium- to large-size businesses that sometimes may seek more services than are provided by a traditional retail or mail order business, such as customized pricing, payment terms, usage reporting and the stocking of certain proprietary items. Our contract stationer business is divided into two segments. Staples National Advantage is a nationwide contract stationer business focused on selling to large multi-regional businesses. Staples Business Advantage focuses on selling to medium- and large-size regional companies and has the flexibility to handle smaller accounts. We initially established this business through acquisitions of regional contract stationers, and more recently have entered certain metropolitan markets through the expanded sales and distribution capabilities of Staples Business Advantage.

International

We started doing business in Europe in 1992. As of January 29, 2000, Staples, through its wholly owned subsidiaries, operates 63 stores in the United Kingdom, 47 stores in Germany, 21 stores in the Netherlands and 7 stores in Portugal, with delivery operations in the United Kingdom and Germany. During 1999, we completed the acquisition of three European office supply companies which included 42 office supply superstores, with 15 stores in Germany, 21 stores in the Netherlands and 6 stores in Portugal. We also expanded Quill's operations into the United Kingdom during fiscal year 1999.

Business Strategy—Staples.com

Our three principal web sites, *Staples.com*, *Quillcorp.com* and *StaplesLink.com*, leverage the brand recognition and fulfillment infrastructure of Staples. Each of our web sites is targeted to the needs of a particular segment of our customer base:

- *Staples.com* is our core electronic marketplace for small businesses, home offices and consumers. The web site provides complete, on-site transaction processing for the purchase of over 130,000 office products and services. *Staples.com* also hosts our Business Solutions Center, which will be the site of our business-to-business trading hub, messaging boards and other interactive features.

- *Quillcorp.com* leverages the strength of the Quill brand name in the catalog-order office products market to sell to small and mid-sized businesses. Quill, which was acquired by Staples in 1998, has been a direct retailer of office products through catalogs for over 40 years. *Quillcorp.com* offers over 20,000 office products from Quill's direct mail catalogs, including Quill's private label products.

- *StaplesLink.com* leverages the strength of the Staples brand name in the contract stationers market to provide online procurement of office products for large businesses. *StaplesLink.com* offers the highest level of procurement functionality of our web sites, including customized pricing, payment terms, usage reporting and full service account management designed to appeal to businesses which require high levels of procurement control.

Our objective is to create the leading business-to-business electronic marketplace offering a comprehensive solution for the office needs of our business customers. We seek to provide a single online destination where businesses can procure a broad array of office products and business services, access and exchange business information and expert content and conduct electronic commerce transactions with each other. Key elements of Staples.com's strategy include:

Leveraging our Staples Relationship. Staples.com's relationship with Staples provides it with significant competitive advantages. We plan to continue to leverage these advantages, such as Staples' top brand name among small businesses, large product selection, purchasing power and national distribution capabilities, to generate sales and traffic on our web sites.

Drive Incremental Sales. We plan to aggressively acquire new business customers and drive repeat purchases by leveraging our strong brand franchise, providing easy access to a wide selection of products, services and information and utilizing Staples' and Quill's extensive direct marketing experience, sophisticated marketing techniques and high-quality customer service. Additionally, we intend to generate incremental sales from Staples' existing customers by offering them an additional distribution channel for their purchases and by offering them a variety of business services. We conduct various cross-marketing, co-promotion and customer acquisition programs with Staples to leverage Staples' database of approximately 8 million business customers. We utilize information about our customers to help us identify market needs, enhance our web sites and effectively tailor our market strategy. We also expect to generate sales from our electronic kiosks in Staples' retail stores where customers can purchase products online that are not available in the store.

Increase High-Quality Customer Traffic. Staples.com's product and service offerings drive high quality and high frequency traffic to our web sites. We plan to further grow our sales by offering a complement of business services, both through our partners and our RFQ marketplace, which are intended to cause buyers and sellers to visit our web sites to access the network of small and mid-sized businesses and vendors. As the number of visitors to our electronic marketplace grows, we believe that a greater diversity of buyers and service providers will be attracted, which, in turn, should create a viral network effect increasing the amount of customer traffic to our web sites.

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Apply Sophisticated Direct Marketing Techniques We plan to take advantage of Staples' and Quill's significant direct marketing expertise, as well as the customer profile information that we gather through our web sites, to tailor our products and service offerings to the individual needs of our customers.

Build Online Brand Awareness We will continue to invest in building our online brands and in communicating the benefits and convenience of shopping at our web sites. We believe that we are well positioned to establish *Staples.com*, *Quillcorp.com* and *StaplesLink.com* as premier online brands for office products and services, related business information and community. We benefit from our relationship with Staples through multiple cross-marketing initiatives. For example, Staples' print advertising and circulars typically contain the *Staples.com* web site address. We plan to continue to use local and national media, including online, television, radio, print and outdoor advertising, to further enhance our online brand. In addition, we will continue to enter into online marketing arrangements. For example, we are featured as the premier office supply and services merchant on Yahoo! Small Business.

Continually Enhance the Customer Experience We seek to continually enhance our web sites based on our targeted customers' preferences and needs. Our web sites allow us to gather significant data on customer browsing and shopping preferences. We use this information to dynamically change our product offerings to meet the changing preferences and needs of our targeted customers. We also use this information, as well as online questionnaires, to refine the layout and performance of our web sites. In early 2000, we plan to launch newly designed versions of our web sites with enhanced functionality. We expect that continued enhancements of our web sites will make shopping with us more efficient and generate increased customer satisfaction.

Expand Strategic Alliances We will continue to use strategic alliances and equity investments, such as those we have with Buy.com, DSL.net, HotOffice Technologies, Register.com and Point.com, to expand our business service offerings, gain entry into new markets and drive traffic to our web sites. Staples.com's relationship with Staples enables it to establish strategic alliances with partners seeking to establish cross-marketing relationships with Staples and Staples.com.

Expand Internationally We plan to expand our offerings in Canada through Staples.com of Canada, *BusinessDepot.com* and Bureau en Gros, the online outlets of Staples' Canadian retail stores. These sites are available in French and English. We believe that the experience we gain in Canada will enable us to expand efficiently into Europe and other international markets in the future.

Products, Services and Purchasing

Products and Services

We tailor our product mix to meet the needs of our customers by regularly evaluating sales and profit performance for each of our SKUs. In order to minimize unit costs and selling prices, we sell most products in multi-unit packages. The lot sizes are designed to be large enough to be cost effective without being burdensome to our small business customers.

We guarantee low prices to our customers and will not only match competitive prices but will also pay 55% of the price difference (up to $$$) as a credit towards future purchases. We continuously compare our pricing against other discount office supply stores, local stationers, warehouse clubs, mass merchants, computer superstores, consumer electronics retailers, catalog showroom, commercial distributors and mail order stationers to ensure that our strategy of maintaining everyday low prices is achieved.

We offer our customers an array of services. Customers may place orders by telephone for delivery or for customer pickup or via the Internet. Customers may pay with MasterCard, Visa, American Express, Discover, or the Staples private label credit card, in addition to check or cash. We also offer customers an option to lease business machines and computers through a third party lessor with varying terms. In our retail stores we offer high-speed and self-service copying, overnight mailing, binding and other print services.

as well as personal services. Build to order computers, telecommunications through Staples Communications and other such services are not available. Our return policy entitles customers to return all goods, except computers, business machines, printers and software, in original packaging within 30 days after the date of sale for a full refund; computers, business

http://www.sec.gov/Archives/edgar/data/791519/000091205700109858/a2027700z10-k405.htm#DSI dll?FetchID=791519-912057-00-10098-586-762&Type=HTM 3/27/00

machines and printers must be returned in original packaging within 14 days to obtain a full refund. Software packages must be unopened to obtain a full refund within 30 days, open packages will be exchanged only for the same title.

Our delivery operations carry many of the same products that are sold in retail stores. The contract stationer catalog typically offers products with unique pricing, billing and other services available to each customer.

Staples.com offers a wide range of competitively priced products selected to meet the needs of the customers. Staples.com's merchandisers work closely with the Staples and Quill merchandise departments to select quality brands and products to feature on the web sites. Staples.com's products are organized into categories similar to those of Staples RD but Staples.com includes a more expansive array of products including approximately 130,000 products.

Staples.com is creating a leading business-to-business electronic marketplace offering a comprehensive solution for the business service needs of small, mid-sized and large businesses. *Staples.com* currently offers multiple business services in conjunction with strategic partners who are selected for their quality and reliability. *Staples.com's* business service offerings are designed to reduce the time that small businesses expend researching, finding and engaging quality service providers. *Staples.com* seeks to provide a full suite of services which assists customers in every aspect of establishing and managing their office. *Staples.com* currently offers Internet services which include web site hosting and electronic commerce, web site domain registration and Internet access; office services which include online business printing and intranet services; financial services which include payroll processing and credit; and communication services which include business communications systems and software, voice, data and network solutions and cellular products and services. In addition, *Staples.com* plans to expand its electronic marketplace, through its relationship with BizBuyer.com to enable customers to request quotes from a network of over 20,000 service providers offering over 40 services.

The following table shows sales by each major product line for Staples as a percentage of total sales for the periods indicated.

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Office supplies, services and other supplies	43.0%	45.9%	48.6%
Business machines and telecommunications services	26.0	23.7	22.0
Computers and related products	23.1	22.2	20.9
Office furniture	7.9	8.2	8.5

Purchasing and Vendor Selection

We select our vendors based upon quality, price, delivery reliability and, where appropriate, customer brand recognition for all Staples sales channels. We believe we are able to purchase merchandise at attractive costs in large part because of our centralized distribution facilities. We can purchase truckload quantities of attractively priced, high-quality products from multiple vendors and thereby achieve substantial cost savings in each product category. In addition, we are able to obtain favorable pricing due to the volumes in which we purchase our products.

We offer several hundred private label items, including copy paper, staplers, envelopes, mailing and shipping supplies, a variety of labeling supplies, chairs, computer accessories, calculators and diskettes. Through our global product sourcing program, we are able to procure private label products at a lower cost than brand name products.

Currently, we purchase products from several hundred active vendors worldwide. We believe that competitive sources of supply are available for substantially all products we carry. Our buying and merchandising staff centrally perform all product purchasing and merchandise planning for all customer channels with the assistance of integrated computer systems.

Supply Chain Initiatives

We operate strategically located distribution centers across the United States to service the majority of our replenishment and delivery requirements for our U.S. retail, catalog and electronic commerce operations. Most products are shipped from our suppliers to the distribution centers for reshipment to our stores and delivery hubs, or are directly shipped to customers. The distribution centers employ state of the art warehouse management systems and radio frequency technology, just-in-time

replenishment procedures and material handling equipment that help to minimize overall inventory levels while maintaining optimal in-stock positions at the store level. Product processing and ticketing are performed at the distribution center to improve labor efficiency and reduce cost. Products generally are delivered to our stores within 48 hours after our automated replenishment system generates an order for the product based on daily point of sale information. *Staples.com* and *StaplesLink.com* are directly tied to Staples' fulfillment centers enabling customers to promptly determine whether ordered products are available

We believe our distribution centers provide us with significant labor, merchandise and inventory shrinkage savings by centralizing receiving and handling functions and by enabling us to purchase in full truckloads from suppliers. We believe that the reduction in the number of purchase orders and invoices processed results in significant administrative cost savings. Our centralized purchasing and distribution systems also permit store employees to spend more time on customer service and store presentation

Since the distribution centers maintain backup inventory, in-store inventory requirements are reduced and we operate smaller gross square footage stores than would otherwise be required. Smaller store size reduces our rental costs in the expensive markets in which we currently operate and allows us improved flexibility in locating stores more closely to our target customers

We continue to enhance our distribution network to support our operations. We recently opened two new distribution centers, Terre Haute, Indiana (550,000 sq. ft.) in January 2000 and Rialto, California (495,000 sq. ft.) in January 1999. During fiscal year 1997, we also opened Killingly, Connecticut (310,000 sq. ft.) in January 1998 and Hagerstown, Maryland (630,000 sq. ft.) in March 1997. These four new facilities are expected to replace a network of approximately 11 distribution centers formerly used to support U.S. retail operations.

In 1999, Staples opened distribution centers in three new markets, Stockton, California, Charlotte, North Carolina, and Vancouver, Canada, to further support the catalog and contract division. In late 1998, Staples retrofitted the former retail Pyramid Plainfield, Connecticut distribution center (380,000 sq. ft.) to support all three channels of its catalog and contract division

Staples.com maintains no inventory but rather sells products maintained as inventory in Staples' delivery operations' nationwide network. *Staples.com* and *StaplesLink.com* are directly tied to Staples' fulfillment centers enabling customers to promptly determine whether ordered products are available. Staples.com typically can fill approximately 80% of all U.S. orders from Staples' in-stock inventory. Staples.com products are delivered through third-party couriers and Staples' delivery fleet

Marketing Strategy—Staples Retail and Delivery

We pursue a variety of marketing strategies to attract and retain target customers. These strategies include broad-based product advertising such as radio, television, newspaper circulars, Internet and print advertising as well as catalogs and a sophisticated direct marketing system. In addition, we market to larger companies through a combination of direct mail campaigns, customized catalogs and a field sales force. We

change the level of marketing spending as well as the mix of media employed depending upon market, competitive and cost factors. This flexible approach allows us to optimize the effectiveness and efficiency of our marketing expenditures.

In 1999, we continued to invest in our nationally recognized television campaign and began to supplement our spot advertising schedule with network ads. This television advertising is designed to raise awareness of Staples and penetration with both the household and business customer segments across the country. In addition, we expanded our print advertising campaign in order to support key product categories. We also have the naming rights agreement with L.A. Arena Company, LLC, which designed the Staples Center, a new state of the art sports and entertainment complex in downtown Los Angeles, which opened in 1999. This agreement provides us with marketing, promotional and signage rights, community-based programs and various amenities in the Staples Center for 20 years.

Marketing Strategy—Staples.com

Staples.com has designed its marketing strategy to build awareness of the Staples.com brands, increase traffic to its web site, encourage repeat business and expand its customer base. We use both online and offline marketing to carry out our marketing strategy. Our online marketing includes e-mail promotions and special programs, such as special pricing on key items. We have established online marketing relationships with several leading web sites that feature integrated links to our

web sites. For example, we are featured as the premier office supply and services merchant on Yahoo! Small Business. Our offline marketing includes traditional advertising on television and in other media, which is often combined with advertising for Staples' superstores. Advertising for Staples.com is often included in direct marketing for Staples' retail stores and catalogs. As part of Staples' multi-channel promotions, Staples includes the *Staples.com* web site address in its print advertisements and catalogs and promotes *Staples.com* as one of its "three ways to save". In addition to its well established retail stores and catalog operations, In marketing to small and mid-sized businesses, we utilize sales representatives in Staples catalog operations, which consisted of 250 employees as of February 16, 2000. In marketing to *StaplesLink.com's* large business customers, we utilize Staples contract stationers' sales force, which consisted of 505 employees as of February 16, 2000. We also take advantage of the telemarketing resources of both Staples and Quill to market our web sites. We seek to further benefit from our relationship with Staples by placing kiosks linked to our web sites in Staples' retail stores.

Operations—Staples Retail and Delivery

We strive to be the lowest cost operator of office products servicing our targeted customers. We seek to create stores that appeal to our target customers for their broad selection, everyday low prices, convenience, shopability and helpful service. Our stores typically are open seven days per week.

Our retail stores display inventory according to a plan-o-gram that designates graphically the place each item in each section of the store is displayed and specifies the quantity to be stocked. Related items are typically grouped together for customer convenience. Store layouts are as uniform as the various facilities allow, so that products destined for stores can be picked at the distribution center to match store aisles.

Our computer systems replenish inventory levels for each SKU by store based on our rate of sale and variability in rate of sale. Sales and inventory levels are tracked by SKU at each store through our point-of-sale system and are transmitted nightly to our host computer. Reorders from the distribution center are processed so that inventory arrives at our stores as needed.

Stores are brightly lit and products are attractively displayed. Employees are available to consult on purchases, particularly in our furniture, business machines and computer sections, where customers often need assistance in decision-making. This positions us to offer our customers more technology solutions such as Build to Order computers as well as computer upgrades and services through the Staples Tech

Center. Also included are enhanced product assortments in furniture, paper and technical office supplies. In the services category, the current store model promotes the Staples Copy Center and Business Solution Center with enhanced services and, where market conditions warrant, expanded copy centers. Our current superstore prototype is approximately 24,000 square feet, which allows for enhanced business services, product depth and capital goods sales. Where possible, we have expanded existing stores to fit the current format. We committed to a plan during 1998 to close and relocate stores that are not deemed appropriate for expansion or upgrade to the current store model.

We have continued to make an investment in computer-based, multi-media training programs to upgrade staff selling skills and improve customer service at our retail stores and delivery operations. Much of the training targets sales of capital goods such as fax machines, copiers, furniture and computers. Additionally, we continue to increase our efforts to improve our in-stock position as well as expand the product depth in certain key categories in order to best serve our customers.

Operations—Staples.com

Technology. Staples.com has implemented a broad array of scalable electronic commerce, site management, search, and customer interaction services and systems that we use to process customers' orders and interact with customers. These services and systems use a combination of our own technologies, Staples' technologies and commercially available, licensed technologies. The systems that we use to accept and process customers' orders are integrated with the order management, payment processing, distribution, accounting and financial systems of Staples. We focus our internal development efforts on developing and enhancing specialized software that is unique to our online business. We use a set of applications for:

- accepting and validating customer orders for products;
- transmitting orders to Staples for processing and fulfillment;
-

interacting with customers for customer service and other purposes; and

connecting to third parties for sale and delivery of certain products and services to customers.

Our systems have been designed based on industry standard architectures and have been designed to reduce downtime in the event of outages or catastrophic occurrences. Our web systems hardware is hosted at third-party facilities in Bellsville, Maryland, Hopkinton, Massachusetts and Philadelphia, Pennsylvania. The associated Staples systems hardware resides at Staples facilities in Framingham, Massachusetts and Quill facilities in Lincolnshire, Illinois. We have implemented load balancing systems and our own redundant servers to provide for fault tolerance of our web systems.

Customer Service Staples.com has a dedicated customer service staff and also utilizes Staples' customer service representatives. They handle questions about orders and assist customers in finding desired products and services. Staples.com's customer service representatives share the call center infrastructure of Staples. Staples.com's sophisticated e-mail management system and Staples' telephone Automatic Call Distributor allow Staples.com to prioritize incoming contacts, route them to the appropriate customer service representatives and respond in a timely fashion. Staples.com's customer service representatives, customer phone calls and customer e-mails are valuable sources of feedback regarding customer satisfaction. In addition, by providing Staples.com's customer service function in-house, Staples.com maintains a direct relationship with its customers. Staples.com also uses an online market research company to obtain monthly customer feedback. This information is used to determine opportunities for improvement and to evaluate areas of success. Our web sites also provide several service options, including FAQs, e-mail, live help through toll free 800 numbers, as well as a list of nearby store locations.

Associates and Training

Staples places great importance on recruiting, training and providing the proper incentives for quality store level personnel. Staples recruits actively on college campuses and also hires talented individuals with experience in successful retail operations. Additionally, current associates are rewarded for recruiting new associates.

Staples considers customer relations and its associates' knowledge of office products and office-related capital goods to be significant to its marketing approach and its ability to maintain customer satisfaction. New management trainees advance through the store management structure by taking on assignments in different areas as they are promoted. Store and call center employees prepare for new assignments by studying training modules, including written manuals, video instruction and software, that are prepared by Staples and others. These associates are trained in a number of areas, including, where appropriate, sales techniques, management techniques and product knowledge.

Staples.com uses Staples' personnel for certain functions, including financial and accounting services, information system services, certain selling and marketing activities, certain merchandising and replenishment services, transportation and warehousing management services, certain customer service activities, executive management, human resources, legal and corporate planning activities. As a result, Staples.com pays an allocated portion of Staples' expenses.

Staples offers eligible associates the opportunity to acquire equity in the Company through an employee stock purchase plan, and also grants stock options and restricted stock to certain of its associates as an incentive to attract and retain such associates.

As of January 29, 2000, Staples employed 27,573 full-time and 22,420 part-time associates.

Expansion Strategy—Staples Retail and Delivery

Our expansion strategy involves the establishment of a strong market position by increasing our presence in targeted metropolitan markets by operating a full network of stores, entering small markets and focusing growth in those markets where products can be most effectively replenished through our distribution centers. Our delivery channel then infiltrates the new markets entered by the stores and increases their catalog opportunities. We believe that the network of stores, catalog and Internet operations in a metropolitan market enhances profitability by leveraging marketing costs, distribution expense and corporate overhead.

We currently plan to open approximately 150 stores in North America and approximately 20 stores in Europe in fiscal 2000. Our growth strategy calls for continuing to increase our presence along both the East and West coasts of the United

States as well as portions of the Southeast and Midwest regions. Additionally, we plan to expand into one or more major new markets per year as well as numerous smaller markets.

In determining where to open new stores and actively market our catalog, we evaluate the concentration of small- and medium-sized businesses and organizations, the number of home offices, household income levels, the availability of quality real estate locations, competitive factors and other factors. While most of our stores have been located in conventional strip shopping centers, we have also successfully converted non-retail properties to Staples stores. Although we often lease second-use properties, we have also entered into ground leases where we plan to build a store or arrange to have landlords construct free-standing buildings to our specifications. In addition, we have on numerous occasions acquired lease rights from prior tenants. We believe that this flexibility in selecting sites will prove helpful as we seek to locate additional stores in the challenging real estate markets in which we operate.

Expansion Strategy—Staples.com

We plan to expand our Internet operation, Staples.com, during fiscal 2000 by dedicating additional investments in personnel, technology and marketing. We recognize the long-term potential of electronic commerce and plan to aggressively address this market. Staples.com plans to expand its electronic marketplace through its relationship with BizBuyer.com to enable its customers to request quotes from a network of over 20,000 service providers offering over 40 services. By the end of fiscal year 2000, Staples.com expects to offer approximately 100 business services, including human resources, sales and marketing, and insurance services.

Competition—Staples Retail and Delivery

We compete with a variety of retailers, dealers and distributors in the highly competitive office products market. We believe our customers choose among suppliers on the basis of price, breadth of selection, service and convenience.

Our target customers have historically been serviced by traditional office products dealers. We believe we have competed favorably against these dealers in the past because we generally offer lower prices. In addition, we believe that our broad product line, depth of in-stock inventory, extended store hours, customer service and shopping environment offer us competitive advantages. Recently, however, some traditional office product dealers have lowered prices and increased their service levels to become more competitive with discount retailers.

We also compete in most of our geographic markets with other high-volume office supply chains that are similar in concept to Staples in terms of store format, pricing strategy, and product selection, including Office Depot, OfficeMax, and Office World as well as mass merchants, such as Wal-Mart, warehouse clubs, computer and electronics superstores, and other discount retailers. In addition, our retail stores, as well as our delivery operations business, compete with numerous mail order firms, contract stationer businesses, electronic commerce distributors and direct manufacturers. Such competitors have increased their presence in our markets in recent years. Some of our current and potential competitors in the office products industry are larger than us and have substantially greater financial resources. No assurance can be given that such increased competition will not have an adverse effect on our business.

Competition—Staples.com

The online commerce market and Internet content sites are rapidly evolving and, like the office products and services market, are intensely competitive. Primary competitive factors in our markets include brand recognition, selection, convenience, price, speed and accessibility, depth, breadth and presentation of site content, customer service, and reliability and speed of order shipment.

We currently compete with a variety of other companies offering office products and services including traditional store-based retailers that sell office products, online office product retailers, traditional providers of services for small business, such as telephone, credit card and insurance companies, and online service providers, such as small business portals, that target the small business market or sell to small business customers.

We believe that we currently compete favorably with respect to each of the above factors. However, as the market is still rapidly evolving, we may not be able to compete successfully against current and new competitors in the future. Some of Staples.com's current and potential competitors are larger than it and have substantially greater financial resources. No assurance can be given that such increased competition will not have an adverse effect on Staples.com's business.

Trademarks

The Company has registered the marks "Staples" and "Staples-The Office Superstore" on the Principal Register of the United States Patent and Trademark Office, the trademark "Staples" in Canada, the United Kingdom and Germany, and the trademark "Quill" in the United States, Canada, Israel, Japan, Mexico and the United Kingdom.

Item 2. Properties

As of January 29, 2000, Staples operated 1,129 superstores in 44 states, the District of Columbia, 10 provinces in Canada, 6 regions in the United Kingdom, 5 states in Germany, 6 regions in the Netherlands and in Lisbon, Portugal. Staples also operates 38 distribution centers. The following table sets forth the locations of Staples' facilities as of January 29, 2000:

STATE/PROVINCE/REGION	NUMBER OF STORES
United States	
Alabama	1
Arizona	21
Arkansas	3
California	135
Colorado	1
Connecticut	30
Delaware	5
Florida	22
Georgia	14
Idaho	8
Illinois	12
Indiana	17
Iowa	21
Kansas	5
Kentucky	6
Maine	7
Maryland	28
Massachusetts	39
Michigan	32
Minnesota	1
Missouri	6
Montana	6
Nebraska	3
New Hampshire	15
New Jersey	60
New Mexico	3
New York	86
North Carolina	19
North Dakota	2
Ohio	48
Oklahoma	11
Oregon	15
Pennsylvania	61
Rhode Island	3
South Carolina	13
South Dakota	1
Tennessee	11
Texas	4
Utah	10
Vermont	4
Virginia	27
Washington	11
Washington DC	2

West Virginia	5
Wisconsin	8
	840
Canada	21
Alberta	18
British Columbia	4
Manitoba	4
New Brunswick	2
Newfoundland	7
Nova Scotia	60
Ontario	31
Quebec	3
Saskatchewan	1
Prince Edward Island	151
United Kingdom	4
Anglia	12
Central/Midlands	1
Lakes	11
London	10
North	3
North East	6
North West	8
South	6
Wales & Avon	2
West	65

Germany	10
Mitte (Midlands)	12
Nord (North)	15
Nordrhein-Westphalen	2
Osten (East)	8
Sud (South)	47
Netherlands	5
Midden (Midlands)	4
Noord (North)	2
Oost (East)	1
Sud (South)	8
Sud-West (South West)	21
West (West)	7
Portugal	
Lisbon	

STATE/PROVINCE REGION	NUMBER OF DISTRIBUTION CENTERS
United States	6
California	1
Colorado	4
Connecticut	2
Florida	2
Georgia	1
Illinois	1
Indiana	1
Maryland	1
Massachusetts	

Michigan	1
New Jersey	1
New York	1
North Carolina	1
Ohio	1
Oregon	3
Pennsylvania	2
Texas	1
Washington	1
	34
Canada	1
British Columbia	1
Ontario	
	2
United Kingdom	1
Denmark	
Germany	1
Schleswig-Holstein	

Most of the existing stores are leased by Staples with initial lease terms expiring between 2000 and 2023. In most instances, the Company has renewal options at increased rents. Leases for 167 of the existing stores provide for contingent rent based upon sales.

Item 3. Legal Proceedings

Staples is not party to any material legal proceedings.

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

The Company held a Special Meeting of Stockholders on November 9, 1999, at which the following actions were taken:

1. The stockholders approved an amendment to the Company's Restated Certificate of Incorporation (i) to authorize a new series of common stock called Staples.com Stock, (ii) to increase the number of authorized shares of common stock from 1,500,000,000 to 2,100,000,000, initially comprised of 1,500,000,000 shares of Staples Stock and 600,000,000 shares of Staples.com Stock, and (iii) to reclassify each outstanding share of existing common stock into a share of Staples RD Stock by a vote of 331,556,155 shares of Common Stock for, 4,314,870 shares of Common Stock against and 1,798,744 shares of Common Stock not voting.

2. The stockholders approved an amendment to the Company's 1992 Equity Incentive Plan by a vote of 238,291,812 shares of Common Stock for, 96,812,164 shares of Common Stock against and 2,565,793 shares of Common Stock not voting.

3. The stockholders approved an amendment to the Company's Amended and Restated 1990 Director Stock Option Plan by a vote of 256,940,397 shares of Common Stock for, 86,610,486 shares of Common Stock against and 2,642,928 shares of Common Stock not voting.

4. The stockholders approved an amendment to the Company's 1998 Employee Stock Purchase Plan by a vote of 330,555,200 shares of Common Stock for, 4,763,719 shares of Common Stock against and 1,876,886 shares of Common Stock not voting.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

Staples' Retail and Delivery Common Stock is traded on the Nasdaq National Market under the symbol "SPLS."

At March 1, 2000, the number of holders of record of Staples Retail and Delivery Common Stock was 9,458 and the holders of record of Staples.com Stock was 379.

The following table sets forth for the periods indicated the high and low sale prices per share of Staples RD Stock on the Nasdaq National Market, as reported by Nasdaq, retroactively adjusted for the three-for-two stock split in January 1999.

	High	Low
Fiscal Year Ended January 29, 2000		
First Quarter	$ 35.94	$ 26.50
Second Quarter	32.25	26.00
Third Quarter	28.88	18.63
Fourth Quarter	28.75	16.44
Fiscal Year Ended January 30, 1999		
First Quarter	$ 17.13	$ 12.25
Second Quarter	22.83	15.67
Third Quarter	23.42	17.00
Fourth Quarter	32.50	21.13

Staples has never paid a cash dividend on its Staples RD Stock. Staples presently intends to retain earnings for use in the operation and expansion of its business and, therefore, does not anticipate paying any cash dividends in the foreseeable future. In addition, Staples' revolving credit agreement restricts the payment of dividends.

Between November 17, 1999 and February 7, 2000, we sold 12,892,308 shares of unregistered Staples.com Stock to investors and members of the Board for an aggregate purchase price of $20,787,000 in reliance upon the exemption from registration under Section 4(2) of the Securities Act.

Item 6. Selected Financial Data

The information required by this Item is attached as **Appendix A**.

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

The information required by this Item is attached as part of **Appendix B**

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

The information required by this Item is attached as part of **Appendix B**

Item 8. Financial Statements and Supplementary Data

The information required by this Item is attached as **Appendix C**

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

Not applicable.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K, and incorporated herein by reference to the definitive proxy statement with respect to the 2000 Annual Meeting of Stockholders (the "Proxy Statement") which Staples will file with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Report.

http://www.sec.gov/Archives/edgar/data/791519/0001205700-00-010098-586-762&Type=HTM 3/27/00

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item will appear under the headings "Election of Directors" and "Directors and Executive Officers of Staples" in the Company's Proxy Statement, which sections are incorporated herein by reference.

Item 11. Executive Compensation

Summary Compensation

The following table sets forth certain information concerning the compensation for each of the last three fiscal years of Staples' Chief Executive Officer and the four other most highly compensated executive officers during the fiscal year ended January 29, 2000 (the "Senior Executives").

SUMMARY COMPENSATION TABLE

		Annual Compensation (1)		Long Term Compensation			
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($) (2)	Restricted Stock Awards ($) (3)	Staples RD Stock Options (#) (3)	Staples.com Stock Options (#)	All Other Compensation ($) (4)
	1999	682,083	525,147	2,075,000(5)	300,000	2,129,120	22,844
	1998	645,883	673,556	2,606,250(6)	2,400,000	—	17,769
	1997	587,500	446,172	1,543,434(7)	360,000	—	13,921
	1999	522,917	322,078	1,556,250(8)	225,000	1,096,840	31,933
	1998	449,083	349,261	1,282,032(9)	1,361,250	—	32,195
	1997	392,084	218,235	1,005,552(10)	375,000	—	29,583
	1999	463,000	261,413	933,750(11)	90,000	638,736	41,876
	1998	439,250	335,880	1,172,813(12)	585,000	—	42,848
	1997	365,834	220,160	1,033,614(13)	330,000	—	35,553
	1999	463,000	261,413	933,750(14)	90,000	638,736	46,947
	1998	439,250	325,636	1,064,202(15)	585,000	—	48,150
	1997	391,250	198,067	776,394(16)	220,312	—	43,774
	1999	428,292	225,865	—	—	—	51,966
	1998	410,735	311,880	5,460,947(17)	450,000	—	150,152(18)
	1997	385,833(19)	215,555	—(20)	—(20)	—	36,976

(1) Amounts with the rules of the Securities and Exchange Commission other compensation in the form of perquisites and other personal benefits has ... Perquisites and other personal benefits constituted less than the lesser of $50,000 or 10% of the total annual salary and bonus ... of Executive for each year shown.

... amounts paid under Staples Executive Officer incentive plan or executive bonus plan for the relevant fiscal year.

... Restricted stock awards effective as of January ... 1999 and January 28, 1999, as applicable.

... Represents premium dollar amounts paid pursuant to the Senior Executive's split dollar life insurance policies. Mr. Stemberg's benefit is calculated using a method that, at this time ... Internal Revenue Service.

... Mr. Stemberg was awarded ... shares of PARS with a per share value of $20.75. As of January 29, 2000, these restricted shares ... Mr. Stemberg had a total number of ... See "Performance Accelerated Restricted Stock Awards."

... shares of PARS with a per share value of $17.375. As of January 29, 2000, these restricted shares ... See "Performance Accelerated Restricted Stock Awards."

... shares of PARS with a per share value of $12.4722. As of May 1, 1999, these shares were no ... See "Performance Accelerated Restricted Stock Awards."

(4a) On October 1, 1999, Mr. Sargent was awarded 75,000 shares of PARS with a per share value of $20.75. As of January 29, 2000, these restricted shares owned by Mr. Sargent had a total value of $1,612,500. See "Performance Accelerated Restricted Stock Awards."

(4b) On October 1, 1998, Mr. Sargent was awarded 67,500 shares of PARS with a per share value of $17.375. On January 1, 1999, Mr. Sargent was awarded 2,250 shares of PARS with a per share value of $29.125. As of January 29, 2000, these restricted shares owned by Mr. Sargent had a combined total value of $1,591,875. See "Performance Accelerated Restricted Stock Awards."

(4c) On October 1, 1997, Mr. Sargent was awarded 80,623 shares of PARS with a per share value of $12.4722. As of May 1, 1999, these shares were no longer restricted and had a total value of $2,418,690. See "Performance Accelerated Restricted Stock Awards."

(5a) On October 1, 1999, Mr. Mahoney was awarded 45,000 shares of PARS with a per share value of $20.75. As of January 29, 2000, these restricted shares owned by Mr. Mahoney had a total value of $967,500. See "Performance Accelerated Restricted Stock Awards."

(5b) On October 1, 1998, Mr. Mahoney was awarded 67,500 shares of PARS with a per share value of $17.375. As of January 29, 2000, these restricted shares owned by Mr. Mahoney had a total value of $1,451,250. See "Performance Accelerated Restricted Stock Awards."

(5c) On October 1, 1997, Mr. Mahoney was awarded 82,873 shares of PARS with a per share value of $12.4722. As of May 1, 1999, these shares were no longer restricted and had a total value of $2,486,190. See "Performance Accelerated Restricted Stock Awards."

(6a) On October 1, 1999, Mr. Vassalluzzo was awarded 45,000 shares of PARS with a per share value of $20.75. As of January 29, 2000, these restricted shares owned by Mr. Vassalluzzo had a total value of $967,500. See "Performance Accelerated Restricted Stock Awards."

(6b) On October 1, 1998, Mr. Vassalluzzo was awarded 61,249 shares of PARS with a per share value of $17.375. As of January 29, 2000, these restricted shares owned by Mr. Vassalluzzo had a total value of $1,316,854. See "Performance Accelerated Restricted Stock Awards."

(6c) On October 1, 1997, Mr. Vassalluzzo was awarded 62,250 shares of PARS with a per share value of $12.4722. As of May 1, 1999, these shares were no longer restricted and had a total value of $1,867,500. See "Performance Accelerated Restricted Stock Awards."

(7a) On September 1, 1999, Mr. Bergleman was awarded 281,250 shares of PARS with a per share value of $19.416. As of January 29, 2000, these restricted shares owned by Mr. Bergleman had a total value of $6,046,875. See "Performance Accelerated Restricted Stock Awards."

(7b) Represents reimbursement of $95,886 for relocation expenses.

(7c) Represents payment of $25,42[illegible] paid to Mr. Bergleman by Staples Canadian subsidiary. The Business Detail 162.

(7d) Represents [illegible] options of PARS during fiscal 1997 as a result of his assumption of new responsibilities for international operations. [illegible] for compensation strategy for certain international executives, including Mr. Bergleman, that was implemented during fiscal 1998.

Performance Accelerated Restricted Stock ("PARS") Awards

In order to maintain Staples' high risk-high reward philosophy, the Compensation Committee adopted, as part of the Amended and Restated 1992 Equity Incentive Plan, a PARS plan (the "Plan") for certain key executives. Under the Plan, shares of Staples RD Stock are granted to executives in consideration for services. The shares are "restricted" in that they may not be sold or transferred by the executive until they "vest." Staples' PARS issued in fiscal 1999 will vest on February 1, 2003 subject to acceleration upon achievement of certain pre-determined earnings per share ("EPS") growth targets over the next two to five fiscal years. Staples' PARS issued in fiscal 1998 will vest on May 1, 2000 as a result of Staples exceeding EPS targets for fiscal 1999.

Staples' PARS that were issued in fiscal 1997 vested on May 1, 1999 as a result of Staples exceeding target EPS for such [illegible] for fiscal 1998. EPS growth targets are determined by the Compensation Committee and approved by the Board of Directors each year for grants under the Plan in that year. Once the PARS have vested, they become "unrestricted" and may thereafter be sold or transferred. Generally, the PARS are forfeited if the executive's employment with Staples terminates prior to vesting.

Prepared by MERRILL CORPORATION www.edgaradvantage.com

Option Grants

The following table sets forth certain information concerning grants of stock options during the fiscal year ended January 29, 2000 for each of the Senior Executives.

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants				
Name	Number of Options Granted(1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price per Share(2)	Expiration Date	Grant Date Present Value(3)
Thomas G. Stemberg					
Staples RD Stock	300,000	4.33%	$ 30.9375	7/1/2009	$ 2,784,000
Staples.com Stock	2,129,120	8.42%	$ 1.6250	11/9/2009	$ 1,064,560
Ronald L. Sargent					
Staples RD Stock	225,000	3.25%	$ 30.9375	7/1/2009	$ 2,088,000
Staples.com Stock	1,096,840	4.34%	$ 1.6250	11/9/2009	$ 548,420
John J. Mahoney					
Staples RD Stock	90,000	1.30%	$ 30.9375	7/1/2009	$ 835,200
Staples.com Stock	638,736	2.53%	$ 1.6250	11/9/2009	$ 319,368
Joseph S. Vassalluzzo					
Staples RD Stock	90,000	1.30%	$ 30.9375	7/1/2009	$ 835,200
Staples.com Stock	638,736	2.53%	$ 1.6250	11/9/2009	$ 319,368
John C. Bingleman					
Staples RD Stock	—	—	—	—	—
Staples.com Stock	—	—	—	—	—

(1) Each of the Staples RD Stock options granted becomes exercisable in full on the third anniversary of the date of grant, provided that the optionee continues to be employed by Staples on such date. Each of the Staples.com Stock options granted is exercisable in full on the date of grant, however the shares are restricted by the following vesting schedule: 25% of such shares will vest one year after the date of grant and the remaining 75% of such shares shall vest in equal monthly installments (2.083% per month) over the following 36 months, provided that the optionee continues to be employed by Staples.

on such dates. The exercisability of the Staples RD Stock options and the vesting of the Staples.com Stock options are accelerated under certain circumstances.

(2) The exercise price is equal to the fair market value per share of Common Stock on the date of grant.

(3) The estimated present value at grant date has been calculated using a Black-Scholes option pricing model, based upon the following assumptions: a six year expected life of option; a dividend yield of 0.0%; expected volatility of 36.1% for Staples RD Stock options and 35.8% for Staples.com Stock options; and a risk-free interest rate of 5.82% for Staples RD Stock options and 6.11% for Staples.com Stock options, representing the interest rate on a U.S. Government zero-coupon bond on the date of grant, with a maturity corresponding to the expected life of the option. Values are adjusted to reflect a risk of forfeiture due to vesting requirements.

Option Exercises and Holdings

The following table sets forth certain information concerning each exercise of stock options during the fiscal year ended January 29, 2000 by each of the Senior Executives and the number and value of unexercised options held by each of the Senior Executives on January 29, 2000.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR END
FISCAL YEAR-END OPTION VALUES

Name	No. of Shares of Common Stock Acquired On Exercise	Value Realized(1)	No. of Shares of Common Stock Underlying Unexercised Options at Fiscal Year End Exercisable/Unexercisable	Value of Unexercised In-The-Money Options at Fiscal Year End (2) Exercisable/Unexercisable
Thomas G. Stemberg	500,000	$ 8,298,100	1,940,544/3,060,000	$30,418,808/$7,440,072
Staples RD Stock	2,129,120	$ 0	0/0	$0/$0
Staples.com Stock				
Ronald L. Sargent	99,029	$ 2,917,612	685,313/1,792,500	$7,386,441/$4,627,407
Staples RD Stock	1,096,840	$ 0	0/0	$0/$0
Staples.com Stock				
John J. Mahoney	0	$ 0	416,250/937,500	$4,559,362/$4,178,658
Staples RD Stock	638,736	$ 0	0/0	$0/$0
Staples.com Stock				
Joseph S. Vassalluzzo	0	$ 0	1,322,872/827,812	$21,139,028/$3,028,577
Staples RD Stock	638,736	$ 0	0/0	$0/$0
Staples.com Stock				
John C. Bingleman	123,750	$ 2,058,565	810,842/450,000	$13,882,742/$637,515
Staples RD Stock	0	$ 0	0/0	$0/$0
Staples.com Stock				

(1) Represents the difference between the exercise price and the fair market value of the common stock on the date of exercise

(2) Based on the fair market value of the common stock on January 29, 2000 ($21.50 per share), less the option exercise price

Director Compensation

Under the Amended and Restated 1990 Director Stock Option Plan (the "Amended and Restated Director Plan") during the fiscal year ended January 29, 2000, Directors were compensated exclusively through equity rather than receiving a portion of their compensation in cash. Accordingly, other than as indicated below, non-employee Directors did not receive any fees or other cash compensation for their services as Directors, other than reimbursement for expenses incurred in attending meetings of the Directors. Senator Mitchell provides consulting services to the Company in return for an annual fee of $75,000, which during the fiscal year ended January 29, 2000 the Company paid to Senator Mitchell in Staples RD Stock.

Under the Amended and Restated Director Plan, options and Performance Accelerated Restricted Stock ("PARS") awards may be granted with respect to either Staples RD Stock or Staples.com Stock (collectively, "Common Stock"). All options or PARS granted under the Plan, as provided below, shall be granted with respect to either series of Common Stock, or a combination of both series, as determined in the sole discretion of the Board of Directors. Pursuant to the Amended and Restated Director Plan, each new member of the Board of Directors is granted an option to purchase 15,000 shares of Common Stock upon such person's initial election to the Board. In addition, the Amended and Restated Director Plan provides for an annual stock option grant to each non-employee Director to purchase a number of shares equal to 3,000 multiplied by the number of regularly scheduled meeting days attended by such non-employee Director during the preceding year (up to a maximum of 15,000 shares). In addition, at the first regularly scheduled Board of Directors meeting following the end of each fiscal year of the Company in which performance targets are established relating to PARS awarded to executive officers of the Company, each non-employee Director is granted 400 PARS for each regularly scheduled meeting day attended by such Director during the preceding year (up to a maximum of 2,000 PARS); and each of the Lead Director and the Chairman of the Audit, Compensation and Governance Committees of the Board of Directors is granted 200 PARS for each regularly scheduled meeting day of the Board of Directors attended by such Director during the previous twelve months (up to a maximum of 1,000 PARS).

With respect to the fiscal year ended January 29, 2000 and in accordance with the Amended and Restated Director Plan, on March 7, 2000 each of Ms. Burton and Messrs. Anderson, Heisey, Moriarty, Nakasone, Trust and Walsh was granted an option to purchase 15,000 shares of Common Stock. Messrs. Mitchell, Moody and Romney were granted an option to

purchase 12,000 shares; and Ms. Whitman was granted an option to purchase 9,000 shares of Common Stock, each at an exercise price of $19.375 per share. Pursuant to the Amended and Restated Director Plan, at the next Board of Directors meeting in which performance targets are established relating to PARS, the following will be awarded: Mr. Moody will be awarded 3,200 PARS; Mr. Anderson will be awarded 3,000 PARS; Mr. Trust will be awarded 2,600 PARS; Mr. Nakasone will be awarded 2,400 PARS; Ms. Burton and Messrs. Heisey, Moriarty and Walsh will be awarded 2,000 PARS; Senator Mitchell and Mr. Romney will be awarded 1,600 PARS and Ms. Whitman will be awarded 1,200 PARS.

In addition, on March 7, 2000, the Board of Directors approved amendments to the Amended and Restated Director Plan, which, upon stockholder approval, will entitle the non-employee Directors to receive options to purchase Staples.com Stock. Accordingly, upon stockholder approval of such amendments, each of Ms. Burton and Messrs. Anderson, Heisey, Moriarty, Nakasone, Trust and Walsh will be granted an option to purchase 6,500 shares of Staples.com Stock; Messrs. Mitchell, Moody and Romney will be granted an option to purchase 5,200 shares of Staples.com Stock; and Ms. Whitman will be granted an option to purchase 3,900 shares of Staples.com Stock.

All stock options under the Amended and Restated Director Plan are granted at an exercise price equal to the fair market value of the Common Stock on the date of grant, and generally become exercisable on a cumulative basis in four equal annual installments, commencing on the first anniversary of the date of grant.

Recipients of PARS own shares of Staples RD Stock under terms that provide for vesting over a period of time and a right to repurchase in favor of the Company with respect to unvested stock, at a price equal to their original purchase price (if any), when the recipient ceases to be a Director of the Company. Except as otherwise determined by the Board of Directors, all PARS issued under the Amended and Restated Director Plan shall be issued without the payment of any cash purchase price by the recipient. The restrictions on transfer and forfeiture provisions of the PARS to be granted to the non-employee Directors shall lapse on the same basis as PARS awarded to the Company's executive officers for the fiscal year ended January 29, 2000. "See "Executive Compensation—Performance Accelerated Restricted Stock Awards".

Employment Contracts, Termination of Employment and Change-in-Control Agreements with Senior Executives

Staples has entered into Severance Benefit Agreements (the "Severance Agreements") with each of the Senior Executives. Under the Severance Agreements, the Senior Executives would be entitled to continuation of salary and other benefits for (i) 18 months in the case of Mr. Stemberg, and (ii) 12 months in the case of Messrs. Bingleman, Mahoney, Sargent and Sasalluzzo, following termination of employment by Staples without cause (or "constructive discharge" as provided in the Severance Agreements). Each Senior Executive would receive such benefits for an additional period of six months if such termination occurred within two years following a "change in control" of Staples (as defined in the Severance Agreements). A change in control of Staples also results in a partial acceleration of the exercisability of outstanding options held by the Senior Executives (and all Staples associates) and a discharge without cause (or resignation for good reason) within one year after a change in control results in the acceleration in full of all options and PARS. In the event Mr. Mahoney is terminated without cause within one year after a change of control, Staples would also guarantee to him that the sum of all severance payments plus the total gain realized and realizable upon the sale and or exercise of his PARS and or options would equal at least $2 million.

Compensation Committee Interlocks and Insider Participation

Messrs. Heisey, Nakasone and Trust, all non-employee Directors of Staples, served on the Compensation Committee for the entire fiscal year ended January 29, 2000. Ms. Whitman joined the Committee in June 1999.

Staples leases its Cedar Rapids, Iowa store from Toys "R" Us. Mr. Nakasone was Chief Executive Officer of Toys "R" Us from February 1998 to August 1999. The initial term of this lease, which commenced on October 8, 1996, is 15 years. Staples has options to renew the lease for two additional five year periods.

Compensation Committee Report on Executive Compensation

Staples' executive compensation program is administered by the Compensation Committee composed of the non-employee Directors listed below. Staples' executive compensation program is designed to retain and reward executives who are responsible for leading Staples in achieving its business objectives. All decisions by the Compensation Committee relating to the compensation of Staples' executive officers are reviewed by the full Board. This report is submitted by the Compensation Committee and addresses Staples' compensation policies for fiscal 1999 and forward as they affected the Chief Executive Officer and the other executive officers of Staples.

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Compensation Philosophy

The objectives of the executive compensation program are to (i) align compensation with business objectives, individual performance and the interests of Staples' stockholders, (ii) motivate and reward high

levels of performance, (iii) recognize and reward the achievement of Company and/or business unit goals, and (iv) enable Staples to attract, retain and reward executive officers who contribute to the long-term success of Staples.

The Committee's executive compensation philosophy is that a significant portion of executive compensation should be tied directly to the performance of Staples as a whole. The base salaries paid to executives are targeted by the Committee to fall at or below the 60th percentile of the pay practices of publicly traded companies in the retail industry (including companies in the Standard & Poor's Retail Composite Index contained in the stock performance graph contained in this Annual Report on Form 10-K, as determined by The Hay Group ("Hay"), an international compensation and human resource consulting firm. The Committee seeks, however, to provide its executives with opportunities for compensation substantially higher than base salary through performance-based bonuses, stock options and PARS. The Committee also believes that bonus awards tied to achievement of pre-approved performance goals serve as an influential motivator to its executives and help to align the executives' interests with those of the stockholders of Staples. The Committee also continues to believe that a substantial portion of the compensation of Staples' executives should be linked through Staples' stock option and PARS program to the success of Staples' stock in the marketplace. Stock options and PARS further align the interests of management and stockholders and assist in the retention of valued executives.

Scope of the Executive Compensation Program

Based on information provided by Hay and consistent with Staples' objectives and philosophy, the Committee targeted total annual compensation (salary, cash bonus and stock) to fall above the median for total annual compensation for similar positions in the group of retail companies used in the Hay study.

- **Salaries.** The Committee targets base annual salary for executive officers including the Senior Executives to be at the 40th percentile of the annual base salary for comparable positions in the Hay study group.

- **Bonus.** Each of Staples' executive officers, including the Senior Executives, was eligible to participate in Staples' Executive Officer Incentive Plan in fiscal 1999 (the "Bonus Plan"). The Bonus Plan provided for the payment of a range of cash bonuses to executive officers based on "stretch" objectives relating to company-wide earnings per share, return on net assets, and customer service goals.

  The earnings per share, return on net assets and customer service goals for the Bonus Plan were determined by the Committee and approved by the Board of Directors at the beginning of fiscal 1999. In each case, these bonus goals represented "stretch" objectives, requiring performance in excess of amounts set for budget purposes to achieve target bonus payouts. The Committee established target bonus payouts for executives in an attempt to bring the cash portion of total annual compensation (base salary plus target bonus) to approximately the median of the cash compensation paid to the Hay comparison group.

  For fiscal 1999, Staples exceeded stretch objectives for earnings per share and fell short of the customer service and return on net assets objectives.

- **Stock Options.** In addition to base salary and bonus, Staples' executives are also granted annually performance-based long-term incentives represented by stock options. The intent of these awards is to further executive retention and promote identity of interest with Staples' stockholders. The 1992 Equity Incentive Plan was amended and restated in 1999 to provide for awards of options of either Staples RD Stock and/or Staples.com Stock. In determining whether awards of Staples RD Stock or Staples.com stock, or both, will be made to specific employees, consideration is given to, among other things, the identity of the Business to which the employee provides services. The incentive compensation committee also considers the fact that in the emerging Internet economy, in which

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Staples competes for executives, stock options are an important part of executive compensation packages and are frequently offered in substantial amounts to attract talented and experienced executives to join startups and other less established businesses. The continued future success of Staples, in general, and Staples.com, in particular, is dependent on the ability to attract and retain key executives. Accordingly, the incentive plan committee considers data about the level of stock options awarded, not only in companies in its competitive business group, but also in the competitive labor market in which we compete for executive talent. Annual stock option awards were made to executive officers in July 1999, the same time that stock option awards were made to all stock option eligible employees of the Company. At that time, Staples RD Stock was the only authorized series of Company common stock. In November 1999, subsequent to shareholder approval of the Amended and Restated 1992 Equity Incentive Plan, options to purchase shares of Staples.com Stock were granted to all stock option eligible employees, including the Senior Executives. In granting these options, the Committee considered the influence and business drivers within each executives' area of responsibility on the Staples.com business and Staples Retail and Delivery business. Loans were arranged through a third party for certain senior executives to encourage and promote the purchase of Staples.com options.

Performance Accelerated Restricted Stock (PARS): In order to maintain Staples' high risk-high reward philosophy, help retain key executives, maintain focus on stockholder returns and deliver the possibility of total direct compensation above the median of the Hay comparison group, the Committee has adopted the use of PARS for certain key management, including its executive officers. The shares are "restricted" in that they may not be sold or transferred by the executive until they "vest". Staples' PARS issued in fiscal 1999 will vest on February 1, 2004 subject to acceleration if Staples achieves certain pre-determined compound EPS growth over the next two to five fiscal years. EPS growth targets are determined by the Committee and approved by the Board of Directors each year for grants of PARS in that year. Once the PARS have vested, they become "unrestricted" and may be sold or transferred.

In 1998, Staples developed a long term compensation strategy specifically for Mr. Bingleman, President—International. This plan provided Mr. Bingleman with a restricted stock grant vesting five years from date of grant, subject to accelerated vesting based on the attainment of certain event based and financial objectives relating to Mr. Bingleman's responsibilities for certain of Staples international operations. This grant is in lieu of certain annual stock options and PARS grants under the stock option PARS program.

Mr. Stemberg, Staples Chief Executive Officer, is eligible to participate in the same executive compensation program as eligible Staples executives, and his total annual compensation, including compensation derived from the Bonus Plan and stock option PARS program, was set by the Committee in accordance with the same criteria. Mr. Stemberg's annual salary was increased in fiscal 1999 from $650,000 to $685,000. Mr. Stemberg's annual salary remained below the 25th percentile for the Chief Executive Officer position within the Hay comparison group. Under the Bonus Plan, Mr. Stemberg was paid a Bonus of $826,567 placing his total cash compensation below the 40th percentile of the Hay comparison group. In fiscal 1999, the Committee granted Mr. Stemberg 100,000 PARS and options to purchase 300,000 shares of Staples RD Stock under the options PARS program. In addition, Mr. Stemberg was granted an option to purchase 2,129,120 shares of Staples.com Stock in November 1999. These grants were valued and based on the same factors the Committee considered in valuing the size of other executive PARS and stock option grants. Using the Hay Black-Scholes valuation for options, total annual compensation to Mr. Stemberg in fiscal 1999 placed him above the median of the Hay comparison group.

Section 162(m) Limitations

Under section 162(m) of the Internal Revenue Code of 1986, as amended, certain executive compensation in excess of $1 million paid to a public company's five most highly-paid executives is not deductible for federal income tax purposes unless the executive compensation is awarded under a performance-based plan approved by the stockholders. In 1998, the Committee adopted and Staples shareholders approved the Bonus Plan in compliance with Section 162 (m). The Company's stock option plans are performance based and accordingly, comply with Section 162(m). Finally, while the Company's PARS program has a significant performance component, it cannot be qualified under 162(m) without compromising valuable financing incentives which the Committee believes outweigh any tax benefit to the Company.

Compensation Committee: Martin Trust, Chairman
W. Lawrence Heisey
Robert C. Nakasone
Margaret C. Whitman

Stock Performance Graph

The following graph compares the cumulative total stockholder return on Staples RD Stock between January 28, 1995 and January 29, 2000 (the end of fiscal 1999) with the cumulative total return of (i) Standard & Poor's 500 Composite Index and (ii) the Standard & Poor's Retail Store Composite Index. This graph assumes the investment of $100.00 on January 28, 1995 in Staples RD Stock, the Standard & Poor's 500 Composite Index and the Standard & Poor's Retail Store Composite Index, and assumes dividends are reinvested. Measurement points are February 3, 1996, February 1, 1997, January 31, 1998, January 30, 1999 and January 29, 2000 (Staples' last five fiscal year ends).

Dividends Reinvested
TOTAL RETURN TO STOCKHOLDERS

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

	28-Jan-95	3-Feb-96	1-Feb-97	31-Jan-98	30-Jan-99	29-Jan-00
SPLS	100.00	157.73	190.21	252.84	597.58	448.84
S&P Retail Composite	100.00	106.90	123.92	184.69	301.05	296.03
S&P 500	100.00	135.17	167.13	208.40	272.04	289.16

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item will appear under the heading "Beneficial Ownership of Common Stock" in the Company's Proxy Statement, which section is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this Item will appear under the heading "Directors and Executive Officers of Staples—Executive Compensation" in the Company's Proxy Statement, which section is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)

Index to Consolidated Financial Statements

1.

Financial Statements. The following financial statements and schedules of Staples, Inc. are included as Appendix C of this Report

Staples, Inc.:
Consolidated Balance Sheets—January 29, 2000 and January 30, 1999.

Consolidated Statements of Income—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998.
Consolidated Statements of Stockholders' Equity—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998.
Consolidated Statements of Cash Flows—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998.
Notes to Consolidated Financial Statements.

Staples Retail and Delivery:
Combined Balance Sheets—January 29, 2000 and January 30, 1999.
Combined Statements of Income—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998
Combined Statements of Group Equity—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998.
Combined Statements of Cash Flows—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998
Notes to Combined Financial Statements.

Staples.com:
Combined Balance Sheets—January 29, 2000 and January 30, 1999.
Combined Statements of Operations—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998.
Combined Statements of Group Equity—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998.
Combined Statements of Cash Flows—Fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998.
Notes to Combined Financial Statements.

Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not applicable, and, therefore, have been omitted

Exhibits. The exhibits which are filed with this report or which are incorporated herein by reference are set forth in the Exhibit Index on page E-1

Reports on Form 8-K.

Not applicable

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 7, 2000.

STAPLES, INC.

By /s/ THOMAS G. STEMBERG
Thomas G. Stemberg
Chairman of the Board and
Chief Executive Officer

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

Signature	Capacity
/s/ THOMAS G. STEMBERG Thomas G. Stemberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
* BASIL L. ANDERSON Basil L. Anderson	Director
* MARY ELIZABETH BURTON Mary Elizabeth Burton	Director
* W. LAWRENCE HEISEY W. Lawrence Heisey	Director
* GEORGE J. MITCHELL George J. Mitchell	Director
* JAMES L. MOODY, JR. James L. Moody, Jr.	Director
* ROWLAND T. MORIARTY Rowland T. Moriarty	Director

* ROBERT C. NAKASONE Robert C. Nakasone	Director
* W. MITT ROMNEY W. Mitt Romney	Director
* RONALD L. SARGENT	

Ronald L. Sargent	Director
/s/ MARTIN TRUST Martin Trust	Director
/s/ PAUL F. WALSH Paul F. Walsh	Director
/s/ MARGARET C. WHITMAN Margaret C. Whitman	Director
/s/ JOHN J. MAHONEY John J. Mahoney	Executive Vice President, Chief Administrative Officer and Chief Financial Officer (Principal Financial Officer)
/s/ PATRICK HICKEY Patrick Hickey	Senior Vice President and Corporate Controller (Principal Accounting Officer)

APPENDIX A

Item 6.

FINANCIAL HIGHLIGHTS(1)

(Dollar Amounts in thousands, Except Per Share Amounts)

	Fiscal Year Ended				
	January 29, 2000 (52 weeks)	January 30, 1999(3) (52 weeks)	January 31, 1998(4) (52 weeks)	February 1, 1997 (52 weeks)	February 3, 1996 (53 weeks)
Statement of Income Data:					
Sales	$ 8,936,809	$ 7,123,189	$ 5,732,145	$ 4,493,599	$ 3,565,235
Gross profit	2,215,246	1,726,266	1,060,245	1,354,435	809,451
Historical net income	314,988	185,370	167,914	144,742	108,428
Pro forma net income attributed to Staples					
401(k) Stock(2)(5)(6)	316,074	183,583	153,140	129,421	94,539
Pro forma net loss attributed to					
Staples.com Stock(5)(6)	(1,086)	(27)	(12)	(8)	—
Historical earnings (loss) per common share					
Historical net income per common		0.43	0.41	0.36	0.28
share(2)(7)					
Historical net income per common share					
for the 39 weeks ended October 30,					
1999 - Staples Inc. Stock(2)	0.42				
Historical net income per common share					
for the 13 weeks ended January 29,					
2000 - Staples 401(k) Stock(2)	0.26				
Historical net loss per common share for					
the 13 weeks ended January 29, 2000 -					
Staples.com Stock(2)	(0.05)				
Pro forma net income per common					

share—Staples RD Stock(5)(6)(7)	0.69	0.43	0.38	0.32	0.24
Pro forma net loss per common share—Staples.com Stock(5)(6)(7)	(0.08)	—	—	—	—
Diluted earnings/(loss) per common share					
Historical net income per common share for the 39 weeks ended October 30, 1999—Staples Inc. Stock(2)	0.41				
Historical net income per common share for the 13 weeks ended January 29, 2000—Staples RD Stock(2)	0.26				
Historical net loss per common share for the 13 weeks ended January 29, 2000—Staples.com Stock(2)	(0.05)				
Historical net income per common share(3)(7)		0.41	0.39	0.35	0.27
Pro forma net income per common share—Staples RD Stock(5)(6)(7)	0.67	0.41	0.36	0.31	0.23
Pro forma net loss per common share—Staples.com Stock(5)(6)(7)	(0.08)	—	—	—	—
Dividends	—	—	—	—	—

	Fiscal Year Ended				
	January 29, 2000 (52 weeks)	January 30, 1999(3) (52 weeks)	January 31, 1998(4) (52 weeks)	February 1, 1997 (52 weeks)	February 3, 1996 (53 weeks)
Selected Operating Data (at period end):					
Stores open	1,129	913	742	557	433
Balance Sheet Data:					
Working capital	$ 738,547	$ 798,768	$ 803,660	$ 625,835	$ 580,241
Total assets	3,846,076	3,179,266	2,638,862	1,955,636	1,552,199
Total long-term debt, less current portion	500,903	205,015	518,959	402,985	351,508
Stockholders' equity	1,828,813	1,656,886	1,094,485	875,825	712,141

(1) On May 21, 1998, the Company acquired Quill Corporation ("Quill"). This transaction has been accounted for using the pooling of interests method. As a result, the financial information shown above has been restated to include the accounts and results of operations of Quill for all periods presented.

Also, all share numbers and earnings per share data have been restated to give retroactive effect to the three-for-two splits of the Company's common stock effected in January 1999, January 1998, March 1996 and July 1995. See Note K of Notes to Consolidated Financial Statements.

(2) Historical earnings per share is omitted for the fourth quarter of fiscal year ending January 29, 2000 for Staples Inc. as a result of the approval of the Tracking Stock Proposal which changed Staples' capital structure by creating Staples.com Stock and reclassifying Staples common stock as Staples RD Stock. In its place, historical earnings per share is presented for Staples RD Stock and Staples.com Stock for this period. See Note A of Notes to Consolidated Financial Statements.

(3) Results of operations for this period include a $41,000,000 charge relating to costs incurred in connection with the merger with Quill and a $49,706,000 charge relating to store closure costs.

(4) Results of operations for this period include a $29,665,000 charge relating to costs incurred in connection with the proposed merger with Office Depot, Inc.

(5) Pro forma net income/(loss) for periods January 31, 1998 through February 3, 1996 include a provision for income taxes on the previously untaxed earnings of Quill, which had been an S Corporation prior to its acquisition by the Company

(6) Pro forma information is calculated to give effect to the sale of 12,792,308 shares of Staples.com Stock in private placements. In presenting this pro forma information, those transactions were assumed to have occurred on February 4, 1996, its 1st year of operation.

(7) Earnings per common share have been restated to reflect three-for-two stock splits effective January 1999, January 1998, March 1996 and July 1995.

The Company's fiscal year is the 52 or 53 weeks ending the Saturday closest to January 31 of the following calendar year.

APPENDIX B

Item 7.

STAPLES, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations

On November 9, 1999, the stockholders of Staples, Inc. ("Staples" or the "Company") approved a proposal, "the Tracking Stock Proposal," which amended the Company's certificate of incorporation to (i) authorize the issuance of a new series of common stock, to be designated as Staples.com common stock ("Staples.com Stock"), and intended to reflect the performance of Staples.com, the Company's e-commerce business, (ii) increase the aggregate number of shares of common stock that the Company may issue from 1,500,000,000 to 2,100,000,000, initially comprised of 1,500,000,000 shares of Staples Retail and Delivery common stock ("Staples RD Stock") and 600,000,000 shares of Staples.com Stock, and (iii) re-classify Staples' existing common stock as Staples RD Stock, intended to reflect the performance of Staples Retail and Delivery ("Staples RD"), which consists of all of the Company's non e-commerce businesses and a retained interest in Staples.com.

Staples RD had an 88% retained interest in Staples.com as of January 29, 2000. During the fiscal year ended January 29, 2000, Staples.com issued 12,792,308 shares of Staples.com Stock in private placements and 14,459,878 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional public or private financings. The specific terms of the financings, including the amount of Staples.com Stock issued, and the timing of the financings, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of those financings on the retained interest percentage and the outstanding interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to attribute the net proceeds of such financing to the equity of Staples.com or to Staples RD in respect of its retained interest. The book value associated with Staples RD's retained interest in Staples.com will be increased proportionately for net income (or decreased proportionately for net loss) of Staples.com. The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for an initial public offering of Staples.com Stock.

The Staples RD and Staples.com combined financial statements comprise all of the accounts included in the consolidated financial statements of Staples. The separate business combined financial statements give effect to all allocation and related party transaction policies as adopted by the Board of Directors (the "Board").

The Company now provides to the holders of both Staples RD Stock and Staples.com Stock separate financial statements, financial reviews, descriptions of the business, and other relevant information for Staples RD and Staples.com, as well as consolidated financial information of the Company. Notwithstanding the allocation of assets and liabilities, including contingent liabilities between Staples RD and Staples.com for the purposes of preparing their respective combined financial statements, this allocation and the change in the capital structure of the Company as a result of the approval of the Tracking Stock Proposal did not result in the distribution or spin-off to stockholders of any of the Company's assets and liabilities and will not affect ownership of its assets or responsibility for its liabilities or those of its subsidiaries. The assets the Company attributes to one business are subject to the liabilities of the other business, even if such liabilities arise from lawsuits, contracts or indebtedness attributed to the other business. If the Company is unable to satisfy one business's liabilities out of the assets attributed to it, the Company may be required to satisfy those liabilities with the assets the Company has attributed to the other business. Further, holders of Staples RD Stock and Staples.com Stock will not have any legal rights related to specific assets of either business and in any liquidation will receive a fixed share of the net assets of the Company which may

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not reflect the actual trading prices, if any, of the respective businesses at such time.

Financial effects from one business that affect the Company's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other businesses and the market price of the stock relating to the other businesses. In addition, net losses of either business and dividends and distributions on, or repurchases of, either class of common stock or repurchases of common stock at a price per share greater than par value will reduce the funds we can pay on each class of common stock under Delaware Law. Accordingly, the Staples consolidated financial statements should be read in conjunction with the Annual Report and the combined financial information of Staples.RD and Staples.com contained in this report.

Results of Operations

Comparison of Fiscal Years Ended January 29, 2000, January 30, 1999, and January 31, 1998

General During the fiscal year ended January 30, 1999, Staples acquired, in a pooling of interests transaction, Quill Corporation and certain related entities (collectively referred to as "Quill") with 1997 net sales of approximately $851,000,000. The financial information set forth below includes adjustments to give effect to the acquisition of Quill for all periods presented. Prior to its acquisition by Staples, Quill elected to be treated as an S Corporation under the Internal Revenue Code, and accordingly, its earnings were not subject to taxation at the corporate level. Pro forma adjustments have been made to reflect a provision for income taxes on such previously untaxed earnings for each period presented at an assumed rate of 40%. The statement of income combines Staples' historical operating results for the fiscal year ended January 31, 1998 with corresponding Quill operating results for the year ended December 31, 1997.

Sales Sales increased 25.5% to $8,936,809,000 in the fiscal year ended January 29, 2000 from $7,123,189,000 in the fiscal year ended January 30, 1999. Sales increased 24.3% to $7,123,189,000 in the fiscal year ended January 30, 1999 from $5,732,145,000 in the fiscal year ended January 31, 1998. The growth in each year was attributable to an increase in the number of open stores, and increased sales in existing stores and in the delivery and contract stationer segments of our business. Comparable store and delivery hub sales for the fiscal year ended January 29, 2000 increased 6% over the fiscal year ended January 30, 1999. Comparable store and delivery hub sales for the year ended January 30, 1999 increased 11% over the year ended January 31, 1998. Staples had 1,129 open stores as of January 29, 2000, 913 open stores as of January 30, 1999, and 742 open stores as of January 31, 1998. The January 29, 2000 total includes 175 stores opened, 42 stores acquired and one store closed during the twelve months ended January 29, 2000.

Gross Profit Gross profit as a percentage of sales was 24.8% for the fiscal year ended January 29, 2000, 24.2% for the fiscal year ended January 30, 1999, and 23.6% for the fiscal year ended January 31, 1998. The gross profit rate was increased by continually improving margins in the retail and delivery business segments due to lower product costs from vendors and increased buying efficiencies as well as the leveraging of fixed distribution center and delivery costs over a larger sales base. Furthermore, the addition of Staples Communications, which has higher gross profit margins than Staples' traditional business units, contributed to the increase in gross profit over the prior year. These increases were partially offset by continued price reductions.

Operating and Selling Expenses Operating and selling expenses, which consist of payroll, advertising and other operating expenses, were 14.5% of sales for the fiscal year ended January 29, 2000, 13.9% of sales for the fiscal year ended January 30, 1999, and 14.1% of sales for the fiscal year ended January 31, 1998. The increase as a percentage of sales for the year ended January 29, 2000 was primarily due to

increased costs of investing in our selling operations, including mainly retail and call center personnel, increased marketing costs in our delivery operations and Staples.com and the addition of Staples Communications. Staples Communications has higher operating and selling expenses as a percentage of sales than Staples' traditional business units. These increases were partially offset by the continued leveraging of fixed store and delivery operating costs as sales have increased.

Pre-opening expenses Pre-opening expenses relating to new store openings, consisting primarily of salaries, supplies, marketing and occupancy costs, are expensed by Staples as incurred and therefore fluctuate from period to period depending on the timing and number of new store openings. Pre-opening expenses averaged $94,000 per store for the stores opened during fiscal year ended January 29, 2000, $80,000 per store for stores opened during fiscal year ended January 30, 1999, and $73,000 per store for the stores opened during fiscal year ended January 31, 1998. The increase during the fiscal year ended

January 29, 2000 was due primarily to increased openings outside of the United States which generally involve higher pre-opening expenses per store

General and Administrative General and administrative expenses as a percentage of sales were 4.0% for the fiscal year ended January 29, 2000, 4.2% for the fiscal year ended January 30, 1999, and 3.9% for the fiscal year ended January 31, 1998. The decrease as a percentage of sales for the year ended January 29, 2000 compared to the year ended January 30, 1999 was primarily due to decreased Year 2000 compliance and other information systems ("IS") costs, synergies realized from the Quill integration and Staples' ability to increase sales without proportionately increasing overhead expenses in its core retail and direct businesses. These decreases were partially offset by costs incurred for new businesses, including Staples Communications and Staples.com, which have higher general and administrative expenses as a percentage of sales than Staples' traditional business units

Amortization of Goodwill Amortization of goodwill totaled $12,014,000 in fiscal year January 29, 2000, $3,739,000 in fiscal year January 30, 1999 and $3,581,000 in fiscal year January 31, 1998. The increase in amortization is due to the goodwill from the acquisitions of Ivan Allen Corporation on November 1, 1998, Claricom Holdings, Inc., now referred to as Staples Communications, on February 26, 1999, and Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal on October 6, 1999.

Merger-Related and Integration Costs In connection with the acquisition of Quill, Staples recorded a charge to operating expense of $41,000,000 during the year ended January 30, 1999. These costs consist of direct merger related and integration costs from the transaction. The merger transaction costs of approximately $10,500,000 consist primarily of fees for investment bankers, attorneys, accountants and other related charges. The integration costs primarily include employee costs of approximately $7,000,000, contract and lease termination costs of approximately $14,100,000, the write-down of leasehold improvements of approximately $3,500,000 and other merger-related costs of approximately $5,900,000. Through January 29, 2000, Staples paid approximately $24,000,000, which consists primarily of transaction and employee related costs. During the year ended January 31, 1998, Staples charged to expense non-recurring costs of $29,665,000 in connection with the proposed merger with Office Depot, Inc.

Store Closure Charge In December 1998, Staples committed to a plan to close and relocate stores which cannot be expanded and upgraded to the Company's current store model. In connection with this plan, Staples recorded a charge to operating expense of $49,706,000. This charge includes $29,620,000 for future rental payments under operating lease agreements that will be paid after the store is closed and will not be subsidized by subtenant income, $4,966,000 in fees, settlement costs and other expenses related to

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store closures and $15,120,000 in asset impairment charges. At January 29, 2000, the Company had executed lease agreements for a majority of the stores identified in 1998 and continues to actively negotiate lease agreements for the remaining relocation sites. Negotiations for relocation sites have taken longer to complete than originally anticipated. Any sites that the Company is unable to complete negotiations for by the end of the first quarter 2000 will not be closed and the related charges will be reversed. Through January 29, 2000, the Company has paid approximately $476,000 in costs related to the store closures and $4,110,000 remains accrued for future rental payments, fees, settlement costs, and other expenses related to the store closures.

Interest and Other Expense, Net Net interest and other expense totaled $17,101,000 in the fiscal year ended January 29, 2000, $17,170,000 in the fiscal year ended January 30, 1999 and $21,955,000 in the fiscal year ended January 31, 1998. The interest expense relates primarily to existing borrowings. The decrease in interest expense during the years ended January 29, 2000 and January 30, 1999 is due primarily to the conversion of the Company's $300,000,000 of 4½% Debentures into common stock in December 1998.

Equity in Loss of Affiliates Staples' equity in loss of affiliates was $5,953,000 in the year ended January 31, 1998. Staples recorded no equity in loss of affiliates for the year ended January 29, 2000 and January 30, 1999, due to the acquisition of Staples U.K. on May 6, 1997 and Staples Germany on May 7, 1997. As a result of the acquisitions, Staples' ownership interest in Staples U.K. increased to 100% and its ownership of Staples Germany increased to approximately 92% which was increased to 100% in December 1998. The transactions were accounted for in accordance with the purchase method of accounting, and accordingly, the consolidated results of these entities are reflected in Staples' financial statements since the respective dates of acquisition. Prior to the acquisitions, Staples U.K. and Staples Germany were accounted for under the equity method which resulted in Staples' share of losses from operations being included in Equity in Loss of Affiliates.

Income Taxes The provision for income taxes as a percentage of pre-tax income was 39% for fiscal year ended January 29, 2000, 39.5% for fiscal year ended January 30, 1999 and 32.8% for fiscal year ended January 31, 1998. On a pro forma basis, to reflect a provision for income taxes on previously untaxed earnings of Quill, Staples' effective tax rate would

have been 40.1% for the fiscal year ended January 30, 1999 and 38.7% for the year ended January 31, 1998. The increase in the pro forma tax rate in fiscal year 1998 and 1999 was primarily due to non-deductible merger-related costs.

Liquidity and Capital Resources

Staples has traditionally used a combination of cash generated from operations and debt or equity offerings to fund its expansion and acquisition activities. During the years ended January 29, 2000, January 30, 1999 and January 31, 1998, Staples also utilized its revolving credit facility to support its various growth initiatives.

Staples opened 175 stores and closed one store in the fiscal year ended January 29, 2000, opened 174 stores and closed three stores in the fiscal year ended January 30, 1999, and opened 130 stores and closed one store in the fiscal year ended January 31, 1998. In addition, in the fiscal year ended January 29, 2000, 42 stores were added as a result of the acquisition of Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal. In the fiscal year ended January 31, 1998, 56 stores were added through the acquisition of Staples UK and Staples Germany. To the extent that the store base matures and becomes more profitable, cash generated from store operations is expected to provide a greater portion of funds required for new store inventories and other working capital requirements. Sales generated by the

contract stationer business segment and certain direct mail customers are made under regular credit terms, which requires that Staples carry its own receivables from these sales. As the Company expands its contract and direct mail businesses worldwide, Staples anticipates that its accounts receivable portfolio will grow. Receivables from its vendors under rebate, cooperative advertising and marketing programs are a significant percentage of Staples' total receivables and tend to fluctuate somewhat seasonally. Staples also utilized capital equipment financings to fund current working capital requirements. During the year ended January 30, 1999, Staples paid approximately $14 million of mortgages in full on five distribution centers acquired from Quill.

As of January 29, 2000, cash, cash equivalents, and short-term investments totaled $111,554,000 a decrease of $263,867,000 from the January 30, 1999 balance of $375,421,000. This decrease was primarily attributable to cash used in investing activities of $609,030,000, including cash used in the acquisition of businesses of $244,021,000 and the acquisition of property and equipment of $355,081,000, primarily for the 175 new stores opened. This decrease was partially offset by cash provided by operating activities of $299,525,000. Cash provided by operating activities was comprised primarily of net income, depreciation and amortization of $174,145,000 and an increase in accounts payable, accrued expenses and other current liabilities of $117,855,000, which was partially offset by an increase in merchandise inventories of $221,463,000 and an increase in accounts receivables of $112,980,000. Cash provided by financing activities of $60,469,000 includes $281,458,000 of net borrowings and $89,239,000 of proceeds from the sale of capital stock, the exercise of stock options and the employee stock purchase plan offset by net treasury stock purchases of $310,238,000.

Staples expects to open approximately 170 stores during fiscal 2000. Management estimates that the Company's cash requirements, including pre-opening expenses, leasehold improvements and fixtures, will be approximately $1,500,000 for each new store (excluding the cost of any acquisitions of lease rights). Accordingly, Staples expects to use approximately $255,000,000 for store openings during this period.

During the fiscal year ended January 29, 2000, Staples executed a stock repurchase program of Staples Stock intended to provide shares for employee stock programs. The Board authorized up to $700,000,000 to be used for these repurchases. During the year ended January 29, 2000, the Company repurchased 12,843,000 shares for approximately $300,105,000 under the program and 330,000 shares for approximately $10,143,000 from employees upon exercise of PARS. In addition, on July 1, 1999, Staples entered into an equity forward purchase agreement to hedge against stock price fluctuations for the repurchase of its common stock in connection with the annual stock option grant to employees and directors. Under the agreement, Staples may purchase 2,600,000 shares at an average price of $30.263 or may elect to settle the contract on a net share basis in lieu of physical settlement.

During the fiscal year ended January 29, 2000, Staples made investments of approximately $23,780,000 in Internet related companies. Investments that qualify as marketable securities are carried at fair value and all other investments are accounted for on a cost basis as each investment represents an interest of no greater than fifteen percent of the outstanding stock of that company. As of January 29, 2000, Staples has recognized an unrealized gain on these investments of $10,975,000.

In February 1999, Staples completed the acquisition of Claricom Holdings, Inc. and certain related entities, now referred to as Staples Communications, for a purchase price of approximately $137,600,000, net of cash acquired. In October 1999, Staples completed the acquisition of three European office supply companies: Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal for a purchase price of approximately $106,400,000, net of cash acquired.

Staples also plans to continue to make investments in information systems, distribution centers and store remodels to improve operational efficiencies and customer service, and may expend additional funds to acquire businesses or lease rights from tenants occupying retail space that is suitable for a Staples store. Staples expects to meet these cash requirements through a combination of operating cash flow and borrowings from our existing revolving lines of credit.

On August 12, 1997, Staples issued $200,000,000 of 7 125% senior notes (the "Notes") with interest payable semi-annually on February 15 and August 15 of each year commencing on February 15, 1998. Net proceeds of approximately $198,000,000 from the sale of the Notes were used for repayment of indebtedness under Staples' revolving credit agreement and for general working capital purposes, including the financing of new store openings, distribution facilities and corporate offices.

Staples issued notes in the aggregate principal amount of 150,000,000 euros on November 15, 1999 (the "Euro Bonds"). Net proceeds of approximately $148,000,000 from the Euro Bonds were used to fund international expansion. The Euro Bonds bear interest at a rate of 5 875% per annum and are due on November 15, 2004. The Euro Bonds have been designated as a foreign currency hedge on our net foreign investments in Europe and gains or losses are recorded in the cumulative translation adjustment line in Stockholders' Equity.

Staples also maintains a revolving credit facility, effective through November 2002, with a syndicate of banks which provides up to $350,000,000 of available borrowings. Borrowings made pursuant to this facility will bear interest at either the lead bank's prime rate, the federal funds rate plus 0.50%, the LIBOR rate plus a percentage spread based upon certain defined ratios, a competitive bid rate or a swing line loan rate. This agreement, among other conditions, contains certain restrictive covenants, including net worth maintenance, minimum fixed charge interest coverage and limitations on indebtedness and sales of assets.

As of January 29, 2000, $150,000,000 was outstanding under the revolving credit agreement. Staples also has available $25,000,000 in uncommitted, short-term bank credit lines, of which no borrowings were outstanding as of January 29, 2000. Staples U.K. has a $48,600,000 line of credit which had an outstanding balance of $4,455,000 at January 29, 2000. Staples Germany has a $19,900,000 line of credit. Office Centre Netherlands has a $6,600,000 line of credit. Office Centre Portugal has a $900,000 line of credit and Business Depot has a $6,900,000 line of credit, all with no outstanding balances at January 29, 2000. Total cash, short-term investments and available revolving credit amounts totaled $424,740,000 as of January 29, 2000.

Staples expects that income from operations, together with its current short-term investments, funds available under its revolving credit facility and the funds received through the issuance of the Euro Bond, will be sufficient to fund Staples' planned store openings and other recurring operating cash needs for at least the next twelve to eighteen months. Staples continually evaluates financing possibilities, and it may seek to raise additional funds through any one or a combination of public or private debt or equity-related offerings, dependent upon market conditions, or through an additional commercial bank debt arrangement.

The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for an initial public offering of Staples.com Stock.

Inflation and Seasonality

While neither inflation nor deflation has had, and Staples does not expect it to have, a material impact upon operating results, there can be no assurance that our business will not be affected by inflation or

deflation in the future. We believe that our business is somewhat seasonal, with sales and profitability slightly lower during the first and second quarters of our fiscal year.

Future Operating Results

This annual report on Form 10-K includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the use of the words "believes", "anticipates", "plans", "expects", "may", "will", "would", "intends",

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"estimates" and other similar expressions, whether in the negative or affirmative. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in the forward looking statements made. We have included important factors in the cautionary statements below that we believe could cause actual results to differ materially from the forward-looking statements contained herein. The forward-looking statements do not reflect the potential impact of any future acquisitions, mergers or dispositions. We do not assume any obligation to update any forward-looking statement contained herein.

Our market is highly competitive and we may not continue to compete successfully. We compete in a highly competitive marketplace with a variety of retailers, dealers and distributors. In most of our geographic markets, we compete with other high-volume office supply chains, such as Office Depot, OfficeMax and Office World, that have store formats, pricing strategies and product selections that are similar to ours. We also compete with mass merchants, such as Wal-Mart, warehouse clubs, computer and electronic superstores, and other discount retailers. In addition, our retail stores and delivery and contract businesses compete with numerous mail order firms, contract stationer businesses and direct manufacturers. Many of our competitors, including Office Depot, OfficeMax and Wal-Mart, have in recent years significantly increased the number of stores they operate within our markets. Some of our current and potential competitors are larger than us and have substantially greater financial resources. It is possible that increased competition or improved performance by our competitors may reduce our market share, may force the Company to charge lower prices than it otherwise would, and may adversely affect our business and financial performance in other ways.

We may be unable to continue to successfully open new stores. An important part of our business plan is to aggressively increase the number of our stores. We opened 175 stores in the United States, Canada and Europe in fiscal 1999 and plan to open approximately 170 new stores in fiscal 2000. For our growth strategy to be successful, we must identify and lease favorable store sites, hire and train employees and adapt the Company's management and operational systems to meet the needs of our expanded operations. These tasks may be difficult to accomplish successfully. If we are unable to open new stores as quickly as we plan, the Company's future sales and profits could be materially and adversely affected. Even if we succeed in opening new stores, new stores may not achieve the same sales or profit levels as Staples' existing stores. Also, our expansion strategy includes opening new stores in markets where we have a presence so that we can take advantage of economies of scale in marketing, distribution and supervision costs. However, these new stores may result in the loss of sales in existing stores in nearby areas.

Our quarterly operating results are subject to significant fluctuation. Our operating results have fluctuated from quarter to quarter in the past, and we expect that they will continue to do so in the future. Our earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior fiscal period or investors' expectations. Factors that could cause these quarterly fluctuations include the following:

- the number of new store openings, primarily because we expense pre-opening costs as incurred and newer stores are less profitable than mature stores;
- the extent to which sales in new stores result in the loss of sales in existing stores;
- the mix of products sold;
- pricing actions of competitors;
- the level of advertising and promotional expenses;
- seasonality, primarily because the sales and profitability of our stores are typically slightly lower in the first and second quarter of its fiscal year than in other quarters; and
- charges associated with acquisitions.

Most of our operating expenses, such as rent expense, advertising expense and employee salaries, do not vary directly with

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the amount of our sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below our expectations for that quarter, we could not proportionately reduce operating expenses for that quarter, and therefore this sales shortfall would have a disproportionate effect on the Company's expected net income for the quarter.

Our stock price may fluctuate based on the expectations of professional security analysts. The market price of our two classes of common stock is based in large part on professional securities analysts' expectations that our business will continue to grow and that the Company will achieve certain levels of net income. If the financial performance of one or both of our businesses in a particular quarter does not meet the expectations of securities analysts, this may adversely affect the views of those securities analysts concerning the growth potential and future financial performance of that business or of Staples as a whole. If the securities analysts that regularly follow one or both classes or our common stock lower their rating or lower their projections for future growth and financial performance, the market price of one or both classes of our common stock is likely to drop significantly. In addition, in those circumstances the decrease in the stock price would probably be disproportionate to the shortfall in the Company's financial performance.

Our rapid growth may continue to strain operations, which could adversely affect the business and financial results. Our business, including sales, number of stores and number of employees, has grown dramatically over the past several years. In addition, we have acquired a number of significant companies in the last few years and may make additional acquisitions in the future. This growth has placed significant demands on our management and operational systems. If we are not successful in upgrading our operational and financial systems, expanding our management team and increasing and effectively managing our employee base, this growth is likely to result in operational inefficiencies and ineffective management of our businesses and employees, which will in turn adversely affect the Company's business and financial performance.

Our international operations may not become profitable. We currently operate in international markets through The Business Depot Ltd. in Canada, Staples UK in the United Kingdom, Staples Deutschland and Sigma Burowelt in Germany and Office Centre in the Netherlands and Portugal. Consolidated European operations are currently unprofitable, and we cannot guarantee that they will become profitable. We may seek to expand into other international markets in the future. Our foreign operations encounter risks similar to those faced by our US stores, as well as risks inherent in foreign operations, such as local customs and competitive conditions and foreign currency fluctuations.

We may be unable to obtain adequate future financing. It is possible that we will require additional sources of financing earlier than anticipated, as a result of unexpected cash needs or opportunities, an expanded growth strategy or disappointing operating results. Additional funds may not be available on satisfactory terms when needed, whether within the next twelve to eighteen months or thereafter.

Year 2000 Compliance

We completed a comprehensive assessment of our internal computer systems and applications to identify those that might be affected by computer programs using two digits rather than four to define the applicable year (the "Year 2000 issue"). We used internal personnel as well as external contractors and consultants to identify those systems and applications which might be affected by the Year 2000 issue. All systems, applications and infrastructure identified as needing remediation have been replaced or modified and successfully tested for compliance. In addition, we completed full "end to end" testing of leap year during January 2000.

We did not experience any disruption of our computer systems, non-IT related systems, product replenishment from our suppliers or any order entry issues with our contract and or commercial customers as we entered the Year 2000.

The total cost of Year 2000 compliance was $27 million, which had been spent as of January 29, 2000. Most of the costs incurred related to remediation and testing of software using outside contracted services. The cost of compliance was included in the fiscal IT budgets. The inclusion of Year 2000 compliance has not caused any critical IT projects to be delayed or eliminated.

Euro Currency

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (the "euro"). The former currencies of the participating countries are scheduled to remain legal tender as denominations of the euro until January 1, 2002 when the euro will be adopted as the sole legal currency.

Staples has evaluated the potential impact of the euro on its business, including the ability of its information systems to

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handle euro-denominated transactions and the impact on exchange costs and currency exchange rate risks. The conversion to the euro is not expected to have a material impact on Staples' operations or financial position.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

Staples is exposed to market risk from changes in interest rates and foreign exchange rates and has a risk management control process to monitor such risks. The risk management process uses analytical techniques including market value, sensitivity analysis, and value at risk estimates. Staples does not believe that the potential exposure is significant in light of the size of our business.

On May 11, 1999 and August 3, 1999, Staples entered into interest rate swaps, each for an aggregate notional amount of $100,000,000, in order to minimize financing costs associated with our $200,000,000 of 7.125% senior notes due August 15, 2007. The swap agreements are both scheduled to terminate on August 15, 2007. Under the interest rate swap agreements, Staples is entitled to receive semi-annual interest payments at a fixed rate of approximately 7.125% and is obligated to pay interest based on 30 day Non-Financial US Commercial Paper Rate of 5.69%, plus a fixed basis point adjustment, at January 29, 2000. The interest rate swaps are being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense over the life of the agreements. If Staples and the counterparty to the agreements terminate the swaps prior to their original maturity, any gain or loss upon termination will be amortized to interest expense over the remaining original life of the agreements. Staples uses interest rate and currency swap agreements for purposes other than trading and they are treated as off-balance sheet items. Staples uses interest rate swap agreements to modify fixed rate obligations to variable rate obligations, thereby adjusting the interest rates to current market rates and ensuring that debt instruments are always reflected at fair value.

On July 2, 1999, Staples entered into an equity forward purchase agreement to hedge against stock price fluctuations for the repurchase of Staples Stock in connection with the annual stock option grant to employees and directors. Under the agreement Staples may purchase 2,600,000 shares at an average price of $30.263 or elect to settle the contract on a net share basis in lieu of physical settlement.

On November 15, 1999, Staples entered into an interest rate swap for an aggregate notional amount of 150,000,000 euro in order to minimize financing costs on the notes issued the same date. The swap agreement is scheduled to terminate on November 15, 2004. Under the interest rate swap agreement, Staples is entitled to receive annual interest payments at a fixed rate of approximately 5.875% and is required to make quarterly interest payments at a floating rate of the one month EURIBOR plus 1.1175%, currently approximately 4.1475%. Staples has designated its 150,000,000 Euro Bonds and its interest rate swap agreement to be an integrated transaction. Accordingly, the interest rate swap agreement is being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreement is accrued and recognized as an adjustment to interest expense over the life of the agreement.

Staples is exposed to foreign exchange risks through subsidiaries in Canada, the United Kingdom, Germany, the Netherlands and Portugal. Staples has not entered into any derivative financial instruments to hedge this exposure, and Staples believes that the potential exposure is not material to our overall financial position or our results of operations.

This risk management discussion and discussion of the effects of changes in interest rates and foreign exchange rates are forward-looking statements. Actual future results may differ materially from these projected results due to developments in the global financial markets. The analytical methods used by Staples to assess and mitigate risk discussed above should not be considered projections of future events or losses.

STAPLES RETAIL AND DELIVERY
Management's Discussion and Analysis
of Financial Condition and Results of Operations

You should read this discussion along with the Staples consolidated financial statements and with the Staples.com combined financial statements contained in this Form 10-K. Historical results and percentage relationships may not necessarily be indicative of operating results for any future periods. The combined financial statements of Staples.RD include

the balance sheets, statements of operations, cash flows and group equity of Staples' retail stores, catalog businesses and contract stationer business. The Staples RD combined financial statements also include its retained interest in Staples.com, which was 88% as of January 29, 2000.

On November 9, 1999, the stockholders of Staples approved the Tracking Stock Proposal, which amended the Company's certificate of incorporation to (i) authorize the issuance of a new series of common stock, designated as Staples.com Stock and intended to reflect the performance of Staples.com, the Company's e-commerce business, (ii) increase the aggregate number of shares of common stock that the Company may issue from 1,500,000,000 to 2,100,000,000, initially comprised of 1,500,000,000 shares of Staples RD Stock and 600,000,000 shares of Staples.com Stock, and (iii) re- classify Staples' existing common stock as Staples RD Stock, intended to reflect the performance of Staples RD, which consists of all of the Company's non e-commerce businesses and a retained interest in Staples.com. The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for an initial public offering of Staples.com Stock.

Staples RD had an 88% retained interest in Staples.com as of January 29, 2000. During the fiscal year ended January 29, 2000, Staples.com issued 12,792,308 shares of Staples.com Stock in private placements and 14,459,878 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional public or private financings. The specific terms of the financings, including the amount of Staples.com Stock issued, and the timing of the financings, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of those financings on the retained interest percentage and the outstanding interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to attribute the net proceeds of such financing to the equity of Staples.com or to Staples RD in respect of its retained interest. The book value associated with Staples RD's retained interest in Staples.com will be increased proportionately for net income (or decreased proportionately for net loss) of Staples.com.

The Staples RD and Staples.com combined financial statements comprise all of the accounts included in the consolidated financial statements of Staples. The separate combined financial statements give the effect to all allocation and related party transaction policies as adopted by the Board. These policies are described in Note C to the Staples RD combined financial statements. The Staples RD combined financial statements have been prepared in a manner which management believes is reasonable and appropriate. Such combined financial statements include (i) the financial position, results of operations and cash flows of Staples RD, (ii) the Company's debt and the effects that such debt had on the related Staples RD statements of income and cash flows, and (iii) the effects of a 92.6% weighted average retained interest in Staples.com on the combined statements of income and combined balance sheets.

The Company now provides to the holders of both Staples RD Stock and Staples.com Stock separate financial statements, financial reviews, descriptions of the business, and other relevant information for Staples RD and Staples.com as well as consolidated financial information of the Company. Notwithstanding the allocation of assets and liabilities, including contingent liabilities between Staples RD and Staples.com for the purposes of preparing their respective combined financial statements, this allocation and the change in the capital structure of the Company as a result of the approval of the Tracking Stock Proposal did not result in the distribution or spin-off to stockholders of any of the Company's assets and

liabilities and will not affect ownership of its assets or responsibility for its liabilities or those of its subsidiaries. The assets the Company attributes to one business are subject to the liabilities of the other business, even if such liabilities arise from lawsuits, contracts or indebtedness attributed to the other business. If the Company is unable to satisfy one business's liabilities out of the assets attributed to it, the Company may be required to satisfy those liabilities with the assets the Company has attributed to the other business. Further, holders of Staples RD Stock and Staples.com Stock will not have any legal rights related to specific assets of either business and in any liquidation will receive a fixed share of the net assets of the Company, which may not reflect the actual trading prices, if any, of the respective businesses at such time.

Financial effects from one business that affect the Company's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other businesses and the market price of the stock relating to the other businesses. In addition, net losses of either business and dividends and distributions on, or repurchases of, either class of common stock or repurchases of common stock at a price per share greater than par value will reduce the funds we can pay on each class of common stock under Delaware Law. Accordingly, the Staples RD combined financial statements should be read in conjunction with the Company's audited consolidated financial information and Annual Report on Form 10-K, and the combined financial information of Staples.com contained in this report.

Results of Operations

Comparison of Fiscal Years Ended January 29, 2000, January 30, 1999, and January 31, 1998

General During the fiscal year ended January 30, 1999, Staples acquired, in a pooling of interests transaction, Quill Corporation and certain related entities (collectively referred to as "Quill") with 1997 net sales of approximately $551 million. The financial information set forth below includes adjustments to give effect to the acquisition of Quill for all periods presented. Prior to its acquisition by Staples, Quill elected to be treated as an S-Corporation under the Internal Revenue Code, and accordingly, its earnings were not subject to taxation at the corporate level. Pro forma adjustments have been made to reflect a provision for income taxes on such previously untaxed earnings for each period presented at an assumed rate of 40%. The statement of income combines Staples' historical operating results for the fiscal year ended January 31, 1998 with corresponding Quill operating results for the year ended December 31, 1997.

Sales Sales increased 24.4% to $8,842,460,000 in the fiscal year ended January 29, 2000 from $7,106,303,000 in the fiscal year ended January 30, 1999. Sales increased 24.1% in the fiscal year ended January 30, 1999 from $5,728,439,000 in the fiscal year ended January 31, 1998. The growth in each year was attributable to an increase in the number of open stores, increased sales in existing stores and in the delivery and contract stationer segments. Staples RD had 1,129 open stores as of January 29, 2000, 913 open stores as of January 30, 1999, and 742 open stores as of January 31, 1998. The January 29, 2000 total includes 175 stores opened, 42 stores acquired and one store closed during the twelve months ended January 29, 2000.

Gross Profit Gross profit as a percentage of sales was 24.8% for the fiscal year ended January 29, 2000, 24.2% for the fiscal year ended January 30, 1999, and 23.6% for the fiscal year ended January 31, 1998. The gross profit rate was increased by continually improving margins in the retail and delivery business segments due to lower product costs from vendors and increased buying efficiencies as well as the leveraging of fixed distribution center and delivery costs over a larger sales base. Furthermore, the addition of Staples Communications, which has higher gross profit margins than Staples RD's traditional business

units, contributed to the increase in gross profit over the prior year. These increases were partially offset by continued price reductions

Operating and Selling Expenses Operating and selling expenses, which consist of payroll, advertising and other operating expenses, were 14.3% of sales for the fiscal year ended January 29, 2000, 13.9% of sales for the fiscal year ended January 30, 1999, and 14.1% of sales for the fiscal year ended January 31, 1998. The increase as a percentage of sales for the year ended January 29, 2000 was primarily due to increased costs of investing in our selling operations, including mainly retail and call center personnel, increased marketing costs in our delivery operations and the addition of Staples Communications. Staples Communications has higher operating and selling expenses as a percentage of sales than Staples RD's traditional business units. These increases were partially offset by the continued leveraging of fixed store and delivery operating costs as sales base increased

Pre-opening expenses Pre-opening expenses relating to new store openings, consisting primarily of salaries, supplies, marketing and occupancy costs, are expensed by Staples RD as incurred and therefore fluctuate from period to period depending on the timing and number of new store openings. Pre-opening expenses averaged $94,000 per store for the stores opened during the fiscal year ended January 29, 2000, $80,000 per store for the stores opened during the fiscal year ended January 30, 1999, and $73,000 per store for the stores opened during the fiscal year ended January 31, 1998. The increase during the fiscal year ended January 29, 2000 was due primarily to increased openings outside of the United States which generally involve higher pre-opening expenses per store. These increases were partially offset by the continued leveraging of fixed store and delivery operating costs as sales have increased

General and Administrative General and administrative expenses as a percentage of sales were 3.8% for the fiscal year ended January 29, 2000, 4.2% for the fiscal year ended January 30, 1999, and 3.9% for the fiscal year ended January 31, 1998. The decrease as a percentage of sales for the year ended January 29, 2000 compared to the year ended January 30, 1999 was primarily due to decreased Year 2000 compliance and other information systems ("IS") costs, synergies realized from the Quill integration and Staples RD's ability to increase sales without proportionately increasing overhead expenses in its core retail and direct businesses. These decreases were partially offset by costs incurred for new businesses, including Staples Communications, which has a higher general and administrative expenses as a percentage of sales than Staples RD's traditional business units

Amortization of Goodwill Amortization of goodwill totaled $12,014,000 in the fiscal year ended January 29, 2000, $3,739,000 in the fiscal year ended January 30, 1999 and $3,581,000 in the fiscal year ended January 31, 1998. The increase in amortization is due to the goodwill from the acquisitions of Ivan Allen Corporation on November 1, 1998, Claricom Holdings, Inc., now referred to as Staples Communications, on February 26, 1999, and the Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal on October 6, 1999.

Merger-Related and Integration Costs In connection with the acquisition of Quill, Staples RD recorded a charge to operating expense of $41,000,000 during the year ended January 30, 1999. These costs consist of direct merger-related and integration costs from the transaction. The merger transaction costs of approximately $10,500,000 consist primarily of fees for investment bankers, attorneys, accountants and other related charges. The integration costs primarily include employee costs of approximately $7,000,000, contract and lease termination costs of approximately $14,100,000, the write-down of leasehold improvements of approximately $3,500,000 and other merger-related costs of approximately $5,900,000. Through January 29, 2000 Staples paid approximately $24,000,000, which consists primarily of transaction and

employee related costs. During the year ended January 31, 1998, Staples RD charged to expense non-recurring costs of $29,665,000 in connection with the proposed merger with Office Depot, Inc.

Store Closure Charge In December 1998, Staples RD committed to a plan to close and relocate stores which cannot be expanded and upgraded to its current store model. In connection with this plan, Staples RD recorded a charge to operating expense of $49,706,000. This charge includes $29,620,000 for future rental payments under operating lease agreements that will be paid after the store is closed and will not be subsidized by subtenant income, $4,966,000 in fees, settlement costs and other expenses related to store closure and $15,120,000 in asset impairment charges. At January 29, 2000, Staples RD had executed lease agreements for a majority of the stores identified in 1998 and continues to actively negotiate lease agreements for the remaining relocation sites. Negotiations for relocation sites have taken longer to complete than originally anticipated. Any sites that Staples RD is unable to complete negotiations for by the end of the first quarter 2000 will not be closed and the related charges will be reversed. Through January 29, 2000, Staples RD has paid approximately $476,000 in costs related to the store closures and $34,110,000 remains accrued for future rental payments, fees, settlement costs, and other expenses related to the store closures.

Interest and Other Expense, Net Net interest and other expense totaled $17,183,000 in the fiscal year ended January 29, 2000, $17,342,000 in the fiscal year ended January 30, 1999 and $21,947,000 in the fiscal year ended January 31, 1998. The interest expense relates primarily to existing borrowings. The decrease in interest expense during the years ended January 29, 2000 and January 30, 1999 is due primarily to the conversion of the Company's $300,000,000 of 4½% Debentures into common stock in December 1998.

Equity in Loss of Affiliates Staples' equity in loss of affiliates was $5,953,000 in the year ended January 31, 1998. Staples recorded no equity in loss of affiliates for the year ended January 29, 2000 and January 30, 1999, due to the acquisition of Staples U.K. on May 6, 1997 and Staples Germany on May 7, 1997. As a result of the acquisitions, Staples' ownership interest of Staples U.K. increased to 100% and its ownership of Staples Germany increased to approximately 92% which was increased to 100% in December 1998. The transactions were accounted for in accordance with the purchase method of accounting, and accordingly, the consolidated results of these entities are reflected in Staples' financial statements since the respective dates of acquisition. Prior to the acquisitions, Staples U.K. and Staples Germany were accounted for under the equity method which resulted in Staples' share of losses from operations being included in equity in loss of affiliates.

Retained Interest In Staples.com Staples RD had a 92.6% weighted average retained interest in Staples.com for the fiscal year ended January 29, 2000 and a 100% retained interest for fiscal years ended January 30, 1999 and January 31, 1998. Accordingly, the loss related to the retained interest in Staples.com of $15,628,000 for the fiscal year ended January 29, 2000, $438,000 for the fiscal year ended January 30, 1999 and $300,000 for the fiscal year ended January 31, 1998 represents the net loss of Staples.com for each of those years.

Income Taxes The provision for income taxes as a percentage of pre-tax income was 39% for the fiscal year ended January 29, 2000, 39.5% for the fiscal year ended January 30, 1999 and 32.8% for the fiscal year January 31, 1998. On a pro forma basis, to reflect a provision for income taxes on previously untaxed earnings of Quill, Staples' effective tax rate would have been 40.1% for the fiscal year ended January 30, 1999 and 38.7% for the fiscal year ended January 31, 1998. The increase in the pro forma tax rate in fiscal years 1999 and 1998 was primarily due to non-deductible merger-related costs.

Liquidity and Capital Resources

Staples manages most finance activities on a centralized, consolidated basis. These activities include the investment of surplus cash, the issuance, repayment and repurchase of short-term and long-term debt, and the issuance and repurchase of common stock. Staples currently attributes each incurrence or issuance of external debt, and the proceeds thereof, to Staples

RD and will continue to do so in the future unless the Board determines otherwise. Whenever Staples.com holds cash, Staples.com will normally, but will not be obligated to, transfer that cash to Staples RD. Conversely, whenever Staples.com has a cash need, Staples RD will normally, but not be obligated to, fund that cash need. The Board will determine, in its sole discretion, whether either business will provide any particular funds on any particular occasion to the other business, but will not be obligated to cause such cash transfers.

All cash transfers from one business to or for the account of the other business (other than transfers in return of assets or services rendered or transfers in respect of Staples RD's retained interest that correspond to dividends paid on Staples.com Stock), are accounted for as inter-business revolving credit advances unless:

- the Board determines that a given transfer, or type of transfer, should be accounted for as a long-term loan;
- the Board determines that a given transfer, or type of transfer, should be accounted for as a capital contribution increasing Staples RD's retained interest in Staples.com; or
- the Board determines that a given transfer, or type of transfer, should be accounted for as a return of capital reducing Staples RD's retained interest in Staples.com.

There are no specific criteria to determine when Staples RD will account for a cash transfer as a long-term loan, a capital contribution or a return of capital rather than an inter-business revolving credit advance. The Board will make such a determination based on its judgement at the time of such transfer, or at the time of the first of such type of transfer, based upon all relevant circumstances. Factors the Board will consider include:

- the current and projected capital structure of each business;
- the relative levels of internally generated funds of each business;
- the financing needs and objectives of the recipient business; and
- the investment objectives of the transferring business; the availability, cost and time associated with the alternative financing sources and prevailing interest rates and general economic conditions.

Any cash transfer accounted for as an inter-business revolving credit advance will bear interest at a rate at which the Board, in its sole discretion, determines Staples could borrow such funds on a revolving credit basis. Any cash transfer accounted for as a long-term loan will have interest rate, amortization, maturity, redemption and other terms that generally reflect the then prevailing terms on which the Board, in its sole discretion, determines Staples could borrow such funds.

Any cash transfer from Staples RD to Staples.com, or for Staples.com's account, accounted for as a capital contribution will correspondingly increase Staples.com's equity and Staples RD's retained interest in Staples.com. As a result, the number of shares issuable with respect to Staples RD's retained interest in Staples.com will increase by the amount of such capital contribution divided by the market value of Staples.com Stock on the date of transfer. Any cash transfer from Staples.com to Staples RD, or for

Staples RD's account, accounted for as a return of capital will correspondingly reduce Staples.com's equity and Staples RD's retained interest in Staples.com. As a result, the number of shares issuable with respect to Staples RD's retained interest in Staples.com will decrease by the amount of such return of capital divided by the market value of Staples.com Stock on the date of transfer.

As a result of the cash management policies in place between Staples RD and Staples.com, Staples.com is heavily dependent on Staples RD for its continued funding. Accordingly, Staples RD's liquidity could be adversely affected by the

liquidity needs of Staples.com

Staples RD has traditionally used a combination of cash generated from operations and debt or equity offerings to fund its expansion and acquisition activities. During the years ended January 29, 2000, January 30, 1999 and January 31, 1998, Staples RD also utilized its revolving credit facility to support its various growth initiatives.

Staples RD opened 175 stores and closed one store in the fiscal year ended January 29, 2000, opened 174 stores and closed three stores in the fiscal year ended January 30, 1999, and opened 130 stores and closed one store in the fiscal year ended January 31, 1998. In addition, in the fiscal year ended January 29, 2000, 42 stores were added as a result of the acquisition of Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal. In the fiscal year ended January 31, 1998, 56 stores were added through the acquisition of Staples UK and Staples Germany. To the extent that the store base matures and becomes more profitable, cash generated from store operations is expected to provide a greater portion of funds required for new store inventories and other working capital requirements. Sales generated by the contract stationer business segment and certain direct mail customers are made under regular credit terms, which requires that Staples RD carry its own receivables from these sales. As Staples RD expands its contract and direct mail businesses worldwide, Staples RD anticipates that its accounts receivable portfolio will grow. Receivables from Staples RD's vendors under rebate, cooperative advertising and marketing programs are a significant percentage of its total receivables and tend to fluctuate somewhat seasonally. Staples RD also utilized capital equipment financings to fund current working capital requirements. During the year ended January 30, 1999, Staples RD paid approximately $14 million of mortgages in full on five distribution centers acquired from Quill.

As of January 29, 2000, cash, cash equivalents, and short-term investments totaled $111,554,000 a decrease of $263,867,000 from the January 30, 1999 balance of $375,421,000. This decrease was primarily attributable to cash used in investing activities of $602,704,000, including cash used in the acquisition of businesses of $244,021,000 and the acquisition of property and equipment of $342,615,000, primarily for the 175 new stores opened. This decrease was partially offset by cash provided by operating activities of $307,995,000. Cash provided by operating activities was comprised primarily of net income, depreciation and amortization of $173,093,000 and an increase in accounts payable, accrued expenses and other current liabilities of $110,474,000, which was partially offset by an increase in merchandise inventories of $221,463,000 and an increase in accounts receivables of $112,980,000. Cash provided by financing activities of $43,673,000 includes $281,468,000 of net borrowings and $46,503,000 of proceeds from sales of capital stock for the exercise of stock options and the employee stock purchase plan and $27,940,000 of inter-business advances from Staples.com for proceeds from sale of Staples.com stock offset by net treasury stock purchases of $310,238,000.

Staples RD expects to open approximately 170 stores during fiscal 2000. Management estimates that the Company's cash requirements, including pre-opening expenses, leasehold improvements and fixtures, will be approximately $1,500,000 for each new store (excluding the cost of any acquisitions of lease rights). Accordingly, Staples RD expects to use approximately $255,000,000 for store openings during this period.

During the fiscal year ended January 29, 2000, Staples RD executed a stock repurchase program of Staples RD Stock intended to provide shares for employee stock programs. The Board authorized up to $700,000,000 to be used for these repurchases. During the year ended January 29, 2000, Staples RD repurchased 12,843,000 shares for approximately $266,193,000 under this program and 339,000 shares for approximately $10,143,000 from employees upon exercise of stock options. In addition, on July 2, 1999, Staples RD entered into an equity forward purchase agreement to hedge against stock price fluctuations for the repurchase of its common stock in connection with the annual stock option grant to employees and directors. Under the agreement Staples RD may purchase 2,600,000 shares at an average price of $30.263 or may elect to settle the contract on a net share basis in lieu of physical settlement.

In February 1999, Staples RD completed the acquisition of Claricom Holdings, Inc. and certain related entities, now referred to as Staples Communications, for a purchase price of approximately $137,600,000, net of cash acquired. In October 1998, Staples RD completed the acquisition of three European office supply companies: Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal for a purchase price of approximately $106,400,000, net of cash acquired.

Staples RD also plans to continue to make investments in information systems, distribution centers and store remodels to improve operational efficiencies and customer service, and may expend additional funds to acquire businesses or lease rights to new retail locations. Staples RD expects to meet these cash requirements through a combination of operating cash flow and borrowings from our existing revolving lines of credit.

On August 12, 1997, Staples RD issued $200,000,000 of 7.125% senior notes (the "Notes") with interest payable semi-annually on February 15 and August 15 of each year commencing on February 15, 1998. Net proceeds of approximately $198,880,000 from the sale of the Company's Notes were used for repayment of indebtedness under our revolving credit

agreement and for general working capital purposes including the financing of new store openings, distribution facilities and corporate offices

Staples RD issued notes in the aggregate principal amount of 150,000,000 euros on November 15, 1999 ("the Euro Bonds"). Net proceeds from the Euro Bonds of approximately $148,000,000 were used to fund international expansion. The Euro Bonds bear interest at a rate of 5.875% per annum and are due on November 15, 2004. The Euro Bonds have been designated as a foreign currency hedge on our net foreign investments in Europe and gains or losses are recorded in the cumulative translation adjustment line in Stockholders' Equity.

Staples RD also maintains a revolving credit facility, effective through November 2002, with a syndicate of banks which provides up to $350,000,000 of available borrowings. Borrowings made pursuant to this facility will bear interest at either the least bank's prime rate, the federal funds rate plus 0.50%, the LIBOR rate plus a percentage spread based upon certain defined ratios, a competitive bid rate or a swing line loan rate. This agreement, among other conditions, contains certain restrictive covenants, including net worth maintenance, minimum fixed charge interest coverage and limitations on indebtedness and sales of assets

As of January 29, 2000, $150,000,000 was outstanding under the revolving credit agreement. Staples RD also has available $35,000,000 in uncommitted, short-term bank credit lines, of which no borrowings were outstanding as of January 29, 2000. Staples UK has a $48,600,000 line of credit which had an outstanding balance of $4,500,000 at January 29, 2000. Staples Germany has a $19,900,000 line of credit. Office Centre Netherlands has a $6,600,000 line of credit. Office Centre Portugal has a $500,000 line of credit and Business Depot has a $6,900,000 line of credit, all with no outstanding balances at January 29,

2000. Total cash, short-term investments and available revolving credit amounts totaled $424,740,000 as of January 29, 2000.

Staples RD expects that income from operations, together with its current short-term investments, funds available under its revolving credit facility and the funds received through the issuance of the Euro Bond will be sufficient to fund Staples RD's planned store openings and other recurring operating cash needs for at least the next twelve to eighteen months. Staples RD continually evaluates financing possibilities, and it may seek to raise additional funds through any one or a combination of public or private debt or equity-related offerings, dependent upon market conditions, or through an additional commercial bank debt arrangement

Inflation and Seasonality

While neither inflation nor deflation has had, and Staples RD does not expect it to have, a material impact upon operating results, there can be no assurance that Staples RD's business will not be affected by inflation or deflation in the future. Staples RD believes that its business is somewhat seasonal, with sales and profitability slightly lower during the first and second quarters of its fiscal year

Future Operating Results

This annual report on Form 10-K includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the use of the words "believes", "anticipates", "plans", "expects", "may", "will", "would", "intends", "estimates" and other similar expressions, whether in the negative or affirmative. Staples RD cannot guarantee that they actually will achieve the plans, intentions or expectations disclosed in the forward looking statements made. Staples RD has included important factors in the cautionary statements below that it believes could cause actual results to differ materially from the forward-looking statements contained herein. The forward-looking statements do not reflect the potential impact of any future acquisitions, mergers or dispositions. Staples RD does not assume any obligation to update any forward-looking statement contained herein

Staples RD's market is highly competitive and Staples RD may not continue to compete successfully. Staples RD competes in a highly competitive marketplace with a variety of retailers, dealers and distributors. In most of its geographic markets, it competes with other high-volume office supply chains, such as Office Depot, OfficeMax and Office World, that have store formats, pricing strategies and product selections that are similar to Staples RD. Staples RD also competes with mass merchants, such as Wal-Mart, warehouse clubs, computer and electronic superstores, and other discount retailers. In addition, its retail stores and delivery and contract businesses compete with numerous mail order firms, contract stationer businesses and direct manufacturers. Many of Staples RD's competitors, including Office Depot, OfficeMax and Wal-Mart, have in recent years significantly increased the number of stores they operate within Staples RD's markets. Some of Staples RD's current and potential competitors are larger than Staples RD and have substantially greater financial resources. It is possible

that increased competition or improved performance by its competitors may reduce Staples RD's market share, may force Staples RD to charge lower prices than it otherwise would, and may adversely affect Staples RD's business and financial performance in other ways.

Staples RD may be unable to continue to successfully open new stores. An important part of Staples RD's business plan is to aggressively increase the number of its stores. Staples RD opened 175 stores in the United States, Canada and Europe in fiscal 1999 and plans to open approximately 170 new stores in fiscal

2000. For Staples RD's growth strategy to be successful, it must identify and lease favorable store sites, hire and train employees and adapt its management and operational systems to meet the needs of its expanded operations. These tasks may be difficult to accomplish successfully. If Staples RD is unable to open new stores as quickly as it planned, its future sales and profits could be materially adversely affected. Even if Staples RD succeeds in opening new stores, new stores may not achieve the same sales or profit levels as its existing stores. Also, Staples RD's expansion strategy includes opening new stores in markets where Staples RD has a presence so that it can take advantage of economies of scale in marketing, distribution and supervision costs. However, these new stores may result in the loss of sales in existing stores in nearby areas.

Staples RD's quarterly operating results are subject to significant fluctuation. Staples RD's operating results have fluctuated from quarter to quarter in the past, and it expects that it will continue to do so in the future. Staples RD's earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior fiscal period or investors' expectations. Factors that could cause these quarterly fluctuations include the following:

- the number of new store openings, primarily because Staples RD expenses pre-opening costs as incurred and newer stores are less profitable than mature stores;
- the extent to which sales in new stores result in the loss of sales in existing stores;
- the mix of products sold;
- pricing actions of competitors;
- the level of advertising and promotional expenses;
- seasonality, primarily because the sales and profitability of Staples RD stores are typically slightly lower in the first and second quarter of Staples RD's fiscal year than in other quarters; and
- charges associated with acquisitions.

Most of Staples RD's operating expenses, such as rent expense, advertising expense and employee salaries, do not vary directly with the amount of its sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below expectations for that quarter, Staples RD could not proportionately reduce operating expenses for that quarter, and therefore this sales shortfall would have a disproportionate effect on its expected net income for the quarter.

Staples RD's stock price may fluctuate based on the expectations of professional security analysts. The market price of Staples RD Stock is based in large part on professional securities analysts' expectations that its business will continue to grow and that it will achieve certain levels of net income. If Staples RD's financial performance in a particular quarter does not meet the expectations of securities analysts, this may adversely affect the views of those securities analysts concerning Staples RD's growth potential and future financial performance. If the securities analysts that regularly follow Staples RD Stock lower their rating of the common stock or lower their projections for Staples RD's future growth and financial performance, the market price of Staples RD Stock is likely to drop significantly. In addition, in those circumstances, the decrease in the price of Staples RD Stock would probably be disproportionate to the shortfall in financial performance.

Staples RD's rapid growth may continue to strain operations, which could adversely affect the business and financial results. Staples RD's business, including sales, number of stores and number of employees, has

grown dramatically over the past several years. In addition, Staples RD has acquired a number of significant companies in the last few years and may make additional acquisitions in the future. This growth has placed significant demands on Staples RD's management and operational systems. If Staples RD is not successful in upgrading its operational and financial systems, expanding its management team and increasing and effectively managing its employee base, this growth is likely to result in operational inefficiencies and ineffective management of Staples RD's business and employees, which will in turn adversely affect its business and financial performance.

Staples RD's international operations may not become profitable. Staples RD currently operates in international markets through The Business Depot Ltd. in Canada, Staples UK in the United Kingdom, Staples Deutschland and Sigma Burowelt in Germany and Office Centre in the Netherlands and Portugal. Consolidated European operations are currently unprofitable, and Staples RD cannot guarantee that they will become profitable. Staples RD may seek to expand into other international markets in the future. Staples RD's foreign operations encounter risks similar to those faced by its US stores, as well as risks inherent in foreign operations, such as local customs and competitive conditions and foreign currency fluctuations.

Staples RD may be unable to obtain adequate future financing. It is possible that Staples RD will require additional sources of financing earlier than anticipated, as a result of unexpected cash needs or opportunities, an expanded growth strategy or disappointing operating results. Additional funds may not be available on satisfactory terms when needed, whether within the next twelve to eighteen months or thereafter.

Year 2000 Compliance

Staples RD completed a comprehensive assessment of its internal computer systems and applications to identify those that might be affected by computer programs using two digits rather than four to define the applicable year (the "Year 2000 issue"). Staples RD used internal personnel as well as external contractors and consultants to identify those systems and applications which are affected by the Year 2000 issue. All systems, applications and infrastructure identified as needing remediation have been replaced or modified and successfully tested for compliance. In addition, Staples RD completed full "end to end" testing of leap year dating in January 2000.

Staples RD did not experience any disruption of its computer systems, non-IT related systems, product replenishment from its suppliers or any order entry issues with its contract and or commercial customers as it entered the Year 2000.

The total cost of Year 2000 compliance was $27 million, which had been spent as of January 31, 2000. Most of the costs incurred related to remediation and testing of software using outside contracted services. The cost of compliance was included in the 1999 IT budgets. The inclusion of Year 2000 compliance has not caused any critical IT projects to be delayed or eliminated.

Euro Currency

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency, ("the euro"). The former currencies of the participating countries are scheduled to remain legal tender as denominations of the euro until January 1, 2002 when the euro will be adopted as the sole legal currency.

Staples RD has evaluated the potential impact of the euro on its business, including the ability of its information systems to handle euro-denominated transactions and the impact on exchange costs and currency exchange rate risks. Based on the results of this evaluation, Staples RD does not expect the conversion to the euro to have a material impact on its operations or financial position.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

Staples RD is exposed to market risk from changes in interest rates and foreign exchange rates and has a risk management control process to monitor such risks. The risk management process uses analytical techniques including market value, sensitivity analysis, and value at risk estimates. Staples RD does not believe that the potential exposure is significant in light of the size of its business.

On May 11, 1999 and August 3, 1999, Staples RD entered into interest rate swaps, each for an aggregate notional amount of $100,000,000, in order to minimize financing costs associated with the $200,000,000 of 7.125% senior notes due August 15, 2007. The swap agreements are both scheduled to terminate on August 15, 2007. Under the interest rate swap agreements, Staples RD is entitled to receive semi-annual interest payments at a fixed rate of approximately 7.125% and is obligated to pay interest based on 30 day Non-Financial US Commercial Paper Rate of 5.69%, plus a fixed basis point adjustment, at January 29, 2000. The interest rate swaps are being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense over the life of the agreements. If Staples RD and the counterparty to the agreements terminate the swaps prior to their original maturity, any gain or loss upon termination will be amortized to interest expense over the remaining original life of the agreements. Staples RD uses interest rate and currency swap agreements for purposes other than trading and they are treated as off-balance sheet items. Staples RD uses interest rate swap agreements to modify fixed rate obligations to variable rate obligations, thereby adjusting the interest rates to current market rates and ensuring that the debt instruments are always reflected at fair value.

On July 2, 1999, Staples entered into an equity forward purchase agreement to hedge against stock price fluctuations for the repurchase of Staples Stock in connection with the annual stock option grant to employees and directors. Under the agreement, Staples may purchase 2,600,000 shares at an average price of $30.263 or elect to settle the contract on a net share basis in lieu of physical settlement.

On November 15, 1999, Staples RD entered into an interest rate swap for an aggregate notional amount of 150,000,000 euro in order to minimize financing costs on the notes issued the same date. The swap agreement is scheduled to terminate on November 15, 2004. Under the interest rate swap agreement, Staples RD is entitled to receive annual interest payments at a fixed rate of approximately 5.875% and is required to make quarterly interest payments at a floating rate of the one month EURIBOR plus 1.1175%, currently approximately 4.2455%. Staples RD has designated its 150,000,000 Euro Bonds and its interest rate swap agreement to be an integrated transaction. Accordingly, the interest rate swap agreement is being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreement is accrued and recognized as an adjustment to interest expense over the life of the agreement.

Staples RD is exposed to foreign exchange risks through subsidiaries in Canada, the United Kingdom, Germany, the Netherlands and Portugal. Staples RD has not entered into any derivative financial instruments to hedge this exposure, and Staples RD believes that the potential exposure is not material to our overall financial position or our results of operations.

The risk management discussion and discussion of the effects of changes in interest rates and foreign exchange rates are forward-looking statements. Actual future results may differ materially from these projected results due to developments in the global financial markets. The analytical methods used by Staples RD to assess and mitigate risk discussed above should not be considered projections of future events or losses.

STAPLES.COM
Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this discussion along with the Staples consolidated financial statements and with the Staples RD combined financial statements contained in this Form 10-K. Historical results and percentage relationships may not necessarily be indicative of operating results for any future periods. From an accounting standpoint, Staples has separated Staples.com from Staples RD. Staples has allocated all of its consolidated assets, liabilities, revenue, expenses and cash flows between Staples.com and Staples RD. Staples intends Staples.com Stock to track the performance of Staples.com and for Staples RD Stock to track the performance of Staples RD.

The combined financial statements of Staples.com include the balance sheets, statements of operations, cash flows and group equity of Staples e-commerce businesses, including principally the *Staples.com, Quillcorp.com and StaplesLink.com*

web sites. The financial statements of Staples.com give effect to all allocation and related party transaction policies adopted by the Board. For a description of these policies, see Note C to the combined financial statements of Staples.com.

Staples RD had an 88% retained interest in Staples.com as of January 29, 2000. During the fiscal year ended January 29, 2000, Staples.com issued 12,792,308 shares of Staples.com Stock in private placements and 14,459,878 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional public or private financings. The specific terms of the financings, including the amount of Staples.com Stock issued, and the timing of the financings, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of those financings on the retained interest percentage and the outstanding interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to attribute the net proceeds of such financing to the equity of Staples.com or to Staples RD in respect of its retained interest. The book value associated with Staples RD's retained interest in Staples.com will be increased proportionately for net income (or decreased proportionately for net loss) of Staples.com. The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for an initial public offering of Staples.com Stock.

Holders of Staples.com stock are common stockholders of Staples. The assets Staples attributes to one business will be subject to the liabilities of the other business, even if such liabilities arise from lawsuits, contracts or indebtedness that are attributed to the other business. If Staples is unable to satisfy one business's liabilities out of the assets attributed to it, Staples may be required to satisfy those liabilities with assets it has attributed to the other business. Further, holders of Staples.com Stock and Staples RD Stock do not have any legal rights related to specific assets of either business and in any liquidation will receive a fixed share of the net assets of Staples which may not reflect the actual trading prices, if any, of the respective businesses at such time. Accordingly, the Staples.com combined financial statements should be read in conjunction with the Company's audited consolidated financial information and Annual Report on Form 10-K and the combined financial information of Staples RD contained in this report.

Results of Operations

Comparison of Fiscal Years Ended January 29, 2000, January 30, 1999, and January 31, 1998

General. Staples electronic commerce business, or e-business, sells office products and services over the Internet to Staples entire spectrum of business customers, including small, medium-sized and large businesses, as well as consumers. Staples e-commerce business operates under the name Staples.com and is comprised of three principal web sites, *Staples.com*, *Quillcorp.com* and *StaplesLink.com*. Staples launched the *Staples.com* web site in November 1998 and markets over 130,000 products primarily to home office and small business customers. Quill sold its first products through *Quillcorp.com*, the e-commerce business

portal of its Quill catalog business, in November 1996. *Quillcorp.com* markets products to small to medium-sized business customers such as legal and medical offices. Quill's private label products are among the products Staples.com sells on the *Quillcorp.com* web site. Staples established the *StaplesLink.com* web site, the e-commerce business portal of its Staples National Advantage contract stationer business, in August 1998. The *StaplesLink.com* web site focuses on meeting the needs of medium to large sized business customers by offering simple order entry and contract pricing.

During the fiscal year ended January 30, 1999, Staples acquired, in a pooling of interests transaction, Quill Corporation and certain related entities, including the operations of *Quillcorp.com*, which had 1997 net sales of approximately $3,700,000. The financial information set forth below includes adjustments to give effect to the acquisition of the operations of Quill Corporation for all periods presented. Prior to its acquisition by Staples, Quill elected to be treated as an S Corporation under the Internal Revenue Code, and accordingly, its earnings and the earnings of *Quillcorp.com* were not subject to taxation at the corporate level. Pro forma adjustments have been made to reflect an income tax benefit on such previously untaxed earnings for each period presented at an assumed rate of 39%. The statements of operations combine Staples.com's historical operating results for the fiscal year ended January 31, 1998 with corresponding *Quillcorp.com* operating results for the year ended December 31, 1997.

Net Sales. Net sales are comprised of the selling price of products and services, net of returns. Sales increased to $[illegible] for the fiscal year ended January 29, 2000 as compared to $16,886,000 in the fiscal year ended January 30, 1999 and $[illegible] for the fiscal year ended January 31, 1998. The results for the fiscal years ended January 29, 2000 and January 30, 1999 include sales from all three of Staples.com's web sites, *Staples.com*, *Quillcorp.com*, and *StaplesLink.com*, while the results for the fiscal year ended January 31, 1998 includes only *Quillcorp.com* which was launched in November 1996. *StaplesLink.com* was launched in the quarter ended January 30, 1999. Growth in net sales for fiscal years ended January 29, 2000 and January 30, 1999 reflects a significant increase in products and services sold due to the growth of Staples.com's

customer base and repeat purchases from Staples.com's existing customers. Staples.com had approximately 44,000 repeat customers in fiscal year 1999, which accounted for over 35% of the total sales.

Gross Profit Gross profit consists of sales less the cost of sales, which consists of the cost of merchandise sold to customers as well as occupancy costs and delivery and distribution costs. Gross profit increased for the fiscal years ended January 29, 2000 and January 30, 1999 in absolute dollars, reflecting Staples.com's increase in sales volume. Gross profit as a percentage of sales was 21.8% for the fiscal year ended January 29, 2000, 24.7% for the fiscal year ended January 30, 1999, and 25.1% for the fiscal year ended January 31, 1998. The decrease in the fiscal years ended January 29, 2000 and January 30, 1999 is attributable to aggressive product pricing and customer mix shifts. As Staples.com expands its web site offerings and its breadth and depth of its product and service offerings, gross profits may be lower than those associated with Staples.com's existing business activities. For example, in November 1998, Staples.com launched its new web site, Staples.com, which typically has lower gross profits than *Stapleslink.com* and *Quillcorp.com*. To the extent this site becomes a larger portion of Staples.com's product mix, it is expected to have a larger proportionate impact on overall gross margin. This decrease was partially offset by the benefit provided by the inter-business allocation arrangement with Staples RD which passed on the benefit of lower product costs from vendors and the leveraging of distribution and delivery costs over a higher sales volume.

Operating and Selling Expenses Operating and selling expenses, which consist of payroll, marketing and advertising, and other operating expenses, were 28.7% of sales for the fiscal year ended January 29, 2000, 12.2% of sales for the fiscal year ended January 30, 1999, and 17.2% of sales for the fiscal year ended

January 31, 1998. Operating expenses increased for the fiscal year ended January 29, 2000 primarily due to increases in Staples.com's marketing and advertising expenditures, increased call center and sales force payroll and related costs associated with fulfilling customer demand resulting from higher sales. These expenses are expected to decrease as a percentage of sales as sales volume increases, leveraging fixed and start up expenses over time.

Site Development Costs Site development costs consist principally of payroll and related expenses for development and systems operations personnel and consultants, hosting charges and certain system design costs. Site development costs decreased as a percentage of sales in the fiscal year ended January 29, 2000 to 4.3% compared to 5.6% for the fiscal year ended January 30, 1999. The decrease as a percentage of sales was due to sales increasing at a greater rate than these costs during this period. The increase in absolute dollars was primarily due to increased staffing and associated costs related to building and enhancing the features, content and functionality of the web sites. Such increases for the fiscal year ended January 29, 2000 include our *StaplesLink.com* relaunch of SNAP and *Staples.com's* backend integration as well as various additional site improvements. Staples.com expects product development expenses to increase as it continues to enhance its web sites, expand staff and incur additional costs related to the growth of the business.

General and Administrative Expenses General and administrative expenses as a percentage of sales were 17.3% for the fiscal year ended January 29, 2000, 11.4% for the fiscal year ended January 30, 1999, and 15.8% for the fiscal year ended January 31, 1998. The primary components of these expenses are investments in staffing and infrastructure. Included in general and administrative expenses was an allocation of certain Staples RD services provided on a centralized basis amounting to $4,873,000 for the fiscal year ended January 29, 2000, $1,264,000 for the fiscal year ended January 30, 1999 and $320,000 for the fiscal year ended January 31, 1998.

Interest and Other Income, Net Net interest and other expense (income) totaled ($82,000) for the fiscal year ended January 29, 2000, $28,000 for the fiscal year ended January 30, 1999, and $8,000 for the fiscal year ended January 31, 1998. The interest (income) expense is calculated based upon the inter-business revolving credit advances to and from Staples RD at an incremental borrowing rate of 6% for the fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998. These credit advances from Staples RD fund the operating needs of Staples.com as most finance activities are managed on a centralized basis and attributed to Staples RD. These advances were funded as a capital contribution by Staples RD at the end of each fiscal year.

Income Tax Benefit The income tax benefit as a percentage of pre-tax income was 39% for the fiscal year ended January 29, 2000, 38.4% for the fiscal year ended January 30, 1999 and 0% for the fiscal year ended January 31, 1998. On a pro forma basis, to reflect a provision for income taxes on previously untaxed earnings of Quill, Staples.com's effective tax rate would have been 41% for the fiscal years ended January 30, 1999, and January 31, 1998.

Liquidity and Capital Resources

Staples manages most finance activities on a centralized, consolidated basis. These activities include the investment of surplus cash, the issuance, repayment and repurchase of short-term and long-term debt, and the issuance and repurchase of

common stock. Staples currently attributes each incurrence or issuance of external debt, and the proceeds thereof, to Staples RD and will continue to do so in the future unless the Board determines otherwise. Whenever Staples.com holds cash, Staples.com will normally, but will not

be obligated to, transfer that cash to Staples RD. Conversely, whenever Staples.com has a cash need, Staples RD will normally, but will not be obligated to, fund that cash need. The Board will determine, in its sole discretion, whether either business will provide any particular funds on any particular occasion to the other business, but will not be obligated to cause such cash transfers.

During the fiscal year ended January 29, 2000, cash used in operations was $8,470,000, primarily due to the net loss from operations of $16,358,000, partially offset by an increase in accounts payable, accrued expenses and other liabilities of $7,181,000. Cash used in investing activities of $36,246,000 represents investments made in Internet related companies of $23,780,000 and acquisitions of property and equipment of $12,466,000. Cash provided by financing activities of $44,716,000 represents net proceeds from sale of capital stock of $42,736,000 capital contributions from Staples RD of $29,970,000, partially offset by an inter-business advance to Staples RD of $27,940,000.

During the fiscal year ended January 29, 2000, Staples.com made investments of approximately $23,780,000 in Internet related companies. Investments that qualify as marketable securities are carried at fair value and all other investments are accounted for on a cost basis as each investment represents an interest of no greater than fifteen percent of the outstanding stock of that company. As of January 29, 2000, Staples has recognized an unrealized gain on these investments of $10,973,000.

Inflation and Seasonality

While neither inflation nor deflation has had, and Staples.com does not expect either to have, a material impact upon operating results, there can be no assurance that Staples.com's business will not be affected by inflation or deflation in the future. Staples.com believes that its business is somewhat seasonal, with sales and profitability slightly lower during the first and second quarters of its fiscal year.

Future Operating Results

This annual report on Form 10-K includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by our use of the words "believes", "anticipates", "plans", "expects", "may", "will", "would", "intends", "estimates" and other similar expressions, whether in the negative or affirmative. Staples.com cannot guarantee that it actually will achieve the plans, intentions or expectations disclosed in the forward-looking statements it makes. Staples.com has included important factors in the cautionary statements below that it believes could cause its actual results to differ materially from the forward-looking statements that it makes. The forward-looking statements do not reflect the potential impact of any future acquisitions, mergers or dispositions. Staples.com does not assume any obligation to update any forward-looking statement contained herein.

Staples.com has a history of losses and expects to incur significant future losses. Staples.com has never achieved profitability and it expects to incur significant losses for the foreseeable future in light of the level of its planned operating and capital expenditures. If its sales grow more slowly than it anticipates, or if its operating expenses exceed its expectations and cannot be adjusted in a timely manner, its business, results of operations, financial condition and prospects would be materially and adversely affected. Staples.com's losses may increase in the future and it may not be able to achieve or sustain profitability. Even if it achieves profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis in the future.

Staples.com has a limited operating history, which makes an evaluation of the business and prospects difficult. Staples.com has a limited operating history on which to evaluate the business, strategies and performance. Staples.com's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by early stage companies in new and rapidly changing markets, particularly those companies whose business depends on the Internet and serves small businesses.

Staples.com's business model is new and unproven and we do not know if it will generate significant revenue on a sustained basis or achieve profitability. Staples.com's business model is new, unproven and continues to evolve. In particular, its business model is based on several fundamental assumptions, any one of which may not prove to be true, including the following:

- a significant number of small businesses will purchase office products and business services online;
- Staples.com will be able to take advantage of Staples' and Quill's brand recognition as distributors of office products to develop its own online brand recognition and drive traffic to its web sites;
- A significant number of small businesses and small business service providers will use the *Staples.com* web site as an electronic marketplace to buy and sell products and services; and
- At *Staples.com*, online sales of office products will lead to increased online sales of business services, and online sales of business services will lead to increased online sales of office products, and an active information exchange and electronic marketplace for small businesses will lead to increased sales of both products and services.

If any of these assumptions does not prove to be true, Staples.com's business prospects may be materially diminished.

Staples.com's quarterly operating results may be subject to significant fluctuation. Staples.com's operating results may fluctuate from quarter to quarter as a result of any of the following:

- the mix of products and services sold;
- pricing actions of competitors and Staples.com;
- the level of advertising and promotional expenses;
- seasonality, primarily because of stronger sales in the fourth quarter of our fiscal year associated with holiday and beginning of the year office supply purchases; and
- charges associated with acquisitions and investments.

Most of Staples.com's operating expenses, such as rent expense, advertising expense and employee salaries, do not vary directly with the amount of sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below expectations for that quarter, Staples.com may not proportionately reduce operating expenses for that quarter, and therefore this sales shortfall would have a disproportionate effect on Staples.com's net income for the quarter.

Staples.com's future growth may be limited unless small businesses increase their use of the Internet to conduct commerce. Staples.com's success depends in part on the increasing use of the Internet by small businesses. If use of the Internet as a medium for business communications and commerce does not continue to increase, demand for Staples.com's products and services will be limited and its financial results will suffer. If Staples.com fails to expand its online brand recognition among small businesses, its future revenue and business prospects could be materially and adversely affected.

Staples.com's success depends in part on its ability to develop *Staples.com* as a web site that small businesses regard not

If Staples.com fails to expand its current technology infrastructure, it will be unable to accommodate its anticipated growth. To be successful, Staples.com must continue to increase substantially traffic to its web sites and convert web site visitors into customers. Accommodating this potential growth in web site traffic and customer transactions will require Staples.com to continue to develop its technology infrastructure. To maintain the necessary technological platform in the future, Staples.com must continue to expand and stabilize the performance of its web servers, improve its transaction processing system, optimize the performance of its network servers and ensure the stable performance of its entire network. Staples.com may not be successful in its ongoing efforts to upgrade its systems, or if it does successfully upgrade its systems, it may not do so on time and within budget. If Staples.com fails to achieve a stable technological platform in time to handle increasing web site traffic or customer order volume, potential customers could be discouraged from using its web sites, its reputation could be damaged and its business could be harmed.

Frequent or prolonged operational interruptions on Staples.com's web sites could lead to customer dissatisfaction, customer loss or both, which could materially and adversely affect Staples.com's reputation and business. Any system failure that causes an interruption in the operation of Staples.com's web sites or a decrease in their responsiveness could result in reduced user traffic and reduced revenue. Further, prolonged or ongoing performance problems on its web sites could damage its reputation and result in the permanent loss of customers. Staples.com has occasionally experienced system interruptions that have made its web sites totally unavailable, slowed their response time or prevented it from efficiently fulfilling orders, and these types of problems may occur in the future. Staples.com has an agreement with Digex to maintain the web servers and database servers for its *Staples.com* web site in its Beltsville, Maryland location. Staples.com has an agreement with Mellstar to maintain the web servers and database servers for its *Quillcorp.com* web site in its Philadelphia, Pennsylvania location. Staples.com has an agreement with EMC Corporation to maintain the web servers and database servers for its *Staples.ad.com* web site in its Hopkinton, Massachusetts location. Staples.com's operations depend on the ability of each of Digex, Mellstar and EMC to protect itself and its systems against damage from fire, power loss, water damage, telecommunications failures, vandalism and similar unexpected adverse events. Any disruption in the services provided by Digex, Mellstar or EMC could severely disrupt Staples.com's operations. Staples.com's backup systems may not be sufficient to prevent major interruptions to its operations, and Staples.com does not have a formal disaster recovery plan. Staples.com may not have sufficient business interruption insurance to cover losses from major interruptions. Staples.com's customers and vendors to its web sites depend on their own Internet service providers, and other web site operators for access to web sites. Many

of these providers have experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to Staples.com's systems.

Staples.com's network and software are vulnerable to security breaches and similar threats which could result in liability for damages and harm to our reputation. Staples.com's web sites and network infrastructure are vulnerable to computer viruses, break-ins, network attacks and similar disruptive problems. This could result in liability for damages, and Staples.com's reputation could suffer, thus deterring potential customers from transacting with it. Security problems caused by third parties could lead to interruptions and delays or to the cessation of service to its customers. Furthermore, inappropriate use of the network by third parties could also jeopardize the security of confidential information stored on its computer systems. The costs and resources required to alleviate security problems may be significant and could adversely affect Staples.com's business and results of operations.

Staples.com depends on continued expansion of the Internet infrastructure. The recent growth in Internet traffic has caused periods of decreased performance, requiring Internet service providers to upgrade their infrastructures. If usage continues to grow rapidly, the Internet infrastructure may not be able to support the demands placed on it by this growth and its performance and reliability may decline. If these outages or delays on the Internet occur frequently, overall Internet usage, as well as usage of its web sites in particular, could grow more slowly or decline. Staples.com's ability to increase the scope of its product and service offerings and the speed and ease of access to its web sites by its customers is ultimately limited by and dependent upon the speed and reliability of both the Internet and the capacity of the computer equipment of its users. Consequently, the emergence and growth of the market for Staples.com's products and services is dependent on improvements being made to the entire Internet and to personal computer equipment in general to alleviate overloading and congestion.

Staples.com's products and services depend upon the continued availability of licensed technology from third parties. Staples.com licenses and will continue to license technology integral to its products and services from third parties. If Staples.com is unable to acquire or retain key third-party product licenses or integrate the related third-party products into its products and services, its product and service development may be delayed or additional operating costs may be incurred if substitute products or arrangements are required. Staples.com also expects to require new licenses in the future as its business grows and as technology evolves. Staples.com may not be able to obtain these licenses on commercially reasonable terms, if at all.

Staples.com relies on intellectual property rights which may not be adequately protected under current laws. To establish and protect the Staples.com trademark, service mark, copyright and other proprietary rights in its products and services, Staples.com relies on a combination of:

- trademark, service mark, copyright, unfair competition, and trade secret laws;
- trademark usage policies;
- confidentiality agreements with third parties; and
- confidentiality agreements and policies covering our employees.

Staples.com cannot assure that these measures will be adequate, that it will be able to secure registrations for all of its marks in the United States or internationally or that third parties will not infringe upon or misappropriate its proprietary rights. Any infringement, misappropriation, or litigation relating to

intellectual property rights may divert management's attention and would require significant funds to litigate such claims. The loss of these rights could materially and adversely affect Staples.com's business.

Legal standards relating to the validity, enforceability and scope of protection of certain proprietary rights in Internet-related businesses are uncertain and evolving. In particular, new domain name registration and ownership priority procedures may be adopted which may make it more difficult for Staples.com to retain or obtain desirable domain names.

In recent years, an increasing number of patents purporting to cover business methods relating to the Internet have been filed. Patent applications remain confidential for a period of up to two years after filing. Thus, Staples.com can offer no assurance that applications for patents covering certain aspects of our business methods have not been, or will not be, filed. To the extent such patents are granted, Staples.com may be forced to alter its practices or incur costs defending its practices.

If privacy concerns prevent Staples.com from recording the behavior of visitors on its web sites, its business prospects could decline significantly. The future success of Staples.com's web sites will depend, in part, on its ability to track the behavior of visitors on its web sites so that it can effectively market its products and services to them. The adoption of new federal, state or foreign laws or regulations that restrict Staples.com's ability to assemble and utilize demographic and other information about its users, such as the European Union Privacy Directive which took effect in October 1998, could materially and adversely affect its business and prospects. Currently, Staples.com tracks this information by the use of "cookies." A cookie is a small file of information that uniquely identifies a user. It is stored on the hard drive of the user's computer and passed through the user's browser. Notwithstanding the lack of legal restrictions, Internet users may avoid web sites where their online behavior is likely to be tracked. If this occurred on a widespread basis, it could adversely affect Staples.com's business.

Staples.com may incur liability for its Internet content and user data. Since Staples.com provides content on its web sites, it may face potential liability for intellectual property infringement, defamation, invasion of privacy and other claims. In addition, Staples.com may incur liability for unauthorized duplication or distribution of third-party content or materials or for information collected from and about its users. Staples.com cannot assure that third parties or users will not bring claims against it relating to proprietary rights or the use of personal information. Although Staples.com seeks to obtain indemnification from strategic partners for any liability resulting from licensed content or linked sites, such indemnities may not always be obtainable or adequate. Staples.com's general liability insurance may not cover or be adequate for potential claims of this type.

If Staples.com fails to manage effectively the rapid growth of its operations, its business and prospects will be materially and adversely affected. Staples.com's business has grown significantly since its inception. This growth has placed great demands on its management and operational systems. If Staples.com is not successful in expanding its management team and increasing and effectively managing its employee base, this growth is likely to result in operational inefficiencies and ineffective management of its business and employees, which will in turn adversely affect its business and financial

performance.

If Staples.com fails to hire and retain highly qualified employees, its business will be materially and adversely affected. Staples.com's future success depends on its ability to identify, hire, train and retain highly qualified sales and marketing, technical, managerial and administrative personnel. As Staples.com continues to introduce new services, products and features on its web sites, and as its customer base and revenue continue to grow, it will need to hire a significant number of qualified personnel. Competition for qualified personnel, especially those with Internet experience, is intense, and Staples.com may not be able

to attract, hire, assimilate or retain qualified personnel in the future. The failure to attract, train, assimilate and retain qualified personnel could seriously disrupt its operations and could increase its costs.

If Staples.com loses one of its key employees, its business and prospects will be materially and adversely affected. Staples.com's business and operations are substantially dependent on the performance of its key employees. All of Staples.com's employees are employed on an at-will basis. Staples.com does not maintain "key person" life insurance on any of its employees.

If Staples.com expands its international sales and marketing activities, its business will be susceptible to numerous risks associated with international operations. Staples.com may expand its international operations and hire additional personnel outside the United States and Canada. Therefore, Staples.com may commit significant resources to expand its international sales and marketing activities. If successful, Staples.com will be subject to a number of risks associated with international business activities. These risks generally include:

- currency exchange rate fluctuations;
- unexpected changes in purchasing patterns;
- unexpected changes in regulatory requirements;
- tariffs, export controls and other trade barriers;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences, including restrictions on the repatriation of earnings;
- burdens of complying with a wide variety of foreign laws;
- risks related to the recent global economic turbulence; and
- political instability.

Year 2000 Compliance

Staples.com has completed implementation of its year 2000 remediation plan on a timely basis, and such remediation plan

as implemented addresses all mission critical systems. Staples.com is not aware of any adverse effects of year 2000 issues on Staples.com, including its systems and operations.

APPENDIX C

ITEM 8.

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Report of Independent Auditors

Board of Directors and Shareholders
Staples, Inc.

We have audited the accompanying consolidated balance sheets of Staples, Inc. and subsidiaries as of January 29, 2000 and January 30, 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended January 29, 2000. 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 did not audit the 1997

financial statements of Quill Corporation, a wholly owned subsidiary, which statements reflect 20% of net income for the year ended January 31, 1998. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Quill Corporation, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and, for 1997, the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Staples, Inc. and subsidiaries at January 29, 2000 and January 30, 1999 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 29, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

ERNST & YOUNG LLP

Boston, Massachusetts
March 3, 2000

STAPLES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar Amounts in Thousands, Except Share Data)

	January 29, 2000	January 30, 1999
ASSETS		
Current Assets		
[illegible]	$ 110,483	$ 352,993
[illegible]	1,071	12,428
[illegible]	1,607,518	1,330,432
[illegible]	369,968	221,836
[illegible]	39,730	75,261
[illegible]	35,581	51,150
Prepaid expenses and other current assets	2,163,451	2,064,100
Total current assets		
Property and Equipment		
[illegible]	328,994	231,328
[illegible]	442,119	372,451
[illegible]	547,369	408,225
[illegible]	286,260	239,735
[illegible]	1,604,682	1,243,809
[illegible]	509,920	403,520
Total property and equipment	1,094,762	840,289
Net property and equipment		
Other Assets		
[illegible]	68,832	75,127
[illegible]	34,755	—
[illegible]	387,595	148,201
[illegible]	34,912	28,735
[illegible]	31,769	22,814
[illegible]	957,863	274,877
Total other assets	$ [illegible]	$ [illegible]
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
[illegible]	$ 897,523	$ 793,427
Accrued expenses and other current liabilities	545,162	438,311

Debt maturing within one year	12,219	32,593
Total current liabilities	1,454,904	1,265,335
Long-Term Debt	500,903	205,015
Other Long-Term Obligations	61,456	62,033
Stockholders' Equity:		
Preferred stock, $.01 par value-authorized 5,000,000 shares, no shares issued	—	—
Common stock		
Staples RD Stock, $.0006 par value-authorized 1,500,000,000 shares, issued 470,752,253 shares at January 29, 2000 and 461,538,001 shares at January 30, 1999	282	277
Staples.com Stock, $.0006 par value-authorized 600,000,000 shares issued 23,252,186 shares at January 29, 2000 and 0 at January 30, 1999	16	—
Additional paid-in capital	1,196,504	1,043,394
Cumulative foreign currency translation adjustments	(4,473)	(11,675)
Unrealized gain on investments	6,651	2
Retained earnings	948,309	633,321
Less treasury stock at cost, 13,068,743 shares at January 29, 2000 and 488,922 shares at January 30, 1999	(318,476)	(8,238)
Total stockholders' equity	1,828,813	1,656,886
	$ 3,846,076	$ 3,179,266

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Share Data)

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Sales	$ 8,936,809	$ 7,725,189	$ 5,967,145
Cost of goods sold and occupancy costs	6,721,563	5,398,923	4,577,690
Gross profit	2,215,246	1,726,266	1,389,455
Operating and other expenses:			
Operating and selling	1,290,212	993,236	808,317
Pre-opening	16,485	13,836	9,411
Depreciation and amortization	354,060	269,118	225,582
Amortization of goodwill	12,013	3,250	1,581
Merger-related and integration costs	—	41,000	29,665
Asset impairment charge	—	49,706	—
Interest and other expense, net	17,101	13,370	23,955
Total operating and other expenses	1,698,872	1,420,005	1,098,511
Income before equity in loss of affiliates and income taxes	516,374	306,261	290,944
Equity in loss of affiliates	—	—	(5,053)
Income before income taxes	516,374	306,261	285,891
Income tax expense	201,386	121,026	117,977
Net income before minority interest	314,988	185,235	167,914
Minority interest	—	135	—
Net income	$ 314,988	$ 185,370	$ 167,914
Net income (loss) attributed to			
Staples.com Stock	$ (230)	$ —	$ —
Staples RD Stock	315,218	185,370	167,914
	$ 314,988	$ 185,370	$ 167,914
Basic earnings per common share			
Historical net income per common share Staples Inc. Stock		$ .43	$ .41

Historical net earnings per common share for the 39 weeks ended October 30, 1999—Staples, Inc. Stock	$ 0.42		
Historical net income per common share for the 13 weeks ended January 29, 2000—Staples RD Stock	$ 0.26		
Historical net loss per common share for the 13 weeks ended January 29, 2000—Staples.com Stock	$ (0.05)		
Pro forma earnings per common share			
Historical net income per common share Staples, Inc. Stock		$ 0.43	$ 0.39
Historical net earnings per common share for the 39 weeks ended October 30, 1999—Staples, Inc. Stock	$ 0.41		
Historical net income per common share for the 13 weeks ended January 29, 2000—Staples RD Stock	$ 0.26		
Historical net loss per common share for the 13 weeks ended January 29, 2000—Staples.com Stock	$ (0.05)		
Pro forma earnings per common share calculation for tracking stock and S-Corporation Conversion:			
Basic earnings per common share			
Pro forma net income per common share—Staples RD Stock	$ 0.69	$ 0.43	$ 0.38
Pro forma net loss per common share—Staples.com Stock	$ (0.08)	$ —	$ —
Diluted earnings per common share			
Pro forma net income per common share—Staples RD Stock	$ 0.67	$ 0.41	$ 0.36
Pro forma net loss per common share—Staples.com Stock	$ (0.08)	$ —	$ —

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

(Dollar Amounts in Thousands, Except Share Data)

For the Fiscal Years Ended January 29, 2000, January 30, 1999, and January 31, 1998

	Common Staples RD Stock	Common Staples.com Stock	Additional Paid-In Capital	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Investments	Retained Earnings	Treasury Stock	Comprehensive Income
Balances at February 1, 1997	$ [illegible]		$ [illegible]	$ (145)	$ 26	$ 367,301	$ (346)	
[illegible]			[illegible]					
[illegible]			[illegible]					
[illegible]			[illegible]					
[illegible]			[illegible]					
[illegible]			[illegible]					
[illegible]			[illegible]					
[illegible]					1,036			1,036
[illegible]				(10,168)				(10,168)
[illegible]						(25,175)		
[illegible]						167,914		167,914
Balances at January 31, 1998	$ [illegible]	$ [illegible]	$ [illegible]	$ (10,313)	$ 1,062	$ 510,040	$ (346)	$ 158,782
[illegible]								

Stock options exercised	5	—	50,118					
Issuance of common stock for conversion of debentures, net of interest and deferred charges	13	—	298,520					
Stock split and cash paid in lieu of fractional shares	92	—	(607)					
Tax benefit on exercise of options			74,157					
Contribution of common stock to Employee 401(k) Savings Plan			3,288					
Sale of common stock under Employee Stock Purchase Plan			13,210					
Issuance of Performance Accelerated Restricted Stock			10,654					
Unrealized loss on investments, net of tax					(1,049)			(1,049)
Translation adjustments				(1,360)				(1,360)
Purchase and retirement of 5% Cumulative shares			(29)			(48,073)		
Dividends to shareholders of acquired S/C, etc.						(15,904)		
Adjustment to conform fiscal year of Quill Corporation						1,888		
Net income for the year						185,370		185,370
Purchase of treasury shares							(7,892)	
Balances at January 30, 1999	$ 277	$ —	$ 1,043,194	$ (11,675)	$ 7	$ 633,321	$ (8,238)	$ 182,961
Issuance of common stock for stock options exercised	3	9	50,834					
Treasury stock sold to Forward Hedge			(3,269)					
Issuance of shares of Staples.com Stock	—	—	19,618					
Tax benefit on exercise of options			40,129					
Contribution of common stock to Employee 401(k) Savings Plan	1	—	3,543					
Sale of common stock under Employee Stock Purchase Plan	1	—	21,989					
Issuance of Performance Accelerated Restricted Stock			20,420					
Unrealized loss on investments, net of tax					6,644			6,644
Translation adjustments				7,202				7,202
Exercise of subsidiary stock options			46				46	
Net income for the year						314,988		314,988
Purchase of treasury shares							(310,248)	
Balances at January 29, 2000	$ 282	$ 16	$ 1,196,504	$ (4,473)	$ 6,651	$ 948,309	$ (318,426)	$ 328,933

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollar Amounts in Thousands)

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Operating Activities	$ 314,988	$ 185,370	$ 167,914
Net income			
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	—	(135)	(834)
Amortization	174,115	126,928	90,714
Provision for doubtful accounts	—	41,000	20,665
Deferred income taxes	—	49,206	—
Tax benefit from stock options	18,374	12,764	10,309
Tax benefit from ESPP and PARS stock compensation	—	—	5,953
Equity in loss of affiliates	29,265	(55,569)	3,872
Minority shareholders' benefit expense			
Change in assets and liabilities, net of companies acquired			
Other, primarily accounting			

Increase in merchandise inventories	(221,463)	(211,052)	(222,679)
Increase/Decrease in receivables	(112,980)	(15,993)	(7,589)
Decrease in prepaid expenses and other assets	(28,406)	(9,839)	(5,228)
Increase in accounts payable, accrued expenses and other current liabilities	117,855	273,280	293,831
Increase in other long-term obligations	7,747	9,597	5,072
	(15,463)	220,687	224,906
	299,525	406,057	392,820
Net cash provided by operating activities			
Investing Activities:			
Acquisition of property and equipment	(355,081)	(350,029)	(190,659)
Acquisition of businesses, net of cash acquired	(244,021)	(13,500)	(79,325)
Proceeds from sales and maturities of short-term investments	32,927	19,338	13,618
Purchase of short-term investments	(16,651)	(22,913)	(4,500)
Proceeds from sales and maturities of long-term investments	—	18,993	265
Purchase of long-term investments	(23,780)	(2,545)	(5,713)
Investment in affiliates	—	—	(3,788)
Acquisition of lease rights	(549)	(37,182)	(2,717)
Other	(1,875)	1,208	(11,998)
	(609,030)	(395,628)	(284,818)
Net cash used in investing activities			
Financing Activities:			
Proceeds from sale of capital stock	89,239	63,996	48,043
Proceeds from borrowings	1,589,779	392,261	965,921
Payments on borrowings	(1,308,311)	(417,323)	(830,018)
Payments of dissenting shareholder S-Corporation stock	—	(48,102)	—
Purchase of treasury stock	(310,238)	(7,892)	—
Dividends to shareholders of acquired S-Corp	—	(15,954)	(25,173)
	60,469	(32,964)	158,771
Net cash (used in) provided by financing activities			
Effect of exchange rate changes on cash	1,526	(569)	(2,229)
Net (decrease) increase in cash and cash equivalents	(247,510)	(23,095)	264,053
Cash and cash equivalents at beginning of period	357,993	381,088	117,035
Cash and cash equivalents at end of period	$ 110,483	$ 357,993	$ 381,088

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A Basis of Presentation

The consolidated financial statements include the accounts of Staples, Inc. ("Staples" or the "Company") and its wholly-owned subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

On November 9, 1999, the stockholders of Staples approved a proposal (the "Tracking Stock Proposal") which amended the Company's certificate of incorporation to (i) authorize the issuance of a new series of common stock, designated as Staples.com common Stock ("Staples.com Stock"), intended to reflect the performance of Staples.com, the Company's e-commerce business, (ii) increase the aggregate number of shares of common stock that the Company may issue from 1,500,000,000 to 2,100,000,000, initially comprised of 1,500,000,000 shares of Staples Retail and Delivery common stock ("Staples RD Stock") and 600,000,000 shares of Staples.com Stock, and (iii) re-classify Staples' existing common stock as Staples RD Stock, intended to reflect the performance of Staples Retail and Delivery ("Staples RD"), which consists of all of the Company's other businesses and a retained interest in Staples.com.

Staples RD has an 88% and 100% retained interest in Staples.com at January 29, 2000 and January 30, 1999, respectively. During the fiscal year ended January 29, 2000, Staples.com issued 12,792,308 shares of Staples.com Stock in private placements and 14,459,878 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional private or public financings. The specific terms of the financings, including the amount of Staples.com Stock issued and the timing of the financings, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of those financings on the retained interest percentage and the outstanding interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to attribute the net proceeds of such financings to the equity of Staples.com or to Staples RD in respect of its retained interest. The book value associated with Staples RD's retained interest in Staples.com will be increased proportionately for net income (or decreased proportionately for net loss) of Staples.com. The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for an initial public offering of Staples.com Stock.

NEXT

DOCUMENT (S)

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In preparing separate financial statements for Staples RD and Staples.com, the Company has allocated, for financial reporting purposes, all of its consolidated assets, liabilities, revenue, expenses and cash flows between Staples RD and Staples.com. Thus, the combined financial statements of Staples RD and Staples.com, taken together, comprise all of the accounts included in the corresponding consolidated financial statements of Staples.

Allocation and related party transaction policies adopted by the Board of Directors of Staples ("the Board") can be rescinded or amended at the sole discretion of the Board without approval by the stockholders, although no such changes are currently contemplated. Any such changes adopted by the Board would be made in its good faith business judgement of the Company's best interests, taking into consideration the interests of all stockholders.

Notwithstanding the allocation of assets and liabilities, including contingent liabilities between Staples RD and Staples.com for the purposes of preparing their respective combined financial statements, this allocation and the change in the capital structure of the Company as a result of the approval of the Tracking Stock Proposal did not result in the distribution or spin-off to stockholders of any of the Company's assets and liabilities and will not affect ownership of its assets or responsibility for its liabilities or those of its subsidiaries. Holders of Staples RD Stock are common stockholders of the Company and, as such will be subject to the risks associated with an investment in Staples and all of its businesses, assets and

liabilities. The assets the Company attributes to one business are subject to the liabilities of the other business, even if such liabilities arise from lawsuits, contracts or indebtedness attributed to the other business. If the Company is unable to satisfy one business' liabilities out of the assets attributed to it, the Company may be required to satisfy those liabilities with the assets the Company has attributed to the other business. Further, holders of Staples RD Stock and Staples.com Stock will not have any legal rights related to specific assets of either business and in any liquidation will receive a fixed share of the net assets of the Company, which may not reflect the actual trading prices, if any, of the respective businesses at such time.

Financial effects from one business that affect the Company's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other businesses and the market price of the stock relating to the other businesses. In addition, net losses of either business and dividends and distributions on, or repurchases of, either class of common stock or repurchases of common stock at a price per share greater than par value will reduce the funds we can pay on each class of common stock under Delaware Law.

Certain previously reported amounts have been reclassified to conform with the current period presentation.

NOTE B Summary of Significant Accounting Polices

Nature of Operations - Staples operates as two business groups, Staples RD and Staples.com. Staples RD represents a chain of office supply stores and contract stationer delivery warehouses throughout North America and Europe. Staples.com represents the e-commerce operations of Staples.

Fiscal Year - Staples' fiscal year is the 52 or 53 weeks ending the Saturday closest to January 31. Fiscal years 1999, 1998 and 1997 consisted of the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998 respectively. As more fully described in Note K, the statement of income for the fiscal year ended January 31, 1998 combines Staples' historical operating results for that fiscal year with the corresponding Quill Corporation ("Quill") operating results for the calendar year ended December 31, 1997. Accordingly, to conform fiscal years for 1998, an adjustment for Quill's operating results for January 1998 was made to retained earnings.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management of Staples to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents - Staples considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Marketable Investments - Staples' securities are classified as available for sale and consist principally of high-grade state and municipal securities having an original maturity of more than three months. The investments are carried at fair value, with the unrealized holding gains and losses reported as a component of Staples' stockholders' equity. The cost of securities sold is based on the specific identification method. No individual issue in the portfolio constitutes greater than one percent of the total assets of Staples.

Merchandise Inventories Merchandise inventories are valued at the lower of weighted-average cost or market.

Receivables Receivables relate principally to amounts due from vendors under various incentive and promotional programs and trade receivables financed under regular commercial credit terms. Concentrations of credit risk with respect to trade receivables are limited due to Staples' large number of customers and their dispersion across many industries and geographic regions.

Advertising Staples expenses the production costs of advertising the first time the advertising takes place, except for the direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Direct-response advertising consists primarily of the direct catalog production costs. The capitalized costs of the advertising are amortized over the six month period following the publication of the catalog in which it appears. Direct catalog production costs included as prepaid and other assets totaled $16,133,000 at January 29, 2000 and $9,854,000 at January 30, 1999. Total advertising and marketing expense was $449,385,000, $356,928,000, and $288,838,000 for the years ended January 29, 2000, January 30, 1999, January 31, 1998, respectively.

Property and Equipment Property and equipment are recorded at cost. Depreciation and amortization, which includes the amortization of assets recorded under capital lease obligations, are provided using the straight-line method over the estimated useful lives of the assets or the terms of the respective leases. Depreciation and amortization periods are as follows:

Buildings	40 years
Leasehold improvements	10 years or term of lease
Furniture and fixtures	5 to 10 years
Equipment	3 to 10 years

Lease Acquisition Costs Lease acquisition costs are recorded at cost and amortized on the straight-line method over the respective lease terms, including option renewal periods if renewal of the lease is probable, which range from 5 to 40 years. Accumulated amortization at January 29, 2000 and January 30, 1999 totaled $28,729,000 and $24,674,000, respectively.

Goodwill Goodwill arising from business acquisitions is amortized on a straight-line basis over periods ranging from 20 to 40 years. Accumulated amortization was $25,066,000 and $13,053,000 as of January 29, 2000 and January 30, 1999, respectively. Management periodically evaluates the recoverability of goodwill, which would be adjusted for a permanent decline in value, if any, as measured by the recoverability from projected future cash flows from the acquired businesses.

Investments Staples' securities are classified as available for sale and consist of stock purchased in Internet related companies. Investments that qualify as marketable equity securities are carried at fair value using quoted market prices and all other investments have been accounted for on a cost basis as each investment represents an interest of no greater than fifteen percent of the outstanding stock of that company. Unrealized gains and losses are reported as a separate component of stockholders' equity.

Prepaying Costs Prepaying costs, which consist primarily of salaries, supplies, marketing and occupancy costs, are charged to expense as incurred.

Private Label Credit Card Receivables Staples offers a private label credit card which is managed by a financial services company. Under the terms of the agreement, Staples is obligated to pay fees which approximate the financial institution's cost of processing and collecting the receivables, which are primarily non-recourse to Staples.

Foreign Currency Translation The assets and liabilities of Staples' foreign subsidiaries, The Business Depot Ltd., Bureau Depot, Majuscule S.A., Staples Germany, Sigma Burowelt and The Office Centre are translated into U.S. dollars at current exchange rates as of the balance sheet date, and revenues and expenses are translated at average monthly exchange rates. The resulting translation adjustments, and the net exchange gains and losses resulting from the translation of receivables of certain foreign subsidiaries during the years ended January 29, 2000, January 30, 1999 and January 31, 1998 are recorded as a separate component of stockholders' equity.

Stock Option Plans Staples has adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-

Based Compensation" ("FAS 123"). As permitted by FAS 123, Staples continues to account for its stock-based plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and provides pro forma disclosures of the compensation expense determined under the fair value provisions of FAS 123.

Earnings Per Share Staples calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("FAS 128") which requires disclosure of basic and diluted earnings per share. Subsequent to the the approval of the Tracking Stock Proposal, the Company calculates earnings per share under the two class method. Accordingly, historical earnings per share have been presented for the nine months ended October 30, 1999 for Staples, Inc. common stock and for the three months ended January 29, 2000 for Staples.com Stock and Staples RD Stock. Basic earnings per share for Staples RD Stock is computed by dividing the net earnings or losses of Staples RD, including Staples RD's retained interest in the net earnings or losses of Staples.com, by the weighted average number of shares of Staples RD Stock. Basic net loss per share for Staples.com Stock is computed by dividing (i) the loss of Staples.com multiplied by the "Outstanding Staples.com Fraction" by (ii) the weighted average number of shares of Staples.com Stock and dilutive Staples.com Stock equivalents outstanding during the applicable period. The "Outstanding Staples.com Fraction" is a fraction, the numerator of which is the weighted average number of shares of Staples.com Stock outstanding and the denominator of which is the number of shares of Staples.com Stock that, if issued, would represent 100 percent of the equity of Staples.com. Diluted earnings per share includes the effects of applying the treasury stock method to outstanding stock options, performance accelerated restricted stock ("PARS") and derivative instruments when dilutive. Pro forma earnings (loss) per share have been calculated to give effect to the sale of 12,792,308 shares of Staples.com Stock in private placements. In presenting this pro forma information, this transaction was assumed to have occurred on February 2, 1997. In addition, the pro forma information includes a provision for income taxes on previously untaxed earnings of pooled S-Corporation.

Revenue Recognition Revenue from retail operations is recognized at the point of sale. The Company allows for merchandise to be returned under most circumstances. The Company does not provide a reserve for estimated returns, as the amount does not have a material impact on the financial statements. Sales to delivery customers are considered final upon acceptance of delivery, however, the Company does allow merchandise returns under certain circumstances. The Company does not provide a

reserve for estimated returns on these sales as such returns are infrequent and the amount does not have a material impact on the financial statements.

Fair Value of Financial Instruments Pursuant to Statement of Financial Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments" ("FAS 107"), Staples has estimated the fair value of its financial instruments using the following methods and assumptions:

- The carrying amount of cash and cash equivalents, receivables and accounts payable approximates fair value.
- The fair values of short-term and long-term investments are based on quoted market prices or other readily available sources where applicable.
- The carrying amounts of Staples' debt approximates fair value, estimated by discounted cash flow analyses based on Staples' current incremental borrowing rates for similar types of borrowing arrangements.

Long-Lived Assets Staples adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of" ("FAS 121"), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Staples' policy is to evaluate long-lived assets for impairment at a store level.

Interest Rate and Currency Swap Agreements Staples uses interest rate and currency swap agreements for purposes other than trading, and they are treated as off-balance sheet items. Staples uses interest rate swap agreements to modify fixed rate obligations to variable rate obligations, thereby adjusting the interest rates to current market rates and ensuring that the debt obligations are also reflected at fair value.

New Accounting Standards In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new standard requires companies to record derivatives on the

balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives will be reported in the statement of operations or as a deferred item, depending on the use of the derivatives and whether they qualify for hedge accounting. The key criterion for hedge accounting is that the derivative must be highly effective in achieving offsetting changes in fair value or cash flows of the hedged items during the term of the hedge. The effective date of SFAS No. 133 was delayed to fiscal 2001 by the issuance of SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date to FASB Statement No. 133-an amendment of FASB Statement 133". The Company has not yet determined the effect, if any, of adopting this new standard.

NOTE C Investments

The following is a summary of available-for-sale investments as of January 29, 2000 and January 30, 1999 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
January 29, 2000				
Short-term				
Agency Bonds	$ 1,143	$ 0	$ (72)	$ 1,071
Long-term				
Equity securities	$ 23,780	$ 10,975	$ 0	$ 34,755
January 30, 1999				
Short-term				
Municipal obligations	$ 10,515	$ 46	$ —	$ 10,561
Agency Bonds	6,902	7	(42)	6,867
Total short-term	$ 17,417	$ 53	$ (42)	$ 17,428

Proceeds from the sale of investment securities were $16,651,000 and $14,599,000 during the years ended January 29, 2000 and January 30, 1999, respectively. Other reductions in the cost balance resulted from maturities of securities. The net adjustment to unrealized holding gains and losses on available-for-sale investments included as a separate component of stockholders' equity totaled $6,644,000, ($1,049,000) and $1,036,000 for the years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

The amortized cost and estimated fair value of debt securities at January 29, 2000, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of securities may have the right to prepay obligations without prepayment penalties. Marketable equity securities are considered long-term based upon the intent and business purposes of the investments.

	Cost	Estimated Fair Value
Due in one year or less	$ 1,143	$ 1,071

NOTE D Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	January 29, 2000	January 30, 1999
Taxes	$ 124,074	$ 114,179
Acquisition and store closure reserves	103,978	91,484
Employee related	100,909	88,551
Advertising and direct marketing	42,973	30,543
Other	173,228	113,554
Total	$ 545,162	$ 438,311

NOTE E Long-Term Debt and Credit Agreement

Long-term debt consists of the following (in thousands):

	January 29, 2000	January 30, 1999
Senior notes with a fixed rate of 7.125%	$ 200,000	$ 200,000
Lines of credit	150,000	29,849
Euro notes with a fixed rate of 5.875%	148,185	—
Capital lease obligations and other notes payable in monthly installments with effective interest rates from 4% to 16%, collateralized by the related equipment	14,937	7,760
	513,122	237,609
Less current portion	12,219	32,594
	$ 500,903	$ 205,015

Aggregate annual maturities of long-term debt and capital lease obligations are as follows (in thousands):

Fiscal year:	Total
2000	$ 12,219
2001	391
2002	228
2003	10
2004	148,196
Thereafter	352,078
	$ 513,122

Included in property and equipment are capital lease obligations for equipment recorded at the net present value of the minimum lease payments of $10,995,000. Future minimum lease payments of $1,226,000, excluding $112,000 of interest, are included in aggregate annual maturities shown above. Staples did not enter into any new capital lease agreements during the fiscal years ended January 29, 2000 and January 30, 1999.

Senior Notes

On August 12, 1997, Staples issued $200,000,000 of senior notes (the "Notes") with an interest rate of 7.125% payable semi-annually on February 15 and August 15 of each year commencing on February 15, 1998. The Notes are due August 15, 2007. Net proceeds of approximately $198,000,000 from the sale of Staples' Notes were used for repayment of indebtedness under Staples' revolving credit facility and for general working capital purposes, including the financing of new store openings, distribution facilities and corporate offices.

On May 11, 1999 and August 3, 1999, Staples entered into interest rate swaps, each for an aggregate notional amount of

$100,000,000, in order to minimize financing costs associated with the Notes. The swap agreements are both scheduled to terminate on August 15, 2007. Under the interest rate swap agreements, Staples is entitled to receive semi-annual interest payments at a fixed rate of approximately 7.125% and is obligated to pay interest based on a 30 day Non-Financial U.S. Commercial Paper Rate of 5.69% plus a fixed basis point adjustment at January 29, 2000. Staples has designated its $200,000,000 of senior notes and its interest rate swap agreements to be an integrated transaction. Accordingly, the interest rate swaps are being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest rate expense over the life of the agreements.

Credit Agreements

Effective November 13, 1997, Staples entered into a revolving credit facility, effective through November 2002, with a syndicate of banks, which provides up to $350,000,000 of borrowings. Borrowings made pursuant to this facility will bear interest at either the lead bank's prime rate, the federal funds rate plus 0.50%, the LIBOR rate plus a percentage spread based upon certain defined ratios, a competitive bid rate, or a swing line loan rate, and this rate was approximately 5.9% at January 29, 2000. This agreement, among other conditions, contains certain restrictive covenants including net worth maintenance, minimum fixed charge interest coverage and limitations on indebtedness and sales of assets. As of January 29, 2000, $150,000,000 was outstanding under the revolving credit facility. Staples also has available $35,000,000 in uncommitted, short-term bank credit lines, of which no borrowings were outstanding as of January 29, 2000. Staples UK has a $18,600,000 line of credit which had an outstanding balance of $4,500,000 at January 29, 2000. Staples Germany has a $10,900,000 line of credit, Office Centre Portugal has a $500,000 line of credit, Office Centre Netherlands has a $6,600,000 line of credit, Office Centre Portugal has a $500,000 line of credit and The Business Depot has a $6,900,000 line of credit, all with no outstanding balances at January 29, 2000.

Euro Notes

Staples issued notes in the aggregate principal amount of 150,000,000 euro on November 15, 1999. Net proceeds of approximately $148,000,000 were used to fund international expansion. These notes bear interest at a rate of 5.875% per annum and are due on November 15, 2004. These notes have been designated as a foreign currency hedge on our net foreign investments in Europe and gains or losses are recorded in the cumulative translation adjustment line in Stockholders' Equity.

Also on November 15, 1999 Staples entered into an interest rate swap for an aggregate notional amount of 150,000,000 euro in order to minimize financing costs on the notes issued the same date. The swap agreement is scheduled to terminate on November 15, 2004. Under the interest rate swap agreement, Staples is entitled to receive annual interest payments at a fixed rate of approximately 5.875% and is required to make quarterly interest payments at a floating rate of the one month EURIBOR plus 1.1175%, currently approximately 4.2455%. Staples has designated its 150,000,000 euro notes and its interest rate swap agreement to be an integrated transaction. Accordingly, the interest rate swap agreement is being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense over the life of the agreement.

Interest paid by Staples totaled $18,937,000, $29,600,000 and $23,012,000 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. Capitalized interest totaled $433,000, $2,254,000 and $1,387,000 in the years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

NOTE F Convertible Debentures

On October 5, 1995, Staples issued $300,000,000 of 4 1/2% Convertible Subordinated Debentures due October 1, 2000 with interest payable semi-annually (the "4 1/2% Debentures"). During fiscal 1998, $299,995,000 of Staples' $300,000,000 of 4 1/2% Debentures were converted into an aggregate of 30,674,276 shares of common stock at a conversion price of $9.78 per share. The remaining $5,000 were called at par value plus a premium of 1.8% and accrued interest. The total principal amount converted was credited to common stock and additional paid-in capital, net of unamortized expenses of the original debt issue and accrued but unpaid interest.

NOTE G Stockholders' Equity

On November 9, 1999, the stockholders of Staples approved the Tracking Stock Proposal which reclassified Staples existing common stock as Staples RD Stock, intended to reflect the performance of Staples RD and its retained interest in Staples.com, and created a new class of stock called Staples.com Stock intended to reflect the performance of Staples' e-commerce business. The approval of the Tracking Stock Proposal increased the number of authorized shares to 2,100,000,000 shares of common stock, initially comprised of 1,500,000,000 shares of Staples RD Stock and 600,000,000 shares of

Staples.com Stock. During the fiscal year ended January 29, 2000 Staples.com issued 12,792,308 shares of Staples.com Stock in private placements and 14,459,878 shares through the exercise of employee stock options. Additional shares may be issued from time to time upon exercise of stock options or at the discretion of the Board.

With the approval of the Tracking Stock Proposal, if Staples disposes of all or substantially all of the assets of a Staples RD or Staples.com, and the disposition is not an exempt disposition, Staples would be required to pay a mandatory dividend to the holders of that series of stock, redeem outstanding shares of that series of stock equal to their proportionate interest in the net proceeds of the disposition or exchange shares of that series of stock for shares of the other series at a 10% premium. At any time within one year after completing a special dividend or partial redemption, Staples will have the right to issue shares of the other series of stock, at a 10% premium, in exchange for the remaining shares of the series of stock which received the dividend or was partially redeemed.

Staples will have the right, at any time, to issue shares of one series of stock in exchange for the other at a premium that was initially 25% and will decline ratably each quarter over a period of three years to 15%. Notwithstanding these exchange provisions, in the event that certain adverse tax law changes were to take place, Staples will have the right to issue shares of either series of common stock in exchange for outstanding shares of the other series of common stock at a 10% premium, regardless of when such adverse tax law changes take place. In addition, Staples will have the right, at any time Staples.com Stock exceeds the 40% of total market capitalization threshold but is below the 60% of total market capitalization threshold, to issue shares of either series of common stock in exchange for outstanding shares of the other series of common stock on a value for value basis. The exchange ratio that will result in the specified premium or value for value exchange will be calculated based on a comparison of the average market values of the two series of common stock during the 20 consecutive trading day period ending on, and including, the 5th trading day immediately preceding the date on which Staples mails the notice of exchange to holders of the outstanding shares being exchanged. Staples will have the right at any time to transfer all of the assets and liabilities of one or both series of stock to a subsidiary and deliver all of the stock of that subsidiary in exchange for all of the outstanding stock of that series of stock.

Upon liquidation of Staples, holders of Staples RD Stock and Staples.com Stock will be entitled to receive the net assets of Staples, if any, available for distribution to stockholders. Amounts due upon liquidation in respect of shares of Staples RD Stock and shares of Staples.com Stock will be distributed pro rata in accordance with the average market value of Staples RD Stock and Staples.com Stock over a 20-Trading Day period ending 300 days after the implementation of the Tracking Stock Proposal. In the absence of a public trading market for Staples.com Stock, market value would be determined in good faith by the Board.

On November 12, 1998, December 30, 1997, March 5, 1996 and June 29, 1995, the Board approved three-for-two splits of Staples' common stock to be effected in the form of 50% stock dividends. The dividends were distributed on January 28, 1999 to shareholders of record as of January 18, 1999, January 30, 1998 to shareholders of record as of January 20, 1998, March 25, 1996 to shareholders of record as of March 15, 1996 and July 24, 1995 to shareholders of record as of July 14, 1995, respectively. The consolidated financial statements have been retroactively restated to give effect to these stock splits.

On March 4, 1999, the Board approved a stock repurchase program intended to provide shares for employee stock programs. During fiscal year 1999, Staples repurchased approximately $300,105,000 of Staples RD Stock under this program. In addition, Staples purchased treasury stock of $10,143,000 and $7,892,000 from employees and directors to fund the withholding taxes incurred by those employees and directors associated with the vesting of performance accelerated restricted stock ("PARS").

On July 2, 1999, Staples entered into an equity forward purchase agreement to hedge against stock price fluctuations for the repurchase of Staples RD Stock in connection with the annual stock option grant to employees and directors. Under the agreement, Staples may purchase 2,600,000 shares at an average price of $30.263 or elect to settle the contract on a net share basis in lieu of physical settlement.

At January 29, 2000, 89,811,472 shares of common stock were reserved for issuance under Staples' stock option, 401(k), employee stock purchase and director stock option plans.

NOTE H Employee Benefit Plans

Staples elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123") requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, since the exercise price of Staples' employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

At the Special Stockholders Meeting on November 9, 1999 the stockholders of Staples approved proposals to amend Staples' 1992 Equity Incentive Plan (the "*Incentive Plan*"), Staples' Amended and Restated 1990 Director Stock Option Plan (the "*Director Plan*") and Staples' 1998 Employee Stock Purchase Plan (the "*Stock Purchase Plan*") (1) to permit grants of awards under each such plan to be made with respect to either series of common stock of Staples, and (2) to increase the number of shares authorized for issuance under each plan.

Employee Stock Purchase Plan

The amended Stock Purchase Plan authorizes a total of up to 8,400,000 shares of common stock, regardless of series, to be sold to participating employees. Participating employees may purchase shares of either series of common stock at 85% of its fair market value at the beginning or end of an offering period, whichever is lower, through payroll deductions in an amount not to exceed 10% of an employee's base compensation.

Stock Option Plans

Under Staples' Incentive Plan, as amended by stockholders on November 9, 1999, Staples may grant to management and key employees incentive and nonqualified options to purchase up to 122,850,000 shares of common stock and Performance Accelerated Restricted Stock ("PARS"), regardless of series. As of February 27, 1997, Staples' 1987 Stock Option Plan (the "1987 Plan") expired, however, unexercised options under this plan remain outstanding. The exercise price of options granted under the plans may not be less than 100% of the fair market value of Staples' common stock at the date of grant. Options generally have an exercise price equal to the fair market value of the common stock on the date of grant. Some options outstanding are exercisable at various percentages of the total shares subject to the option starting one year after the grant, while other options are exercisable in their entirety three to five years after the grant date. Staples.com options are exercisable immediately and vest over a period of one to four years. All options expire ten years after the grant date, subject to earlier termination in the event of employment termination.

Under Staples' Director Plan, as amended by stockholders on November 9, 1999, up to 3,350,000 shares of options and awards of PARS can be made with respect to shares of existing common stock, regardless of series to be issued to non-employee directors. The exercise price of options granted is equal to the fair market value of Staples RD Stock or Staples.com Stock at the date of grant. Options become exercisable in equal amounts over four years and expire ten years from the date of grant, subject to earlier termination, in certain circumstances, in the event the optionee ceases to serve as a director.

Pro forma information regarding net income and earnings per share is required by FAS 123, which also requires that the information be determined as if Staples has accounted for its employee stock options

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of Staples RD Stock granted subsequent to January 28, 1995 under the fair valued method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1996, 1997, 1998 and 1999: risk-free interest rates ranging from 5.21% to 6.69%; expected dividend yield of zero; volatility factor of the expected market price of Staples RD Stock of .30 for fiscal year 1996, .35 for fiscal year 1997, .36 for fiscal year 1998 and .41 for fiscal 1999; and a weighted-average expected life of the option of 4.0 years for the 1987 Plan and the Incentive Plan and 2.0 to 5.0 years for the Director Plan. As for Staples.com Stock the fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999: a risk-free interest rate of 6.67%; volatility factor of the expected market price of Staples.com Stock of 0.80 for fiscal year 1999 and a weighted-average expected life of the option of 2.0 to 5.0 years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. For purposes of FAS 123's disclosure requirements, the amended Stock Purchase Plan is considered a compensatory plan. The expense was calculated based on the fair value of the employees' purchase rights. Staples' pro forma information, which includes the pro forma results of Quill for fiscal years 1998 and 1997, follows (in thousands except for earnings per share information):

Staples RD Stock:

	January 29, 2000	January 30, 1999	January 31, 1998
Pro forma net income	$ 277,369	$ 156,265	$ 138,983
Pro forma basic earnings per common share	$ 0.60	$ 0.36	$ 0.34
Pro forma diluted earnings per common share	$ 0.59	$ 0.35	$ 0.33

Staples.com Stock:

	January 29, 2000
Pro forma net loss attributed to Staples.com Stock	$ (1,118)
Pro forma basic earnings per common share	$ (0.08)
Pro forma diluted earnings per common share	$ (0.08)

This pro forma impact only takes into account options granted since January 28, 1995 and is likely to increase in future years as additional options are granted and amortized ratably over the vesting period.

Information with respect to Staples RD Stock options granted under the above plans is as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share
Outstanding at February 1, 1997	45,894,855	$ 4.26
Granted	9,656,558	10.43
Exercised	(10,147,409)	2.78
Canceled	(2,807,883)	7.43

	Number of Shares	Weighted-Average Exercise Price Per Share
Outstanding at January 31, 1998	42,596,121	$ 5.34
Granted	13,698,644	20.22
Exercised	(13,965,713)	3.64
Canceled	(1,938,669)	11.55
Outstanding at January 30, 1999	40,390,383	$ 11.58
Granted	7,101,885	29.58
Exercised	(5,212,791)	5.59
Canceled	(2,162,227)	17.21
Outstanding at January 29, 2000	40,117,250	$ 15.26

The following table summarizes information concerning currently outstanding and exercisable options for Staples Stock:

Range of Exercise Prices	Options Outstanding: Number Outstanding	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Exercisable	Options Exercisable: Weighted Average Exercise Price
[illegible]	1,385,080	3.38	$ 2.37	1,385,080	$ [illegible]
[illegible]	4,837,655	4.20	$ 3.65	4,837,655	$ [illegible]
[illegible]	7,374,735	5.95	$ 8.32	7,088,080	$ [illegible]
[illegible]	6,833,401	7.50	$ 10.49	124,623	$ [illegible]
[illegible]	1,267,574	8.10	$ 14.84	47,924	$ [illegible]
[illegible]	10,140,445	8.42	$ 20.08	433,125	$ [illegible]
[illegible]	2,096,227	9.13	$ 22.49	145,272	$ [illegible]
[illegible]	1,115,739	9.15	$ 28.75	—	$ —
[illegible]	5,066,364	9.41	30.97	18,000	[illegible]
[illegible]	40,117,250	7.30	$ 15.26	14,079,759	$ [illegible]

The weighted-average fair values of options granted during the years ended January 29, 2000, January 30, 1999 and January 31, 1998 were $10.70, $7.18 and $3.80, respectively.

Information with respect to Staples.com Stock options granted under the above plans is as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share
Outstanding at January 30, 1999	—	$ —
Granted	25,274,138	1.63
Exercised	(14,459,878)	1.63
Canceled	(144,398)	1.63
Outstanding at January 29, 2000	10,699,862	$ 1.63

The following table summarizes information concerning currently outstanding and exercisable options for Staples.com Stock:

Exercise Price	Options Outstanding: Number Outstanding	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Exercisable	Options Exercisable: Weighted Average Exercise Price
$ 1.63	10,669,862	9.78	$ 1.63	10,669,862	$ 1.63

Performance Accelerated Restricted Stock ("PARS")

PARS are shares of Staples RD Stock or Staples.com Stock granted outright to employees and non-employee directors without cost to the employee or director. The shares, however, are restricted in that they are not transferable (e.g. they may not be sold) by the employee or director until they vest, generally after the end of five years. Such vesting date may accelerate if Staples achieves certain compound annual earnings per share growth over a certain number of interim years. If the employee leaves Staples, or the director ceases to serve as a director of Staples, prior to the vesting date for any reason, the PARS shares will be forfeited by the employee or director, as the case may be, and will be returned to Staples. Once the PARS have vested, they become unrestricted and may be transferred and sold like any other Staples shares.

Staples RD Stock PARS issued in the fiscal year ended January 29, 2000, totaling approximately 580,000 shares which have a weighted average fair value of $20.75, initially vest on February 1, 2005 or will accelerate on May 1, in 2002, 2003, or 2004 upon attainment of certain compound annual earnings per share targets. PARS totaling approximately 1,381,000 shares, which have a weighted average fair value of $17.56, issued in fiscal year 1998 will vest on May 1, 2000 as a result of Staples achieving its target earnings goal for the fiscal year ended January 29, 2000.

In connection with the issuance of the PARS, Staples included $14,832,000, $9,796,000 and $7,496,000 in compensation expense for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

Employees' 401(k) Savings Plan

Under Staples' Employees' 401(k) Savings Plan (the "401(k) Plan"), and Supplemental Executive Retirement Plan (the "SERP Plan"), Staples may contribute up to a total of 2,503,125 shares of common stock to these plans, regardless of series. The 401(k) Plan is available to all employees of Staples who meet minimum age and length of service requirements. Company contributions are based upon a matching formula applied to employee contributions with additional contributions made at the discretion of the Board. In connection with these plans, Staples included approximately $4,000,000, $3,000,000 and $2,000,000 in expense for fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

NOTE I Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax

purposes. Significant components and the approximate tax effect of Staples' deferred tax assets and liabilities as of January 29, 2000 and January 30, 1999, are as follows (in thousands):

	January 29, 2000	January 30, 1999
Deferred Tax Assets:		
Inventory	$ —	$ 27,328
Deferred rent	20,310	19,713
Acquired NOL's	12,251	8,743
Other net operating loss carryforwards	37,106	27,259
Insurance	7,455	7,639
Employee benefits	18,368	9,746
Merger related charges	21,965	10,823
Store closure charge	19,694	20,274
Other—net	22,157	17,711
Total Deferred Tax Assets	159,306	149,236
Deferred Tax Liabilities:		
Depreciation	(6,847)	(2,312)
Inventory	(21,501)	—
Other—net	(7,424)	(5,164)
Total Deferred Tax Liabilities	(35,772)	(7,476)
Total Valuation Allowance	(48,892)	(37,765)
Net Deferred Tax Assets	$ 74,642	$ 103,995

The deferred tax assets disclosed as acquired NOL's and other net operating loss carryforwards totaled $49,357,000, of which $48,098,000 have been fully reserved due to the uncertainty of the realization of the asset within the local country jurisdiction. Further, if this asset is utilized when income is earned within the foreign jurisdiction, Staples will not have a consolidated tax benefit, as Staples will be required to pay U.S. income taxes on the income offset by the foreign NOL.

For financial reporting purposes, income before taxes includes the following components (in thousands):

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Pretax income:			
United States	$ 446,726	$ 262,067	$ 213,549
Foreign	69,648	44,194	36,205
	$ 516,374	$ 306,261	$ 249,754

The provision for income taxes consists of the following (in thousands):

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Current tax expense:			
Federal	$ 117,389	$ 135,922	$ 53,248
State	23,625	18,875	10,707
Foreign	31,107	21,798	14,092
	172,121	176,595	78,047
Deferred tax expense (benefit)	29,265	(55,569)	3,877
Total	$ 201,386	$ 121,026	$ 81,924

A reconciliation of the federal statutory tax rate to Staples' effective tax rate on historical net income is as follows:

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	5.0%	6.0%	6.0%
Goodwill	.6%	.5%	.4%
Income of S-Corporation	(0.0%)	(0.6%)	(5.7%)
Other	(1.6%)	(1.4%)	(2.9%)
Effective tax rate	39.0%	39.5%	32.8%

A reconciliation of the federal statutory tax rate to Staples' effective tax rate on pro forma net income is as follows:

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	5.0%	6.0%	6.0%
Goodwill	.6%	.5%	.4%
Other	(1.6%)	(1.4%)	(2.7%)
Effective tax rate	39.0%	40.1%	38.7%

Income tax payments were $168,155,055, $94,729,602, and $23,487,877 during fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998, respectively. Staples has net operating losses of approximately $157,950,000 that

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can be carried forward indefinitely, $21,900,000 of which is attributable to Staples' increased ownership in Staples U.K. and Staples Germany, and $8,500,000 which is attributable to Staples' purchase of Office Centre Portugal and Sigma.

Undistributed earnings of Staples' foreign subsidiaries amounted to approximately $109,300,000 at January 29, 2000. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, Staples would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation. Withholding taxes of approximately $5,500,000 would be payable upon remittance of all previously unremitted earnings at January 29, 2000.

NOTE J Leases and other Off-Balance Sheet Commitments

Staples leases certain retail and support facilities under long-term noncancellable lease agreements. Most lease agreements contain renewal options and rent escalation clauses and require Staples to pay real estate taxes in excess of specified amounts and, in some cases, allow termination within a certain number of years with notice and a fixed payment. Certain agreements provide for contingent rental payments based on sales.

Other long-term obligations at January 29, 2000 include $55,000,000 relating to future rent escalation clauses and lease incentives under certain existing store operating lease arrangements. These rent expenses are recognized following the straight-line basis over the respective terms of the leases. Future minimum lease commitments for retail and support facilities (including lease commitments for 154 retail stores not yet opened at January 29, 2000) under noncancellable operating leases are due as follows (in thousands):

Fiscal year:	
2000	$ 335,343
2001	341,719
2002	331,120
2003	319,365
2004	303,494
Thereafter	2,398,174
	$ 4,029,215

Rent expense approximated $292,872,000, $234,609,000, and $193,990,000, for the fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998, respectively.

Letters of credit are issued by Staples during the ordinary course of business through major financial institutions as required by certain vendor contracts. As of January 29, 2000, Staples had available open letters of credit totaling $7,940,000.

The Company has provided financial guarantees relating to loans taken by certain executives used to exercise the options of Staples.com Stock granted to them. The balance of the loans fully guaranteed by the Company was $17,889,918, including deferred interest of $1,680,982, at January 29, 2000. The loans are 50% non-recourse to the individuals and the interest payable on the loans is with full recourse to the individuals. Each of these persons entered into a pledge agreement with the bank, pursuant to which they pledge their shares of Staples.com Stock as collateral for the loan they received. Staples entered into a line of credit and guaranty agreement with the bank pursuant to which Staples agreed to guarantee these loans.

NOTE K Business Acquisitions

In May 21, 1998, Staples acquired Quill. The Merger was structured as an exchange of shares in which the stockholders of Quill received approximately 26 million shares of Staples' common stock, at an exchange ratio established at a combination of fixed and variable prices, and cash paid to a dissenting shareholder of approximately $48,000,000, which equates to a purchase price of approximately $690,000,000. The Merger was accounted for as a pooling of interests, and accordingly, Staples' consolidated financial statements have been restated to include the operations of Quill for all periods prior to the

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merger. The statements of income combine Staples' historical operating results for the fiscal year ended January 31, 1998 with the corresponding Quill operating results for the year ended December 31, 1997. Prior to the acquisition, Quill elected to be taxed as an S Corporation under the Internal Revenue Code. Accordingly, the current taxable income of Quill was taxable to its shareholders who were responsible for the payment of taxes thereon. Quill has been included in Staples' U.S. federal income tax return subsequent to the date of the acquisition. Pro forma adjustments have been made to the restated statements of operations to reflect the income taxes that would have been provided had Quill been subject to income taxes.

In connection with the acquisition of Quill, Staples committed to a plan that results in the integration of the two businesses. As a result of the acquisition and integration plan, Staples recorded a charge to operating expense of $41,000,000 during the year ended January 30, 1999. These costs consist of direct merger-related and integration costs from the transaction. The merger transaction costs of approximately $10,500,000 consist primarily of fees for investment bankers, attorneys, accountants, and other related charges. The integration costs primarily include employee costs of approximately $7,000,000, severance and lease termination costs of approximately $14,100,000, the write-down of leasehold improvements of approximately $3,500,000 and other merger-related costs of approximately $5,900,000. Through January 29, 2000, Staples paid approximately $24,000,000, which consists primarily of transaction and employee related costs. Approximately $13,500,000 is included in accrued expense at January 29, 2000, which is considered to be sufficient to cover the remaining merger related and integration costs to be paid in connection with the Quill acquisition.

Separate net sales and net income of the merged entities prior to the merger are presented in the following table (in thousands):

	January 31, 1998
Net sales	
Staples	$ 5,181,035
Quill	551,110
Combined	$ 5,732,145
Net income	
Staples	$ 130,949
Quill	36,965
Combined	$ 167,914
Pro forma net income	
Staples	$ 130,949
Quill (1)	22,179
Combined	$ 153,128

(1) Reflects adjustment for provision for income taxes on previously untaxed earnings of S-Corporation.

On February 29, 1999, Staples completed the acquisition of Claricom Holdings, Inc. and certain related entities, now operating as Staples Communications, for a purchase price of approximately $137,600,000, net of cash acquired. Staples Communications is a full-service supplier of telecommunications services to small and medium sized businesses in the United States. The acquisition has been accounted for using the purchase method of accounting, and accordingly, Staples has recognized goodwill of approximately $158,400,000, which will be amortized over 20 years using the straight-line method. As a result of a merger and integration plan that the Company began to formulate at the date of acquisition, the Company recorded a liability in purchase accounting of approximately $6,882,000 for merger and integration costs. The merger transaction costs of approximately $1,852,000 consist of direct costs of the transaction, primarily fees paid for investment bankers, attorneys, accountants and other related costs. The integration costs primarily include employee costs of $4,650,000 and other merger related costs of approximately $380,000. Through January 29, 2000, Staples paid approximately $3,096,000 relating to this liability. Approximately $3,786,000 is included in accrued expenses at January 29, 2000, which is considered sufficient to cover the remaining merger and integration costs to be paid in connection with the Claricom acquisition.

On October 7, 1999, Staples completed the acquisition of three European office supply companies: Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal, for a purchase price of approximately $106,400,000, net of cash acquired. The acquisition includes 42 office supply superstores, with 15 stores in Germany, 21 stores in the Netherlands and 6 stores in Portugal. The acquisitions have been accounted for using the purchase method of accounting, and accordingly, Staples has recognized goodwill of approximately $96,900,000, which will be amortized over 40 years using the straight-line method. As a result of a merger and integration plan that the Company began to formulate at

the date of acquisition, the Company recorded adjustments in purchase accounting of approximately $30,000,000 for merger and integration costs. The merger transaction costs of approximately $2,275,000 consist primarily of direct costs of the transaction, including fees paid to investment bankers, attorneys, accountants and other related costs. The integration costs primarily include employee related costs of approximately $8,094,000, store closure and conversion costs of approximately $6,948,000, write-down of inventory of approximately $5,778,000 and other merger related costs of approximately $6,905,000. Through January 29, 2000, Staples paid approximately $4,300,000 related to this liability. Approximately $19,922,000 is included in accrued expenses at January 29, 2000, which is considered sufficient to cover the remaining merger and integration costs to be paid in connection with the acquisition of these companies.

NOTE L Store Closure Charge

In the fourth quarter of 1998, Staples committed to a plan to relocate certain stores which cannot be expanded and upgraded to Staples current store model and reported a pre-tax store closure charge of $49,706,000. The charge includes $29,630,000 for future rental payments under operating lease agreements that will be paid after the store is closed and will not be subsidized by subtenant income, $4,966,000 in fees, settlement costs and other expenses related to store closure and $15,120,000 in asset impairment charges. In 1998, the Company committed to execute lease agreements for the relocation sites during fiscal year 1999 with the stores to be closed and relocated during fiscal years 1999 and 2000. At January 29, 2000, the Company has executed lease agreements for a substantial majority of the stores identified in 1998 and continues to actively negotiate lease agreements for the remaining relocation sites. Negotiations for relocation sites have taken longer to complete than originally anticipated. Any sites that the Company is unable to complete negotiations for by the end of the first quarter 2000 will not be closed and the related charges will be reversed. Through January 29, 2000, the Company has paid approximately $476,000 in costs related to the store closures and $34,110,000 remains accrued for future rental payments, fees, settlement costs, and other expenses related to the store closures.

As a result of Staples' commitment to exit these stores, the Company evaluated the long-lived assets at each location in accordance with FAS 121. The analysis indicated that the long-lived assets of the designated stores were impaired. Accordingly, Staples estimated the fair value of these assets based on discounted cash flows and recorded an impairment charge of $15,120,000, which is included in the store closure charge. Staples will continue to depreciate these assets based on their revised useful life.

NOTE M Segment Reporting

Staples has three reportable segments: North American Retail, North American Delivery Operations, and European Operations. Staples North American Retail segment consists of two operating units that operate office supply stores throughout the U.S. and Canada. Staples' North American Delivery Operations segment consists of four operating units, including Staples.com, that sell office products and supplies directly to businesses throughout the US and Canada. The European Operations segment consists of seven operating units that operate office supply stores in the United Kingdom, Ireland, the Netherlands and Portugal and sell office products and supplies directly to businesses throughout the United Kingdom and Germany.

Information about segment profit loss and segment assets (in thousands)

Measurement of Segment Profit or Loss and Segment Assets

Staples evaluates performance and allocates resources based on profit or loss from operations before income taxes,

excluding gains and losses on Staples' investment portfolio an interest expense. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at Staples' cost, therefore there is no intercompany profit or loss recognized on these transactions.

Factors Management Used to Identify the Enterprise's Reportable Segments

Staples' reportable segments are business units that distribute office products in different manners. The reportable segments are each managed separately because they distribute products to different classes of customer with different distribution methods. The European operations are considered a separate operating segment because of the significant difference in the operating environment from the North American operations.

Year ended January 29, 2000:

	N. American Retail	N. American Delivery Operations	European Operations	All Other(1)	Totals
Revenues from external customers	$ 5,996,072	$ 2,456,706	$ 484,031	$ —	$ 8,936,809
Depreciation and amortization expense	125,769	34,820	13,556	—	174,145
Segment profit (loss)	571,138	187,518	(37,248)	(205,034)	516,374
Segment assets	3,415,413	724,915	583,096	—	4,723,424
Expenditures for long-lived assets	301,832	215,181	106,418	—	623,431

Year ended January 30, 1999

	N. American Retail	N. American Operations Delivery	European Operations	All Other(1)	Totals
Revenues from external customers	$ 4,867,124	$ 1,914,975	$ 341,090	$ —	$ 7,123,189
Merger and store closure	49,706	41,000	—	—	90,706
Depreciation and amortization expense	98,586	20,151	8,191	—	126,928
Segment profit (loss)	381,900	118,548	(17,077)	(177,110)	306,261
Segment assets	2,886,114	448,452	162,693	—	3,497,259
Expenditures for long-lived assets	333,021	40,712	10,528	—	384,261

Year ended January 31, 1998

	N. American Retail	N. American Operations Delivery	European Operations	All Other(1)	Totals
Revenues from external customers	$ 3,854,745	$ 1,652,215	$ 225,185	$ —	$ 5,732,145
Merger expenses	—	—	—	20,665	20,665
Depreciation and amortization expense	66,345	18,760	5,609	—	90,714
Segment profit (loss)	319,939	112,031	(8,049)	(174,167)	249,754
Segment assets	2,432,696	386,053	130,088	—	2,948,837
Expenditures for long-lived assets	208,304	23,077	49,657	—	281,938

(1) All Other includes corporate general and administrative expenses and merger related costs in connection with the then proposed merger with Office Depot, Inc. for the fiscal year ended January 31, 1998.

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(1) All other includes corporate general and administrative expenses and merger related costs in connection with the then proposed merger with Office Depot, Inc. for the fiscal year ended January 31, 1998.

Assets

	January 29, 2000	January 30, 1999
Total assets for reportable segments	$ 4,723,424	$ 3,497,259
Elimination of intercompany receivables	(124,229)	(89,664)
Elimination of intercompany investments	(753,119)	(228,329)
Total consolidated assets	$ 3,846,076	$ 3,179,266

Geographic Information

Year ended January 29, 2000:

	Revenues	Long-Lived Assets
North America	$ 8,452,777	$ 1,497,909
Europe	484,032	88,035
Consolidated Total	$ 8,936,809	$ 1,585,944

Year ended January 30, 1999

	Revenues	Long-Lived Assets
North America	$ 6,782,099	$ 1,027,704
Europe	341,090	35,913
Consolidated Total	$ 7,123,189	$ 1,063,617

SOTT 's Guarantor Subsidiaries

The 7.13% senior notes due August 15, 2007, the Euro Notes due November 15, 2004 and the obligations under the [illegible] revolving credit facility effective through November, 2002 with a syndicate of banks are fully and [illegible] guaranteed on an unsecured, joint and several basis by certain wholly owned subsidiaries of Staples (the "Guarantor Subsidiaries"). The following condensed consolidating financial data illustrates the composition of Staples, Inc. (the "Parent Company"), Guarantor Subsidiaries, and non-guarantor subsidiaries as of and for the years ended January 29, 2000 and January 30, 1999. Prior to February 1, 1998 the Company's debt was registered with Staples, Inc., which held the assets and operations that guaranteed the related debt, therefore the consolidated financial statements represent those of the guarantor and separate disclosure is not necessary for the year ended January 31, 1998. The non-guarantor subsidiaries represent less than an inconsequential portion of the consolidated assets and revenues of Staples. Separate complete financial statements of the respective Guarantors Subsidiaries would not provide additional information which would be useful in assessing the financial condition of the Guarantor Subsidiaries and thus are not presented.

Investments in subsidiaries are accounted for by the Parent Company on the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are, therefore, reflected in the Parent Company's investment accounts and earnings. The principal elimination entries eliminate the Parent Company's investment in subsidiaries and intercompany balances and transactions.

Condensed Consolidating Balance Sheet
As of January 29, 2000
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash, cash equivalents and short-term investments	$ 23,577	$ 24,677	$ 63,300	$ —	$ 111,554
Merchandise inventories	(925)	1,239,768	368,673	—	1,607,516
Other current assets and Intercompany	661,540	453,174	553,570	(1,193,903)	474,381
Total current assets	684,192	1,717,619	985,543	(1,193,903)	2,195,451
Net property, equipment and other assets	513,143	835,971	1,056,632	(753,121)	1,652,625
Total assets	$ 1,197,335	$ 2,553,590	$ 2,042,175	$ (1,947,024)	$ 3,846,076
Total current liabilities	$ 66,199	$ 762,233	$ 347,062	$ 279,410	$ 1,454,904
Total long-term liabilities	300,908	238,961	22,490	—	562,359
Total stockholders' equity	830,228	1,552,396	1,672,623	(2,226,434)	1,828,813
Total liabilities and stockholders' equity	$ 1,197,335	$ 2,553,590	$ 2,042,175	$ (1,947,024)	$ 3,846,076

Condensed Consolidating Balance Sheet
As of January 30, 1999
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash, cash equivalents and short-term investments	$ 219,426	$ 16,348	$ 139,647	$ —	$ 375,421
Merchandise inventories	(5,561)	1,095,906	250,087	—	1,340,432
Other current assets and Intercompany	780,629	396,920	552,395	(1,381,697)	348,247
Total current assets	994,494	1,509,174	942,129	(1,381,697)	2,064,100
Net property, equipment and other assets	271,129	710,049	362,178	(228,190)	1,115,166
Total assets	$ 1,265,623	$ 2,219,223	$ 1,304,307	$ (1,609,887)	$ 3,179,266
Total current liabilities	$ 86,206	$ 830,728	$ 266,789	$ 81,609	1,265,332
Total long-term liabilities	7,581	237,128	12,339	—	257,048
Total stockholders' equity	1,171,836	1,151,367	1,025,179	(1,691,496)	1,656,886
Total liabilities and stockholders' equity	$ 1,265,623	$ 2,219,223	$ 1,304,307	$ (1,609,887)	$ 3,179,266

Condensed Consolidated Statement of Income
For the year ended January 29, 2000
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$ 6,633,780	$ 2,303,029	$ 8,936,809
Cost of goods sold and occupancy costs	1,152	4,999,326	1,721,085	6,721,563
Gross profit	(1,152)	1,634,454	581,944	2,215,246
Operating and other expenses	29,269	1,236,117	433,486	1,698,872
Income before income taxes	(30,421)	398,337	148,458	516,374
Provision for income taxes	(168,841)	2,293	(34,838)	(201,386)
Net income (loss)	$ (199,262)	$ 400,630	$ 113,620	$ 314,988

Condensed Consolidated Statement of Income
For the year ended January 30, 1999
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$ 5,428,414	$ 1,694,775	$ 7,123,189
Cost of goods sold and occupancy costs	1,477	4,110,968	1,284,478	5,396,923
Gross profit	(1,477)	1,317,446	410,297	1,726,266
Operating and other expenses	30,096	1,075,613	314,296	1,420,005
Income before income taxes	(31,573)	241,833	96,001	306,261
Provision for income taxes	24,057	(98,808)	(46,275)	(121,026)
Equity in net income of subsidiaries	—	—	135	135
Net income (loss)	$ (7,516)	$ 143,025	$ 49,861	$ 185,370

Condensed Consolidated Statement of Cash Flows
For the year ended January 29, 2000
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by operating activities	$ (215,203)	$ 286,024	$ 228,704	$ 299,525
Investing activities				
Expenditures for property, equipment and software	(38,210)	(277,695)	(39,719)	(355,630)
Other	(23,780)	—	(229,620)	(253,400)
Cash used in investing activities	(61,996)	(277,695)	(269,339)	(609,030)
Financing activities				
Proceeds from borrowings	(1,262,857)	—	(45,454)	(1,308,311)
Other	1,344,207	—	24,573	1,368,780
Cash provided by (used in) financing activities	81,350	—	(20,881)	60,469
Effect of exchange rate changes on cash	—	—	1,526	1,526
Net (decrease) increase in cash	(195,849)	8,329	(59,990)	(247,510)
Cash and cash equivalents at beginning of				

period	219,426	16,348	122,219	357,993
Cash and cash equivalents at end of period	$ 23,577	$ 24,677	$ 62,229	$ 110,483

Condensed Consolidated Statement of Cash Flows
For the year ended January 30, 1999
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash used in provided by operating activities	$ (136,712)	$ 364,166	$ 178,603	$ 406,057
Investing Activities				
Acquisition of property, equipment and lease rights	(62,535)	(289,296)	(35,380)	(387,211)
Other	211,299	(66,776)	(152,940)	(8,417)
Cash used in provided by investing activities	148,764	(356,072)	(188,320)	(395,628)
Financing Activities				
Payments on borrowings	(393,713)	—	(23,610)	(417,323)
Other	411,835	—	(27,476)	384,359
Cash provided by (used in) financing activities	18,122	—	(51,086)	(32,964)
Effect of exchange rate changes on cash	—	—	(560)	(560)
Net (decrease) increase in cash	30,174	8,094	(61,363)	(23,095)
Cash and cash equivalents at beginning of period	189,252	8,253	183,583	381,088
Cash and cash equivalents at end of period	$ 219,426	$ 16,347	$ 122,220	$ 357,993

NOTE D Computation of Earnings per Common Share

Subsequent to the approval of the tracking stock proposal, the Company calculates earnings per share under the two class method. Accordingly, historical earnings per share have been presented for the nine months ended October 30, 1999 for Staples, Inc. common stock and for the three months ended January 29, 2000 for Staples.com Stock and Staples RD Stock. Pro forma earnings (loss) per share has been calculated as though Staples RD Stock had existed for all periods presented, to give effect to the sale of Staples.com in private placements and includes a provision for income taxes on untaxed earnings of Staples RD operations. Amounts in thousands, except for per share data):

	39 Weeks Ended October 30, 1999	13 Weeks Ended January 29, 2000	
	Staples, Inc.	Staples RD	Staples.com
Historical Earnings Per Share			
Numerator			
Net income	$ 195,501	$ 120,127	$ (730)
Denominator			
Weighted-average shares	461,711,992	455,978,860	16,108,177
Performance-accelerated restricted stock	221,936	12,571	—

Denominator for basic earnings per common share—weighted-average shares	461,933,928	455,991,431	16,108,177
Effect of dilutive securities			
Incremental and windfall shares	13,125,190	9,945,465	—
Performance accelerated restricted stock	—	1,131,386	—
Historical Earnings Per Share			
Dilutive potential common shares	13,125,190	11,076,851	—
Denominator for diluted earnings per common share—adjusted weighted-average shares and assumed conversions	475,059,118	467,068,283	16,108,177
Basic earnings (loss) per common share	$ 0.42	$ 0.26	$ (0.05)
Diluted earnings (loss) per common share	$ 0.41	$ 0.26	$ (0.05)

	Staples, Inc.	
	January 30, 1999	January 31, 1998
Historical Earnings Per Share		
Net income	$ 185,370	$ 167,914
Effect of dilutive securities		
4 1/2% convertible debentures(a)	7,451	9,365
Denominator for diluted earnings per common share—income available to common stockholders after assumed conversion	$ 192,821	$ 177,279
Denominator		
Weighted-average shares	429,308,638	408,095,647
Performance accelerated restricted stock	2,314	2,330
Denominator for basic earnings per common share—weighted-average shares	429,310,952	408,097,977
Effect of dilutive securities		
Employee stock and windfall shares	12,648,979	12,769,769
Performance accelerated restricted stock	208,300	209,592
4 1/2% convertible debentures	25,856,165	30,681,819
Dilutive potential common shares	38,713,444	43,661,180
Denominator for diluted earnings per common share—adjusted weighted-average shares and assumed conversions	468,024,396	451,759,157
Basic earnings per common share	$ 0.43	$ 0.41
Diluted earnings per common share	$ 0.41	$ 0.39

	January 31, 1998	January 29, 2000	January 30, 1999
Pro forma Earnings Per Share—Staples RD Numerator			
Historical Net Income	$ 315,718	$ 185,370	$ 167,914
Pro forma provision for taxes on previously untaxed earnings of S-Corporation Income(b)	—	(1,814)	(14,786)
Adjustment for pro forma retained interest in Staples.com(c)	356	27	12
Pro forma net income	316,074	183,583	153,140
Effect of dilutive securities			
4" 5% convertible debentures(a)	—	7,451	9,365
Numerator for diluted earnings per common share—pro forma income available to common stockholders after assumed conversion	$ 316,074	$ 191,034	$ 162,505
Denominator			
Weighted-average shares	460,278,709	429,308,638	408,095,647
Performance accelerated restricted stock	169,595	2,314	2,330
Pro forma Earnings Per Share—Staples RD Denominator for basic pro forma earnings per common share—weighted-average shares	460,448,304	429,310,952	408,097,977
Effect of dilutive securities			
Incremental and windfall shares	12,330,260	12,648,979	12,769,769
Performance accelerated restricted stock	282,846	208,300	209,592
4" 5% convertible debentures	—	25,856,165	30,681,819
Dilutive pro forma common shares	12,613,106	38,713,444	43,661,180
Denominator for diluted earnings per common share—adjusted weighted-average shares and assumed conversion	473,061,410	468,024,396	451,759,157
Pro forma basic earnings per common share	$ 0.69	$ 0.43	$ 0.38
Pro forma basic earnings per common share	$ 0.67	$ 0.41	$ 0.36

	January 31, 1998	January 29, 2000	January 30, 1999
Pro forma Earnings Per Share— Staples.com Numerator			
Historical net loss	$ (16,358)	$ (487)	$ (300)
Pro forma provision for taxes on previously untaxed earnings of S-Corporation Income(b)	—	12	120
Adjustment for Staples.RD's pro forma retained interest(c)	15,272	448	168
Pro forma net loss with S-Corporation conversion and pro forma adjustment for Staples.RD's interest in Staples.com	$ (1,086)	$ (27)	$ (12)
Denominator for basic net loss per common share—weighted-average shares	14,235,107	12,792,308	12,792,308
Denominator for diluted net loss per common			

Basic weighted-average shares	14,235,107	12,792,308	12,792,308
Pro forma basic net loss per common share with S-Corporation conversion and adjustment for Staples RD's retained interest in Staples.com	$ (0.08)	$ (0.00)	$ (0.00)
Pro forma diluted net loss per common share with S-Corporation conversion and adjustment for Staples RD's retained interest in Staples.com	$ (0.08)	$ (0.00)	$ (0.00)

(2) The 4½% Debentures were substantially converted into common stock on December 2, 1998 (see Note F). For the computation of earnings per common share, this conversion of 30,674,276 shares is assumed to have occurred at the beginning of the fiscal year (February 1, 1998), and is included in the weighted-average shares outstanding for the year. Therefore, the interest expense and amortization of deferred charges related to the 4½% Debentures incurred by Staples through December 2, 1998, net of tax, is added back to reported net income to compute earnings per common share for the years ended January 30, 1999 and January 31, 1998.

(3) Pro forma adjustment to reflect provision for income taxes on previously untaxed earnings of pooled S-Corporation.

(4) Adjustment to give effect to the sale of 12,792,308 shares of Staples.com Stock in a private placement. In presenting the pro forma information, this transaction was assumed to have occurred on February 2, 1997.

NOTE P Quarterly Summary (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Year Ended January 29, 2000				
	$ 2,072,066	$ 1,840,110	$ 2,393,811	$ 2,630,822
	494,753	454,559	564,247	673,687
	86,314	52,744	92,534	119,396
				120,126
				(730)
	86,438	52,842	92,705	120,229
	(124)	(98)	(171)	(833)
	$ 0.11	$ 0.11	$ 0.20	$ 0.26
				$ (0.05)
	$ 0.11	$ 0.11	$ 0.20	$ 0.26
	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)
	$ 0.11	$ 0.11	$ 0.20	$ 0.26
				$ (0.05)
	$ 0.11	$ 0.11	$ 0.20	$ 0.26
	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Year Ended January 30, 1999				
	$	$ 1,475,705	$ 1,900,770	$ 2,077,103
		354,925	475,913	538,534
		8,974	69,186	71,200 (5)
		8,974	69,192	71,277 (5)
		(3)	(6)	(17)
	$	$ 0.02 (3)	$ 0.16	$ 0.16 (5)
	$	$ 0.02 (3)	$ 0.16	$ 0.16 (5)

Basic earnings (loss) per common share—Staples.com Stock(2)	$ —	$ —	$ —	$ —
Diluted earnings (loss) per share				
Diluted net income per common share	$ 0.08 (6)	$ 0.02 (3)	$ 0.15 (6)	$ 0.15(6) (5)
Diluted earnings per common share—Staples RD Stock(2)	$ 0.08 (6)	$ 0.02 (3)	$ 0.15 (6)	$ 0.15(6) (5)
Diluted earnings per common share—Staples.com Stock(2)	$ —	$ —	$ —	$ —

(1) Diluted earnings per share is omitted for the 4th Quarter of fiscal year ending January 29, 2000 for Staples Inc. as a result of the approval of the Tracking Stock Proposal which changed Staples capital structure by creating Staples.com Stock and reclassifying Staples common stock as Staples RD Stock. In its place Diluted earnings per share is presented for Staples RD Stock and Staples.com Stock for this period

(2) Pro forma information is calculated to give effect to the sale of 12,792,308 shares of Staples.com Stock in private placements. In presenting this pro forma information, these transactions were assumed to have occurred on February 2, 1997

(3) Net income for the quarter ended August 1, 1998 includes a pre-tax charge of $41,000 resulting from costs incurred in connection with the merger with Quill Corporation

(4) Pro forma net income includes the earnings of Quill with provision for income taxes on previously untaxed earnings of pooled S-Corporation income

(5) Net income for the quarter ended January 30, 1999 includes a pre-tax charge of $49.70n resulting from a store closure charge

(6) Earnings per share assuming dilution is calculated considering the $300 million of 4 1/2% Convertible Subordinated Debentures as common stock equivalents for the entire qtr only

NOTE Q Subsequent Events

In February 2000 Staples.com completed a 10% investment in BizBuyer.com of approximately $19,000,000. The investment will be accounted for on a cost basis as it only represents an interest of no greater than 15% of the outstanding stock of BizBuyer.com and its fair value using readily available market data cannot be determined. BizBuyer.com is a leading business-to-business marketplace where buyers and sellers connect to buy and sell products and services.

On February 18, 2000, Staples.com filed a registration statement for an initial public offering of shares of Staples.com stock. It is intended that these shares will reflect the performance of Staples.com, the e-commerce business of Staples, Inc.

On March 1, 2000 Register.com, an investment recorded at cost by Staples, Inc. of approximately $8,000,000 at January 29, 2000 completed an initial public offering of its common stock. The closing stock price of Register.com on that date was $87 3/4 per share. At the date of the initial public offering, Staples owned approximately 2,160,000 shares of common stock, and warrants to purchase approximately 1,640,000 additional shares, resulting in an unrealized gain of approximately $215,000,000. Staples accounts for its investment in Register.com in accordance with SFAS 115 and the resulting unrealized gain or loss resulting from fluctuations in the market price of Register.com would be recorded as a component of stockholders' equity.

Report of Independent Auditors

Board of Directors and Shareholders
Staples, Inc.

We have audited the accompanying combined balance sheets of the Staples Retail and Delivery (as described in Notes A and C) as of January 29, 2000 and January 30, 1999, and the related combined statements of income, group equity, and cash

flows for each of the three years in the period ended January 29, 2000. 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 did not audit 1997 financial statements of Quill Corporation, a wholly owned subsidiary, which statements reflect 22% of net income of the Staples Retail and Delivery for the year ended January 31, 1998. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included in the Staples Retail and Delivery as it relates to Quill Corporation is based solely on the report of the other auditors.

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

In our opinion, based on our audits and, for 1997, the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Staples Retail and Delivery at January 29, 2000 and January 30, 1999 and the results of its operations and its cash flows for each of the three years in the period ended January 29, 2000 in conformity with accounting principles generally accepted in the United States.

As more fully described in Notes A and C to these financial statements, the Staples Retail and Delivery is a business group of Staples, Inc., accordingly, the combined financial statements of Staples Retail and Delivery should be read in conjunction with the audited financial statements of Staples, Inc.

/s/ Ernst & Young LLP
ERNST & YOUNG LLP

Boston, Massachusetts
March 3, 2000

STAPLES RETAIL AND DELIVERY

Combined Balance Sheets

(Dollar Amounts in Thousands)

	January 29, 2000	January 30, 1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 110,483	$ 357,993
Short-term investments	1,071	17,428
Accounts receivable	1,607,516	1,340,432
Merchandise inventories	360,901	221,836
Prepaid rent	39,730	75,261
Deferred income taxes	72,172	50,117
Prepaid expenses and other current assets		
Total current assets	2,191,873	2,063,067
Property and Equipment:		
Land and buildings	328,994	231,378
Leasehold improvements	442,119	372,451
Furniture	533,771	399,153
Equipment	286,260	239,755
Property and fixtures		
Total property and equipment	1,591,144	1,242,737
Less accumulated depreciation and amortization	508,810	403,462
Net property and equipment	1,082,334	839,275

Other Assets:		
Retained interest in Staples.com	16,254	1,962
Lease acquisition costs, net of amortization	68,832	75,127
Goodwill, net of amortization	387,595	148,201
Deferred income taxes	34,912	28,735
Other	31,769	22,814
Total other assets	539,362	276,839
	$ 3,813,569	$ 3,179,181
LIABILITIES AND GROUP EQUITY		
Current Liabilities:		
Accounts payable	$ 897,523	$ 794,427
Inter-business payable to Staples.com	23,600	—
Accrued expenses and other current liabilities	537,696	438,226
Debt maturing within one year	12,219	32,594
Total current liabilities	1,471,098	1,265,247
Long-Term Debt	500,903	205,015
Other Long-Term Obligations	61,456	52,033
Group Equity	1,780,112	1,656,886
	$ 3,813,569	$ 3,179,181

See notes to combined financial statements.

STAPLES RETAIL AND DELIVERY

Combined Statements of Income

(Dollar Amounts in Thousands, Except Share Data)

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Sales	$ 8,842,460	$ 7,106,303	$ 5,728,439
Cost of goods sold and occupancy costs	6,647,769	5,384,202	4,374,915
Gross profit	2,194,691	1,722,101	1,353,524
Operating and other expenses:			
Operating and selling	1,268,099	990,239	807,880
Pre-opening	16,485	13,836	9,443
General and administrative	337,719	299,187	225,001
Amortization of goodwill	12,014	3,739	3,581
Merger-related and integration costs	—	41,000	29,665
Asset closure charge	—	49,706	—
Interest and other expense, net	17,183	17,342	21,947
Total operating and other expenses	1,651,500	1,415,049	1,097,517
Income before equity in loss of affiliates, retained interest and income taxes	543,191	307,052	256,007
Equity in loss of affiliates	—	—	(5,953)
Income before income taxes	543,191	307,052	250,054
Income tax expense	211,845	121,330	81,924

Net income before minority interest	331,346	185,722	168,130
Minority interest	—	135	84
Net income before retained interest in Staples.com	331,346	185,857	168,214
Loss related to retained interest in Staples.com	(15,628)	(487)	(300)
Net income	$ 315,718	$ 185,370	$ 167,914
Basic earnings per common share			
Historical net income per common share for the 13 weeks ended January 30, 2000	$ 0.26		
Diluted earnings per common share			
Historical net income per common share for the 13 weeks ended January 29, 2000	$ 0.26		
Pro forma earnings per common share for Staples RD Stock and S-C corporation conversion:			
Basic earnings per common share			
Pro forma historical net income per common share—Staples RD Stock	$ 0.69	$ 0.43	$ 0.41
Diluted earnings per common share			
Pro forma historical net income per common share—Staples RD Stock	$ 0.67	$ 0.41	$ 0.39

See notes to combined financial statements.

STAPLES RETAIL AND DELIVERY

Combined Statements of Group Equity

(Dollar Amounts in Thousands)

For the Fiscal Years Ended January 29, 2000, January 30, 1999, and January 31, 1998

	Group Equity	Comprehensive Income
Balances at February 1, 1997	$ 875,823	$ 146,656
Net income for the year	167,914	167,914
Cumulative translation adjustment	(10,168)	(10,168)
Unrealized gain (loss) on investments	1,036	1,036
Issuance of common stock for stock options exercised	32,183	
Tax benefit on exercise of options	32,873	
Dividends to shareholders of acquired S-C corp	(25,175)	
Sale of common stock under Employee Stock Purchase Plan	10,499	
Issuance of Performance Accelerated Restricted Stock	7,182	
Issuance of common stock to Employees' 401(k) Savings Plan	2,318	
Balances at January 31, 1998	$ 1,094,485	$ 158,782
Net income for the year	185,370	185,370
Cumulative translation adjustment	(1,360)	(1,360)
Unrealized gain (loss) on investments	(1,049)	(1,049)
Issuance of common stock for conversion of debentures, net of interest and deferred charges	298,533	
Issuance of common stock for stock options exercised	50,123	
Tax benefit on exercise of options	74,157	

Dividends to shareholders of acquired S-Corp	(15,904)	
Purchase and retirement of S-Corp shares	(48,102)	
Sale of common stock under Employee Stock Purchase Plan	13,210	
Issuance of Performance Accelerated Restricted Stock	10,654	
Purchase of treasury shares	(7,892)	
Contribution of common stock to Employees' 401(k) Savings Plan	3,288	
Other equity changes, net	1,373	
Balances at January 30, 1999	$ 1,656,886	$ 182,961
Net income for the year	315,718	315,718
Cumulative translation adjustment	7,202	7,202
Unrealized gain (loss) on investments	(51)	(51)
Issuance of common stock for stock options exercised	27,735	
Tax benefit on exercise of options	40,129	
Sale of common stock under Employee Stock Purchase Plan	21,990	
Issuance of Performance Accelerated Restricted Stock	20,420	
Purchase of treasury shares	(310,248)	
Contribution of common stock to Employees' 401(k) Savings Plan	3,544	
Other equity changes, net	(3,213)	
Balances at January 29, 2000	$ 1,780,112	$ 322,869

See notes to combined financial statements.

STAPLES RETAIL AND DELIVERY

Combined Statements of Cash Flows

(Dollar Amounts in Thousands)

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
[illegible]	$ 315,718	$ 185,329	$ 167,914
[illegible]	—	(135)	(84)
[illegible]	15,628	487	360
[illegible]	173,093	126,870	90,714
[illegible]	—	41,000	29,665
[illegible]	—	49,700	—
[illegible]	18,374	12,764	10,400
[illegible]	—	—	5,953
[illegible]	29,265	(55,569)	3,877
[illegible]	(221,463)	(211,172)	(227,076)
[illegible]	(112,980)	(15,993)	17,569
[illegible]	(27,861)	(8,800)	(5,026)
[illegible]	110,474	273,195	293,831
[illegible]	7,747	9,597	5,074
	(17,723)	222,064	225,209
[illegible]	307,995	407,434	393,123
[illegible]	(342,615)	(348,957)	(190,659)
[illegible]	(244,021)	(13,500)	(79,325)
[illegible]	32,927	10,338	13,618
[illegible]	(16,451)	(22,913)	(4,500)
[illegible]	—	18,905	265
[illegible]	—	(2,545)	(5,714)
[illegible]	(29,952)	(2,440)	(300)
[illegible]	—	—	(3,788)
[illegible]	(549)	(37,182)	(2,717)
[illegible]	(1,875)	1,208	(11,968)
[illegible]	(602,704)	(397,005)	(285,118)

Investing activities	46,503	63,996	48,043
Purchase of fixed assets	1,589,779	392,261	965,921
Proceeds from sale of fixed assets	(1,308,311)	(417,323)	(830,018)
Purchase of investments	—	(48,102)	—
Proceeds from sale of investments	(310,238)	(7,892)	—
Purchase of treasury stock	27,940	—	—
Purchase of subsidiary stock from Staples.com	—	(15,904)	(25,175)
Investment in subsidiaries of acquired S-K entity			
Net cash used in investing activities	45,673	(32,964)	158,771
Financing activities	1,526	(560)	(2,720)
Net cash provided by financing activities			
Effect of exchange rate changes on cash	(247,510)	(23,095)	264,053
Net increase in cash and cash equivalents	357,993	381,088	117,035
Cash and cash equivalents at beginning of period			
Cash and cash equivalents at end of period	$ 110,483	$ 357,993	$ 381,088

See notes to combined financial statements.

STAPLES RETAIL AND DELIVERY

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE A Basis of Presentation

These combined financial statements and notes to combined financial statements of Staples Retail and Delivery ("Staples RD") should be read in conjunction with the audited consolidated financial statements and Annual Report of Staples, Inc. ("Staples" or the "Company") and the audited combined financial information of Staples.com contained in this report. The combined financial statements of Staples RD include the balance sheets, statements of income, cash flows and group equity of Staples retail stores, catalog businesses and contract stationer business. The Staples RD combined financial statements also include its retained interest in Staples.com, which was 88% and 100% at January 29, 2000 and January 30, 1999, respectively.

On November 9, 1999 the stockholders of Staples approved a proposal (the "Tracking Stock Proposal") which amended the Company's certificate of incorporation to (i) authorize the issuance of a new series of common stock, designated as Staples.com common stock ("Staples.com Stock"), intended to reflect the performance of Staples.com, the Company's e-commerce business, (ii) increase the aggregate number of shares of common stock that the Company may issue from 1,500,000,000 to 3,100,000,000, initially comprised of 1,500,000,000 shares of Staples Retail and Delivery common stock ("Staples RD Stock") and 600,000,000 shares of Staples.com Stock, and (iii) re-classify Staples' existing common stock as Staples RD Stock, intended to reflect the performance of Staples RD, which consists of all of the Company's other businesses and a retained interest in Staples.com.

During the fiscal year ended January 29, 2000, Staples.com issued 12,792,308 shares of Staples.com Stock in private placements and 14,466,878 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional private or public financings. The specific terms of the financings, including the number of Staples.com Stock issued, and the timing of the financings, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of those financings on the retained interest percentage and the ownership interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to allocate the net proceeds of such financings to the equity of Staples.com or to Staples RD in respect of its retained interest. The book value associated with Staples RD's retained interest in Staples.com will be increased (decreased) for net income (or decreased proportionately for net loss) of Staples.com.

In preparing separate financial statements for Staples RD and Staples.com, the Company has allocated, for financial reporting purposes, all of its consolidated assets, liabilities, revenue, expenses and cash flows between Staples RD and Staples.com. Thus, the combined financial statements of Staples RD and Staples.com, taken together, comprise all of the accounts included in the corresponding consolidated financial statements of Staples. Staples RD's combined financial statements reflect the application of certain cash management and allocation policies adopted by the Board of Directors of Staples (the "Board"). These policies are summarized in Note C under "Corporate Activities". Staples RD's combined financial statements include the financial position, results of operations, cash flows of Staples RD and the effects of its retained interest in Staples.com on the statements of income and balance sheets. These financial statements do not represent stand-alone financial statement presentation.

Allocation and related party transaction policies adopted by the Board can be rescinded or amended at the sole discretion of the Board without approval by the stockholders, although no such changes are currently contemplated. Any such changes adopted by the Board would be made in its good faith business judgement of the Company's best interests, taking into

consideration the interests of all stockholders.

The Company now provides to the holders of both Staples RD Stock and Staples.com Stock separate financial statements, financial reviews, descriptions of the business, and other relevant information for Staples RD and Staples.com, as well as consolidated financial information of the Company. Notwithstanding the allocation of assets and liabilities, including contingent liabilities between Staples RD and Staples.com for the purposes of preparing their respective combined financial statements, this allocation and the change in the capital structure of the Company as a result of the approval of the Tracking Stock Proposal did not result in the distribution or spin-off to stockholders of any of the Company's assets and liabilities and will not affect ownership of its assets or responsibility for its liabilities or those of its subsidiaries. Holders of Staples RD Stock are common stockholders of the Company and, as such will be subject to the risks associated with an investment in Staples and its businesses, assets and liabilities. The assets the Company attributes to one business are subject to the liabilities of the other business, even if such liabilities arise from lawsuits, contracts or indebtedness attributed to the other business. If the Company is unable to satisfy one business's liabilities with the assets attributed to it, the Company may be required to satisfy those liabilities with the assets the Company has attributed to the other business. Further, holders of Staples RD Stock and Staples.com Stock will not have any legal rights related to specific assets of either business and in any liquidation will receive a fixed share of the net assets of the Company which may not reflect the actual trading prices, if any, of the respective businesses at such time.

Financial effects from one business that affect the Company's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of Staples RD and the market price of Staples RD Stock. In addition, net losses of Staples.com and any dividends or distributions on, or repurchases of, Staples.com Stock or repurchases of Staples.com Stock at a price per share greater than par value will reduce the funds we can pay on each class of common stock under Delaware Law. Accordingly, financial information for Staples RD should be read in conjunction with the Annual Report on Form 10-K of Staples, Inc and the combined financial information of Staples.com contained this report.

Certain previously reported amounts have been reclassified to conform with the current period presentation.

NOTE B Summary of Significant Accounting Policies

Nature of Operations. Staples RD operates a chain of office supply stores and contract stationer/delivery warehouses throughout North America and Europe. Staples.com is the business of Staples that sells product through web-based operations and portals. Staples RD represents the other businesses of Staples, including its retail stores, catalog businesses and contract stationer business.

Fiscal Year. Staples RD's fiscal year is the 52 or 53 weeks ending the Saturday closest to January 31. Fiscal years 1999, 2000 and 1997 consisted of the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. As more fully described at Note M, the statement of income for the fiscal year ended January 31, 1998 combine Staples RD's historical operating results for that fiscal year with the corresponding Quill Corporation ("Quill") operating results for the calendar year ended December 31, 1997. Accordingly, to conform for fiscal year 1998, an adjustment for Quill's operating results for January 1998 was made to group equity.

Use of Estimates. The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the

amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents. Staples RD considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Short-Term Investments. Staples RD's securities are classified as available for sale and consist principally of high-grade corporate and municipal securities having an original maturity of more than three months. The investments are carried at fair value, with the unrealized holding gains and losses reported as a component of Staples RD's equity. The cost of securities sold is based on the specific identification method. No individual issue in the portfolio constitutes greater than one percent of the total assets of Staples RD.

Merchandise Inventories Merchandise inventories are valued at the lower of weighted-average cost or market.

Receivables Receivables relate principally to amounts due from vendors under various incentive and promotional programs and trade receivables financed under regular commercial credit terms. Concentrations of credit risk with respect to trade receivables are limited due to Staples RD's large number of customers and their dispersion across many industries and geographic regions.

Advertising Staples RD expenses the production costs of advertising the first time the advertising takes place, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Direct-response advertising consists primarily of the direct catalog production costs. The capitalized costs of the advertising are amortized over the six month period following the publication of the catalog in which it appears. Direct catalog production costs included in prepaid and other assets totaled $16,133,000 at January 29, 2000 and $9,854,000 at January 30, 1999. Total advertising and marketing expense was $429,384,000, $355,333,000, and $288,341,000 for the years ended January 29, 2000, January 30, 1999, and January 31, 1998, respectively.

Property and Equipment Property and equipment are recorded at cost. Depreciation and amortization, which includes the amortization of assets recorded under capital lease obligations, are provided using the straight-line method over the estimated useful lives of the assets or the terms of the respective leases. Depreciation and amortization periods are as follows:

Buildings	40 years
Leasehold improvements	10 years or term of lease
Furniture and fixtures	5 to 10 years
Equipment	3 to 10 years

Lease Acquisition Costs Lease acquisition costs are recorded at cost and amortized on the straight-line method over the respective lease terms, including option renewal periods if renewal of the lease is probable, which range from 5 to 40 years. Accumulated amortization at January 29, 2000 and January 30, 1999 totaled $28,729,000 and $24,674,000, respectively.

Retained Interest in Staples.com Staples RD had an 88% and 100% retained interest in Staples.com at January 29, 2000 and January 30, 1999, respectively. During the fiscal year ended January 29, 2000,

Staples.com issued 12,792,308 shares of Staples.com Stock in private placements and 14,459,878 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional private or public financings. The specific terms of the financings, including the amount of Staples.com Stock issued, and the timing of the financings, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of the financings on the retained interest percentage and the outstanding interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to attribute the net proceeds of such financings to the shares of Staples.com or to Staples RD in respect of its retained interest. The book value associated with Staples RD's retained interest in Staples.com will be increased proportionately for net income (or decreased proportionately for net loss) of Staples.com.

Staples RD accounts for its investment in Staples.com in a manner similar to the method prescribed under APB No. 18, "The Equity Method of Accounting for Investments in Common Stock." For the purposes of these separate group financial statements, Staples RD's interest in the equity and net income or loss of Staples.com has been included in Staples RD's consolidated balance sheets and statements of income as "retained interest in Staples.com." The amount included in the balance sheets and statements of income as retained interest in Staples.com represents Staples RD's proportional interest in the assets and liabilities of, equity in, and income and expenses of Staples.com. The carrying value of Staples RD's retained interest in Staples.com is increased or decreased by Staples RD's proportional interest in the net income or loss of Staples.com. Additionally, if dividends or other distributions are made on Staples.com Stock, including deemed dividends in respect of Staples RD's retained interest in Staples.com, an amount representing Staples RD's proportional interest in such distributions would be considered received by Staples RD from Staples.com and would reduce the book value of Staples RD's retained interest in Staples.com.

Goodwill Goodwill arising from business acquisitions is amortized on a straight-line basis over periods ranging from 20 to 40 years. Accumulated amortization was $25,066,000 and $13,053,000 as of January 29, 2000 and January 30, 1999, respectively. Management periodically evaluates the recoverability of goodwill, which would be adjusted for a permanent decline in value, if any, as measured by the recoverability from projected future cash flows from the acquired businesses.

Pre-opening Costs Pre-opening costs, which consist primarily of salaries, supplies, marketing and occupancy costs, are charged to expense as incurred.

Private Label Credit Card Receivables Staples RD offers a private label credit card which is managed by a financial services company. Under the terms of the agreement, Staples RD is obligated to pay fees which approximate the financial institution's cost of processing and collecting the receivables, which are primarily non-recourse to Staples RD.

Foreign Currency Translation The assets and liabilities of Staples RD's foreign subsidiaries, The Business Depot Ltd. ("Business Depot"), Staples UK, Staples Germany, Sigma Burowelt in Germany and Office Centre in the Netherlands and Portugal are translated into U.S. dollars at current exchange rates as of the balance sheet date, and revenues and expenses are translated at average monthly exchange rates. The resulting translation adjustments, and the net exchange gains and losses resulting from the translation of investments in Staples RD's foreign subsidiaries during the years ended January 29, 2000, January 30, 1999 and January 31, 1998 are recorded as a separate component of group equity.

Stock-Option Plans The Company has adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). As permitted by FAS 123, the Company continues to account for its stock-based plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and provides pro forma disclosures of the compensation expense determined under the fair value provisions of FAS 123.

Earnings Per Share Staples RD calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("FAS 128") which requires disclosure of basic and diluted earnings per share. Historical earnings per share for Staples RD Stock is presented for periods subsequent to the approval of the Tracking Stock Proposal, since Staples RD Stock was not previously part of the capital structure of the Company. Basic earnings per share for Staples RD Stock is computed by dividing the net earnings of Staples RD, including Staples RD's retained interest in the net losses of Staples.com, by the weighted average number of shares of Staples RD Stock. Diluted earnings per share includes the effects of applying the treasury stock method to outstanding stock options, performance accelerated restricted stock ("PARS") and other dilutive instruments when dilutive. Pro forma earnings per share has been calculated as though Staples RD Stock existed for all periods presented and to give effect to the sale of 12,792,308 shares of Staples.com Stock in the private placements. In presenting the pro forma information this transaction was assumed to have occurred on February 2, 1997. In addition, the pro forma information includes a provision for income taxes on previously untaxed earnings of pooled S-Corporations.

Revenue Recognition Revenue from retail operations is recognized at the point of sale. Staples RD allows for merchandise returns under most circumstances. Staples RD does not provide a reserve for estimated returns, as the amount does not have a material impact on the financial statements. Sales to delivery customers are considered final upon acceptance of delivery, however the Staples RD does allow merchandise returns under certain circumstances. Staples RD does not provide a reserve for estimated returns on these sales as such returns are infrequent and the amount does not have a material impact on the financial statements.

Fair Value of Financial Instruments Pursuant to Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments" ("FAS 107"), Staples RD has estimated the fair value of its financial instruments using the following methods and assumptions:

- The carrying amount of cash and cash equivalents, receivables and accounts payable approximates fair value;
- The fair value of short-term investments is based on quoted market prices;
- The carrying amounts of Staples RD's debt approximates fair value, estimated by discounted cash flow analyses based on Staples RD's current incremental borrowing rates for similar types of borrowing arrangements.

Impairment of Long-Lived Assets Staples RD adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of" ("FAS 121"), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted

cash flows estimated to be generated by those assets are less than the assets' carrying amount. Staples RD's policy is to evaluate long-lived assets for impairment at a store level

Interest Rate and Currency Swap Agreements Staples RD uses interest rate and currency swap agreements for purposes other than trading and they are treated as off-balance sheet items. Staples RD uses interest rate swap agreements to modify fixed rate obligations to variable rate obligations, thereby adjusting the interest rates to current market rates and ensuring that the debt instruments are always reflected at fair value.

New Accounting Standards In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new standard requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives will be reported in the statement of operations or as a deferred item, depending on the use of the derivatives and whether they qualify for hedge accounting. The key criterion for hedge accounting is that the derivative must be highly effective in achieving offsetting changes in fair value or cash flows of the hedged items during the term of the hedge. The effective date of SFAS No. 133 was delayed to fiscal 2001 by the issuance of SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date to FASB Statement No. 133-an amendment of FASB Statement 133" The Company has not yet determined the effect, if any, of adopting this new standard.

NOTE C Corporate Activities

Staples RD's financial statements reflect the application of the management and allocation policies adopted by the Board to allocate corporate activities, as described below

Cash Management and Allocation Policies In order to prepare separate financial statements for Staples RD and Staples.com, Staples has allocated, for financial reporting purposes, all of its consolidated assets, liabilities, revenue, expenses and cash flow between Staples RD and Staples.com. Thus, the financial statements of Staples RD and Staples.com, taken together, comprise all of the accounts included in the corresponding financial statements of Staples. The financial statements of Staples RD and Staples.com reflect the application of cash management and allocation policies adopted by the Board. These policies are summarized below. The Board may, in its sole discretion, modify, rescind or add to any of these policies, although it has no present intention to do so. The decision of the Board to modify, rescind or add to any of these policies would be subject to the Board's general fiduciary duties. Even though Staples has allocated all of its consolidated assets, liabilities, revenue, expenses and cash flow between Staples RD and Staples.com, holders of Staples.com stock will be common shareholders of Staples and, as such, will be subject to all risks associated with an investment in Staples and all of its businesses, assets and liabilities.

Financing. Staples manages most finance activities on a centralized, consolidated basis. These activities include the management of surplus cash, the issuance, repayment and repurchase of short-term and long-term debt, and the issuance and repurchase of common stock. Staples.com generally remits its cash receipts to Staples RD, but is not obligated to do so, and Staples RD generally funds Staples.com's cash disbursements on a regular basis, but is not obligated to do so.

In the combined financial statements of Staples RD and combined financial statements of Staples.com:

- all equity transactions and the proceeds thereof, were attributed to the business whose stock was affected;
- whenever Staples.com held cash, that cash was transferred to Staples RD and accounted for as an inter-business revolving credit advance; and
- whenever Staples.com had a cash need, that cash need was funded by Staples RD and accounted for as an inter-business revolving credit advance. The inter-business revolving credit arrangement bears interest at a rate which the Board, in its sole discretion, determines Staples could borrow such funds on a revolving credit basis, which was 6% for the fiscal years 1997, 1998 and 1999. The Board, at its sole discretion, may elect an alternative financing mechanism between Staples RD and Staples.com based upon the facts and circumstances. The Board has adopted the following additional policies related to the Staples.com stock:

- Staples will attribute each future incurrence or issuance of external debt or preferred stock, and the proceeds thereof, to Staples RD, unless the Board determines otherwise. The Board may, but is not required to, attribute thereof, to Staples RD, unless the Board determines otherwise. The Board may, but is not required to, attribute an incurrence or issuance of debt or preferred stock, and the proceeds thereof, to Staples.com to the extent that Staples incurs or issues the debt or preferred stock for the benefit of Staples.com.

- Staples will attribute each future issuance of Staples RD Stock, and the proceeds thereof, to Staples RD. Staples may attribute any future issuance of Staples.com Stock, and the proceeds thereof, to Staples RD in respect of its Retained Interest in Staples.com, in a manner analogous to a secondary offering of common stock of a subsidiary owned by a corporate parent, or to Staples.com, in a manner analogous to a primary offering of common stock. Dividends on and repurchases of Staples RD Stock will be charged against Staples RD, and dividends on and repurchases of Staples.com Stock will be charged against Staples.com. In addition, at the time of any dividend on Staples.com stock, Staples will credit to Staples RD, and charge against Staples.com, a corresponding amount in respect of Staples RD's retained interest in Staples.com.

- Staples will account for all cash transfers from one business to or for the account of the other business (other than transfers in return for assets or services rendered or transfers inrespect of Staples RD's retained interest that correspond to dividends paid on Staples.com stock), as inter-business revolving credit advances unless:

  - the Board determines that a given transfer, or type of transfer, should be accounted for as a long-term loan;

  - the Board determines that a given transfer, or type of transfer, should be accounted for as a capital contribution increasing Staples RD's retained interest in Staples.com; or

  - the Board determines that a given transfer, or type of transfer, should be accounted for as a return of capital reducing Staples RD's retained interest in Staples.com.

There are no specific criteria to determine when Staples will account for a cash transfer as a long-term loan, a capital contribution or a return of capital rather than an inter-business revolving credit advance.

The Board would make such a determination in the exercise of its business judgment at the time of such transfer, or the first day of each fiscal year, based upon all relevant circumstances. Factors the Board would consider include:

- the current and projected capital structure of each business;
- the relative levels of internally generated funds of each business;
- the financing needs and objectives of the recipient business;
- the investment objectives of the transferring business;
- the availability, cost and terms associated with alternative financing sources; and
- prevailing interest rates and general economic conditions.

Any cash transfer accounted for as an inter-business revolving credit advance will bear interest at the rate at which the Board, in its sole discretion, determines Staples could borrow such funds on a revolving credit basis. Any cash transfer accounted for as a long-term loan will have interest rate, amortization, maturity, redemption and other terms that generally reflect the then prevailing terms on which the Board, in its sole discretion, determines Staples could borrow such funds.

* Any cash transfer from Staples RD to Staples.com, or for Staples.com's account, accounted for as a capital contribution will correspondingly increase Staples.com's group equity and Staples RD's Retained Interest in Staples.com. As a result, the Number of Shares Issuable with Respect to Staples RD's Retained Interest in Staples.com will increase by the amount of such capital contribution divided by the Market Value of Staples.com stock on the date of transfer.

* Any cash transfer from Staples.com to Staples RD, or for Staples RD's account, accounted for as a return of capital will correspondingly reduce Staples.com's group equity and Staples RD's Retained Interest in Staples.com. As a result, the Number of Shares Issuable with Respect to Staples RD's Retained Interest in Staples.com will decrease by the amount of such return of capital divided by the Market Value of Staples.com stock on the date of transfer.

Through the quarter ending October 30, 1999, fixed asset and investment purchases have been treated as capital contributions from Staples RD. Also, operating cash flow losses in 1999 were funded by Staples RD as an inter-business loan and has been offset by the proceeds received from the issuance of Staples.com Stock, which was distributed to Staples RD. Operating cash flow losses and fixed asset and investment purchases subsequent to October 30, 1999 were charged to Staples.com.

Shared Services and Support Activities. The cost of services shared by Staples RD and Staples.com, including general and administrative expenses, has been allocated between Staples RD and Staples.com based upon the use of such services and the good faith judgement of the Board or Staples' management. Where determinations based on use alone were not practical, other methods and criteria were used to provide a reasonable allocation of the cost of shared services, including support activities not directly attributable between Staples RD or Staples.com. Such allocated shared services represent, among other things, management and accounting services, information system services, certain selling and marketing activities, certain merchandising and buying activities, transportation and warehouse management services, certain customer service activities, executive management services, legal and corporate planning activities. For example, for printed advertisements and [illegible] Staples RD and

Staples.com pay a portion to advertise Staples RD for that amount of space or air time devoted to Staples.com, plus a proportionate part of the total cost of the rest of the advertisements or commercials based on varying metrics, such as the [illegible] Staples RD and Staples.com.

Income taxes, which are determined on a consolidated basis, are allocated between the businesses of Staples RD and Staples.com and reflected in their respective financial statements, in accordance with Staples' tax allocation policy. The policy provides that the consolidated tax provision, deferred tax accounts and related tax payments or benefits are allocated between Staples RD and Staples.com based principally upon the financial income, taxable income, credits and other amounts directly related to their respective businesses. Tax benefits that cannot be used by the business that generated such amounts, but can be utilized on a consolidated basis, are allocated to the business that generated such benefits. As a result, the allocated business amounts of taxes payable or refundable are not necessarily comparable to those that would be reported if Staples RD and Staples.com had filed separate tax returns. State income taxes generally are computed on a separate business basis.

Generally, Staples RD sells inventory to Staples.com for resale. The cost per inventory unit purchased by Staples.com equals Staples RD's product cost. Staples RD maintains inventory to support Staples.com's inventory needs and Staples.com pays Staples RD a carrying charge for use of their capital for [illegible] Staples.com. Staples RD charges Staples.com a carrying charge for use of their capital for inventory and receivables. The carrying charge is reflected in Staples.com's financial statements as part of [illegible] and in Staples RD's financial statements as a credit to operating and selling expenses. This [illegible] the amount of receivables and inventory that Staples RD is required to carry for Staples.com, in [illegible] Certain warehouse and other inventory costs are allocated to Staples.com based on Staples.com's share [illegible] The Board may, in its sole discretion, change the carrying charge charged to Staples.com as it deems [illegible] in light of the circumstances from time to time.

Employee Benefits Staples RD and Staples.com participate in the following Staples employee benefit plans: an Employee Stock Purchase Plan, an Employee 401(k) Savings Plan, a Supplemental Executive Retirement Plan and a contributory Medical and Dental Plan. The costs of these plans are allocated based on the benefits received under the plans by the employees comprising Staples RD and Staples.com or such other basis as Staples' management believes to be an equitable and reasonable estimate of such costs.

NOTE D Related Party Transactions

Staples RD sells inventory to Staples.com based on Staples RD's product cost. Staples RD does not include these transactions in its reported sales. Inventory purchased by Staples.com totaled $62,706,000, $10,796,000, and $2,364,000 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. Had these sales been included in Staples RD's combined financial statements, Staples RD would have reported sales of $8,905,166,000, $7,117,099,000, and $5,718,651,000, and gross profit of 24.6%, 24.2% and 23.6% for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

NOTE E Investments

The following is a summary of available-for-sale investments as of January 29, 2000 and January 30, 1999 (in thousands):

January 29, 2000	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term:				
Agency Bonds	$ 1,143	$ —	$ (72)	$ 1,071
Total short-term	$ 1,143	$ —	$ (72)	$ 1,071

January 30, 1999	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term:				
Municipal obligations	$ 10,515	$ 46	$ —	$ 10,561
Agency Bond	6,902	7	(42)	6,867
Total short-term	$ 17,417	$ 53	$ (42)	$ 17,428

Proceeds from the sale of investment securities were $16,651,000 and $14,599,000 during the years ended January 29, 2000 and January 30, 1999, respectively. Other reductions in the cost balance resulted from maturities of securities. The net adjustment to unrealized holding gains and losses on available-for-sale investments included as a separate component of equity was a loss of $1,000, $1,049,000 and $1,036,000 for the years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

The amortized cost and estimated fair value of debt securities at January 29, 2000, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of securities may have the right to prepay obligations without prepayment penalties.

	Cost	Estimated Fair Value
Due in one year or less	$ 1,143	$ 1,071

NOTE F Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	January 29, 2000	January 30, 1999
Taxes	$ 124,069	$ 114,179
Acquisition and store closure reserves	103,978	91,484
Employee related	100,918	88,551
Advertising and direct marketing	38,804	30,458
Other	169,927	113,554
	$ 537,696	$ 438,226

NOTE G Long-Term Debt and Credit Agreement

Staples manages most financial activities on a centralized basis. Such financial activities include the issuance and repayment of short-term and long-term debt. Staples currently attributes each incurrence or issuance of external debt, and the proceeds thereof, to Staples RD and will continue to do so in the future unless the Board determines otherwise. The Board may, but is not required to, attribute an incurrence or issuance of debt, and the proceeds thereof, to Staples.com at a current estimated borrowing rate of 6%, to the extent that Staples incurs or issues the debt for the benefit of Staples.com.

Long-term debt on the books of Staples RD consists of the following (in thousands):

	January 29, 2000	January 30, 1999
Senior notes with a fixed rate of 7.125%	$ 200,000	$ 200,000
Line of credit	150,000	29,849
Term notes with a fixed rate of 5.875%	148,185	—
Capital lease obligations and other notes payable in monthly installments with effective interest rates from 4% to 16%, collateralized by the related equipment	14,937	7,760
	513,122	237,609
Less current portion	12,219	32,594
	$ 500,903	$ 205,015

Aggregate annual maturities of long-term debt and capital lease obligations are as follows (in thousands):

Fiscal year	Total
2000	$ 12,219
2001	391
2002	228
2003	10
2004	148,196
Thereafter	352,078
	$ 513,122

Included in property and equipment are capital lease obligations for equipment recorded at the net present value of the minimum lease payments of $10,995,000. Future minimum lease payments of $1,226,000, excluding $112,000 of interest, are included in aggregate annual maturities shown above. Staples RD did not enter into any new capital lease agreements during the fiscal years ended January 29, 2000 and January 30, 1999.

Senior Notes

Staples RD issued $200,000,000 of senior notes (the "Notes") on August 12, 1997 with an interest rate of 7.125% payable semi-annually on February 15 and August 15 of each year commencing on February 15, 1998. The Notes are due August 15,

Net proceeds of approximately $198,000,000 from the sale of Staples RD's Notes were used for repayment of borrowings under Staples RD's revolving credit facility

and for general working capital purposes, including the financing of new store openings, distribution facilities and corporate offices.

On May 31, 1999 and August 3, 1999, Staples RD entered into interest rate swaps, each for an aggregate notional amount of $100,000,000, in order to minimize financing costs associated with the Notes. The swap agreements are both scheduled to terminate on August 15, 2007. Under the interest rate swap agreements, Staples RD is entitled to receive semi-annual interest payments at a fixed rate of approximately 7.125% and is obligated to pay interest based on a 30 day Non-Financial U.S. Commercial Paper Rate of 5.69% plus a fixed basis point adjustment at January 29, 2000. Staples RD has designated its $200,000,000 of senior notes and its interest rate swap agreements to be an integrated transaction. Accordingly, the interest rate swaps are being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest rate expense over the life of the agreements.

Credit Agreements

Effective November 13, 1997, Staples RD entered into a revolving credit facility, effective through November 2002, with a syndicate of banks, which provides up to $350,000,000 of borrowings. Borrowings made pursuant to this facility will bear interest at either the lead bank's prime rate, the federal funds rate plus 0.50%, the LIBOR rate plus a percentage spread based upon certain defined ratios, a competitive bid rate, or a swing line loan rate, approximately 5.9% at January 29, 2000. This agreement, among other conditions, contains certain restrictive covenants, including net worth maintenance, minimum fixed charge interest coverage and limitations on indebtedness and sales of assets. As of January 29, 2000, $150,000,000 was outstanding under the revolving credit facility. Staples RD also has available $35,000,000 in uncommitted, short-term bank credit lines, of which no borrowings were outstanding as of January 29, 2000. Staples UK has a $48,600,000 line of credit which had an outstanding balance of $4,500,000 at January 29, 2000. Staples Germany has a $19,900,000 line of credit, Office Centre Netherlands has a $6,600,000 line of credit, Office Centre Portugal has a $500,000 line of credit and The Sundance Depot has a $6,900,000 line of credit, all with no outstanding balances at January 29, 2000.

Euro Notes

Staples RD issued notes in the aggregate principal amount of 150,000,000 euro on November 15,1999. Net proceeds of approximately $145,000,000 were used fund international expansion. These notes bear interest at a rate of 5.875% per annum and are due on November 15, 2004. These notes have been designated as a foreign currency hedge on our net foreign investments in Europe and gains or losses are recorded in the cumulative translation adjustment line in Stockholders' Equity.

Also on November 15, 1999 Staples RD entered into an interest rate swap for an aggregate notional amount of 150,000,000 euro in order to minimize financing costs on the notes issued the same date. The swap agreement is scheduled to terminate on November 15, 2004. Under the interest rate swap agreement, Staples RD is entitled to receive annual interest payments at a fixed rate of approximately 5.875% and is required to make quarterly interest payments at a floating rate of the one month EURIBOR plus 1.11875%, currently approximately 4.2455%. Staples RD has designated its 150,000,000 euro notes and its interest rate swap agreement to be an integrated transaction. Accordingly, the interest rate swap agreement is being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreement is accrued and recognized as an adjustment to interest expense over the life of the agreement.

Interest paid by Staples RD totaled $18,937,000, $29,600,000 and $23,012,000 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. Capitalized interest totaled $433,000, $2,254,000 and $1,387,000 in the years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

4.50% Convertible Debentures

On October 1, 1993, Staples RD issued $300,000,000 of 4.50% Convertible Subordinated Debentures due October 1, 2000 with interest payable semi-annually (the "4.50% Debentures"). During fiscal 1998, $299,995,000 of Staples RD's outstanding 4.50% Debentures were converted into an aggregate of 30,674,276 shares of common stock at a conversion

price of $6.75 per share. The remaining $5,000 were called at par value plus a premium of 1.8% and accrued interest. The total principal amount converted was credited to common stock and additional paid-in capital, net of unamortized expenses of the original debt issue and accrued but unpaid interest.

NOTE 1 Group Equity

On November 9, 1999, the stockholders of Staples approved the Tracking Stock Proposal which reclassified Staples existing common stock as Staples RD Stock, intended to reflect the performance of Staples RD and its retained interest in Staples.com, and created a new class of stock called Staples.com Stock intended to reflect the performance of Staples' e-commerce business. Additional shares may be issued from time to time upon exercise of stock options or at the discretion of the Board. The approval of the Tracking Stock Proposal increased the number of authorized shares to 2,100,000,000 shares of common stock, initially comprised of 1,500,000,000 shares of Staples RD Stock and 600,000,000 shares of Staples.com Stock.

Upon the approval of the Tracking Stock Proposal, if Staples disposes of all or substantially all of the assets of Staples RD or Staples.com, and the disposition is not an exempt disposition, Staples would be required to pay a mandatory dividend to the holders of that series of stock, redeem outstanding shares of that series of stock equal to their proportionate interest in the net proceeds of the disposition or exchange shares of that series of stock for shares of the other series at a 10% premium. At any time within one year after completing a special dividend or partial redemption, Staples will have the right to issue shares of the other series of stock, at a 10% premium, in exchange for the remaining shares of the series of stock which received the dividend or was partially redeemed.

Staples will have the right, at any time, to issue shares of one series of stock in exchange for the other at a premium that will initially be 3% and will decline ratably each quarter over a period of three years to 15%. Notwithstanding these exchange provisions, in the event that certain adverse tax law changes were to take place, Staples will have the right to issue shares of either series of common stock in exchange for outstanding shares of the other series of common stock at a 10% premium, regardless of when such adverse tax law changes take place. In addition, Staples will have the right, at any time Staples.com stock exceeds the 40% of Total Market Capitalization Threshold but is below the 60% of Total Market Capitalization Threshold, to issue shares of either series of common stock in exchange for outstanding shares of the other series of common stock, on a value for value basis. The exchange ratio that will result in the specified premium or value for value exchange will be calculated based on a comparison of the average market values of the two series of common stock during the 5th consecutive trading day period ending on, and including, the 5th trading day immediately preceding the date on which Staples mails the notice of

exchange to holders of the outstanding shares being exchanged. Staples will have the right at any time to transfer all of the assets and liabilities of all of both series of stock to a subsidiary and deliver all of the stock of that subsidiary in exchange for all of the outstanding stock of that series of stock.

Upon liquidation of Staples, holders of Staples RD Stock and Staples.com Stock will be entitled to receive the net assets of Staples available for distribution to stockholders. Amounts due upon liquidation in respect of shares of Staples RD Stock and shares of Staples.com Stock will be distributed pro rata in accordance with the average market value of Staples RD Stock and Staples.com Stock over a 20-Trading Day period ending 300 days after the implementation of the Tracking Stock Proposal. In the absence of a public trading market for Staples.com Stock, market value would be determined in good faith by the Board.

On September 15, 1999, December 30, 1997, March 5, 1996 and June 29, 1995, the Board approved three-for-two splits of Staples Stock to be effected in the form of 50% stock dividends. The dividends were distributed on January 28, 1999 to shareholders of record as of January 18, 1999, January 30, 1998 to shareholders of record as of January 20, 1998, March 25, 1996 to shareholders of record as of March 15, 1996 and July 24, 1995 to shareholders of record as of July 14, 1995, respectively.

On March 4, 1999, the Board approved a stock repurchase program intended to provide shares for employee stock programs. During the fiscal year 1999 Staples RD repurchased approximately $300,105,000 of Staples RD Stock under this program. In addition, Staples RD purchased treasury stock of $10,143,000 and $7,892,000 from employees and directors to fund the exercise price related to those employees and directors associated with the vesting of performance accelerated restricted stock awards.

On July 2, 1999, Staples RD entered into an equity forward purchase agreement to hedge against stock price fluctuations on the repurchase of Staples RD Stock in connection with the annual stock option grant to employees and directors. Under

the agreement Staples RD may purchase 2,600,000 shares at an average price of $30.263 or elect to settle the contract on a net share basis in lieu of physical settlement.

At January 29, 2000, 89,811,472 shares of common stock, regardless of series, were reserved for issuance under Staples' stock option, 401(k), employee stock purchase and director stock option plans.

NOTE J Employee Benefits Plans

Staples RD elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123") requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, since the exercise price of Staples' employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

At the Special Stockholders Meeting on November 9, 1999 the stockholders of Staples approved proposals to amend Staples' 1992 Equity Incentive Plan (the "*Incentive Plan*"), Staples' Amended and Restated 1990 Director Stock Option Plan (the "*Director Plan*") and Staples' 1998 Employee Stock Purchase Plan (the "*Stock Purchase Plan*") (1) to permit grants of awards under each such plan to be made with respect to either series of common stock of Staples, and (2) to increase the number of shares authorized for issuance under each Plan.

Employee Stock Purchase Plan

The Amended Stock Purchase Plan authorizes a total of up to 8,400,000 shares of common stock, regardless of series, to be sold to participating employees. Participating employees may purchase shares of either series of common stock at 85% of its fair market value at the beginning or end of an offering period, whichever is lower, through payroll deductions in . . amount not to exceed 10% of an employee's base compensation.

Stock Option Plans

Under Staples' Incentive Plan, as amended by shareholders on November 9, 1999, Staples may grant to management and key employees incentive and nonqualified options to purchase up to 122,850,000 shares of common stock and Performance Accelerated Restricted Stock ("PARS"), regardless of series. As of February 27, 1997, Staples' 1987 Stock Option Plan (the "1987 Plan") expired; however unexercised options under this plan remain outstanding. The exercise price of options granted under the plans can not be less than 100% of the fair market value of Staples' common stock at the date of grant. Options generally have an exercise price equal to the fair market value of the common stock on the date of grant. Some options outstanding are exercisable at various percentages of the total shares subject to the option starting one year after the grant, while other options are exercisable in their entirety three to five years after the grant date. All options expire ten years after the grant date, subject to earlier termination in the event of employment termination.

Under Staples Director's Plan, as amended by shareholders on November 9, 1999, up to 3,350,000 grants of options and awards of PARS can be made with respect to shares of existing common stock, regardless of series to be issued to non-employee directors. The exercise price of options granted is equal to the fair market value of Staples RD Stock or Staples.com Stock, as the case may be, at the date of grant. Options become exercisable in equal amounts over four years and expire ten years from the date of grant, subject to earlier termination, in certain circumstances, in the event the optionee ceases to serve as a director.

Pro forma information regarding net income and earnings per share is required by FAS 123, which also requires that the information be determined as if Staples has accounted for its employee stock options granted subsequent to January 28, 1995 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1996, 1997, 1998 and 1999: risk-free interest rates ranging from 5.21% to 6.69%, expected dividend yield of zero; volatility factor of the expected market price of Staples' common stock of .30 for fiscal year 1996, .35 for fiscal year 1997, .36 for fiscal year 1998 and .41 for fiscal year 2000; and a weighted-average expected life of the option of 4.0 years for the 1987 Plan and the 1992 Plan and 2.0 to 5.0 years for the Director's Plan.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. For purposes of FAS 123's disclosure requirements, the Employee Stock Purchase Plan is considered a compensatory plan. The expense was calculated based on the fair value of

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[illegible] employees' purchase rights. Staples' pro forma information, which includes the pro forma results of Quill for fiscal years [illegible] and 1997, follows (in thousands except for earnings per share information):

	January 29, 2000	January 30, 1999	January 31, 1998
[illegible] net income	$ 277,369	$ 156,265	$ 138,983
[illegible] basic earnings per common share	$ 0.60	$ 0.36	$ 0.34
[illegible] diluted earnings per common share	$ 0.59	$ 0.35	$ 0.33

The pro forma impact only takes into account options granted since January 28, 1995 and is likely to increase in future years as additional options are granted and amortized ratably over the vesting period.

Information with respect to options granted under the above plans is as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share
[illegible] at February 1, 1997	45,894,855	$ 4.26
Granted	9,656,558	10.43
Exercised	(10,147,409)	2.78
Canceled	(2,807,883)	7.43
[illegible] at January 31, 1998	42,596,121	$ 5.34
Granted	13,698,644	20.22
Exercised	(13,965,713)	3.64
Canceled	(1,938,669)	11.55
[illegible] at January 30, 1999	40,390,383	$ 11.58
Granted	7,101,885	29.58
Exercised	(5,212,791)	5.59
Canceled	(2,162,227)	17.21
[illegible] at January 29, 2000	40,117,250	$ 15.26

The following table summarizes information concerning currently outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ [illegible] - $ [illegible]	1,385,080	3.38	$ 2.37	1,385,080	$ 2.37
$ [illegible] - $ [illegible]	4,837,655	4.20	$ 3.65	4,837,655	$ 3.65
$ [illegible] - $ [illegible]	7,374,735	5.95	$ 8.32	7,088,080	$ 8.32
$ [illegible] - $ [illegible]	6,833,401	7.50	$ 10.49	124,623	$ 10.40
$ [illegible] - $ [illegible]	1,267,574	8.10	$ 14.84	47,924	$ 15.56
$ [illegible] - $ [illegible]	10,140,445	8.42	$ 20.08	433,125	$ 20.08
$ [illegible] - $ [illegible]	7,109,227	9.13	$ 22.49	145,272	$ 23.02
$ [illegible] - $ [illegible]	1,115,730	9.15	$ 28.75	0	$ 0.00
$ [illegible] - $ [illegible]	53,004	9.41	$ 30.97	18,000	$ 30.94
$ [illegible] - $ [illegible]	40,117,250	7.30	$ 15.26	14,079,759	$ 6.71

The weighted-average fair values of options granted during the years ended January 29, 2000, January 30, 1999 and

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January 31, 1998 were $10.70, $7.18 and $3.80, respectively.

Performance Accelerated Restricted Stock ("PARS")

PARS are shares of Staples RD Stock granted outright to employees and non-employee directors without cost to the employee or director. The shares, however, are restricted in that they are not transferable (e.g. they may not be sold) by the employee or director until they vest, generally after the end of five years. Such vesting date may accelerate if Staples achieves certain compound annual earnings per share growth over a certain number of interim years. If the employee leaves Staples, or the director ceases to serve as a director of Staples, prior to the vesting date for any reason, the PARS shares will be forfeited by the employee or director, as the case may be, and will be returned to Staples. Once the PARS have vested, they become unrestricted and may be transferred and sold like any other Staples RD Stock.

PARS issued in the fiscal year ended January 29, 2000 totaling approximately 580,000 shares which have a weighted average fair value of $20.75, initially vest on February 1, 2005 or will accelerate on May 1, in 2002, 2003, or 2004 upon achievement of certain compound annual earnings per share targets. PARS totaling approximately 1,381,000 shares, which have a weighted average fair value of $17.56, issued in fiscal year 1998 will vest on May 1, 2000 as a result of Staples achieving its target earnings goal for the fiscal year ended January 29, 2000.

In connection with the issuance of the PARS, Staples RD included $14,832,000, $9,796,000 and $7,496,000 in compensation expense for the fiscal years ended January 30, 1999, January 30, 1999 and January 31, 1998, respectively.

Employees' 401(k) Savings Plan

Under Staples' Employees' 401(k) Savings Plan (the "401(k) Plan"), and Supplemental Executive Retirement Plan (the "SERP Plan"), Staples may contribute up to a total of 2,503,125 shares of common stock, regardless of series, to these plans. The 401(k) Plan is available to all employees of Staples who meet

minimum age and length of service requirements. Company contributions are based upon a matching formula applied to employee contributions with additional contributions made at the discretion of the Board. In connection with these plans, Staples RD included approximately $4,000,000, $3,000,000 and $2,000,000 in expense for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

NOTE K Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components and the approximate tax effect of Staples RD's deferred tax assets and liabilities as of January 29, 2000 and January 30, 1999, are as follows (in thousands):

	January 29, 2000	January 30, 1999
Deferred Tax Assets:		
Inventory	$ —	$ 27,328
Deferred rent	20,310	19,713
Accrued liabilities	12,251	8,743
Capital loss carryforwards	37,106	27,259
Other net operating loss carryforwards	7,455	7,639
Bad debts	18,368	9,746
Depreciation	21,965	10,823
Tax credit carryforwards	19,694	20,274
Asset basis charge	22,157	17,711
Other—net		
Total Deferred Tax Assets	159,306	149,236
Deferred Tax Liabilities:		
Depreciation	(6,847)	(2,310)
Inventory	(21,501)	—
Deferred rent	(7,424)	(5,165)
Other—net		

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Total Deferred Tax Liabilities	(35,772)	(7,475)
Total Valuation Allowance	(48,892)	(37,765)
Net Deferred Tax Assets	$ 74,642	$ 103,996

Net deferred tax assets disclosed as acquired NOL's and other net operating loss carryforwards, totaling $49,357,000, of which $48,892,000 have been fully reserved due to the uncertainty of the realization of the asset within the local country jurisdiction. Further, if this asset is utilized when income is earned within the foreign jurisdiction, Staples RD will not have a corresponding tax benefit, as Staples RD will be required to pay U.S. income taxes on the income offset by the foreign NOL.

For financial reporting purposes, income before taxes includes the following components (in thousands):

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Profits income	$ 473,543	$ 262,371	$ 213,549
United States	69,648	44,194	36,205
Foreign			
	$ 543,191	$ 306,565	$ 249,754

The provision for income taxes consists of the following (in thousands):

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Current tax expense			
Federal	$ 127,848	$ 136,226	$ 53,248
State	23,625	18,875	10,707
Foreign	31,107	21,798	14,092
	182,580	176,899	78,047
Deferred tax expense (benefit)	29,265	(55,569)	3,877
Total	$ 211,845	$ 121,330	$ 81,924

A reconciliation of the federal statutory tax rate to Staples RD's effective tax rate on historical net income is as follows:

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	5.0%	6.0%	6.0%
Foreign rate	0.6%	0.5%	0.4%
Valuation allowance	(0.0)%	(0.6)%	(5.7)%
Other	(1.6)%	(1.3)%	(2.9)%
Effective tax rate	39.0%	39.6%	32.8%

A reconciliation of the federal statutory tax rate to Staples RD's effective tax rate on pro forma net income is as follows:

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	5.0%	6.0%	6.0%
Goodwill	.6%	.5%	.4%
Other	(1.6)%	(1.4)%	(2.7)%
Effective tax rate	39.0%	40.2%	38.7%

Income tax payments were $168,155,055, $94,729,602, and $23,487,877 during fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998, respectively. Staples RD has net operating losses of approximately $157,950,000 that can be carried forward indefinitely, $21,900,000 of which is attributable to Staples' increased ownership in Staples UK and Staples Germany, and $8,500,000 which is attributable to Staples' purchase of Office Centre Portugal and Sigma.

Undistributed earnings of Staples' foreign subsidiaries amounted to approximately $109,300,000 at January 29, 2000. These earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, Staples would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation. Withholding taxes of approximately $5,500,000 would be payable upon remittance of all previously unremitted earnings at January 29, 2000.

NOTE 4. Leases and Other Off-Balance Sheet Commitments

Staples RD leases certain retail and support facilities under long-term noncancellable lease agreements. Most leases contain renewal options and rent escalation clauses and require Staples RD to pay real estate taxes in excess of specified amounts and, in some cases, allow termination within a certain number of years with notice and a fixed payment. Certain agreements provide for contingent rental payments based on sales.

Other long-term obligations at January 29, 2000 include $55,000,000 relating to future rent escalation clauses and lease incentives under certain existing store operating lease arrangements. These rent expenses are recognized following the straight-line basis of the respective terms of the leases. Future minimum

lease commitments for retail and support facilities (including lease commitments for 154 retail stores not yet opened at January 29, 2000) under noncancellable operating leases are due as follows (in thousands):

Fiscal year	
2000	$ 335,343
2001	341,719
2002	331,120
2003	319,365
2004	303,494
Thereafter	2,398,174
	$ 4,029,215

Rent expense amounted $292,872,000, $234,609,000, and $193,990,000, for the fiscal years ended January 29, 2000, January 30, 1999, and January 31, 1998, respectively.

Letters of credit are issued by Staples RD during the ordinary course of business through major financial institutions as required by certain vendor contracts. As of January 29, 2000, Staples RD had available open letters of credit totaling $9,000,000.

NOTE M Business Acquisitions

On May 21, 1998, Staples acquired Quill. The merger was structured as an exchange of shares in which the stockholders of Quill received approximately 26,000,000 shares of Staples' common stock, at an exchange ratio established at a combination of fixed and variable prices, and cash paid to dissenting shareholder of approximately $48,000,000, which equates to a purchase price of approximately $690,000,000. The merger was accounted for as a pooling of interests, and accordingly, Staples' consolidated financial statements have been restated to include the operations of Quill for all periods prior to the merger. The statements of income combine Staples' historical operating results for the fiscal year ended January 31, 1998 with the corresponding Quill operating results for the year ended December 31, 1997. Prior to the acquisition, Quill elected to be taxed as an S Corporation under the Internal Revenue Code. Accordingly, the current taxable income of Quill was taxable to its shareholders who were responsible for the payment of taxes thereon. Quill has been included in Staples' U.S. federal income tax return subsequent to the date of the acquisition. Pro forma adjustments have been made to the restated statements of operations to reflect the income taxes that would have been provided had Quill been subject to income taxes.

In connection with the acquisition of Quill, Staples committed to a plan that results in the integration of the two businesses. As a result of the acquisition and integration plan, Staples recorded a charge to operating expense of $41,000,000 during the year ended January 30, 1999. These costs consist of direct merger-related and integration costs from the transaction. The merger transaction costs of approximately $10,500,000 consist primarily of fees for investment bankers, attorneys, accountants, and other related charges. The integration costs primarily include employee costs of approximately $7,000,000, contract and lease termination costs of approximately $14,100,000, the write-down of leasehold improvements of approximately $1,400,000 and other merger-related costs of approximately $5,900,000. Through January 29, 2000, Staples had paid approximately $24,000,000, which consists primarily of transaction and employee related costs. Approximately $3,500,000 is included in accrued expense at January 29, 2000, which is

considered to be sufficient to cover the remaining merger related and integration costs to be paid in connection with the Quill acquisition.

Separate net sales and net income of the merged entities prior to the merger are presented in the following table (in

	January 31, 1998
Net sales	
Staples	$ 5,181,035
Quill	551,110
Combined	$ 5,732,145
Net income	
Staples	$ 130,949
Quill	36,965
Combined	$ 167,914
Pro forma net income	
Staples	$ 130,949
Quill (1)	22,179
Combined	$ 153,128

(1) Before adjustment for provision for income taxes on previously untaxed earnings.

On February 26, 1999, Staples, Inc. completed the acquisition of Claricom Holdings, Inc. and certain related entities, now collectively referred to as Staples Communications, for a purchase price of approximately $137,600,000, net of cash acquired. Staples Communications is a full-service supplier of telecommunications services to small and medium sized businesses in the United States. The acquisition has been accounted for using the purchase method of accounting and accordingly Staples has

recognized goodwill of approximately $158,400,000, which will be amortized over 20 years using the straight- line method. As a result of a merger and integration plan that Staples RD began to formulate at the date of acquisition, it recorded a liability in purchase accounting of approximately $6,882,000 for merger and integration costs. The merger transaction costs of approximately $1,852,000 consist of direct costs of the transaction, primarily fees paid for investment bankers, attorneys, accountants and other related costs. The integration costs primarily include employee costs of $4,650,000 and other merger related costs of approximately $380,000. Through January 29, 2000, Staples RD paid approximately $3,096,000 related to this liability. Approximately $3,786,000 is included in accrued expenses at January 29, 2000, which is considered sufficient to cover the remaining merger and integration costs to be paid in connection with the Claricom acquisition.

On October 7, 1999, Staples RD completed the acquisition of three European office supply companies: Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal, for a purchase price of approximately $[illegible], net of cash acquired. The acquisition includes 42 office supply superstores, with 15 stores in Germany, 21 stores in the Netherlands and 6 stores in Portugal. The acquisitions have been accounted for using the purchase method of accounting and accordingly, Staples has recognized goodwill of approximately $96,900,000, which will be amortized over 40 years using the straight-

line method. As a result of a merger and integration plan that Staples RD began to formulate at the date of acquisition, it recorded adjustments to purchase accounting of approximately $30,000,000 for merger and integration costs. The merger transaction costs of approximately $2,275,000 consist primarily of direct costs of the transaction, including fees paid to investment bankers, attorneys, accountants and other related costs. The integration costs primarily include employee related costs of approximately $8,094,000, store closure and conversion costs of approximately $6,948,000, write-down of inventory of approximately $[illegible] and other merger related costs of approximately $6,905,000. Through January 29, 2000, Staples RD had paid approximately $4,300,000 related to this liability. Approximately $19,922,000 is included in accrued expenses at January 29, 2000, which is considered sufficient to cover the remaining merger and integration costs to be paid in connection with the acquisition of these companies.

NOTE 5 Store Closure Charge

In the fourth quarter of 1998, Staples RD committed to a plan to relocate certain stores which cannot be expanded and [illegible] to Staples RD's current store model and reported a pre-tax store closure charge of $49,706,000. The charge includes $[illegible] in future rental payments under operating lease agreements that will be paid after the store is closed and will not be subleased to sublessees income, $4,966,000 in fees, settlement costs and other expenses related to store closure, and $[illegible] in asset impairment charges. In 1998, the Company committed to execute lease agreements for the relocation [illegible] during fiscal year 1999 with the stores to be closed and relocated during fiscal years 1999 and 2000. At January 29, 2000, Staples RD had executed lease agreements for a substantial majority of the stores identified in 1998 and continues to [illegible] negotiate lease agreements for the remaining relocation sites. Negotiations for relocation sites have taken longer to complete than originally anticipated. Any site that the Company is unable to complete negotiations for by the end of the first quarter 2000 will not be closed and the related charges will be reversed. Through January 29, 2000, Staples RD had paid approximately $[illegible] in costs related to the store closures and $34,110,000 remains accrued for future rental payments, [illegible] and other expenses related to the store closures.

As a result of Staples RD's commitment to exit these stores, Staples RD evaluated the long-lived assets at each location in accordance with SFAS 121. The analysis indicated that the long-lived assets of the designated stores were impaired. Accordingly, Staples RD estimated the fair value of these assets based on discounted cash flows and recorded an impairment charge of $[illegible] which is included in the store closure charge. Staples RD will continue to depreciate these assets [illegible] their revised useful life.

NOTE 6 Segment Reporting

Staples RD has three reportable segments: North American Retail, North American Delivery Operations, and European Operations. Staples RD's North American Retail division consists of two operating units that operate stores throughout the US and Canada. Staples RD's North American Delivery Operations division consists of four operating units that sell office products and supplies directly to businesses. The European Operations segment consists of seven operating units which operate office supply stores and sell directly to businesses throughout the United Kingdom, Germany and the Netherlands and [illegible].

Measurement of Segment Profit or Loss and Segment Assets

Staples RD evaluates performance and allocates resources based on profit or loss from operations before income taxes, excluding gains and losses on Staples RD's investment portfolio and interest expense. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at Staples RD's cost, therefore there is no intercompany profit or loss recognized on these transactions.

Factors Management Used to Identify the Enterprise's Reportable Segments

Staples RD's reportable segments are business units that distribute office products in different manners. The reportable segments are each managed separately because they distribute products to different classes of customer with different distribution methods. The European operations are considered a separate operating segment because of the significant differences in the operating environment from the North American operations.

Information about segment profit/loss and segment assets (in thousands)

Year ended January 29, 2000

	N. American Retail	N. American Delivery Operations	European Operations	All Other(1)	Totals
Revenues from external customers	$ 5,996,072	$ 2,362,357	$ 484,031	$ —	$ 8,842,460
Depreciation and amortization expense	125,769	33,768	13,556	—	173,093
Segment profit (loss)	571,138	211,365	(37,248)	(202,064)	543,191
Segment assets	3,415,413	692,408	583,096	—	4,690,917
Expenditures for long-lived assets	301,832	208,855	106,418	—	617,105

Year ended January 30, 1999

	N. American Retail	N. American Delivery Operations	European Operations	All Other(1)	Totals
Revenues from external customers	$ 4,867,124	$ 1,898,089	$ 341,090	$ —	$ 7,106,303
Interest and other income	49,706	41,000	—	—	90,706
Depreciation and amortization expense	98,586	20,093	8,191	—	126,870
Segment profit (loss)	381,900	118,075	(17,077)	(175,846)	307,052
Segment assets	2,886,114	448,367	162,693	—	3,497,174
Expenditures for long-lived assets	333,021	42,089	10,528	—	385,638

Year ended January 31, 1998

	N. American Retail	N. American Delivery Operations	European Operations	All Other(1)	Totals
Revenues from external customers	$ 3,854,745	$ 1,648,509	$ 225,185	$ —	$ 5,728,439
Interest and other income	—	—	—	29,665	29,665
Depreciation and amortization expense	66,344	18,760	5,609	—	90,714
Segment profit (loss)	319,930	112,011	(8,049)	(173,847)	250,054
Segment assets	2,432,096	386,053	130,088	—	2,948,837
Expenditures for long-lived assets	208,304	24,277	49,657	—	282,238

(b) All other includes corporate general and administrative expenses and merger related costs in connection with the then proposed merger with Office Depot, Inc for the year ended January 31, 1998.

Year	January 29, 2000	January 30, 1999
Total assets for reportable segments	$ 4,690,917	$ 3,497,174
Elimination of intercompany receivables	(124,229)	(89,664)
Elimination of intercompany investments	(753,119)	(228,329)
Total consolidated assets	$ 3,813,569	$ 3,179,181

Geographic Information

Year ended January 29, 2000

	Revenues	Long-Lived Assets
North America	$ 8,358,428	$ 1,466,980
Europe	484,032	88,035
Consolidated Total	$ 8,842,460	$ 1,555,015

Year ended January 30, 1999

	Revenues	Long-Lived Assets
North America	$ 6,765,213	$ 1,028,652
Europe	341,090	35,913
Consolidated Total	$ 7,106,303	$ 1,064,565

NOTE P Computation of Earnings per Common Share

The computation of historical earnings per share has been included for the period subsequent to the approval of the Staples.com proposal. The pro forma earnings per share has been calculated to give the effect to the sale of Staples.com stock in private placements and includes a provision for income taxes on

combined earnings as pooled for operations as though Staples RD Stock had existed for all periods presented (amounts in thousands, except for per share data):

Fiscal Periods Ended	13 weeks ended January 29, 2000
Numerator:	
Net income	$ 120,127
Denominator:	
Weighted-average shares	455,978,860
Performance-contingent restricted stock	12,571

Denominator for basic earnings per common share—weighted-average shares	455,991,431
Effect of dilutive securities:	
Incremental and windfall shares	9,945,465
Performance accelerated restricted stock	1,131,386
Dilutive potential common shares	11,076,851
Denominator for diluted earnings per common share—adjusted weighted-average shares and assumed conversions	467,068,283
Basic earnings per common share	$ 0.26
Diluted earnings per common share	$ 0.26

Reconciliation for Years Ended (Dollars in Millions, Except Per Share Amounts)	January 29, 2000	January 30, 1999	January 31, 1998
Basic earnings			
Reported net income	$ 315,718	$ 185,370	$ 167,914
Pro forma provision for taxes on previously untaxed earnings of S-C corporation income	—	(1,814)	(14,786)
Adjustment for pro forma retained interest in Sears.com	356	27	12
Pro forma net income	$ 316,074	$ 183,583	$ 153,140
Effect of dilutive securities:			
4 1/2% convertible debentures(a)	—	7,451	9,365
Numerator for diluted earnings per common share—pro forma income available to common stockholders after assumed conversions	$ 316,074	$ 191,034	$ 162,505
Denominator:			
Basic weighted-average shares	460,278,709	429,308,638	408,095,647
Performance accelerated restricted stock	169,595	2,314	2,330
Denominator for basic pro forma earnings per common share—weighted-average shares	460,448,304	429,310,952	408,097,977
Effect of dilutive securities:			
Incremental and windfall shares	12,330,260	12,648,979	12,769,769
Performance accelerated restricted stock	282,846	208,300	209,592
4 1/2% convertible debentures(a)	—	25,856,165	30,681,819
Dilutive potential common shares	12,613,106	38,713,444	43,661,180
Denominator for diluted earnings per common share—adjusted weighted-average shares and assumed conversions	473,061,410	468,024,396	451,759,157
Basic pro forma earnings per common share	$ 0.69	$ 0.43	$ 0.38
Diluted pro forma earnings per common share	$ 0.67	$ 0.41	$ 0.36

(a) The 4 1/2% Debentures were substantially converted into common stock on December 2, 1998 (see Note H). For the computation of earnings per common share, this conversion of 30,674,276 shares is assumed to have occurred at the beginning of the fiscal year (February 1, 1998), and is included in the weighted-average shares outstanding for the year. Therefore, the interest expense and amortization of deferred charges related to the 4 1/2% Debentures incurred by Sears Roebuck Acceptance Corp. prior to December 2, 1998, net of tax, is added back to reported net income to compute earnings per common share for the years ended January 30, 1999 and January 31, 1998.

NOTE Q Quarterly Summary (Unaudited)

Staples Retail and Delivery

Fiscal Year Ended January 29, 2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Sales	$ 2,060,374	$ 1,824,500	$ 2,369,382	$ 2,587,754
Gross profit	492,083	450,924	588,742	662,942
Income net income	50,314	52,744	92,534	120,126
Net income attributed to Staples RD Stock	50,438	52,842	92,705	120,229
Basic earnings per common share				
Historical net income per common share attributed to Staples RD Stock(1)				$ 0.26
Pro forma net income per common share attributed to Staples RD Stock(2)	$ 0.11	$ 0.11	$ 0.20	$ 0.26
Diluted earnings per share				
Historical net income per common share attributed to Staples RD Stock(1)				$ 0.26
Pro forma net income per common share attributed to Staples RD Stock(2)	$ 0.11	$ 0.11	$ 0.20	$ 0.26

Fiscal Year Ended January 30, 1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Sales	$ 1,668,367	$ 1,472,890	$ 1,895,724	$ 2,069,322
Gross profit	380,209	347,145	467,097	527,650
Net income	35,950	8,974(3)	69,186	71,260(5)
Net income attributed to Staples RD Stock	34,137(4)	8,977(3)	69,192	71,277(5)
Basic earnings per share				
Pro forma net income per common share attributed to Staples RD Stock(2)	$ 0.08	$ 0.02(3)	$ 0.16	$ 0.16(5)
Diluted earnings per share				
Pro forma net income per common share attributed to Staples RD Stock(2)	$ 0.08(6)	$ 0.02(3)	$ 0.15(6)	(5) $ 0.15(6)

(1) Historical earnings per share is omitted for the 1st, 2nd and 3rd quarters of fiscal year ending January 29, 2000 and for the entire fiscal year ending January 30, 1999 as Staples RD Stock was not created until the quarter ended January 29, 2000 as a result of the approval of the "Tracking Stock Proposal" which changed Staples capital structure by creating Staples RD Stock and reclassifying Staples common stock as Staples RD Stock.

(2) Pro forma information is calculated to give effect to the sale of 12,792,308 shares of Staples.com Stock in private placements. In preparing pro forma information, those transactions were assumed to have occurred on February 2, 1998.

(3) Net income for the quarter ended August 1, 1998 includes a pre-tax charge of $41,000 resulting from costs incurred in connection with the merger with Quill Corporation

(4) Pro forma net income includes the earnings of Quill with provision for income taxes on previously untaxed earnings of Quill S-Corporation income

(5) Net income for the quarter ended January 30, 1999 includes a pre-tax charge of $49,706 resulting from a store closure charge

(6) Earnings per share - assuming dilution is calculated considering the $300 million of 4 1/2% Convertible Subordinated Debentures as common stock equivalents for the entire quarter.

Report of Independent Auditors

Board of Directors and Shareholders
Staples, Inc.

We have audited the accompanying combined balance sheets of Staples.com (as described in Notes A and C) as of January 29, 2000 and January 30, 1999, and the related combined statements of operations, group equity and cash flows for each of the three years in the period ended January 29, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Staples.com at January 29, 2000 and January 30, 1999 and the results of its operations and its cash flows for each of the three years in the period ended January 29, 2000 in conformity with accounting principles generally accepted in the United States.

As more fully described in Notes A and C to these financial statements, Staples.com is a business group of Staples, Inc., and the accompanying combined financial statements of Staples.com should be read in conjunction with the audited financial statements of Staples, Inc.

/s/ Ernst & Young LLP
ERNST & YOUNG LLP

Boston, Massachusetts
March 3, 2000

STAPLES.COM

Combined Balance Sheets

(Dollar Amounts in Thousands)

http://www.sec.gov/Archives/edgar/data/791519/0000912057-00-010998-586-762&Type=HTM 3/27/00

	January 29, 2000	January 30, 1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ —	$ —
Prepaid expenses and other current assets	1,578	1,033
Inter-business receivable from Staples RD	23,660	—
Total current assets	25,238	1,033
Equipment:		
Equipment	13,538	1,072
Less accumulated depreciation	1,110	58
Net equipment	12,428	1,014
Other Assets		
Other assets	34,755	—
	$ 72,421	$ 2,047
LIABILITIES AND GROUP EQUITY		
Current Liabilities:		
Accrued expenses and other current liabilities	$ 7,466	$ 85
Total current liabilities	7,466	85
Group Equity	64,955	1,962
	$ 72,421	$ 2,047

See notes to combined financial statements.

STAPLES.COM

Combined Statements of Operations

(Dollar Amounts in Thousands, Except Share Data)

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Sales	$ 94,349	$ 16,886	$ 3,706
Cost of goods sold and occupancy costs	73,794	12,721	2,775
Gross profit	20,555	4,165	931
Operating and other expenses:			
Operating and selling	27,063	2,058	637
Web development costs	4,050	939	—
General and administrative	16,341	1,931	586
Interest and other (income), net	(82)	28	8
Total operating and other expenses	47,372	4,956	1,231

Loss before income taxes	(26,817)	(791)	(300)
Income tax benefit	(10,459)	(304)	—
Net loss	$ (16,358)	$ (487)	$ (300)
Net loss attributed to (Note A):			
Staples.com Stock	(730)	—	—
Staples RD Stock	(15,628)	(487)	(300)
	$ (16,358)	$ (487)	$ (300)
Basic net loss per common share:			
Historical net loss per common share for the 13 weeks ended January 29, 2000	$ (0.05)		
Diluted net loss per common share:			
Historical net loss per common share for the 13 weeks ended January 29, 2000	$ (0.05)		
Pro forma net loss per common share for tracking stock and S corporation conversion:			
Basic net loss per common share:			
Pro forma net loss per common share	$ (0.08)	$ —	$ —
Diluted net loss per common share:			
Pro forma net loss per common share	$ (0.08)	$ —	$ —

See notes to combined financial statements.

STAPLES.COM

Combined Statements of Equity

(Dollar Amounts in Thousands)

For the Fiscal Years Ended January 29, 2000, January 30, 1999, and January 31, 1998

	Group Equity	Comprehensive Income
Balances at February 1, 1997	$ —	$ —
Capital contributions by Staples RD	300	
Net loss for the year	(300)	(300)
Balances at January 31, 1998	—	$ (300)
Capital contributions by Staples RD	2,449	
Net loss for the year	(487)	(487)
Balances at January 30, 1999	1,962	$ (487)
Capital contributions by Staples RD	29,920	
Issuance of common shares for stock options exercised	23,111	
Tax benefits of options exercised	19,625	
Net loss for the year	(16,358)	(16,358)
Unrealized gain on investments	6,695	6,695

Balances at January 29, 2000	$ 64,955	$ (9,663)

See notes to combined financial statements.

STAPLES.COM

Combined Statements of Cash Flows

(Dollar Amounts in Thousands)

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Operating Activities:			
Net loss	$ (16,358)	$ (487)	$ (300)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	1,052	58	—
Changes in assets and liabilities			
Increase in prepaid expenses and other assets	(545)	(1,033)	—
Increase in accounts payable, accrued expenses and other current liabilities	7,381	85	—
	7,888	(890)	—
Net cash used in operating activities	(8,470)	(1,377)	(300)
Investing Activities:			
Acquisition of property and equipment	(12,466)	(1,072)	—
Purchase of long-term investments	(23,780)	—	—
Net cash used in investing activities	(36,246)	(1,072)	—
Financing Activities:			
Net proceeds from sale of capital stock	42,736	—	—
Intercompany advance to Staples RD	(27,940)	—	—
Proceeds from borrowings	14,796	1,377	300
Repayment of borrowings	(14,796)	(1,377)	(300)
Capital contributions from Staples RD	29,920	2,449	300
Net cash provided by financing activities	44,716	2,449	300
Net (decrease) increase in cash and cash equivalents	—	—	—
Cash and cash equivalents at beginning of period	—	—	—
Cash and cash equivalents at end of period	$ —	$ —	$ —

See notes to combined financial statements.

STAPLES.COM

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE A Basis Of Presentation

These combined financial statements and notes to combined financial statements of Staples.com should be read in conjunction with the audited consolidated financial statements and Annual Report of Staples, Inc. ("Staples" or the "Company") for the year ended January 29, 2000 and the audited combined financial information of Staples Retail and Delivery ("Staples RD") contained in this report. Staples.com provides an electronic marketplace where small, mid-sized and large businesses can buy office products and services and obtain information and expert content. Our principal web sites are Staples.com, Quill.com and StaplesLink.com, each of which operates its own web site and serves a separate target customer base.

On September 2, 1999, the stockholders of Staples approved a proposal ("the Tracking Stock Proposal") which amended the Company's certificate of incorporation to (i) authorize the issuance of a new series of common stock, designated as Staples.com common stock ("Staples.com Stock"), intended to reflect the performance of Staples.com, the Company's e-commerce business, (ii) increase the aggregate number of shares of common stock that the Company may issue from 3,000,000,000 to 3,100,000,000, initially comprised of 1,500,000,000 shares of Staples Retail and Delivery common stock ("Staples RD Stock") and 600,000,000 shares of Staples.com Stock, and (iii) re-classify Staples' existing common stock as Staples RD Stock, intended to reflect the performance of Staples RD, which consists of all of the Company's other businesses and investments except Staples.com.

Staples RD had an 85% and 100% retained interest in Staples.com at January 29, 2000 and January 30, 1999, respectively. During the fiscal year ended January 29, 2000, Staples.com issued 12,792,308 shares of Staples.com Stock in private placements and 14,000,000 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional public or private financings. The specific terms of those financings, including the number of Staples.com Stock issued and the timing of the financings, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of those financings on the retained interest percentage and the controlling interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to attribute the net proceeds of such financings to the equity of Staples.com or to Staples RD in respect of its retained interest. The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for an initial public offering of Staples.com common stock.

In preparing separate financial statements for Staples RD and Staples.com, the Company has allocated, for financial reporting purposes, certain consolidated assets, liabilities, revenue, expenses and cash flows between Staples RD and Staples.com. These combined financial statements of Staples RD and Staples.com, taken together, comprise all of the amounts included in the corresponding consolidated financial statements of Staples. Staples.com's combined financial statements reflect the application of certain cash management and allocation policies adopted by the board of directors of Staples.com ("Board"). These policies are summarized in Note C under "Corporate Activities". Staples.com's combined financial statements include the financial position, results of operations, and cash flows of Staples.com. These financial statements do not represent Staples' primary financial statement presentation.

The Board may modify or rescind these policies without the approval of the stockholders, although no such changes are currently contemplated. Any such changes would be made in the good faith business judgement of the Company's best interests, taking into consideration the interests of all stockholders.

The Company has provided to the holders of both Staples RD Stock and Staples.com Stock separate financial statements, selected historical financial information of the businesses and other relevant information for Staples RD and Staples.com as well as consolidated financial information of the Company. Notwithstanding the allocation of assets and liabilities, including [illegible] between Staples RD and Staples.com for the purposes of preparing their respective combined financial statements, the allocation and the change in the capital structure of the Company as a result of the approval of the Tracking Stock Proposal will not result in the distribution or spinoff to stockholders of any of the Company's assets and liabilities and will not affect the ownership of the assets or responsibility for its liabilities or those of its subsidiaries. Holders of Staples RD Stock and Staples.com Stock will be stockholders of the Company. The assets the Company attributes to one business are subject to the liabilities of the other business if such liabilities arise from lawsuits, contracts or indebtedness attributed to the other business. If, in connection with the liabilities the Company has attributed to the other business. Further, holders of Staples RD Stock and Staples.com Stock may not have any legal rights related to specific assets of either business and in any [illegible] of the net assets of the Company, which may not reflect the actual trading prices, if any,

financial effects from one business that affect the Company's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other businesses and the market price of the stock relating to the other businesses. In addition, net losses of either business and dividends and distributions on, or repurchases of, either class of common stock or repurchases of common stock at a price per share greater than par value will reduce the funds we can pay on each class of common stock under Delaware Law. Accordingly, financial information for Staples.com's combined financial statements should be read in conjunction with the Company's audited consolidated financial statements and the combined financial information of Staples RD contained in this report.

Certain prior year reported amounts have been reclassified to conform with the current period presentation.

NOTE B Summary of Significant Accounting Policies

Basis of Presentation. Staples.com represents the e-commerce business of Staples and is comprised of three principal web sites, including *Staples.com*, *Quill.com* and *StaplesLink.com*. Staples RD represents the other businesses of Staples, including its retail store, catalog business and contract stationer business.

Fiscal Year. Staples.com's fiscal year is the 52 or 53 weeks ending the Saturday closest to January 31. Fiscal years 1999, 1998 and 1997 consisted of the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. As more fully described in Note K, the statements of operations combine Staples' historical operating results for the fiscal year with the corresponding Quill Corporation ("Quill") operating results for the calendar year ended December 31, 1997.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management of Staples.com to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Relationship with Staples. Staples.com does not carry any inventory or receivables and is solely reliant upon Staples for its operations, and the Board will determine, in its sole discretion, whether to provide any additional funds on a periodic basis to either group, but will not be obligated to do so.

Advertising. Advertising production costs are expensed the first time advertising takes place. Total advertising and promotion expenses were $2,011,000, $1,595,000 and $497,000 for the years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. Included in prepaid and other assets was $1,033,000 at January 30, 1999, relating to prepaid advertising and promotion expenses. There was no prepaid advertising and promotion expenses at January 29, 2000.

Site Development Costs. Site development costs consist principally of payroll and related expenses for development, design and production operations personnel and consultants, hosting costs and system design costs.

Property and Equipment. Property and equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Certain system and telecommunications, relating to the site development infrastructure, have been capitalized in accordance with Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Depreciation periods for equipment are three to five years.

Investments. Staples.com's investments are classified as available for sale and consist of stock purchased in Internet related companies. Investments that qualify as marketable equity securities are carried at fair value using quoted market prices and other investments have been accounted for on a cost basis as each investment represents an interest of no greater than fifteen percent of the outstanding stock of that company. Unrealized gains and losses are reported as a component of Staples.com's shareholders' equity.

Stock-Based Plans. Staples.com has adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). As permitted by FAS 123, Staples continues to account for its stock-based plans under Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"), and provides pro forma disclosures of compensation expense determined under the fair value provisions of FAS 123.

Net Loss Per Share. Staples.com calculates net loss per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("FAS 128") which requires disclosure of basic and diluted earnings per share. Earnings per share for Staples.com is presented for periods subsequent to the approval of Tracking Stock Proposal, which represents the point at which Staples.com became part of the capital structure of the Company. Basic net loss per share for

Stock is computed by dividing (i) the loss of Staples.com multiplied by the "Outstanding Staples.com Fraction" by (ii) the weighted average number of shares of Staples.com Stock outstanding during the applicable period. The "Outstanding Staples.com Fraction" is a fraction, the numerator of which is the weighted average number of shares of Staples.com Stock outstanding and the denominator of which is the number of shares of Staples.com Stock that, if issued, would represent 100 percent of the equity of Staples.com. Diluted earnings per share includes the effects of applying the treasury stock method to outstanding stock options, performance accelerated restricted stock ("PARS") and derivative instruments when dilutive. Pro forma loss per share has been calculated to give the effect to the sale of 12,792,308 shares of Staples.com Stock in the private placements. In presenting this pro forma information, these transactions were assumed to have

occurred on February 2, 199[illegible]. In addition, the pro forma information includes a benefit for income taxes on previously unconsolidated losses of pooled S-Corporation.

Long-Lived Assets. Staples.com adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of", which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flow estimated to be generated by those assets are less than the assets' carrying amounts.

Segment Reporting. Management's approach to segment reporting, establishes requirements to report selected segment information quarterly and to report entity-wide disclosures about products and services, major customers, and the major countries in which Staples.com holds assets and reports revenues. Staples.com holds assets and reports revenues in one operating segment.

NOTE C Corporate Activities

Staples.com's financial statements reflect the application of the management and allocation policies adopted by the Board of Directors of Staples, as described below.

Cash Management and Allocation Policies. In order to prepare separate financial statements for Staples RD and Staples.com, Staples has allocated, for financial reporting purposes, all of its consolidated assets, liabilities, revenue, expenses and cash flow between Staples RD and Staples.com. Thus, the financial statements of Staples RD and Staples.com, taken together, comprise all of the accounts included in the corresponding financial statements of Staples. The financial statements of Staples RD and Staples.com reflect the application of cash management and allocation policies adopted by the Board. These policies are summarized below. The Board may, in its sole discretion, modify, rescind or add to any of these policies, although it has no present intention to do so. The decision of the Board to modify, rescind or add to any of these policies would be subject to the Board's general fiduciary duties. Even though Staples has allocated all of its consolidated assets, liabilities, revenue, expenses and cash flow between Staples RD and Staples.com, holders of Staples.com stock will be common stockholders of Staples and, as such, will be subject to all risks associated with an investment in Staples and all of its businesses, assets and liabilities.

Financing Activities. Staples manages most finance activities on a centralized, consolidated basis. These activities include the investment of surplus cash, the issuance, repayment and repurchase of short-term and long-term debt, and the issuance and repurchase of common stock. Staples.com generally remits its cash receipts to Staples RD, but is not obligated to do so. Staples RD generally funds Staples.com's cash disbursements on a regular basis, but is not obligated to do so.

In the combined financial statements of Staples RD and combined financial statements of Staples.com:

- All equity transactions, and the proceeds thereof, were attributed to the business whose stock was affected;
- Whenever Staples.com held cash, that cash was transferred to Staples RD and accounted for as an inter-company revolving credit advance; and

Whenever Staples.com had a cash need, that cash need was funded by Staples RD and accounted for as an inter-business revolving credit advance. The inter-business revolving credit arrangement bears interest at a rate at which the Board, in its sole discretion, determines Staples could borrow such funds on a revolving credit basis, which was 6% for the fiscal years 1997, 1998 and 1999. The Board, at its sole discretion, may elect an alternative financing mechanism between Staples RD and Staples.com based upon the facts and circumstances. The Board has adopted the following additional policies related to the Staples.com Stock:

- Staples will attribute each future incurrence or issuance of external debt or preferred stock, and the proceeds thereof, to Staples RD, unless the Board determines otherwise. The Board may, but is not required to, attribute an incurrence or issuance of debt or preferred stock, and the proceeds thereof, to Staples.com to the extent that Staples incurs or issues the debt or preferred stock for the benefit of Staples.com.

- Staples will attribute each future issuance of Staples RD Stock, and the proceeds thereof, to Staples RD. Staples may attribute any future issuance of Staples.com Stock, and the proceeds thereof, to Staples RD in respect of its retained interest in Staples.com, in a manner analogous to a secondary offering of common stock of a subsidiary owned by a corporate parent, or to Staples.com, in a manner analogous to a primary offering of common stock. Dividends on and repurchases of Staples RD Stock will be charged against Staples RD, and dividends on and repurchases of Staples.com Stock will be charged against Staples.com. In addition, at the time of any dividend on Staples.com Stock, Staples will credit to Staples RD, and charge against Staples.com, a corresponding amount in respect of Staples RD's retained interest in Staples.com.

- Staples will account for all cash transfers from one business to or for the account of the other business (other than transfers in return for assets or services rendered or transfers in respect of Staples RD's retained interest that correspond to dividends paid on Staples.com Stock), as inter-business revolving credit advances unless:

the Board determines that a given transfer, or type of transfer, should be accounted for as a long-term loan;

the Board determines that a given transfer, or type of transfer, should be accounted for as a capital contribution increasing Staples RD's retained interest in Staples.com; or

the Board determines that a given transfer, or type of transfer, should be accounted for as a return of capital reducing Staples RD's retained interest in Staples.com.

Prior to or at the time it determine when Staples will account for a cash transfer as a long-term loan, a capital contribution or a return of capital rather than an inter-business revolving credit advance. The Board would make such a determination in the exercise of its business judgment at the time of such transfer, or the first of such type of transfer, based upon all relevant circumstances. Factors the Board would consider include:

the current and projected capital structure of each business;

the relative levels of internally generated funds of each business;

the business needs and objectives of the recipient business;

the business needs and objectives of the transferring business;

the costs and risks associated with alternative financing sources; and

prevailing interest rates and general economic conditions.

- Any cash transfer accounted for as an inter-business revolving credit advance will bear interest at the rate at which the Board, in its sole discretion, determines Staples could borrow such funds on a revolving credit basis. Any cash transfer accounted for as a long-term loan will have interest rate, amortization, maturity, redemption and other terms that generally reflect the then prevailing terms on which the Board, in its sole discretion, determines Staples could borrow such funds.

- Any cash transfer from Staples RD to Staples.com, or for Staples.com's account, accounted for as a capital contribution will correspondingly increase Staples.com's group equity and Staples RD's retained interest in Staples.com. As a result, the number of shares issuable with respect to Staples RD's retained interest in Staples.com will increase by the amount of such capital contribution divided by the market value of Staples.com Stock on the date of transfer.

- Any cash transfer from Staples.com to Staples RD, or for Staples RD's account, accounted for as a return of capital will correspondingly reduce Staples.com's group equity and Staples RD's retained interest in Staples.com. As a result, the number of shares issuable with respect to Staples RD's retained interest in Staples.com will decrease by the amount of such return of capital divided by the market value of Staples.com Stock on the date of transfer.

Through the quarter ending October 30, 1999, fixed asset and investment purchases have been treated as capital contributions from Staples RD. Also, operating cash flow losses in 1999 were funded by Staples RD as an inter-business payable and has been offset by the proceeds received from the issuance of Staples.com Stock, which was distributed to Staples RD. Operating cash flow losses and fixed asset and investment purchases subsequent to October 30, 1999 were charged to Staples.com.

Shared Services and Support Expenses. The cost of services shared by Staples RD and Staples.com, including general and administrative expenses, have been allocated between Staples RD and Staples.com based upon the use of such services and the good faith judgment of the Board or Staples' management. Where determinations based on use alone were not practical, other methods and criteria were used to provide a reasonable allocation of the cost of shared services, including support functions and facilities between Staples RD or Staples.com. Such allocated shared services represent, among other things, finance and accounting services, information system services, certain selling and marketing activities, certain merchandising and implementation services, transportation and warehouse management services, certain customer service activities, executive management, human resources, legal and corporate planning activities. For example, for printed advertisements and commercials that include both Staples RD and Staples.com, we currently reimburse Staples RD for that amount of space or air time devoted to Staples.com plus a proportionate part of the total cost of the rest of the advertisements or commercials based on a ratio that takes into account the relative sales of Staples RD and Staples.com.

Taxes. Federal income taxes, which are determined on a consolidated basis, are allocated between the businesses of Staples RD and Staples.com and reflected in their respective financial statements, in accordance with Staples' tax allocation policy. In general, this policy provides that the consolidated tax provision, deferred tax accounts and related tax payments or benefits are allocated between Staples RD and Staples.com based principally upon the financial income, taxable income, credits and other amounts

directly related to their respective businesses. Tax benefits that cannot be used by the business generating such attributes, but can be utilized on a consolidated basis, are allocated to the business that generated such benefits. As a result, the allocated balances of taxes payable or refundable are not necessarily comparable to those that would have resulted if Staples RD and Staples.com had filed separate tax returns. State income taxes generally are computed on a separate business basis.

Inventory. Staples RD sells inventory to Staples.com for resale. The cost per inventory unit purchased by Staples.com from Staples RD is the product cost. Staples RD maintains inventory to support Staples.com's inventory needs and charges Staples.com for the cost of carrying such inventory. Staples RD charges Staples.com a carrying charge for use of their capital for inventory purchases as determined by the Board. The carrying charge is reflected in Staples.com's financial statements as part of operating and selling expenses and in Staples RD's financial statements as a credit to operating and selling expenses. This charge is calculated based on the amount of receivables and inventory that Staples RD is required to carry for Staples.com. In addition, freight, distribution and other inventory costs are allocated to Staples.com based on Staples.com's share

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of such costs. The Board may, in its sole discretion, change the carrying charge charged to Staples.com as it deems appropriate in light of the circumstances from time to time.

Employee Benefits. Staples.com participates in the following Staples employee benefit plans: an Employee Stock Purchase Plan, an Employee 401(k) Savings Plan, a Supplemental Executive Retirement Plan and a contributory Medical and Dental Plan. The costs of these plans are allocated based on the benefits received under the plans by the employees comprising Staples RD and Staples.com or such other basis as Staples' management believes to be an equitable and reasonable estimate of such costs.

NOTE D Related Party Transactions

Staples RD sells inventory to Staples.com for resale. Under this arrangement, Staples.com purchases inventory from Staples RD for resale. The cost per inventory unit purchased by Staples.com is based on Staples RD's product cost. Inventory purchased by Staples.com totaled $62,706,000, $10,796,000 and $2,364,000 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

NOTE E Investments

The following is a summary of available-for-sale investments as of January 29, 2000 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Long-term				
Equity securities	$ 23,780	$ 10,975	$ —	$ 34,755

NOTE F Long-Term Debt and Credit Agreement

Staples manages most financial activities on a centralized basis. Such financial activities include the issuance and repayment of short-term and long-term debt. Staples currently attributes each incurrence or issuance of external debt, and the proceeds thereof, to Staples RD and will continue to do so in the future unless the Board determines otherwise. The Board may, but is not required to, attribute an incurrence or issuance of debt, and the proceeds thereof, to Staples.com at a current commercial borrowing rate of 6%, to the extent that Staples incurs or issues the debt for the benefit of Staples.com.

NOTE G Group Equity

On November 9, 1999, the stockholders of Staples approved the Tracking Stock Proposal which reclassified Staples existing common stock as Staples RD Stock, intended to reflect the performance of Staples RD and its retained interest in Staples.com, and created a new class of stock called Staples.com Stock intended to reflect the performance of Staples' e-commerce business. Additional shares may be issued from time to time upon exercise of stock options or at the discretion of the Board. The approval of the Tracking Stock Proposal increased the number of authorized shares to 2,100,000,000 shares of common stock, consisting of 1,500,000,000 shares of Staples RD Stock and 600,000,000 shares of Staples.com Stock.

Under the terms of the Tracking Stock Proposal, if Staples disposes of all or substantially all of the assets of Staples RD or Staples.com and the disposition is not an exempt disposition, Staples would be required to pay a mandatory dividend to the holders of that series of stock, redeem outstanding shares of that series of stock equal to their proportionate interest in the net proceeds of the disposition or exchange shares of that series of stock for shares of the other series at a 10% premium. At any time within one year after completing a special dividend or partial redemption, Staples will have the right to issue shares of the other series of stock at a 10% premium in exchange for the remaining shares of the series of stock which received the dividend or was partially redeemed.

Staples will have the right, at any time, to issue shares of one series of stock in exchange for the other at a premium that will initially be 3% and will increase each quarter over a period of three years to 15%. Notwithstanding these exchange provisions, in the event that certain adverse tax law changes were to take place, Staples will have the right to issue shares of each series of common stock in exchange for outstanding shares of the other series of common stock at a 10% premium, regardless of when such adverse tax law changes take place. In addition, Staples will have the right, at any time

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http://www.sec.gov/cgi-bin/viewer?action=view&cik=791519&accession_number=912057-00-010998&xsl_doc=1&xsl_path=/Archives/edgar/data/791519/000091205700010998/a2031138z10-k405.htm (125 of 127) [1/27/2000 11:11:54 AM]

Staples.com Stock exceeds the 40% of total market capitalization threshold but is below the 60% of total market capitalization threshold, to issue shares of either series of common stock in exchange for outstanding shares of the other series of common stock on a value for value basis. The exchange ratio that will result in the specified premium or value for value exchange will be calculated based on a comparison of the average market values of the two series of common stock during the 20 consecutive trading day period ending on, and including, the 5th trading day immediately preceding the date on which Staples mails the notice of exchange to holders of the outstanding shares being exchanged. Staples will have the right at any time to transfer all or the assets and liabilities of on or both series of stock to a subsidiary and deliver all of the stock of that subsidiary in exchange for all of the outstanding stock of that series of stock.

Upon liquidation of Staples, holders of Staples RD Stock and Staples.com Stock will be entitled to receive the net assets of Staples, if any, available for distribution to stockholders. Amounts due upon liquidation in respect of shares of Staples RD Stock and shares of Staples.com Stock will be distributed pro rata in accordance with the average market value of Staples RD Stock and Staples.com Stock over a 20-Trading Day period ending 300 days after the implementation of the Tracking Stock Proposal. In the absence of a public trading market for Staples.com Stock, market value would be determined in good faith by the board.

Staples RD had an 89% and 100% retained interest in Staples.com, at January 29, 2000 and January 30, 1999, respectively. During the fiscal year ended January 29, 2000, Staples.com issued 12,792,308 shares of Staples.com Stock in private placements, and 14,494,878 shares through the exercise of employee stock options. Staples.com may issue additional shares of Staples.com Stock in one or more additional public or private financings. The specific terms of those financings, including the amount of

Staples.com Stock issued and the timing of the financings, will depend upon factors such as stock market conditions and the performance of Staples.com. The effect of those financings on the retained interest percentage and the outstanding interest percentage would depend upon the number of shares of Staples.com Stock sold and whether the Company elects to attribute the net proceeds of such financings to the equity of Staples.com or to Staples RD in respect of its retained interest. The book value ascribed to the Staples RD's retained interest in Staples.com will be increased proportionately for net income (or decreased proportionately for net loss) of Staples.com.

NOTE H Employee Benefit Plans

Staples has elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123") requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, since the exercise price of Staples' employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

At the Special Stockholders Meeting on November 9, 1999 the stockholders of Staples approved proposals to amend each of the following: Staples 1992 Equity Incentive Plan (the *"Incentive Plan"*), Staples' Amended and Restated 1990 Director Stock Option Plan (the *"Director Plan"*) and Staples 1998 Employee Stock Purchase Plan (the *"Stock Purchase Plan"*) (1) to permit grants of awards under such plan to be made with respect to either series of common stock of Staples, and (2) to increase the number of shares authorized for issuance under each Plan.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan authorizes a total of up to 8,400,000 shares of common stock, regardless of series, to be issued to participating employees. Participating employees may purchase shares of either series of common stock at 85% of its fair market value at the beginning or end of an offering period, whichever is lower, through payroll deductions in an amount not to exceed 10% of an employee's base compensation.

Stock Option Plans

Staples' 1992 Equity Incentive Plan, as amended by shareholders on November 9, 1999, Staples may grant to management and other employees, directors and consultants options to purchase up to 122,850,000 shares of common stock and Performance Awards to acquire shares of Staples' regardless of series. As of February 27, 1997, Staples' 1987 Stock Option Plan (the "1987 Plan") was terminated; however, options under this plan remain outstanding. The exercise price of options granted under the Incentive Plan may not be less than 100% of the fair market value of Staples' common stock at the date of grant. The options granted in May 1999 were granted at the fair market value from a private placement around the same time. Staples.com options are

exercisable immediately and vest over a period of one to four years. The options expire ten years after the grant date, subject to earlier termination in the event of employment termination.

Under Staples Director's Plan, as amended by shareholders on November 9, 1999, up to 3,350,000 grants of options and awards of PARS can be made with respect to shares of existing common stock.

options of the series to be issued to non-employee directors. The exercise price of options granted is equal to the fair market value of Staples' RTI Stock or Staples.com Stock at the date of grant. Options become exercisable in equal amounts over four years and expire ten years from the date of grant, subject to earlier termination, in certain circumstances, in the event the optionee ceases to serve as a director.

Pro forma information regarding net income and earnings per share is required by FAS 123, which also requires that the information be determined as if Staples has accounted for its employee stock options of Staples.com Stock granted subsequent to January 28, 1995 under the fair valued method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999: a risk-free interest rate of 6.0%, volatility factor of the expected market price of Staples.com Stock of 0.00 for fiscal year 2000, expected dividend yield of zero and a weighted-average expected life of the options of 2.0 to 5.0 years.

Staples.com Stock:	January 29, 2000
Pro forma net loss	$ (1,118)
Pro forma Basic net loss per common share	$ (0.08)
Pro forma Diluted net loss per common share	$ (0.08)

Information with respect to options granted under the above plans is as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share
Outstanding at January 30, 1999	0	$ 0
Granted	25,274,138	1.63
Exercised	(14,459,878)	1.63
Cancelled	(144,398)	1.63
Outstanding at January 29, 2000	10,699,862	$ 1.63

The weighted-average fair values of options granted during the year ended January 29, 2000 was $0.33.

The following table summarizes information concerning currently outstanding and exercisable options for Staples.com stock:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.63	10,699,862	9.78	$ 1.63	10,699,862	$ 1.63

Performance Incentive Restricted Stock ("PARS")

PARS are shares of Staples' common stock granted outright to employees and non-employee directors without cost to the recipients of awards. The shares, however, are restricted in that they are not transferable (e.g. they may not be sold) by the recipients of awards until they vest generally after the end of five years. Such vesting date may accelerate if Staples achieves

certain compound annual earnings per share growth over a certain number of interim years. If the employee leaves Staples, or the director ceases to serve as a director of Staples, prior to the vesting date for any reason, the PARS shares will be forfeited by the employee or director, as the case may be, and will be returned to Staples. Once the PARS have vested, they become unrestricted and may be transferred and sold like any other Staples shares. There have been no Staples.com PARS issued to date.

Employee 401(k) Savings Plan

Under Staples Employee 401(k) Savings Plan (the "401(k) Plan"), and Supplemental Executive Retirement Plan (the "SERP Plan"), Staples may contribute up to a total of 2,503,125 shares of common stock, regardless of series, to these plans. The 401(k) Plan is available to all employees of Staples who meet minimum age and length of service requirements. Company contributions are based upon a matching formula applied to employee contributions with additional contributions made at the discretion of the Board.

NOTE 5 Income Taxes

The provision (benefit) for income taxes and related assets and liabilities attributed to Staples.com are determined in accordance with Staples' tax allocation policy. In general, this policy provides that the consolidated tax provision, and related tax payments or refunds, are allocated between the businesses based principally upon the financial income, taxable income, credits and other amounts directly related to the respective businesses. Tax benefits that cannot be used by the business generating such amounts but can be utilized on a consolidated basis, are allocated to the business generating such benefits to a limit the allocated amounts of taxes payable or refundable are not necessarily comparable to those that would have resulted if the businesses had filed separate tax returns.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components and the approximate tax effect of Staples.com's deferred tax assets and liabilities as of January 29, 2000 and January 30, 1999 are as follows:

	January 29, 2000	January 30, 1999
Net Operating Losses	$ 27,608,000	$ 791,000
Depreciation	(58,000)	(30,000)
Net Deferred Tax Assets	$ 27,550,000	$ 761,000

Because Staples.com has been fully reimbursed for the benefit of the net operating loss under Staples' tax allocation policy, no valuation allowance has been provided on the net operating loss and the balance is

included in the accompanying consolidated balance. The provision for income tax for the fiscal years January 29, 2000 and January 30, 1999 is comprised solely of income tax benefits of $10,459,000 and $304,000, respectively.

NOTE 6 Financial Guarantees

The Company has provided financial guarantees relating to loans taken by certain executives used to exercise the options of Staples.com Stock granted to them. The balance of the loans guaranteed by the Company was $17,889,918, including accrued interest of $1,889,918, at January 29, 2000. The loans are 50% non-recourse to the individuals and the interest rate on the loans is with full recourse to the individuals. Each of these persons entered into a pledge agreement with the Company pursuant to which they pledged their shares of Staples.com Stock as collateral for the loan they received. Staples entered into a line of credit and guaranty agreement with the bank pursuant to which Staples agreed to guarantee these loans.

NOTE 8 Business Acquisitions

On May 21, 1998, Staples acquired Quill Corporation and certain related entities, including the operations of [illegible]. The merger was structured as an exchange of shares in which the stockholders of Quill received approximately 24 million shares of Staples RD Stock, at an exchange ratio established at a combination of fixed and variable [illegible] and paid to dissenting shareholder of approximately $48,000,000, which equates to a purchase price of

approximately $900,000,000. The merger was accounted for as a pooling of interests and, accordingly, Staples.com's consolidated financial statements have been restated to include the operations of *Quillcorp.com* for all periods prior to the merger. The statements of operations combine Staples.com's historical operating results for the fiscal year ended January 31, 1998 with the corresponding *Quillcorp.com* operating results for the year ended December 31, 1997. Prior to the acquisition, Quill elected to be taxed as an S Corporation under the Internal Revenue Code. Accordingly, the current taxable income of *Quillcorp.com* was taxable to its shareholders who were responsible for the payment of taxes thereon. Quill will be included in Staples' U.S. federal income tax return subsequent to the date of the acquisition. Pro forma adjustments have been made to the historical statements of operations to reflect the income taxes that would have been provided had *Quillcorp.com*'s income been subject to income taxes.

NOTE L. Computation of Net Loss per Common Share

The computation of historical net loss per share has been included for the periods subsequent to the approval of the Pooling Stock Proposal. The pro forma net loss per share has been calculated to give effect to the sale of Staples.com Stock in private placements and includes a benefit for income taxes on previously unbenefited losses of pooled S-Corporation. (Amounts in thousands, except for per share data):

Historical Net Loss Per Share

	13 weeks ended January 29, 2000
Numerator:	
Net loss	$ (730)
Denominator:	
Weighted-average shares	16,108,177
Performance dependent restricted stock	—
Denominator for basic net loss per common share—weighted-average shares	16,108,177
Effect of dilutive securities:	
Employee and consultant shares	—
Performance dependent restricted stock	—
Warrants to purchase common shares	—
Denominator for diluted net loss per common share—adjusted weighted-average shares and assumed conversions	16,108,177
Basic net loss per common share	$ (0.05)
Diluted net loss per common share	$ (0.05)

Pro forma Net Loss Per Share

	January 29, 2000	January 30, 1999	January 31, 1998
Numerator:			
Historical net loss	$ (16,358)	$ (487)	$ (300)
Pro forma provision for taxes on previously untaxed earnings of S-C operations (income tax rate of 39.5% pro forma retained earnings	—	12	120
	15,272	448	168
Pro forma net loss—as if S-C operations were taxable and adjustment to reflect historical interest expense	(1,086)	(27)	(12)
Denominator for pro forma net loss per common share—weighted-average shares	14,235,107	12,792,308	12,792,308
Denominator for diluted net loss per common			

Basic—weighted-average shares	14,235,107	12,792,308	12,792,308
Pro forma basic net loss per common share with S-Corporation conversion and adjustment for Staples RD's retained interest in Staples.com	$ (0.08)	$ (0.00)	$ (0.00)
Pro forma diluted net loss per common share with S-Corporation conversion and adjustment for Staples RD's retained interest in Staples.com	$ (0.08)	$ (0.00)	$ (0.00)

NOTE M Quarterly Summary (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Fiscal Year Ended January 29, 2000				
Sales	$ 11,692	$ 15,610	$ 23,979	$ 43,068
Gross Profit	2,670	3,635	5,505	8,745
Historical net loss	(2,069)	(1,637)	(2,844)	(9,808)
Historical net loss attributed to Staples.com Stock				(730)
Pro forma net loss attributed to Staples.com Stock[2]	(124)	(98)	(171)	(833)
Basic net loss per common share				
Historical net loss per common share[1]				$ (0.05)
Pro forma net loss per common share[2]	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)
Diluted net loss per common share				
Historical net loss per common share[1]				$ (0.05)
Pro forma net loss per common share[2]	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Fiscal Year Ended January 30, 1999				
Sales	$ 2,244	$ 2,815	$ 4,046	$ 7,781
Gross Profit	569	783	1,077	1,736
Historical net loss	(53)	(50)	(99)	(285)
Pro forma net loss attributed to Staples.com Stock[2]	(2)	(3)	(6)	(17)
Basic net loss per common share				
Pro forma net loss per common share[2]	$ —	$ —	$ —	$ —
Diluted net loss per common share				
Pro forma net loss per common share[2]	$ —	$ —	$ —	$ —

[1] Historical net loss per share is omitted for the 1st, 2nd, and 3rd quarters of fiscal year ending January 29, 2000 and for the entire year ending January 30, 1999 as Staples.com Stock was not created until the quarter ended January 29, 2000 as a result of the approval of the Tracking Stock Proposal which changed Staples capital structure by creating Staples.com Stock and reclassifying Staples common stock as Staples RD Stock.

[2] Pro forma information is calculated to give effect to the sale of 12,792,308 shares of Staples.com Stock in private placements. In preparing this pro forma information, these transactions were assumed to have occurred on February 3, 1999.

[3] Pro forma net loss includes the earnings of Quill with provision for income taxes on previously untaxed earnings of pooled net operation income.

NOTE N Subsequent Events

In February 2000, Staples.com completed a 10% investment in BizBuyer.com of approximately $19,000,000. The investment will be accounted for on a cost basis as it only represents an interest of no greater than 15% of the outstanding stock of the company and its fair value cannot be determined using readily available market data. BizBuyer.com is a leading business-to-business marketplace where buyers and sellers connect to buy and sell products and services.

On February 18, 2000, Staples.com filed a registration statement for an initial public offering of shares of Staples.com stock.

On March 3, 2000, Register.com, an investment recorded at cost by Staples.com of approximately $8,000,000 at January 29, 2000, completed an initial public offering of its common stock. The closing stock price of Register.com on that date was $57.25 per share. At the date of the initial public offering, Staples.com owned approximately 2,160,000 shares of common stock, and warrants to purchase approximately 1,640,000 additional shares, resulting in an unrealized gain of approximately $231,000,000. Staples.com accounts for its investment in Register.com in accordance with SFAS 115 and the resulting unrealized gain or loss resulting from fluctuations in the market price of Register.com would be recorded as a component of other assets.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1(1)	-- Restated Certificate of Incorporation of the Company
3.1(2)	-- Certificate of Amendment to Certificate of Incorporation of the Company
3.2(3)	-- Amended and Restated By-laws of the Company
4.1	-- Rights Agreement, dated as of October 25, 1999, between the Company and Chase Mellon Shareholder Services, L.L.C.
4.2(4)	-- Indenture, dated as of August 12, 1997, for the $200,000,000 7.125% Senior Notes due August 15, 2007, between the Company and The Chase Manhattan Bank.
4.3(5)	-- Indenture dated as of November 15, 1999, for the $150,000,000 5.875% Notes due November 15, 2004, by and among the Company, Staples the Office Superstore, Inc., Staples the Office Superstore East, Inc., Staples Contract & Commercial, Inc. and the Chase Manhattan Bank.
10.1*	-- Amended and Restated 1990 Director Stock Option Plan
10.2*	-- Amended and Restated 1992 Equity Incentive Plan
10.3*(6)	-- 1998 United Kingdom Company Share Option Scheme
10.4*(7)	-- Executive Officer Incentive Plan
10.5(8)	-- Revolving Credit Agreement, dated as of Novemeber 13, 1997, between the Company and BankBoston, N.A. and the banks named therein
10.6*	-- Form of Agreement Not to Compete signed by executive officers of the Company
10.7*(9)	-- Form of Proprietary and Confidential Information Agreement signed by executive officers of the Company
10.8*(10)	-- Form of Severance Benefits Agreement signed by executive officers of the Company
10.9(11)	-- First Supplemental Indenture (Senior Debt Securities), dated as of August 12, 1997, between Staples, Inc., Staples Contract & Commercial, Inc., Staples the Office Superstore, Inc., Staples the Office Superstore East, Inc. and Marine Midland Bank.
10.10	-- Staples.com Common Stock Purchase Agreement, dated as of December 7, 1999
10.11	-- Staples.com Common Stock Purchase Agreement, dated as of November 9, 1999
10.12*	-- Line of Credit and Guaranty Agreement, dated December 6, 1999, between Staples and Boston Safe Deposit & Trust Company
10.13*	-- Line of Credit and Guaranty Agreement, dated January 25, 2000, between Staples and Boston Safe Deposit & Trust Company
12.1	-- Computation of Ratio of Earnings to Fixed Charges
21.1	-- Subsidiaries of the Company



— Consent of Ernst & Young, LLP, Independent Auditors
— Consent of Independent Auditor Kupferberg, Goldberg & Neimark, LLC
— Financial Data Schedule for Fiscal Year 1999
— Independent Auditors' Report of Kupferberg, Goldberg & Neimark, LLC

Management contract or compensatory plan or arrangement filed as an exhibit to this Form pursuant to Items 14(a) and 14(c) of Form 10-K.

Incorporated by reference from the Proxy Statement filed on October 12, 1999.

Incorporated by reference from the Annual Report on Form 10-K for the fiscal year ended January 30, 1999.

Incorporated by reference from the Quarterly Report of Form 10-Q for the quarter ended October 30, 1999.

Incorporated by reference from the Quarterly Report of Form 10-Q for the quarter ended may 2, 1998.

Incorporated by reference from the Annual Report on Form 10-K for the fiscal year ended January 31, 1998.

Incorporated by reference from the Quarterly Report of Form 10-Q for the quarter ended November 1, 1997.

Incorporated by reference from the Registration Statement on Form S-3 (File No. 333-31249).

Incorporated by reference from the Quarterly Report of Form 10-Q for the quarter ended May 3, 1997.

Incorporated by reference from the Annual Report on Form 10-K for the fiscal year ended February 3, 1996.

Incorporated by reference from the Quarterly Report of Form 10-Q for the quarter ended April 29, 1995.

SEC FORM 10-Q REPORT OF STAPLES, INC.

STAPLES INC filed this 10-Q on 09/11/2000.

Note: The Drop-Down Box allows you to navigate through the filing. The number with in the "[ ]" is the number of lines.

e.g. "Item 1 Business [ ]" = The section is called "Item 1 Business" and it is 123 lines long.

Entire Document (12170)

See Entire Filing, Next Section, View Header, Filing Attachments
Printer friendly format

QuickLinks -- Click here to rapidly navigate through this document

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended: July 29, 2000

Commission File Number: 0-17586

STAPLES, INC.

(Exact name of registrant as specified in its charter)

Delaware	04-2896127
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Five Hundred Staples Drive, Framingham, MA 01702
(Address of principal executive office and zip code)

508-253-5000
(Registrant's telephone number, including area code)

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Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes /x/ No / /

The registrant had 594,094,345 shares of Staples Retail and Delivery Common Stock and 13,867,564 shares of Staples.com Common Stock, both par value $.0006, outstanding as of September 7, 2000.

FORM 10-Q
STAPLES, INC.
July 29, 2000

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ITEM 1

[redacted], INC. AND [redacted]

Consolidated Balance Sheets

(Dollar Amounts in Thousands, Except Share Data)

	July 29, 2000 (Unaudited)	January 29, 2000
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 77,525	$ 110,483
Short-term investments	1,049	1,071
Merchandise inventories	1,676,571	1,607,516
Receivables, net	445,564	360,901
Deferred income taxes	26,941	39,730
Prepaid expenses and other current assets	82,104	73,750
Total current assets	2,309,754	2,193,451
Property and Equipment:		
Land and buildings	346,281	328,994
Leasehold improvements	501,649	442,119
Equipment	612,542	547,309
Furniture and fixtures	327,579	286,260
Total property and equipment	1,788,051	1,604,682
Less accumulated depreciation and amortization	602,104	509,920
Net property and equipment	1,185,947	1,094,762
Other Assets:		
Lease acquisition costs, net of amortization	63,934	68,832
Investments	152,150	34,755
Goodwill, net of amortization	385,927	387,595
Deferred income taxes	16,068	34,912
Other	37,893	31,769
Total other assets	655,972	557,863
	$ 4,151,673	$ 3,846,076
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 907,418	$ 897,523
Accrued expenses and other current liabilities	481,765	545,162
Debt maturing within one year	34,065	12,219
Total current liabilities	1,423,248	1,454,904
Long-Term Debt	826,568	500,903
Other Long-Term Obligations	66,588	61,456
Stockholders' Equity:		

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Additional paid-in capital	$ 1,233,144	$ 1,148,812
Cumulative foreign currency translation adjustments	(7,335)	(4,473)
Unrealized gain on investments	41,045	6,651
Retained earnings	1,035,035	948,309
Less: Staples SD treasury stock at cost, 20,091,737 shares at July 29, 2000 and 13,668,743 at January 29, 2000	(466,207)	(318,476)
Staples.com treasury stock at cost, 216,998 shares at July 29, 2000 and 0 shares at January 29, 2000	(705)	-
Total stockholders' equity	1,835,269	1,828,813
	$ 4,151,673	$ 3,846,076

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Per Share Data)

	(Unaudited) 13 Weeks Ended		(Unaudited) 26 Weeks Ended	
	July 29, 2000	July 31, 1999	July 29, 2000	July 31, 1999
Sales	$2,201,297	$1,840,110	$4,757,083	$3,912,176
Cost of goods sold and occupancy costs	1,654,633	1,385,551	3,600,772	2,962,864
Gross profit	546,664	454,559	1,156,311	949,312
Operating and other				

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Operating and other expenses:				
Operating and selling	363,796	276,278	781,183	591,454
Pre-opening	6,569	5,099	16,529	8,467
General and administrative	98,714	84,972	195,795	173,293
Amortization of goodwill	3,923	2,971	7,095	5,356
Store closure credit	–	–	(9,246)	–
Interest and other expense, net	11,952	2,976	18,092	5,392
Total operating and other expenses	474,930	368,093	1,009,318	780,364
Income before income taxes	72,134	86,466	146,993	168,948
Income tax expense	29,575	33,722	60,267	65,890
Net income	$ 42,559	$ 52,744	$ 86,726	$ 103,058
Net income (loss) attributed to:				
Staples, Inc. Stock	$ –	$ 52,744	$ –	$ 103,058
Staples RD Stock	44,571	–	91,580	–
Staples.com Stock	(2,012)	–	(4,854)	–
	$ 42,559	$ 52,744	$ 86,726	$ 103,058
Basic earnings per common share				
Net income per common share– Staples, Inc. Stock		$ 0.11		$ 0.22
Net income per common share– Staples RD Stock	$ 0.10		$ 0.20	
Net loss per common share– Staples.com Stock	$ (0.14)		$ (0.35)	
Diluted earnings per common share				
Net income per common share– Staples, Inc. Stock		$ 0.11		$ 0.22

Net income per common share
Assuming No Dilution $ 0.28 $ 0.28

Net loss per common share
Assuming Full Dilution $ (0.14) $ (0.25)

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollar Amounts in Thousands)

	(Unaudited) 26 Weeks Ended	
	July 29, 2000	July 31, 1999
Operating Activities:		
Net income	$ 86,726	$ 103,058
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	109,360	81,577
Store closure credit	(7,250)	—
Expense from 401K and PARS stock contribution	4,478	8,460
Deferred income tax (benefit)/expense	7,135	(6,208)
Change in assets and liabilities, net of companies acquired using purchase accounting:		
Increase in merchandise inventories	(85,531)	(170,321)
Increase in receivables	(88,184)	(136,723)
Increase in prepaid expenses and other assets	(21,184)	(977)
Increase/(Decrease) in accounts payable, accrued expenses and other current liabilities	(20,944)	32,566

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Current liabilities	(66,961)	20,644
Increase in other long-term obligations	1,851	3,440
	(96,369)	(188,763)
Net cash used in operating activities	(9,543)	(85,705)
Investing Activities:		
Acquisition of property and equipment	(199,393)	(145,841)
Acquisition of businesses, net of cash acquired	-	(137,425)
Proceeds from sales and maturities of short-term investments	74	32,745
Purchase of short-term investments	-	(16,651)
Purchase of long-term investments	(58,782)	(20,906)
Other	(226)	88
Net cash used in investing activities	(258,326)	(288,170)
Financing Activities:		
Proceeds from sale of capital stock	23,982	25,243
Proceeds from borrowings	2,343,485	316,984
Payments on borrowings	(1,984,364)	(248,326)
Settlement of equity forward purchase agreement	(78,684)	-
Purchase of treasury stock	(66,736)	(78,246)
Net cash provided by financing activities	237,683	15,655
Effect of exchange rate changes on cash	(2,772)	227
Net decrease in cash and cash equivalents	(32,958)	(357,993)
Cash and cash equivalents at beginning of period	110,483	357,993
Cash and cash equivalents at end of period	$ 77,525	$ -

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note A Basis of Presentation

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The accompanying unaudited consolidated financial statements include the accounts of Staples, Inc. and subsidiaries ("Staples" and the "Company"). These financial statements for the periods covering the thirteen and twenty-six weeks ending July 29, 2000 (also referred to as the "second quarter of 2000" and "first half of 2000", respectively), and the periods covering the thirteen and twenty-six weeks ending July 31, 1999 (also referred to as the "second quarter of 1999" and "first half of 1999" respectively), All intercompany accounts and transactions are eliminated consolidation.

These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial informatio and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financi statements. In the opinion of management, such interim statements reflect all adjustments (consisting only of normal recurring accruals) necessary present fairly the financial position and the results of operations and cash flows for the interim periods presented. The results of operations f the interim periods are not necessarily indicative of the results to be expected for the full fiscal year. These financial statements should be read in conjunction with the audited consolidated financial statements an footnotes included in the Company's Annual Report on Form 10-K/A2 for the year ended January 29, 2000.

On November 9, 1999, the stockholders of Staples approved a proposal ("the Tracking Stock Proposal") which amended the Company's certificate o incorporation to (i) authorize the issuance of a new series of common stock, designated as Staples.com common stock ("Staples.com Stock"), intended to track the performance of Staples.com, the Company's e-commerc business, (ii) increase the aggregate number of shares of common stock th the Company may issue from 1,500,000,000 to 2,100,000,000, initially comprised of 1,500,000,000 shares of Staples Retail and Delivery common stock ("Staples RD Stock") and 600,000,000 shares of Staples.com Stock, a (iii) re-classify Staples' existing common stock as Staples RD Stock, intended to track the performance of Staples RD, which consists of all of the Company's non e-commerce businesses and a retained interest in Staples.com. Despite the Company's intentions, the market value of Staple RD Stock may not track the performance of Staples RD and the market value of Staples.com Stock may not track the performance of Staples.com. The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for a public offering of Staples.com Stoc

The Company consolidates for financial reporting purposes Staples RD and Staples.com. Staples RD is comprised of Staples' retail stores, catal businesses, contract stationer business and a retained interest in

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fiscal years, exclude minority interest and a retained interest in Staples.com. As July 29, 2000 and July 31, 1999, Staples BV had a retained interest in Staples.com of 90% and 88%, respectively. Staples.com includes the operations of Staples' e-commerce sites, Staples.com, Quill.com, StaplesAdvantage.com, and its Canadian e-commerce business. Staples BV's and Staples.com's separate operating results as presented in Note 3 of the Consolidated Financial Statements reflect the effect of the application of certain cash management and allocation policies adopted by the Board of Directors of Staples (the "Board").

Certain previously reported amounts have been reclassified to conform with the current period presentation.

Note B Comprehensive Income/(Loss)

Staples calculates comprehensive income in accordance with SFAS No. 130 "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 requires Staples to report comprehensive income which includes net

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income, foreign currency translation adjustments and unrealized gains and losses on investments, which are reported separately in stockholders' equity, in the notes to the financial statements for interim periods. During the second quarter of 2000 and first half of 2000, total comprehensive income/(loss) amounted to approximately ($18,835,000) and $118,258,000, respectively, compared to approximately $48,453,000 and $101,920,000, for the corresponding periods in 1999.

Note C Investments

Staples' investments are classified as available for sale and consist of securities purchased in Internet-related companies. Investments that qualify as marketable equity securities are carried at fair value using quoted market prices and all other investments have been accounted for on a cost basis as each investment represents an interest of no greater than fifteen percent of the outstanding stock of that company. Unrealized gains and losses are reported as a separate component of stockholders' equity.

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In February 2000, Staples completed an investment in Paperexchange.com of approximately $5,000,000, representing an ownership percentage at July 29, 2000 of approximately 1.0%. Paperexchange.com operates a global e-commerce marketplace for the pulp and paper industry. Also, in February 2000, Staples completed an investment in BizBuyer.com of approximately $19,000,000, representing an ownership percentage at July 29, 2000 of approximately 12%. BizBuyer.com is a business-to-business marketplace where buyers and sellers connect to buy and sell products and services.

In March 2000, Register.com, an investment initially recorded at cost by Staples of approximately $33,000,000, completed an initial public offering of its common stock. At July 29, 2000, Staples owned approximately 2,312,000 shares of common stock, and warrants to purchase approximately 1,640,000 additional shares, resulting in an unrealized gain of approximately $71,000,000. As of July 29, 2000, Staples had an ownership percentage of approximately 7.5%.

In June 2000, Staples completed an investment in ICG Commerce of approximately $2,600,000 representing an ownership percentage at July 29, 2000 of approximately 1.0%. ICG Commerce is a comprehensive online procurement service provider for businesses.

In July 2000, Staples completed an investment in NowDocs™, Inc. of approximately $6,000,000, representing an ownership percentage at July 29, 2000 of approximately 10%. NowDocs™, Inc. provides businesses with the ability to upload files for virtual storage and obtain digital printing and binding of documents that can be delivered in a variety of ways.

The following is a summary of equity investments as of July 29, 2000 and January 29, 2000 (in thousands):

	Cost	Gross Unrealized Gain	Estimated Fair Value
July 29, 2000	$82,562	$69,588	$152,150
January 29, 2000	$23,780	$10,975	$34,755

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Notes to Consolidated Financial Statements (Continued)

Note D Long-Term Debt and Credit Agreements

Long-Term Debt:

On May 3, 2000, Staples entered into a currency swap on its $200,000,000 of 7.125% senior notes issued on August 12, 1997. The Company has swapped the dollar-denominated principal and interest into Canadian dollar denominated obligations. This swap has been designated as a foreign currency hedge on Staples' net investment in Canadian dollar denominated subsidiaries, and gains or losses will be recorded in the cumulative translation adjustment line in stockholders' equity. As of July 29, 2000 the principal was $295,290,000 in Canadian dollars at an interest rate of 6.445%.

On May 24, 2000, Staples issued notes in the aggregate principal amount of $175,000,000. The notes bear interest at a rate equal to the three month LIBOR plus 85 basis points, or 7.67% at July 29, 2000, and are due on November 26, 2001.

Credit Agreement:

On June 26, 2000, Staples entered into a 364 day revolving credit facility, with a syndicate of banks, which provides up to $200,000,000 of borrowings. Borrowings made pursuant to the facility will bear interest at either (a) the higher of the lead bank's prime rate or the federal funds rate plus 0.50%, with such rate in both cases to be increased by 0.125% when the outstanding balance under the facility exceeds $100,000,000, or (b) the LIBOR rate plus a percentage spread based upon certain defined ratios, and this rate was approximately 6.62% at July 29, 2000. The agreement, among other conditions, contains certain restrictive covenants, including net worth maintenance, minimum fixed charge coverage and limitations on indebtedness and sale of assets. As of July 29, 2000, no borrowings were outstanding under this revolving credit facility.

Note E Business Acquisitions

During fiscal years 1999 and 1998, Staples made three acquisitions: Quill Corporation on May 21, 1998, Claiborne Holdings, Inc. and certain related entities, now referred to as Staples Contract, on February 26, 1999 and the European Office Supply Companies, which includes Office Depot in Germany, Office Centre in the Netherlands and Office Centre in Portugal on October 6, 1998. At the time of each acquisition the

Centre in Portugal on October 6, 1999. At the time of each acquisition the Company recorded a liability for restructuring, merger-related and integration costs. The activity impacting these liabilities during the first half of 2000 is summarized in the table below (in thousands):

	Balance at January 29, 2000	Charges utilized	Balance at July 29, 2000
Quill Merger Related and Integration Costs			
Transaction Costs	$ 208	$ (208)	$ —
Contract and Lease Termination	12,985	(6,286)	6,699
Other	469	(30)	439
	$ 13,662	$(6,524)	$7,138

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

European Office Supply Purchase Price Adjustment			
Transaction Costs	$ 514	$ (514)	$ —
Incremental Employee	7,165	(1,293)	5,872
Contract and Lease Termination	6,948	(323)	6,625
Other	5,295	(2,896)	2,399
	$19,922	$(5,026)	$14,896
Clarica Purchase Price Adjustment			
Incremental Employee	$ 3,770	$(1,502)	$ 2,268
Other	16	—	16
	$ 3,786	$(1,502)	$ 2,284

All of the above costs will be utilized by the end of fiscal year 2000, except for costs related to contract and lease terminations. The Company believes that the costs relating to contract and lease terminations will be substantially utilized by fiscal year 2004, although some payments may be made after that time under the lease terms.

Note F Store Closure Charge

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Note F Store Closure Charge

In the fourth quarter of 1998, Staples committed to a plan to close certain stores which could not be expanded and upgraded to Staples' current store model and reported a pre-tax store closure charge of $49,706,000. At July 29, 2000, 19 stores were closed, and at January 29, 2000, 10 stores were closed. During the first half of 2000, the Company reversed the portion of the store closure charge related to 18 locations that the Company has either not yet reached an agreement to close or is no longer committed to closing due to changes in market conditions, unexpected landlord concessions and the Company's European acquisition. With respect to the remaining 21 stores, the Company executed lease agreements for new stores and the corresponding old stores will be closed by July 2001. The following table is a rollforward of the store closure charges utilized and reversed during the first half of 2000 (in thousands):

	Balance at January 29, 2000	Charges utilized	Charges reversed	Balance at July 29, 2000
Lease Terminations	$ 29,322	$(2,956)	$(6,284)	$20,082
Legal and Settlement Costs	4,788	(187)	(966)	3,635
	$ 34,110	$(3,143)	$(7,250)	$23,717

All of the above costs directly relate to long-term lease obligations which the Company is either in the process of obtaining subtenants for or attempting to cancel the lease. Accordingly, the Company believes that the remaining balance will be entirely utilized by fiscal year 2004, although some payments may be made over the remaining lease terms.

Note G Segment Reporting

Staples has four reportable segments: North American Retail, Europe, Direct and Commercial. Prospect Partners and Staples.com are included in the North American Retail segment consists of the US and Canadian operations that operate office supply stores. The Direct and Commercial segment

that operate office supply stores. The Contact and Commercial segment consists of Staples Direct, Contract, Quill Corporation and Staples Communications, each of which sells office products, supplies and services directly to businesses throughout the US and Canada. Staples.com includes the operations of Staples' e-commerce sites: *Staples.com, Quill.com, StaplesLink.com*, and its Canadian e-commerce business. The European Operations segment consists of six operating units that operate office supply stores in the United Kingdom, Germany, the Netherlands and Portugal and sell office products and supplies directly to businesses throughout the United Kingdom and Germany.

Staples evaluates performance and allocates resources based on profit or loss from operations before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at Staples' cost, therefore, there is no intercompany profit or loss recognized on these transactions.

Staples' reportable segments are business units that distribute office products and supplies in different manners. The reportable segments are each managed separately because they distribute products to different classes of customers with different distribution methods. The European Operations are considered a separate operating segment because of the significant difference in the operating environment from the North American operations.

The following is a summary of significant accounts and balances by reportable segment for the second quarter of 2000 and first half of 2000 and for the corresponding periods in 1999 (in thousands):

Thirteen weeks ended July 29, 2000:

	N. American Retail	Contract & Commercial	Staples.com	European Operations	Totals
Sales	$1,374,663	$383,450	$ 35,692	$147,692	$1,941,297
Depreciation and amortization	$ 36,387	$ 9,733	$ 1,253	$ 4,305	$ 50,677
Income/(loss) before income taxes	$ 69,252	$ 45,255	$(29,781)	$(12,592)	$ 72,134

Thirteen weeks ended July 31, 1999:

	N. American Retail	Contract & Commercial	Staples.com	European Operations	Totals
Sales	$1,193,[illegible]	$[illegible]	$ [illegible]	$ [illegible]	$1,[illegible]

Sales	$1,193,168	$562,562	$ 15,610	$ 78,770	$1,840,110
Depreciation and amortization	$ 35,801	$ 8,411	$ 109	$ 2,800	$ 47,121
Income/(loss) before income taxes	$ 65,790	$ 38,999	$ (2,684)	$(15,639)	$ 86,466

Twenty-six weeks ended July 29, 2000:

	N. American Retail(1)	Contract & Commercial	Staples.com	European Operations	Totals
Sales	$3,057,514	$1,201,613	$171,055	$326,901	$4,757,083
Depreciation and amortization	$ 78,558	$ 19,196	$ 2,901	$ 8,705	$ 109,360
Income/(loss) before income taxes	$ 153,402	$ 85,358	$ (69,503)	$(22,264)	$ 146,993
Capital expenditures	$ 159,744	$ 18,901	$ 63,077	$ 16,452	$ 258,174

(1) Income/(Loss) before income taxes includes a $7,250,000 store closure credit

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Twenty-six weeks ended July 31, 1999:

	N. American Retail	Contract & Commercial	Staples.com	European Operations	Totals
Sales	$2,690,389	$1,126,995	$ 27,302	$366,490	$4,212,176
Depreciation and amortization	$ 60,491	$ 15,459	$ 199	$ 5,347	$ 81,577
Income/(loss) before income taxes	$ 134,367	$ 64,544	$ (6,078)	$(23,888)	$ 168,945
Capital expenditures	$ 135,854	$ 35,488	$ 26,523	$ 8,689	$ 206,372

Inventories

July 29, 2000	January 29, 2000

	July 29, 2000	2000
N. American Retail	$3,610,909	$3,415,413
Contract & Commercial	732,475	652,494
Staples.com	168,156	72,421
European Operations	585,963	583,096
Totals	5,097,503	4,723,424
Elimination of Intercompany Receivables	(192,711)	(124,229)
Elimination of Intercompany Investments	(753,119)	(753,119)
Totals	$4,151,673	$3,846,076

Geographic Information:

Sales:

	13 Weeks Ended		26 Weeks Ended	
	July 29, 2000	July 31, 1999	July 29, 2000	July 31, 1999
North America	$2,053,605	$1,761,340	$4,430,182	$3,746,286
Europe	147,692	78,770	326,901	166,890
Totals	$2,201,297	$1,840,110	$4,757,083	$3,912,176

Long-Lived Assets:

	July 29, 2000	January 29, 2000
North America	$1,491,183	$1,497,909
Europe	96,775	88,035
Totals	$1,787,958	$1,585,944

Note H Guarantor Subsidiaries

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Note H Guarantor Subsidiaries

The 7.125% senior notes due August 15, 2007 are fully and unconditionally guaranteed on an unsecured, joint and several basis by certain wholly owned subsidiaries of the Company (the "Guarantor Subsidiaries"). The following condensed consolidating financial data illustrates the composition of Staples, Inc. (the "Parent Company"), Guarantor Subsidiaries, and non-guarantor subsidiaries as of and for the thirteen and twenty-six weeks ended July 29, 2000 and July 31, 1999. The non-guarantor subsidiaries represent more than an inconsequential portion of the consolidated assets and revenues of the Company. Separate complete financial statements of the respective Guarantor Subsidiaries would not provide additional information which would be useful in assessing the financial condition of the Guarantor Subsidiaries and thus are not presented.

Investments in subsidiaries are accounted for by the Company on the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are, therefore, reflected in the Company's investment accounts and earnings. The principal elimination entries eliminate the Company's investment in subsidiaries and intercompany balances and transactions.

Condensed Consolidating Balance Sheet
July 29, 2000
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash, cash equivalents and short-term investments	$ (9,460)$	36,729	$ 51,305	$ -	$ 78,574
Merchandise inventories	1,793	1,304,672	370,106	-	1,676,571
Other current assets and intercompany	632,540	430,892	636,803	(1,155,636)	584,609
Total current assets	624,873	1,772,293	1,058,214	(1,155,636)	2,339,754
Net property, [illegible] and other assets	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total assets	$3,133,319	$2,676,469	$1,158,289	$(1,509,766)	$5,458,311

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Total assets	$1,133,119	$2,808,469	$2,118,829	$(1,908,744)	$4,151,673
Total current liabilities	$ (110,217)	$ 841,671	$ 384,820	$ 336,974	$1,423,248
Total long-term liabilities	618,892	241,970	32,294	-	893,156
Total stockholders' equity	624,444	1,724,828	1,731,715	(2,245,718)	1,835,269
Total liabilities and stockholders' equity	$1,133,119	$2,808,469	$2,118,829	$(1,908,744)	$4,151,673

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Condensed Consolidating Balance Sheet
January 29, 2000
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash, cash equivalents and short-term investments	$ 23,577	$ 24,677	$ 63,300	$ -	$ 111,554
Merchandise inventories	(925)	1,239,788	368,653	-	1,607,516
Other current assets and intercompany	661,064	413,630	93,539	(1,129,933)	476,381
Total current assets	683,716	1,738,095	525,492	(1,129,933)	2,193,451
Net property, equipment and other assets	1,774,255	1,070,374	1,593,337	(63,811)	4,374,155
Total assets	$2,457,971	$2,808,469	$2,118,829	$(1,193,744)	$6,567,606

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Total assets	$1,166,404	$2,584,521	$2,042,175	$(1,947,024)	$3,846,076
Total current liabilities	$ 84,699	$ 743,733	$ 347,062	$ 279,410	$1,454,904
Total long-term liabilities	300,908	238,961	22,490	—	562,359
Total stockholders' equity	780,797	1,601,827	1,672,623	(2,226,434)	1,828,813
Total liabilities and stockholders' equity	$1,166,404	$2,584,521	$2,042,175	$(1,947,024)	$3,846,076

Condensed Consolidated Statement of Income
For the thirteen weeks ended July 29, 2000
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$1,604,700	$ 596,597	$2,201,297
Cost of goods sold and occupancy costs	226	1,209,280	445,127	1,654,633
Gross profit	(226)	395,420	151,470	546,664
Operating and other expenses	24,405	325,021	125,104	474,530
Income/(loss) before income taxes	(24,631)	70,399	26,366	72,134
Income tax expense	—	21,130	8,445	29,575
Net income/(loss)	$(24,631)	$ 49,269	$ 17,921	$ 42,559

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Condensed Consolidated Statement of Income
For the thirteen weeks ended July 31, 1999
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$1,372,395	$ 467,715	$1,840,110
Cost of goods sold and occupancy costs	169	1,038,507	346,875	1,385,551
Gross profit	(169)	333,888	120,840	454,559
Operating and other expenses	7,855	266,877	93,361	368,093
Income/(loss) before income taxes	(8,024)	67,011	27,479	86,466
Provision/(Benefit) for income taxes	(3,386)	26,171	10,937	33,722
Net income/(loss)	$ (4,638)	$ 40,840	$ 16,542	$ 52,744

Condensed Consolidated Statement of Income
For the twenty-six weeks ended July 29, 2000
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$3,475,674	$1,281,409	$4,757,083
Cost of goods sold and occupancy costs	421	2,635,669	964,682	3,600,772
Gross profit	(421)	840,005	316,727	1,156,311
Operating and other expenses	42,685	716,461	256,172	1,015,318
Income/(loss) before income taxes	(43,106)	123,544	60,555	140,993
Income tax expense	—	72,055	22,212	94,267
Net income/(loss)	$ (43,106)	$ 51,489	$ 38,343	$ 46,726

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Condensed Consolidated Statement of Income
For the twenty-six weeks ended July 31, 1999
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$2,942,037	$ 970,139	$3,912,176
Cost of goods sold and occupancy costs	341	2,238,588	723,935	2,962,864
Gross profit	(341)	703,449	246,204	949,312
Operating and other expenses	16,365	576,641	187,358	780,364
Income/(loss) before income taxes	(16,706)	126,808	58,846	168,948
Provision/(Benefit) for income taxes	(6,181)	52,010	20,061	65,890
Net income/(loss)	$(10,525)	$ 74,798	$ 38,785	$ 103,058

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Condensed Consolidated Statement of Cash Flows
For the twenty-six weeks ended July 29, 2000
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by/ (used in) operating activities	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Investing Activities:				
Acquisition of property,				

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Acquisition of property, equipment and lease rights	(26,525)	(119,579)	(53,288)	(199,392)
Other	–	(59,008)	74	(58,934)
Cash used in investing activities	(26,525)	(178,587)	(53,214)	(258,326)
Financing Activities:				
Payments on borrowings	(1,984,364)	–	–	(1,984,364)
Other	2,211,594	(129)	10,582	2,222,047
Cash provided by/(used in) financing activities	227,230	(129)	10,582	237,683
Effect of exchange rate changes on cash	–	–	(2,772)	(2,772)
Net (decrease)/increase in cash	(33,037)	12,052	(11,973)	(32,958)
Cash and cash equivalents at beginning of period	23,577	24,677	62,229	110,483
Cash and cash equivalents at end ot period	$ (9,460)	$ 36,729	$ 50,256	$ 77,525

Condensed Consolidated Statement of Cash Flows
For the twenty-six weeks ended July 31, 1999
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash (used in)/provided by operating activities	$ (70,182)	$ (3,884)	$ (7,639)	$ (85,705)
Investing Activities:				
Acquisition of property, equipment and lease rights	(19,581)	(19,699)	(26,351)	(165,841)
Other	(119,367)	87,466	(119,420)	(148,329)
Cash (used in)/provided by investing activities	(138,958)	7,949	(139,777)	(288,170)
Financing Activities:				
Payments on borrowings	(134,000)	–	(13,823)	(248,326)
Other	344,415	–	38,436	249,285
Cash provided by/(used in)				

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Cash provided by/(used) in financing activities	(3,962)	–	19,617	15,655
Effect of exchange rate changes on cash	–	–	227	227
Net decrease in cash	(214,102)	(319)	(143,572)	(357,993)
Cash and cash equivalents at beginning of period	219,426	16,348	122,219	357,993
Cash and cash equivalents at end of period	$ 5,324	$ 16,029	$ (21,353)	$ –

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note I Consolidating Information

Below is the consolidating financial information of Staples RD and Staples.com. The financial information reflects the businesses of Staples RD and Staples.com, including the allocation of all the Company's assets, liabilities, revenues, expenses and cash flows between the two businesses in accordance with the Company's cash management and allocation policies adopted by the Board. Allocation policies adopted by the Board can be rescinded or amended at the sole discretion of the Board, although no such changes are currently contemplated. Any such changes adopted by the Board would be made in its good faith business judgement of the Company's best interests, taking into consideration the interests of all stockholders.

Staples RD is comprised of Staples' retail stores, catalog businesses and contract stationer business and a retained interest in Staples.com. Staples.com includes the operations of Staples' e-commerce sites, Staples.com, Quill.com, Stapleslink.com, and its Canadian e-commerce business.

The accounting policies reflected in the following consolidating financial information are as follows:

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Finance Activities: Staples manages most finance activities on a centralized, consolidated basis. These activities include the investment of surplus cash, the issuance, repayment and repurchase of short-term and long-term debt, and the issuance and repurchase of common stock. Whenever Staples.com holds cash, Staples.com normally transfers that cash to Staples RD. Conversely, whenever Staples.com has a cash need, Staples RD normally funds that cash need. Staples accounts for all cash transfers between one business to or for the account of the other business as temporarily allocated funds unless the Board determines that a given transfer should be accounted for as a long-term loan or as permanently allocated funds to or from Staples.com. The temporarily allocated funds bear interest at a rate at which the Board, in its sole discretion, determines Staples could borrow such funds on a revolving credit basis, which was 6% for the first half of 2000 and 1999. Through the quarter ending October 30, 1999, permanently allocated funds to Staples.com of $32,878,000 were made to cover fixed asset and investment purchases through this time as well as operating cash flow losses through January 30, 1999. During the quarter ending July 29, 2000, $30,191,000 of previously classified temporarily allocated funds were converted to permanently allocated funds by the Board. For the quarter ending July 29, 2000, permanently allocated funds to Staples.com of $25,182,000 were made to cover operating cash flow losses, fixed asset and investment purchases and the repurchase of previously exercised employee stock options. The remaining balance in temporarily allocated funds represents the deferred tax liability on the net unrealized gain on Staples.com's equity investments.

2. *Revenue and Expenses:* Staples RD and Staples.com's sales and cost of sales are specifically identified based on the origination of the customer's ordering channel. In addition, shrink, obsolescence and other inventory costs are allocated to Staples.com based on Staples.com's share of such costs and distribution and delivery costs are allocated based on orders shipped by business unit. In general, marketing and advertising, call center, and general and administrative expenses are specific by nature and are directly incurred by the business units. A small number of shared costs are not directly attributable to a business unit and are allocated on an activity based cost method as described in item three below. Site development costs are specifically identifiable by business unit.

3.

Shared Services and Support Activities: The cost of services shared by Staples RD and Staples.com, including general and administrative expenses, has been allocated between Staples RD and Staples.com based upon the use of such services. Where determinations based on use alone were not practical, other methods and criteria were used to provide a reasonable allocation of the cost of shared services, including support activities attributable between Staples RD or Staples.com. For example, for printed advertisements and commercials that include both Staples RD and Staples.com, Staples.com currently reimburses Staples RD for that amount of space or air time devoted to Staples.com, plus a proportionate part of the total cost of the rest of the advertisements or commercials based on varying metrics, such as the relative sales of Staples RD and Staples.com. In addition, Staples RD sells inventory to Staples.com for resale. The cost per inventory unit purchased by Staples.com equals Staples RD's

product cost. Additionally, Staples RD holds accounts receivable for Staples.com. Staples RD maintains inventory to support Staples.com's inventory needs and processes receivables for Staples.com. Staples RD charges Staples.com a carrying charge for use of their capital for these purposes as determined by the Board. The carrying charge is reflected in Staples.com's financial information as part of interest and other expense and in Staples RD's financial information as a credit to interest and other expense. This charge is calculated based on the amount of receivables and inventory that Staples RD is required to carry for Staples.com.

4.

Taxes: Federal income taxes, which are determined on a consolidated basis, are allocated between the businesses of Staples RD and Staples.com, and reflected in their respective financial information, in accordance with Staples' tax allocation policy. In general, this policy provides that the consolidated tax provision, deferred tax accounts and related tax payments or refunds are allocated between Staples RD and Staples.com based [illegible]

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principally upon the financial income, taxable income, credits and other amounts directly related to their respective businesses. Tax benefits that cannot be used by the business generating such attributes, but can be utilized on a consolidated basis, are allocated to the business that generated such benefits. As a result, the allocated business amounts of taxes payable or refundable are not necessarily comparable to those that would have resulted if Staples RD and Staples.com had filed separate tax returns. State income taxes generally are computed on a separate business basis.

5.

Employee Benefits: Staples RD and Staples.com participate in the following Staples employee benefit plans: an Employee Stock Purchase Pan, an Employee 401(k) Savings Plan, a Supplemental Executive Retirement Plan and a contributory Medical and Dental Plan. The costs of these plans are allocated based on the benefits received under the plans by the employees comprising Staples RD and Staples.com or such other basis as Staples' management believes to be an equitable and reasonable estimate of such costs.

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS
July 29, 2000
(in thousands)

	Staples RD	Staples.com	Adjustments/ Eliminations	Staples, Inc.
Current assets	$2,307,583	$ 2,206	$ -	$2,309,789
Net funds allocated to Staples.com/company	29,831	-	(29,831)	-
Property and equipment, net	1,167,808	15,657	-	1,183,465
Investments	6,482	117,474	-	123,956
Funds allocated to Staples - Corporate	284,776		(284,776)	
Other assets	4,000			4,000
Total assets	$3,800,480	$135,336	$(314,607)	$3,621,209

Total assets	$4,100,299	$168,156	$(116,782)	$4,151,673
Current liabilities	$1,398,654	$ 24,594	$ —	$1,423,248
Net funds allocated from Staples RD—temporary	—	28,531	(28,531)	—
Long-term debt	826,568	—	—	826,568
Other long-term liabilities	66,588	—	—	66,588
Staples RD Stock	283	—	—	283
Staples.com Stock	—	9	—	9
Additional paid-in capital	1,188,369	44,775	—	1,233,144
Funds allocated from Staples RD—permanent	—	88,251	(88,251)	—
Cumulative foreign currency translation adjustments	(7,337)	2	—	(7,335)
Unrealized gain/(loss) on investments	(12)	41,057	—	41,045
Retained earnings/ (Accumulated deficit)	1,093,393	(58,358)	—	1,035,035
Treasury stock at cost	(466,207)	(705)	—	(466,912)
Total liabilities and stockholders' equity	$4,100,299	$168,156	$(116,782)	$4,151,673

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS
January 29, 2000
(In thousands)

	Staples RD	Staples.com	Adjustments/ Eliminations	Staples, Inc.
	$2,102,873	$ 1,578	$ —	$2,104,451
Current assets				
Net funds allocated to Staples RD, temporary	—	28,531	(28,531)	—
Property and equipment, net	1,002,994	33,768	—	1,036,762
Investments		34,755	—	34,755
Funds allocated to Staples.com—permanent	88,251	—	(88,251)	—
Other assets	906,181	69,524	—	975,705

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Other assets	523,108	–	–	523,108
Total assets	$3,830,193	$ 72,421	$ (56,538)	$3,846,076
Current liabilities	$1,447,438	$ 7,466	$ –	$1,454,904
Net funds allocated from Staples.com-temporary	23,660	–	(23,660)	–
Long-term debt	500,903	–	–	500,903
Other long-term liabilities	61,456	–	–	61,456
Staples RD Stock	282	–	–	282
Staples.com Stock	–	8	–	8
Additional paid-in capital	1,153,784	42,728	–	1,196,512
Funds allocated from Staples RD-permanent	–	32,878	(32,878)	–
Cumulative foreign currency translation adjustments	(4,473)	–	–	(4,473)
Unrealized gain/(loss) on investments	(44)	6,695	–	6,651
Retained earnings/ (Accumulated deficit)	965,663	(17,354)	–	948,309
Treasury stock at cost	(318,476)	–	–	(318,476)
Total liabilities and stockholders' equity	$3,830,193	$ 72,421	$ (56,538)	$3,846,076

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

CONSOLIDATING STATEMENTS OF INCOME
For the thirteen weeks ended July 29, 2000
(in thousands)

	Staples RD	Staples.com	Reclassifications/ Eliminations	Staples, Inc.
Sales	$2,[illegible]	$ [illegible]	$ –	$2,[illegible]
Cost of goods sold and occupancy costs	[illegible]	[illegible]	–	[illegible]
Gross profit	[illegible]	[illegible]	–	546,644

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Gross profit	$36,332	20,512	–	546,664
Operating and other expenses:				
Operating and selling	320,448	33,021	8,327	361,796
Pre-opening	6,545	–	–	6,545
Site development	–	8,327	(8,327)	–
General and administrative	82,401	8,313	–	90,714
Amortization of goodwill	3,523	–	–	3,523
Store closure credit	–	–	–	–
Interest and other expense, net	11,320	632	–	11,952
Total operating and other expenses	424,237	50,293	–	474,530
Income/(Loss) before income taxes	101,915	(29,781)	–	72,134
Income tax expense/ (benefit)	41,785	(12,210)	–	29,575
Net income/(loss)	$ 60,130	$ (17,571)	$ –	$ 42,559

CONDSOLIDATING STATEMENTS OF INCOME
For the thirteen weeks ended July 31, 1999
(in thousands)

	Staples RD	Staples.com	Reclassifications/ Eliminations	Staples, Inc.
Sales	$1,624,500	$ 15,610	$ –	$1,640,110
Cost of goods sold and occupancy costs	1,373,578	11,975	–	1,385,561
Gross profit	450,934	3,635	–	454,559
Operating and other expenses:				
Operating and selling	367,578	3,696	681	371,975
Pre-opening	4,093	–	–	4,093
Site development	–	681	(681)	–
General and administrative	82,381	2,390	–	84,771
Amortization of goodwill	2,731	–	–	2,731
Interest and				

goodwill				
Interest and other expense, net	3,805	171	–	3,976
Total operating and other expenses	361,774	6,319	–	368,093
Income/(Loss) before income taxes	89,150	(2,684)	–	86,466
Income tax expense/ (benefit)	34,769	(1,047)	–	33,722
Net income/(loss)	$ 54,381	$ (1,637)	$ –	$ 52,744

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

CONSOLIDATING STATEMENTS OF INCOME
For the twenty-six weeks ended July 29, 2000
(in thousands)

	Staples RD	Staples.com	Reclassifications/ Eliminations	Staples, Inc.
Sales	$4,596,028	$171,055	$ –	$4,767,083
Cost of goods sold and occupancy costs	3,464,985	139,787	–	3,604,772
Gross profit	1,131,043	32,268	–	1,162,311
Operating and other expenses:				
Operating and selling	699,395	65,419	16,339	781,153
Pre-opening	16,878	–	–	16,878
Site development	–	16,339	(16,339)	–
General and administrative	170,796	31,604	–	195,700
Amortization of goodwill	7,078	–	–	7,078
Store closure costs	1,477	–	–	1,477
Interest and other expense, net	16,432	1,112	–	17,544

expense, net				
Total operating and other expenses	904,547	104,771	–	1,009,318
Income/(Loss) before income taxes	216,496	(69,503)	–	146,993
Income tax expense/ (benefit)	88,763	(28,496)	–	60,267
Net income/(loss)	$ 127,733	$ (41,007)	$ –	$ 86,726

CONDSOLIDATING STATEMENTS OF INCOME
For the twenty-six weeks ended July 31, 1999
(in thousands)

	Staples RD	Staples.com	Reclassifications/ Eliminations	Staples, Inc.
Sales	$3,884,874	$ 27,302	$ –	$3,912,176
Cost of goods sold and occupancy costs	2,941,867	20,997	–	2,962,864
Gross profit	943,007	6,305	–	949,312
Operating and other expenses:				
Operating and selling	579,213	6,672	1,119	587,004
Pre-opening	9,407	–	–	9,407
Site development	–	1,119	(1,119)	–
General and administrative	169,007	4,296	–	173,303
Amortization of goodwill	5,258	–	–	5,258
Interest and other expense, net	5,099	293	–	5,392
Total operating and other expenses	767,984	12,380	–	780,364
Income/(Loss) before income taxes	175,023	(6,075)	–	168,948
Income tax expense/ (benefit)	68,259	(2,369)	–	65,890
Net income/(loss)	$ 106,764	$ (3,706)	$ –	$ 103,058

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Note J Equity Forward Purchase Agreement

In July 2000, Staples settled its forward equity purchase agreement through the purchase of 2,600,000 shares of Staples RD Stock for approximately $78,700,000.

STAPLES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note K Computation of Earnings Per Common Share

Staples calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("FAS 128") which requires disclosure of basic and diluted earnings per share. Basic earnings per share exclude any dilutive effects of options, warrants, and convertible securities, while diluted earnings per share include such effects. Subsequent to the approval of the Tracking Stock Proposal on November 9, 1999, the Company has calculated earnings per share under the two class method. Accordingly, earnings per share has been presented for Staples, Inc. common stock for the second quarter of 1999 and first half of 1999 and Staples RD Stock and Staples.com Stock for the second quarter of 2000 and first half of 2000. Also, net loss per share for Staples.com Stock has been retroactively restated to reflect the effect of a recapitalization effected through a one-for-two reverse stock split approved by the Board on March 7, 2000 and effective April 5, 2000. The computation of earnings/(loss) per common share for the for the second quarter of 2000 and first half of 2000 and for the corresponding periods in 1999 is as follows (in thousands, except per share data):

	13 Weeks Ended July 29, 2000		13 Weeks Ended July 31, 1999
	Staples RD	Staples.com	Staples, Inc.
Numerator:			
Net income/(loss) before adjustment for equity loss	$ 60,550	$ (28,402)[1]	$ 82,744
Adjustment for dividends on Staples RD Stock	(2,000)	[illegible]	[illegible]

Net income/(loss) attributed to each class of stock	44,571	(2,012)	52,744
Denominator:			
Weighted-average shares-Basic	455,183	14,075	462,422
Weighted-average shares-Diluted	462,819	14,075	476,032
Basic earnings/(loss) per common share	$ 0.10	$ (0.14)	$ 0.11
Diluted earnings/(loss) per common share	$ 0.10	$ (0.14)	$ 0.11

	26 Weeks Ended July 29, 2000		26 Weeks Ended July 31, 1999
	Staples RD	Staples.com	Staples, Inc.
Numerator:			
Net income/(loss) before adjustment for equity loss	$127,733	$ (41,007)	$103,058
Adjustment for Staples.com losses attributed to Staples RD Stock	(36,153)	36,153	-
Net income/(loss) attributed to each class of stock	91,580	(4,854)	103,058
Denominator:			
Weighted-average shares-Basic	455,805	13,938	462,627
Weighted-average shares-Diluted	464,904	13,938	476,417
Basic earnings/(loss) per common share	$ 0.20	$ (0.35)	$ 0.22
Diluted earnings/(loss) per common share	$ 0.20	$ (0.35)	$ 0.22

ITEM 2.

STAPLES, INC. AND SUBSIDIARIES

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

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Results of Operations

On November 9, 1999, the stockholders of Staples approved a proposal ("the Tracking Stock Proposal") which amended the Company's certificate of incorporation to (i) authorize the issuance of a new series of common stock, designated as Staples.com common stock ("Staples.com Stock"), intended to track the performance of Staples.com, the Company's e-commerce business, (ii) increase the aggregate number of shares of common stock that the Company may issue from 1,500,000,000 to 2,100,000,000, initially comprised of 1,500,000,000 shares of Staples Retail and Delivery common stock ("Staples RD Stock") and 600,000,000 shares of Staples.com Stock, and (iii) re-classify Staples' existing common stock as Staples RD Stock, intended to track the performance of Staples RD, which consists of all of the Company's non e-commerce businesses and a retained interest in Staples.com. Despite the Company's intentions, the market value of Staples RD Stock may not track the performance of Staples RD and the market value of Staples.com Stock may not track the performance of Staples.com. The Company filed a registration statement with the Securities and Exchange Commission on February 18, 2000 for a public offering of Staples.com Stock.

The change in the capital structure of the Company as a result of the approval of the Tracking Stock Proposal did not result in the distribution or spin-off to stockholders of any of the Company's assets and liabilities and will not affect ownership of its assets or responsibility for its liabilities or those of its subsidiaries. Holders of Staples RD Stock and Staples.com Stock are common stockholders of the Company and as such will be subject to the risks associated with an investment in Staples and all of its businesses, assets and liabilities. The assets the Company attributes to one business are subject to the liabilities of the other business, even if such liabilities arise from lawsuits, contracts or indebtedness attributed to the other business. If the Company is unable to satisfy one business' liabilities out of the assets attributed to it, the Company may be required to satisfy those liabilities with the assets the Company has attributed to the other business. Further, holders of Staples RD Stock and Staples.com Stock will not have any legal rights related to specific assets of either business and in any liquidation will receive a fixed share of the net assets of the Company, which may not reflect the actual trading prices, if any, of the respective businesses at such time.

Financial effects from one business that affect the Company's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other business and the market price of the stock relating to the other business. In addition, net losses of either business and dividends and distributions on, or repurchases of, either class of common stock or series thereof, if any, at a time when shares [illegible] will reduce the funds from which the Company may pay dividends on each class of common stock under Delaware law.

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under Delaware Law.

The Company consolidates for financial reporting purposes Staples RD and Staples.com. Staples RD is comprised of Staples' retail stores, catalog businesses, contract stationer business and a retained interest in Staples.com. Staples RD had a retained interest in Staples.com of 69% for the first half of 2000 and 100% for the first half of 1999. Staples.com includes the operations of Staples' e-commerce sites, *Staples.com*, *Quill.com*, *StaplesLink.com*, and its Canadian e-commerce business.

Staples RD's and Staples.com's separate operating results, as presented in Note I of the Consolidated Financial Statements, reflect the effect of the application of certain cash management and allocation polices adopted by the Board. While the Company believes such allocations to be reasonable they are not necessarily indicative of, and it is not practical for the Company to estimate, the levels of expenses that would have resulted had Staples RD and Staples.com been operating as independent companies. Staples.com has relied upon Staples RD to provide financing for its operations. Therefore, Staples.com's

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financial position is not necessarily indicative of the financial position that would have resulted had Staples.com been operating as an independent company. However, management believes that the level of expenses would not have been materially different if these services had been provided by third parties. Allocation and related party transaction policies adopted by the Board can be rescinded or amended at the sole discretion of the Board without approval by the stockholders, although no such changes are currently contemplated. Any such changes adopted by the Board would be made in its good faith business judgement of the Company's best interests, taking into consideration the interests of all stockholders.

Results of Operations

Sales

	13 Weeks	13 Weeks

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	13 Weeks Ended July 29, 2000	13 Weeks Ended July 31, 1999	Increase %
	(Amounts in thousands)		
North American Retail	$1,374,463	$1,183,168	16%
Contract and Commercial	583,450	562,562	4%
European Operations	147,692	78,770	87%
Total Staples RD	2,105,605	1,824,500	15%
Total Staples.com	95,692	15,610	513%
Total Staples, Inc.	$2,201,297	$1,840,110	20%

	26 Weeks Ended July 29, 2000	26 Weeks Ended July 31, 1999	Increase %
	(Amounts in thousands)		
North American Retail	$3,057,514	$2,590,989	18%
Contract and Commercial	1,201,613	1,126,995	7%
European Operations	326,901	166,990	96%
Total Staples RD	4,586,028	3,884,874	18%
Total Staples.com	171,055	27,302	527%
Total Staples, Inc.	$4,757,083	$3,912,176	22%

Total worldwide comparable sales increased 10% for both the second quarter and first

half of fiscal. Comparable sales include stores open for more than one year plus the Internet business. Retail stores and the direct business

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plus the Commercial business ("Staples Direct") and the *Staples.com* site. Worldwide comparable store sales increased 6% for the second quarter of 2000 and 7% for first half of 2000. Worldwide non-comparable store sales represented 49% of the increase in total company sales for the second quarter of 2000 and 47% for first half of 2000. Staples had 1,254 open stores as of July 29, 2000 compared to 1,009 stores as of July 31, 1999 and 1,129 stores as of January 29, 2000. This includes 60 stores opened and no stores closed during the second quarter of 2000.

Staples RD: Staples RD had 1,105 North American open stores as of July 29, 2000 compared to 930 North American open stores as of July 31, 1999. The Company increased its North American store base by 54 stores during the second quarter of 2000 and 116 stores during the first half of 2000. The increase in sales for Staples North American Retail division were achieved despite increased personal computer and software sales related to the Microsoft Office 2000® and Microsoft Network promotions that were offered during the second quarter of 1999 for which there was no similar event in the second quarter of 2000. Sales for Contract and Commercial increased 4% for the second quarter of 2000 and increased 7% for the first half of 2000. The increase reflects revenue growth in Staples Direct of 12% for the second quarter of 2000 and 14% growth for the first half of 2000 driven by an increase in targeted customer marketing. Contract division sales, which includes Contract, Quill and Staples Communications, were flat for the second quarter of 2000 and increased 3% for the first half of 2000, reflecting the negative effect of the migration of customers to the Internet sites of *StaplesLink.com*, and *Quill.com*. Growth in this division would have been 9% for the second quarter of 2000 and 11% for the first half of 2000 if the revenues from *StaplesLink.com*, and *Quill.com* were included. Contract division sales also reflect a decline in the sales performance of Staples Communications.

Staples RD had 149 European open stores as of July 29, 2000 compared to 79 European open stores as of July 31, 1999. The Company increased its European store base by 6 stores during the second quarter of 2000 and by 13 stores during the first half of 2000. The Company's European Operations results for the second quarter of 2000 and first half of 2000 also include the October 1999 acquisition of 42 Office Centre/Sigma stores in the Netherlands, Portugal and Germany.

Staples.com: Sales increased 91% during the second quarter of 2000 and 92% during the first half of 2000 due to the significant increase in the Staples.com customer base and repeat purchases from Staples.com's existing customers. Staples.com had approximately 979,100 repeat customers during the second quarter of 2000 and approximately 322,000 repeat customers during the first half of 2000, and these repeat customers accounted for over 60% of the total sales during the second quarter of 2000.

2000.

Gross Profit. Gross profit as a percentage of sales was 24.6% for the second quarter of 2000 and 24.3% for the first half of 2000 as compared to 24.7% and 24.3% for the corresponding periods in 1999. This gross profit rate was maintained through lower product costs from vendors, increased buying efficiencies, continued supply chain enhancements and the leveraging of fixed distribution center and delivery costs over a larger sales base offset by increased price reductions.

Operating and Selling Expenses. Operating and selling expenses, which consist of payroll, advertising and other operating expenses, increased as a percentage of sales to 16.4% in both the second quarter of 2000 and first half of 2000 as compared to 14.7% and 15.0% for the corresponding periods in 1999. The increase was primarily due to increased costs of investing in the operations and marketing of Staples.com. The increase also reflects the continued negative impact of wage inflation at the store level. These increases were partially offset by the continued leveraging of fixed store and delivery operating costs as sales have increased.

Pre-opening Expenses. Pre-opening expenses relating to new store openings, consisting primarily of salaries, supplies, marketing and occupancy costs, are expensed as incurred and therefore fluctuate from period to period depending on the timing and number of new store openings. Pre-opening expenses averaged $109,000 per store for the second quarter of 2000 and $113,000 per store for the first half of 2000 as compared to $100,000 per store for the first quarter of 1999 and $96,000 per store for the first half of 1999.

General and Administrative Expenses. General and administrative expenses as a percentage of sales were 4.1% for both the second quarter of 2000 and first half of 2000, as compared to 4.7% and 4.8% for the for the corresponding periods in 1999. The decrease was primarily due to Staples' ability to increase sales without proportionately increasing overhead expenses in the core retail and direct business. These decreased were partially offset by the growth of Staples.com which currently has higher general and administrative expenses as a percentage of sales.

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general and administrative expenses as a percentage of sales.

Merger-Related and Integration Costs. As discussed in Note E to the Financial Statements, during the second half of 2000, the Company utilized reserves of $6,524,000 related to the Quill merger, $5,026,000 related to the European Office Supply purchase and $1,502,000 related to the Claricom purchase. At July 29, 2000, the remaining accruals were $7,138,000 for the Quill merger, $14,896,000 for the European Office Supply purchase and $2,284,000 for the Claricom purchase. All of the remaining accruals will be utilized by the end of fiscal year 2000, except for accruals related to contract and lease terminations. The Company believes that the accruals relating to contract and lease terminations will be entirely utilized by fiscal year 2004, although some payments may be made over the remaining lease terms.

Store Closure Credit. During the first half of 2000, management decided not to close several stores that were included in the original store closure plan. Accordingly, the Company has reversed a portion of the charge in the amount of $7,250,000, representing eighteen stores that the Company is no longer committed to closing due to changes in market conditions.

Amortization of Goodwill. Amortization of goodwill was $3,523,000 for the second quarter of 2000 and $7,095,000 for the first half of 2000 as compared to $2,971,000 for the second quarter 1999 and $5,258,000 for the first half 1999. The increase in amortization is due to the additional goodwill created from the acquisitions of Sigma Burowelt in Germany, Office Centre in the Netherlands and Office Centre in Portugal on October 6, 1999 and Claricom Holdings, Inc., now referred to as Staples Communications, on February 26, 1999.

Interest and Other Expense, Net. Net interest and other expense was $11,952,000 for the second quarter of 2000 and $19,092,000 for the first half of 2000 as compared to $3,976,000 for the second quarter 1999 and $5,392,000 for the first half of 1999. The interest expense relates primarily to existing borrowings. The increase in the net interest expense during the second quarter of 2000 and first half of 2000 was primarily due to increased borrowings from Staples' revolving credit facility and the issuance of $175,000,000 floating rate notes on May 24, 2000.

Income Taxes. The provision for income taxes as a percentage of pre-tax income was 41% for the second quarter of 2000 and first half of 2000 and 39% for the for the corresponding periods in 1999. The increase in Staples' effective tax rate is due primarily to a one time charge associated with the legal restructuring of the European Operations.

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STAPLES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Liquidity and Capital Resources

Staples has traditionally used a combination of cash generated from operations and debt or equity offerings to fund its expansion and acquisition activities. During the twenty-six weeks ended July 29, 2000 and July 31, 1999, Staples also utilized its revolving credit facility to support its various growth initiatives.

Staples opened 129 stores during the first half of 2000 and 96 stores during first half of 1999. To the extent that the store base matures and becomes more profitable, cash generated from store operations is expected to provide a greater portion of funds required for new store inventories and other working capital requirements. Sales generated by the contract stationer business segment and certain direct mail customers are made under regular credit terms, which requires that Staples carry its own receivables from these sales. As Staples expands its contract and direct mail businesses worldwide, Staples anticipates that its accounts receivable portfolio will grow. Receivables from its vendors under rebate, cooperative advertising and marketing programs are a significant percentage of its total receivables and tend to fluctuate somewhat seasonally. Staples expects to open approximately 40 stores during the second half of fiscal year 2000. Staples estimates that its cash requirements, including pre-opening expenses, inventory, leasehold improvements and fixtures, will be approximately $1,500,000 for each new store (excluding the cost of any acquisitions of lease rights). Accordingly, Staples expects to use approximately $60,000,000 for store openings during this period.

During the first half 2000, cash and cash equivalents decreased by $73,000,000. This decrease was primarily attributable to cash used in investing activities of $[illegible], including the acquisition of property and equipment of $[illegible], primarily for the 129 new stores opened, and long-term investments in Internet related companies of $[illegible]. This decrease was partially offset by cash provided by financing activities of $[illegible], comprised of net borrowings of $[illegible] and proceeds from the sale of [illegible] shares [illegible] the exercise of stock options of $[illegible], which were offset by the purchase of [illegible] shares of treasury stock at

purchase agreement of $79,000,000 and the purchase of treasury stock of $67,000,000. Cash used in operating activities of $10,000,000 was comprised primarily of an increase in receivables of $88,000,000, increase in merchandise inventories of $86,000,000, increase in prepaid expenses and other assets of $21,000,000 and a decrease in accounts payable and other current liabilities of $21,000,000, which was offset by net income of $87,000,000 and depreciation and amortization of $109,000,000.

During the first half of 2000, Staples extended its stock repurchase program intended to provide shares for employee stock programs. The Board has authorized up to $400,000,000 to be used in fiscal 2000 for these repurchases. During the first half of 2000, Staples repurchased 6,247,500 shares for approximately $145,000,000 under this program. In addition, on July 3, 2000, Staples elected to settle its equity forward purchase agreement to hedge against stock price fluctuations for the repurchase of its common stock in connection with the annual stock option grant to employees and directors. Under the agreement, the Company purchased 2,600,000 shares at an average price of $30.263.

Staples also plans to continue to make investments in information systems, distribution centers and store remodels to improve operational efficiencies and customer service, and may expend additional funds to acquire businesses or lease rights from tenants occupying retail space that is suitable for a Staples store.

Staples maintains a revolving credit facility, effective through November 2002, with a syndicate of banks, which provides up to $350,000,000 of available borrowings. Borrowings made pursuant to this facility will bear interest at either the lead bank's prime rate, the federal funds rate plus 0.50%, the LIBOR rate plus a percentage spread based upon certain defined ratios, a competitive bid rate or a swing line loan

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rate. This agreement, among other conditions, contains certain restrictive covenants, including net worth maintenance, minimum fixed charge interest coverage, and limitations on indebtedness and sales of assets.

On June 29, 2000, Staples entered into a 364-day revolving credit facility, with a syndicate of banks, which provides up to $350,000,000 of

facility, with a syndicate of banks, which provides up to $200,000,000 of borrowings. Borrowings made pursuant to the facility will bear interest at either (a) the higher of the lead bank's prime rate or the federal funds rate plus 0.50%, with such rate in both cases to be increased by 0.125% when the outstanding balance under the facility exceeds $100,000,000, or (b) the LIBOR rate plus a percentage spread based upon certain defined ratios, and this rate was approximately 6.62% at July 29, 2000. The agreement, among other conditions, contains certain restrictive covenants, including net worth maintenance, minimum fixed charge coverage and limitations on indebtedness and sale of assets.

As of July 29, 2000, $302,000,000 of borrowings were outstanding under the $350,000,000 revolving credit agreement and no borrowings were outstanding under the $200,000,000 revolving credit facility. Staples also had available $35,000,000 in other uncommitted, short-term bank credit lines, of which $20,000,000 was outstanding as of July 29, 2000. Staples UK had a $45,000,000 line of credit of which $4,900,000 was outstanding at July 29, 2000, Staples Germany has a $18,900,000 line of credit of which $11,800,000 was outstanding at July 29, 2000 and Office Centre Portugal had a $460,000 line of credit of which $407,000 was outstanding at July 29, 2000. Office Centre Netherlands has a $6,300,000 line of credit and Business Depot has a $6,800,000 line of credit, both with no outstanding balances at July 29, 2000. Total cash, short-term investments and available revolving credit amounts totaled $401,700,000 as of July 29, 2000.

On May 24, 2000, Staples issued notes in the aggregate principal amount of $175,000,000. The notes bear interest at a rate equal to the three month LIBOR plus 85 basis points, or 7.67% at July 29, 2000, and are due on November 26, 2001.

Staples expects that income from operations, together with its current short-term investments, funds available under its revolving credit facility and proceeds from notes issued will be sufficient to fund its planned store openings and other recurring operating cash needs for at least the next twelve to eighteen months. Staples continually evaluates financing possibilities, and it may seek to raise additional funds through any one or a combination of public or private debt or equity-related offerings, depending upon market conditions, or through an additional commercial bank debt arrangement.

Inflation and Seasonality

While general inflation has declined in recent years, and Staples does not expect inflation to have a material impact on operating results, there can be no assurance that inflation will not adversely affect Staples' business in the future. Staples believes that its business is somewhat seasonal

business in the future. Staples believes that its business is somewhat seasonal, with sales and profitability slightly lower during the first and second quarters of its fiscal year.

Future Operating Results

This quarterly report on Form 10-Q includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the use of the words "believes", "anticipates", "plans", "expects", "may", "will", "would", "intends", "estimates" and other similar expressions, whether in the negative or affirmative. Staples cannot guarantee that they actually will achieve these plans, intentions or expectations disclosed in the forward looking statements made. Staples has included important factors in the cautionary statements below that Staples believes could cause actual results to

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differ materially from the forward-looking statements contained herein. The forward-looking statements do not reflect the potential impact of any future acquisitions, mergers or dispositions. Staples does not assume any obligation to update any forward-looking statement contained herein.

Staples' market is highly competitive and Staples may not continue to compete successfully. Staples competes in a highly competitive marketplace with a variety of retailers, dealers and distributors. In most of its geographic markets, Staples competes with other high-volume office supply chains, such as Office Depot, OfficeMax and Office World, that have store formats, pricing strategies and product selections that are similar to Staples. Staples also competes with mass merchants, such as Wal-Mart, warehouse clubs, computer and electronics superstores, and other discount retailers. In addition, Staples' retail stores, delivery and contract [illegible] competes with numerous mail order firms, on-line [illegible] and [illegible] competitors, office supply [illegible] Corporation, Wal-Mart, [illegible] OfficeMax and Wal-Mart, have in recent years [illegible] number of stores they operate within Staples' markets. Some of Staples' current and potential competitors are larger than Staples and have

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current and potential competitors are larger than Staples and have substantially greater financial resources. It is possible that increased competition or improved performance by Staples' competitors may reduce Staples' market share, may reduce Staples' profit margin, and may adversely affect Staples' business and financial performance in other ways.

Staples may be unable to continue to successfully open new stores. An important part of Staples' business plan is to aggressively increase its number of stores. Staples opened 175 stores in the United States, Canada and Europe in fiscal 1999 and plans to open approximately 170 new stores in fiscal 2000. For Staples' growth strategy to be successful, Staples must identify and lease favorable store sites, hire and train employees and adapt management and operational systems to meet the needs of Staples' expanded operations. These tasks may be difficult to accomplish successfully. If Staples is unable to open new stores as quickly as planned, Staples' future sales and profits could be materially adversely affected. Even if Staples succeeds in opening new stores, these new stores may not achieve the same sales or profit levels as its existing stores. Also, Staples' expansion strategy includes opening new stores in markets where Staples already has a presence so it can take advantage of economies of scale in marketing, distribution and supervision costs. However, these new stores may result in the loss of sales in existing stores in nearby areas.

Staples' quarterly operating results are subject to significant fluctuation. Staples' operating results have fluctuated from quarter to quarter in the past, and it expects that they will continue to do so in the future. Staples' earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior fiscal period or investors' expectations. Factors that could cause these quarterly fluctuations include the following:

- the number of new store openings, primarily because Staples expenses pre-opening expenses as they are incurred and newer stores are less profitable than mature stores;
- the extent to which sales in new stores result in the loss of sales in existing stores;
- the mix of products sold;
- [illegible] of competitors;
- the level of investments and [illegible] expenses;
-

- seasonality, primarily because the sales and profitability of Staples' stores are typically slightly lower in the first and second quarter of the fiscal year than in other quarters; and

- charges associated with acquisitions.

Most of Staples' operating expenses, such as rent expense, advertising expense and employee salaries, do not vary directly with the amount of sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below expectations for that quarter, Staples may not proportionately reduce operating expenses for that quarter, and therefore this sales shortfall would have a disproportionate effect on its net income for the quarter.

Staples stock price may fluctuate based on the expectations of professional security analysts. The public trading of Staples RD Stock is based in large part on professional securities analysts' expectations that its business will continue to grow and that the Company will achieve certain levels of net income. If Staples' financial performance in a particular quarter does not meet the expectations of securities analysts, this may adversely affect the views of these securities analysts concerning the growth potential and future financial performance of Staples. In particular, in light of the Company's substantial recent investment in Staples.com and the Company's pending public offering of Staples.com Stock, the Company believes that Staples RD Stock has become increasingly subject to the recent market volatility associated with Internet stocks. If the securities analysts that regularly follow Staples RD Stock lower their rating or lower their projections for future growth and financial performance, the market price of Staples RD Stock is likely to drop significantly. In addition, in these circumstances the decrease in the stock price may be disproportionate to the shortfall in the Company's financial performance.

Staples' retail stores may continue to strain resources, which could adversely affect the business and financial results. Staples' business, including sales volume, number of stores, investment in Staples.com and number of

including sales, number of stores, investment in Staples.com and number of employees, has grown dramatically over the past several years. In addition, Staples has acquired a number of significant companies in the last few years and may make additional acquisitions in the future. This growth has placed significant demands on management and operational systems. If Staples is not successful in upgrading the operational and financial systems, expanding the management team and increasing and effectively managing the employee base, this growth is likely to result in operational inefficiencies and ineffective management of the business and employees, which will in turn adversely affect Staples' business and financial performance.

Staples' international operations may not become profitable. Staples currently operates in international markets through The Business Depot Ltd. in Canada, Staples UK in the United Kingdom, Staples Deutschland in Germany, and Office Centre in the Netherlands and Portugal. Consolidated European operations are currently unprofitable, and Staples cannot guarantee that they will become profitable. Staples may seek to expand further into other international markets in the future. Staples' foreign operations encounter risks similar to those faced by its US stores, as well as risks inherent in foreign operations, such as local customs and competitive conditions and foreign currency fluctuations.

Staples e-commerce operations may not become profitable. Staples.com includes the operations of Staples' e-commerce sites, *Staples.com*, *Quill.com*, *StaplesLink.com*, and its Canadian e-commerce business. Staples.com is currently unprofitable. Staples cannot guarantee that Staples.com will become profitable.

Staples may be unable to obtain adequate future financing. It is possible that Staples will require additional sources of financing earlier than anticipated, as a result of unexpected cash needs or opportunities, an expanded growth strategy or disappointing operating results. Additional funds may not be available on satisfactory terms when needed, or at all, whether in the next twelve to eighteen months or thereafter.

Euro Currency

On January 1, 1999, participating member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency ("the euro"). The former currencies of the participating countries are scheduled to remain legal tender as denominations of the euro until January 1, 2002 when the euro will be adopted as the sole legal currency.

Staples has evaluated the potential impact of the conversion to the euro on its business, including the ability of the information systems to handle euro-denominated transactions, the impact on exchange costs and currency exchange rate risks. Based on the results of this evaluation, Staples does not expect the conversion to the euro to have a material impact on its operations or financial position.

ITEM 3.

STAPLES, INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosure about Market Risks

Staples is exposed to market risk from changes in interest rates and foreign exchange rates. Staples initiated a risk management control process to monitor the interest rate and foreign exchange risks. The risk management process uses analytical techniques including market value, sensitivity analysis, and value at risk estimates. Staples does not believe that the potential exposure is significant in light of its size and its business. Staples uses interest rate and currency swap agreements for purposes other than trading and they are treated as off-balance sheet items. Staples uses interest rate swap agreements to modify fixed rate obligations to variable rate obligations, thereby adjusting the interest rates to current market rates and ensuring that the debt instruments are always reflected at fair value. Staples is exposed to foreign exchange risks through subsidiaries in Canada, the United Kingdom, Germany, the Netherlands, France, and Australia. Staples has entered into derivative financial instruments, as noted below, to partially hedge its foreign exchange exposure. Staples does not enter into derivative financial instruments for trading purposes.

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swaps, each for an aggregate notional amount of $100,000,000, in order to minimize financing costs associated with its $200,000,000 of 7.125% senior notes due August 15, 2007. The swap agreements are both scheduled to terminate on August 15, 2007. Under the interest rate swap agreements, Staples is entitled to receive semi-annual interest payments at a fixed rate of 7.125% and is obligated to pay interest based on a 30 day Non-Financial US Commercial Paper Rate plus 107 basis points and 31.875 basis points, respectively, currently approximately 7.58% and 6.83%. The interest rate swaps are being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense over the life of the agreements. If Staples and the counterparty to the agreements terminate the swaps prior to their original maturity, any gain or loss upon termination will be amortized to interest expense over the remaining original life of the agreements.

Staples issued notes in the aggregate principal amount of 150,000,000 euro on November 15, 1999. Net proceeds of approximately $148,000,000 were used to fund international expansion. These notes bear interest at a rate of 5.875% per annum and are due on November 15, 2004. These notes have been designated as a foreign currency hedge on Staples' net foreign investments in Europe and gains or losses are recorded in the cumulative translation adjustment line in Stockholders' Equity.

On November 15, 1999, Staples entered into an interest rate swap for an aggregate notional amount of 150,000,000 euro in order to minimize financing costs on the notes issued the same date. The swap agreement is scheduled to terminate on November 15, 2004. Under the interest rate swap agreement, Staples is entitled to receive annual interest payments at a fixed rate of approximately 5.875% and is required to make quarterly interest payments at a floating rate of the one month EURIBOR plus 1.1175%, currently approximately 5.5085%. Staples has designated its 150,000,000 euro notes and its interest rate swap agreement to be an integrated transaction. Accordingly, the interest rate swap agreement is being accounted for as a hedge and the differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense over the life of the agreement.

On May 3, 2000, Staples entered into a currency swap on its $200,000,000 of 7.125% senior notes issued on August 12, 1997. The Company has swapped the dollar-denominated principal and interest into Canadian dollar denominated obligations. This swap has been designated as a foreign currency hedge on Staples' net investments in Canadian dollar denominated subsidiaries and gains or losses will be recorded in the cumulative translation adjustment line in Stockholders' equity. As of May 29, 2004 the principal was $125,000,000 at an interest rate of 6.1425%.

STAPLES, INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosure about Market Risks (Continued)

This risk management discussion and discussion of the effects of changes in interest rates and foreign exchange rates, are forward-looking statements. Actual future results may differ materially from these projected results due to developments in the global financial markets. The analytical methods used by Staples to assess and mitigate risk discussed above should not be considered projections of future events or losses

PART II—OTHER INFORMATION

Items 1, 2, 3 and 5—Not applicable

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

The Company held the 2000 Annual Meeting of Stockholders (the "Annual Meeting") on July 10, 2000. At the Annual Meeting, the following actions were taken:

1. The stockholders elected Basil L. Anderson, George J. Mitchell, Robert C. Nakasone, Ronald L. Sargent and Thomas G. Stemberg as Class III Directors, to serve for a three-year term expiring at the 2003 Annual Meeting. Holders of 406,702,104 shares of Common Stock voted for Mr. Anderson. Holders of 404,825,718 shares of Common Stock voted for Mr. Mitchell. Holders of 406,610,857 shares of Common Stock voted for Mr. Nakasone. Holders of 406,603,273 shares of Common Stock voted for Mr. Sargent. Holders of 406,680,998 shares of Common Stock voted for Mr. Stemberg.

2. The stockholders approved amendments to the Company's Amended and Restated 1998 Director Stock Option Plan by a vote of 331,301,678 shares of Common Stock for, 5,174,38 shares of Common Stock against

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shares of Common Stock for, 74,376,826 shares of Common Stock against and 2,442,867 shares of Common Stock not voting.

3. The stockholders ratified the appointment of Ernst & Young LLP as the Company's independent auditors for the current fiscal year by a vote of 408,003,568 shares of Common Stock for, 615,258 shares Common Stock against and 1,301,139, shares of common Stock not voting.

Item 6—Exhibits and Reports on Form 8-K.

(a) Exhibits

10.1 Revolving Credit Agreement, dated as of June 26, 2000, by and among the Company, Fleet National Bank and the banks named therein.

27.1 Financial Data Schedule.

(b) Reports on Form 8-K

Not Applicable

SIGNATURE

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

STAPLES, INC.

Date: September 11, 2000 By: /s/ JOHN J. MAHONEY

John J. Mahoney
Executive Vice President--
Finance
and Chief Financial
Officer
(Principal Financial
Officer)

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QuickLinks

FORM 10-Q STAPLES, INC. July 29, 2000
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SIGNATURE

EXHIBIT F
Proposed Initial Tariff

Local Exchange Telecommunications Resale Services Tariff

of

Claricom Networks, Inc. d/b/a Staples Communications - Networks

for the

State of South Dakota

Issued:

Effective:

Issued by:
Joyce E. Johnson
Corporate & Regulatory Counsel and Assistant Secretary
Claricom Networks, Inc. d/b/a Staples Communications - Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

CHECK SHEET

Pages 1 through 25 inclusive of this Tariff are effective as of the date shown on the bottom of the respective pages. Original and revised pages, as named below, comprise all changes from the original tariff and are currently in effect as of the date at the bottom of this page:

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4	Original
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25	Original
	Original

Issued:

Effective:

Issued by:
Joyce E. Johnson
Corporate & Regulatory Counsel and Assistant Secretary
Claricom Networks, Inc. d/b/a Staples Communications - Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

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Issued: **Effective:**

Issued by:
Joyce E. Johnson
Corporate & Regulatory Counsel and Assistant Secretary
Claricom Networks, Inc. d/b/a Staples Communications - Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

TARIFF FORMAT

A. PAGE NUMBERING - Sheet numbers appear in the upper right corner of the sheet. 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 page added between pages 1 and 2 would be page 1.1.

B. PAGE REVISION NUMBERS - Revision numbers also appear in the upper right corner of each sheet. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the 3rd Revised Sheet 14. Because of various suspension periods, deferrals, etc., that the Commission follows in their tariff approval process, the most current sheet number on file with the Commission is not always the sheet in effect. Consult the Check Sheet currently in effect.

C. 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 are indicated on some sheets). The tariff user should refer to the latest check sheet to find if a particular sheet is the most current on file with the Commission.

EXPLANATION OF SYMBOLS

When changes are made in any Tariff page, a revised page will be issued canceling the Tariff page affected. Changes will be identified on the revised page(s) through the use of the following symbols:

(C) - To signify a changed condition or regulation.

(D) - To signify a discontinued rate, regulation or condition.

(I) - To signify an increase in rates or charges.

(M)- To signify material relocated from or to another part of this tariff with no change in text, rate, condition or regulation.

(N)- To signify new material, including rates, conditions or regulations.

(R)- To signify a reduction in rates or charges.

(S)- To signify a correction or reissued matter.

(T)- To signify a change in text, but no change in the rate, regulation or condition.

Issued:

Effective:

Issued by:
Joyce E. Johnson
Corporate & Regulatory Counsel and Assistant Secretary
Claricom Networks, Inc. d/b/a Staples Communications - Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

CONCURRING, CONNECTING AND OTHER PARTICIPATING CARRIERS

Concurring Carriers

None

Connecting Carriers

None

Other Participating Carriers

None

APPLICATION OF TARIFF

This Tariff contains the regulations, terms, conditions, services offerings, rates and charges applicable to Claricom Networks, Inc. d/b/a Staples Communications - Networks ("Company") furnishing of resold local exchange and intrastate intraLATA toll telephone service in the State of South Dakota to customers in all areas served by US West Communications, Inc. (now Qwest Communications) ("Underlying Carrier") as made available under US West Communications (now Qwest Communications) tariffs. The rates and rules contained herein are subject to change pursuant to the statutes, rules and regulations of the State of South Dakota.

This Tariff is on file with the South Dakota Public Utilities Commission located at State Capitol 500 East Capitol Street, Pierre, South Dakota 57501. In addition, this Tariff is available for review at the Company's corporate headquarters located at 4 Research Drive, Suite 500, Shelton, Connecticut 06484.

SECTION 1 - DEFINITIONS AND ABBREVIATIONS

AUTHORIZED USER - A person, firm or corporation which is authorized by the Customer or Joint User to be connected to the service of the Customer or Joint User, respectively. An Authorized User must be specifically named in the application for service.

BIT - The small unit of information in the binary system of notation.

CERTIFICATED CARRIER - Any carrier approved by the Commission to provide telecommunications service.

COMMISSION - The South Dakota Public Utilities Commission.

COMPANY - Claricom Networks, Inc. d/b/a Staples Communications - Networks.

CONSUMER - The calling party utilizing the services of Company and responsible for payment of charges, unless that responsibility has been accepted by others, such as in the case of collect and third party calls. (Consumer may also be referred to as "User" in this Tariff.)

CPE - Customer Premise Equipment; telecommunications terminal equipment that is located at the Customer's residence or place of business. CPE includes devices ranging from simple single-line telephones on up through multi-line systems (such as key systems or PBXs) offering sophisticated capabilities for handling voice or combined voice/data transmissions on and off the premises.

CUSTOMER - A firm, corporation or other business entity which contracts with Company for the provision of services offered by Company.

DAY - For billing purposes, day rates shall apply 8:00 a.m. to 4:59 p.m. Monday through Friday.

DEDICATED ACCESS - An arrangement whereby a Customer or other common carrier uses a dedicated private line facility to access the Company switching facility port.

DID - Direct Inward Dialing, a feature of PBXs and Centrex systems which allows callers on the public switched network to directly dial a specific PBX/Centrex extension telephone.

SECTION 1 - DEFINITIONS AND ABBREVIATIONS (continued)

DISCOUNT - (1) A percentage reduction in rates due to time of call, holiday or weekend; (2) A percentage reduction in rates due to Customer commitment to maintain service either for a specified length of time or for a specified annual usage rate.

EVENING - For billing purposes, evening rates shall apply 5:00 p.m. to 10:59 p.m. Monday through Friday and Sunday.

HOLIDAY - Company recognized holidays for rate purposes are: New Year's Day, Labor Day, Thanksgiving Day, Independence Day and Christmas Day.

JOINT USER - A person, firm or corporation designated by a Customer as a User of service furnished to that Customer and to whom a portion of the charges for the service will be billed under a "Joint User" arrangement as specified herein.

KBPS - Kilobits per second, denotes thousands of bits per second; a measurement of speed in a digital transmission system.

LATA - Local Access Transport Area; one of 161 local telephone exchange areas established as a result of the MFJ which serve to distinguish local phone service from long-distance service.

LOCAL CALLS - All calls which if similarly originated through the local exchange telephone company, would be rated as a home region call.

MBPS - Megabits per second, denotes millions of bits per second.

MFJ - Modification of Final Judgment; a term applied to the divestiture agreement that forced AT&T to get out of the local exchange business and give up its local phone companies.

NIGHT - For billing purposes, night rates shall apply 11:00 p.m. to 7:59 a.m. Monday through Friday, and all day Saturday and Sunday until 5:00 p.m. and after 11:00 p.m.

SECTION 1 - DEFINITIONS AND ABBREVIATIONS (continued)

PBX - Private Branch Exchange; a device, installed on the user's premises, that provides for the automatic selection of outgoing lines in accordance with user-defined criteria. the PBX functions as a switch that permits a user to receive incoming calls, to dial any other telephone on the premises, to access tie trunk leading to another PBX or to access an outside trunk to the public switched telephone network. In addition, PBXs offer a wide variety of call-control and call-accounting features.

PORT - A facility or equipment system or subsystem set aside for the sole use of a specific Customer.

PREMISES - The space occupied by a User in a building or buildings or contiguous property (except railroad rights of way, etc.) not separated by a highway.

TYPE I - Both the originating and terminating end points are supplied by the same underlying carrier.

TYPE II - Either the originating or the terminating end points are supplied by the Company's underlying carrier, but the other end point is supplied by an alternative Local Exchange Carrier ("LEC").

UNDERLYING CARRIER - US West Communications, Inc. (now Qwest Communications).

USER - An Authorized User, Customer or Joint User at whose Premises the Company furnishes service.

SECTION 2 - SERVICE AREA

The Company will resell the local exchange services of its Underlying Carrier throughout the State of South Dakota in the exchange areas of the Company's Underlying Carrier. The exchange areas of the Company's Underlying Carrier in which the Company will provide service are located in all or part of the following counties (where facilities exist):

Aurora
Beadle
Bennett
Bon Homme
Brookings
Brown
Brule
Buffalo
Butte
Campbell
Charles Mix
Clark
Clark
Clay
Codington
Corson
Custer
Davison
Day
Deuel
Dewey
Douglas
Edmunds
Fall River
Faulk
Grant
Gregory
Haakon
Hamlin
Hand
Hanson
Harding
Hughes
Hutchinson
Hyde
Jackson
Jerauld
Jones
Kingsbury
Lake
Lawrence
Lincoln
Lyman
McCook
McPherson
Marshall
Meade
Mellette
Miner
Minnehaha
Moody
Pennington
Perkins
Potter
Roberts
Sanborn
Shannon
Spink
Stanley
Sully
Todd
Tripp
Turner
Union
Walworth
Yankton
Ziebach

SECTION 2 - SERVICE AREA

The Company's local calling areas will correspond to the local calling areas of its Underlying Carrier, and the Company incorporates by reference the maps of its Underlying Carrier — whose services the Company will be reselling.

SECTION 3 - TERMS AND CONDITIONS

A. AVAILABILITY OF SERVICE

Local exchange and intrastate intraLATA toll service will be offered by the Company to any firm, corporation or other business entity ("Customer") located in areas served by the Company's underlying carriers. The Company will not offer service to residential customers. The Company will make service available to any Customer that wishes to receive service from the Company, subject to the terms and conditions of this tariff. Service is available twenty-four (24) hours per day, seven (7) days per week.

B. LIMITATIONS ON SERVICE

1. Services are offered subject to the availability of the necessary facilities and subject to the terms and conditions of this Tariff. The Company reserves the right to limit or to allocate the use of the existing facilities of its underlying carrier(s), or of additional facilities offered by the Company's underlying carrier(s), when necessary because of a lack of facilities, or due to any other cause beyond the Company's control.

   The furnishing of service under this Tariff is subject to the availability on a continuing basis of all the necessary facilities the Company may obtain from other carriers, to furnish service from time to time as required at the sole discretion of the Company.

2. The Company reserves the right to discontinue service or cancel an application for service without liability upon written notice when necessitated by conditions beyond its control, and in accordance with Section I of this Tariff.

3. Service may not be used for any unlawful purpose or for any use as to which Customer has not obtained all governmental approvals, authorizations, licenses, consents and permits required to be obtained by Customer with respect thereto.

4. The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.

SECTION 3 - TERMS AND CONDITIONS (continued)

5. The Customer may not use the services so as to interfere with or impair service over any facilities or associated equipment, or so as to impair the privacy of any communications over such facilities and associated equipment.

6. There is no limit on the number of calls placed or the length of individual calls.

C. RENDERING AND PAYMENT OF BILLS

1. Bills for service will be rendered monthly to each Customer. Payment will be due within ten (10) days following the rendering of the bill. If payment is not received within ten (10) days of the rendering of a bill, then a late payment charge of one and one-quarter percent per month will be applied to the outstanding balance until payment is received.

2. Customer is responsible for the payment of bills for all calls or services, including any calls or services:

   a. Originated at the Customer's number(s);
   b. Accepted at the Customer's number(s) (e.g., Collect Calls);
   c. Billed to the Customer's number via Third Number;
   d. Billing if the Customer is found to be responsible for such call or service;
   e. Billed to the Customer's number via the use of a Calling Card or the use of a special billing number; or
   f. Incurred at the request of the Customer.

3. The Customer is responsible for the payment of any sales, use, gross receipts, excise, access or other local, state and federal taxes, charges or surcharges (excluding taxes on the Company's net income) based upon the provision, sale and use of services provided pursuant to this Tariff.

4. The Company does not require a deposit for any services provided hereunder.

SECTION 3 - TERMS AND CONDITIONS (continued)

D. LIMITATION OF LIABILITY

1. The liability of the Company for damages arising out of the furnishing of these services, including but not limited to mistakes, omissions, interruptions, delays, or errors or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts of commission or omission, shall not exceed the applicable charges under this Tariff. The Company will not be liable for any special, consequential, exemplary or punitive damages a Customer may suffer, whether or not caused by the intentional acts or omissions or negligence of the Company's employees or agents.

2. The Company shall not be liable for loss or damage sustained by reason of failure in or breakdown of facilities or equipment provided by third parties not under its control. In no event shall the Company's liability for any failure, breakdown, or interruption in services exceed the charges applicable under this Tariff for such service.

3. The Company shall not incur any liability, direct or indirect, to any person who dials or attempts to dial, the digits "9-1-1" or to any other person who may be affected by the dialing of the digits "9-1-1".

4. The Company shall not be liable for any failure of performance due to causes beyond its control, including but not limited to, acts of God, fires, lightning, floods or other catastrophes; any law, order, regulation, direction, action, or request of the United governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies, insurrections, riots or wars, strikes, lockouts, work stoppage or other labor difficulties, any failure of local exchange company lines or delays caused by the underlying local exchange company or the Customer or end-user.

SECTION 3 - TERMS AND CONDITIONS (continued)

5. The Customer is required to notify the Company of any changes to Customer's equipment, including software controlling the equipment's function. The Company is not liable for interruptions in service caused by Customer's failure to notify the Company prior to any change.

6. The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of any installation so provided.

7. The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays associated with normal construction procedures of its underlying carrier(s). Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for construction, delays in obtaining right-of-way approvals, and delays in actual construction work.

   The Company may undertake to use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this Tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.

8. The Company is not liable for any defacement of or damage to the Premises of a Customer (or authorized or Joint User) resulting from the furnishing of services or equipment of such Premises or the installation or removal thereof, when such defacement or damage is not the result of negligence or willful misconduct on the part of agents or employees of the Company.

SECTION 3 - TERMS AND CONDITIONS (continued)

9. THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH HEREIN.

10. The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment which the Company does not furnish or for any act or omission of Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with Company services provided hereunder.

E. INDEMNIFICATION

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

2. The Customer and any Authorized Users or Joint Users, jointly and severally, shall indemnify and save the Company harmless from claims, loss, damage, expense (including attorneys' fees and court costs), or liability for libel, slander, or copyright infringement arising from the use of the service; and from claims, loss, damage, expense or liability for patent infringement arising from (1)

SECTION 3 - TERMS AND CONDITIONS (continued)

combining with, or using in connection with facilities the Company furnished, facilities the Customer furnished, Authorized User, or Joint User furnished, or (2) use of facilities the Company furnished in a manner the Company did not contemplate and over which the Company exercises no control; and from all other claims, loss, damage, expense (including attorneys' fees and court costs), or liability arising out of any commission or omission by the Customer, Authorized User, or Joint User in connection with the service. In the event that any such infringing use is enjoined, the Customer, Authorized User, or Joint User, at its option and expense, shall obtain immediately a dismissal or stay of such injunction, obtain a license or other agreement so as to extinguish the claim of infringement, terminate the claimed infringing use, or modify such combination so as to avoid any such infringement. In addition and without limitation, the Customer, Authorized User, or Joint User shall defend, on behalf of the Company and upon request by the Company, any suit brought or claim asserted against the Company for any such slander, libel, infringement or other claims.

F. TESTING, MAINTENANCE, AND ADJUSTING

Upon receipt of suitable notice from Company's underlying carrier(s), the Company will notify Customer of the need to make such tests, adjustments, and inspections as may be necessary to maintain the underlying carrier(s) facilities in a satisfactory operating condition.

No interruption allowance will be credited to the Customer for the period during which the Company's underlying carrier(s) performs such tests, adjustments or inspections.

The Company shall have no responsibility for the maintenance and repair of any kind with respect to equipment and facilities not provided by the Company. The Company will charge the Customer for any maintenance visits with respect to service problems which are determined to arise from equipment or facilities not provided by the Company.

SECTION 3 - TERMS AND CONDITIONS (continued)

G. NON-ROUTINE INSTALLATION

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

H. GOVERNMENTAL AUTHORIZATIONS

The provision of any services herein are subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. The Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses, and permits that may be required to be obtained by it. The Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the services into conformance with any rules, regulations, orders, decisions, or directives imposed by the Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by the Company to comply with any such rules, regulations, orders, decisions or directives.

I. CANCELLATION OF SERVICE

1. In the event of non-payment of any sums due the use of foul or profane expressions, the impersonation of another with fraudulent intent, or any other violation of the Communications Act of 1934, as amended, or of the Rules and Regulations of the Federal Communications Commission or this state, the Company may either temporarily deny service or terminate service.

2. Denial of Service Without Notice
The Company may discontinue service without notice for any of the following reasons:

SECTION 3 - TERMS AND CONDITIONS (continued)

a. Unauthorized Use of Service: Customer's unauthorized use of service by any method that causes hazardous signals over the network, and/or

b. Illegal Use of Service: Customer's use of service in a manner to violate the law.

3. Denial of Service Requiring Notice

The Company may deny service for any of the following reasons provided it has notified the Customer of its intent, in reasonable time of not less than seven (7) days, or as otherwise specified in these regulations, in which to remove the cause for denial:

a. Non-compliance with Regulations: For violation of or non-compliance with regulations of the Commission, or for violation of or non-compliance with this Tariff.

b. Failure on Contractual Obligations: For failure of the Customer to fulfill its contractual obligations for service or facilities subject to regulation by the Commission.

c. Non-payment of Bill.

(1) For non-payment of bill of service, provided that the Company has made a reasonable attempt to effect collection and has given the Customer written notice of its intent to deny service if settlement of his account is not made and provided the Customer has at least seven (7) days, excluding Sundays and holidays in which to make settlement before his service is denied.

SECTION 3 - TERMS AND CONDITIONS (continued)

(2) In cases of bankruptcy receivership, abandonment of service, or abnormal toll usage, less than seven (7) days notice may be given if necessary to protect the Company's revenues.

(3) Except in cases where a prior promise to pay has not been kept or bankruptcy, receivership, abandoned service, or abnormal toll usage is involved, the Company may not deny service on the day preceding any day on which it is not prepared to accept payment of the amount due and to reconnect service.

4. Customers wishing to cancel any service under this Tariff shall notify the Company in writing at least thirty (30) days prior to such cancellation.

SECTION 4 - SERVICES, RATES AND CHARGES

A. CONCURRENCE NOTICE

Except as may otherwise be specified by the Company in SD PUC No. 1, the Company concurs in the rules, regulations, terms, conditions, services offerings, rates and charges of US West Communications, Inc. (now Qwest Communications), as set forth in the following US West Communications, Inc. (now Qwest Communications) tariffs, to the extent the services therein are made available for resale by US West Communications, Inc. (now Qwest Communications):

US West SD CIT #3 -	Exchange and Network Services Tariff
US West SD CIT #4 -	Exchange and Network Services Catalog
US West SD CIT #8 -	Private Line Catalog
US West SD CIT #11 -	Advanced Communications Services Catalog

The Company extends this concurrence to any and all changes to the above tariffs which may be made on or after the effective date of this tariff.

Company hereby expressly reserves the right to cancel and make void all or part of this notice of concurrence.

SECTION 4 - RATES AND CHARGES (continued)

B. TIMING OF USAGE

Discounts for Local and IntraLATA Toll Service apply based upon the following time periods:

1. Peak Hours: 9:00am - 11:00am, 2:00pm - 8:00pm Monday through Friday

2. Shoulder Peak Hours: 8:00am - 9:00am, 11:00am - 2:00pm, 8:00pm - 9:00pm Monday through Friday.

3. Off Peak Hours: 9:00 pm - 8:00 am Monday through Friday, 9:00 am - 8:00 am Friday through Monday

4. Discounts do not apply to operator service charges at any time.

5. Chargeable time begins when connection is established between the calling station and the called station, and ends when the calling station "hangs up." If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released by automatic timing equipment in the telephone network.

6. The discount applied to a call that begins in one rate period and ends in the next period shall be the discount for the period in which the call began.

C. DISCOUNT PLANS

1. Term Discount Plan

a.

Annual Term	Percentage Discount
One year	2.5
Two year	5.0
Three year	7.5

b. The Term Discount Plan is available based on Customer election.

SECTION 4 - RATES AND CHARGES (continued)

c. Customer must sign a non-cancelable contract for the Annual Term to qualify. Penalties for early termination are based on the average usage (where applicable) for the three months previous to termination billed at the discounted rate for the remainder of the respective term.

2. Platinum Discount Plan

a.

Percentage Discount	Annual Usage		
0-5	$ 0.00	to	$ 30,00.00
5.1-10	$ 30,001.00	to	$ 60,000.00
10.1-15	$ 60,001.00	to	$ 90,000.00
15.1-30	$ 90,001.00	to	$200,000.00
30.1-45	$200,001.00	to	$400,000.00
45.1-60		over	$400,001.00

b. Usage discounts will count toward the annual usage based on Customer election of the discount plan for each particular service. In addition, usage discounts of up to ten percent (10%) off of the Underlying Carrier's retail rates will be available.

c. To be eligible, a Customer must sign up as a Platinum Discount Plan member by signing a non-cancelable contract for the Annual Usage commitment to qualify. Penalties for early termination are based on the difference between the actual annual usage and the Annual Usage commitment. In addition, penalties for early termination are based on the Annual Usage commitment for the remainder of the respective term.

3. LD+ Term Discount Plan

a.

Annual Term	Percentage Discount
One year	2.5
Two year	5.0
Three year	7.5

SECTION 4 - RATES AND CHARGES (continued)

b. The Term Discount Plan is available for the following services based on customer election: Infostar® LD+, Ultrastar LD+, Infostar® 800, Ultrastar 800 Dedicated and Infostar® Calling Card.

c. Customer must sign a non-cancelable contract for the Annual Term to qualify. Customer agrees that damages to Company in the event services are terminated for any reason prior to the end of the term shall be difficult if not impossible to ascertain. Customer, therefore, agrees to pay Company all charges incurred prior to termination and an early termination charge based on the average usage for the three months prior to termination billed at the discounted rate for the remainder of the respective term.

4. Platinum Discount Plan

a.

Percentage Discount	Annual Usage Commitment
0-5	$0.00 to $ 30,000.00
5.1-10	$30,001.00 to $ 60,000.00
10.1-15	$60,001.00 to $ 90,000.00
15.1-30	$90,001.00 to $200,001.00
30.1-45	$200,000.00 to $400,000.00
45.1-60	over $400,001

b. Usage of the following services will count toward the annual usage: Infostar® LD+, Ultrastar LD+, Infostar® 800, Ultrastar 800 Dedicated and Infostar® Calling Card based on Customer election of the Platinum Discount Plan for each particular service.

c. To be eligible, a customer must sign up as a Platinum Discount Plan member. Customer agrees that damages to Company in the event services are terminated for any reason prior to the end of the then current annual term shall be difficult if not impossible to ascertain. Customer, therefore, agrees to pay Company all charges incurred prior

SECTION 4 - RATES AND CHARGES (continued)

to termination and an early termination charge based on the difference between the Annual Usage Commitment and Customer's actual usage.

D. INDIVIDUAL CASE BASIS ("ICB") ARRANGEMENTS

Arrangements will be developed on a case-by-case basis in response to a bona fide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive rates will be offered to the Customer in writing and on a non-discriminatory basis.

E. MISCELLANEOUS

1. Operator Service

   Operator service will be provided by the LEC. The LEC's tariffed charges for operator service will be passed through to Customer.

2. Directory Assistance

   Directory assistance will be provided by the LEC. The LEC's tariffed charges for directory assistance will be passed through to Customer.

EXHIBIT G

Information Regarding Complaints Filed with State or Federal Commissions Regarding the Unauthorized Switching of a Customer's Telecommunications Provider and the Act of Charging Customers for Services That Have Not Been Ordered

Regulatory Agency:	California Public Utilities Commission
Type of Complaint:	Contract Liability
Explanation:	A Claricom customer was unhappy to find that its term agreement automatically renewed for an additional term based on a 60-day auto renew clause. A complaint was filed with the California Public Utilities Commission. The customer was eventually released from the agreement.

Regulatory Agency:	South Carolina Public Service Commission
Type of Complaint:	Slamming
Explanation:	An unintentional change of service occurred on a residential line when an incorrect telephone number was provided to Claricom by one of its business customers. The end user was not charged for any long distance for the time in question.

Regulatory Agency:	FCC
Type of Complaint:	Contract Liability
Explanation:	A customer was unhappy with Claricom's international pricing and terminated service prior to the expiration of its agreement. When the term was enforced with a shortfall penalty, the former customer filed a complaint. The customer was eventually released from the agreement.

Regulatory Agency:	FCC
Type of Complaint:	Billing
Explanation:	A customer was inadvertently over billed for primary inter-exchange charges (PICC) and filed a complaint with the FCC. Charges were adjusted.

Regulatory Agency:	FCC
Type of Complaint:	Billing
Explanation:	A cancelled Claricom customer did not successfully transition to its new long distance provider and continued to bill. All charges were legitimate.

Regulatory Agency:	State of New York – Office of the Attorney General
Type of Complaint:	Miscellaneous
Explanation:	A local service customer signed on with Claricom and later decided to return to Bell Atlantic. The Bell Atlantic Assignment Form provided returned the services and billing back to Bell Atlantic, however, Claricom retained the liability. Claricom was unwilling to accept the terms, and Bell Atlantic eventually revised the agreement. The customer was successfully transitioned back to Bell Atlantic.

CONFIDENTIAL

[1]

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of November 16, 2000 through November 22, 2000

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

TC00-185 In the Matter of the Filing for Approval of a First Amendment to an Interconnection Agreement between Qwest Corporation and NewPath Holdings, Inc.

An Amendment No. 1 to the Interconnection Agreement between NewPath Holdings, Inc. and Qwest Corporation (Qwest) was filed with the Commission for approval. The agreement is a negotiated agreement with the parties adopting the previously negotiated interconnection agreement between NewPath Holdings. Inc. and Qwest approved by the Commission effective August 16, 2000 in Docket TC00-099.* Amendment No. 1 replaces existing UNE and OSS language, including OSS terms conditions and rates. 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 December 11, 2000. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

* The application indicates that TC00-099 was an "arbitrated interconnection agreement" but records indicate it too was a negotiated agreement.

Staff Attorney: Kelly Frazier
Date Docketed: 11/21/00
Initial Comments Due: 12/11/00

TC00-186 In the Matter of the Filing for Approval of Second and Third Amendments to an Interconnection Agreement between Qwest Corporation and New Edge Network, Inc. d/b/a New Edge Networks.

Amendments Nos. 2 and 3 to the Interconnection Agreement between New Edge Network, Inc. and Qwest Corporation (Qwest) were filed with the Commission for approval. The agreements are negotiated agreements with the parties adopting the previously negotiated interconnection agreement between New Edge Network, Inc. and Qwest approved by the Commission effective January 12, 2000 in Docket TC99-109.* Amendment No. 2 adds terms,

conditions and rates for IDSL and DS3 Capable Loops. Amendment No. 3 revises the existing intervals for collocation augments, extends additional access to loop qualification data, adds language regarding processes and intervals for unbundled loop order provisioning, adds a self-executing service performance program and adds language regarding the ordering and provisioning of collocation and UNE facilities. 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 December 11, 2000. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

* The application indicates that TC99-109 was an "arbitrated interconnection agreement" but records indicate it too was a negotiated agreement.

Staff Attorney: Kelly Frazier
Date Docketed: 11/21/00
Initial Comments Due: 12/11/00

TC00-187 In the Matter of the Filing for Approval of a Second Amendment to an Interconnection Agreement between Qwest Corporation and AT&T Communications of the Midwest, Inc.

An Amendment No. 2 to the Interconnection Agreement between AT&T Communications of the Midwest, Inc. (AT&T) and Qwest Corporation (Qwest) was filed with the Commission for approval. The agreement is a negotiated agreement with the parties adopting the arbitrated interconnection agreement between AT&T and Qwest approved by the Commission in Docket TC99-109. Amendment No. 2 adds terms, conditions and rates for Local Number Portability Managed Cuts. 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 December 11, 2000. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 11/21/00
Initial Comments Due: 12/11/00

TC00-188 In the Matter of the Application of Encompass Communications, L.L.C. for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

Encompass Communications, L.L.C. has filed a request for a Certificate of Authority to provide resold telecommunications services throughout South Dakota. Encompass Communications intends to offer interexchange services

including 1+ and 101XXXX outbound dialing, 800/888 toll-free inbound dialing, directory assistance, data services, travel card service, and prepaid calling card service.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 11/21/00
Intervention Deadline: 12/08/00

TC00-189 **In the Matter of the Application of Claricom Networks, Inc. d/b/a Staples Communications-Networks for a Certificate of Authority to Provide Local Exchange Services in South Dakota.**

Claricom Networks, Inc. d/b/a Staples Communications-Networks is seeking a Certificate of Authority to provide local exchange telecommunication services in South Dakota. The applicant intends to resell Qwest Corporation services primarily to business customers.

Staff Analyst: Keith Senger
Staff Attorney: Kelly Frazier
Date Docketed: 11/21/00
Intervention Deadline: 12/08/00

TC00-190 **In the Matter of the Filing by Black Hills FiberCom, LLC for Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company Specific Cost-Based Switched Access Rates.**

Black Hills FiberCom filed an application with the Commission for approval of its Intrastate Switched Access Tariff No. 1. The tariff filing is a concurrence in the rates, terms and conditions of the current LECA Tarifff No. 1, with the exception of the switched access rates which are based on a statewide average. The company is also requesting that the Commission exempt it from the requirement to develop intrastate switched access rates based on company specific costs. The company is requesting an effective date of November 22, 2000.

Staff Analyst: Heather Forney
Staff Attorney: Kelly Frazier
Date Docketed: 11/22/00
Intervention Deadline: 12/08/00

TC00-191 **In the Matter of the Filing by Qwest Corporation for Approval of its Statement of Generally Available Terms.**

Qwest Corporation (Qwest) filed with the Commission a Statement of Generally Available Terms and Conditions (SGAT) and a Compliance Filing Modifying Qwest's SGAT to Adopt Collocation Provision Intervals Set by the FCC (Compliance Filing). In its SGAT filing, Qwest states that it is requesting that the Commission open a docket for review of the SGAT; that it has triggered the 60-day review period under Section 252(f)(3) of the Telecommunications Act of 1996 (Act); and that it provides Qwest's model contract offering that will frame discussions for the Act's 271 process. In its Compliance Filing, Qwest requests that the Commission issue an Order allowing section 8.4 of the SGAT to be amended consistent with the intervals set forth by the FCC.

Commission Contact: Bill Bullard
Date Docketed: 11/22/00
Intervention Deadline: 12/09/00

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ORIGINAL

DICKSTEIN SHAPIRO MORIN & OSHINSKY LLP

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Writer's Direct Dial: (202) 833-5017
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January 25, 2001

RECEIVED

JAN 29 2001

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

VIA FEDERAL EXPRESS

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

Re: Application of Claricom Networks, Inc. d/b/a Staples Communications – Networks for Authority to Operate as a Reseller of Local Exchange Telecommunications Services within the State of South Dakota

Dear Mr. Bullard:

On behalf of Claricom Networks, Inc. d/b/a Staples Communications – Networks ("Claricom"), we hereby submit an original and ten (10) copies of its responses to data request dated November 29, 2000 from Mr. Keith Senger of the Commission's staff.

1. **Please resubmit a complete application including all of the information required by ARSD 20:10:32:03, in the order listed in ARSD 20:10:32:03.**

A complete copy of the application, revised accordingly, is attached hereto as Exhibit A. Because your data request did not instruct Claricom to resubmit all of the Exhibits to its application, Claricom is resubmitting only those Exhibits which have been revised in response your request.

1177 Avenue of the Americas • 41st Floor • New York, New York 10036-2714
Tel (212) 835-1400 • Fax (212) 997-9880
http://www.dsmo.com

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2. **The financial statements submitted are for Claricom, Claricom Holdings, Inc., Claricom, Inc. and Clarity Telecom Local Network Services, Inc. The financial statements must be for the applicant, Claricom Networks, Inc. d/b/a Staples Communications – Networks. Please submit. If these statements are not available, the applicant may request a written waiver in accordance with ARSD 20:10:32:03(22). This request must include a reason why the applicant is requesting the waiver. However, if a waiver is requested or if the financial statements provided do not prove financial capability, the applicant will be asked to provide a $25,000 bond or be restricted from collecting customer deposits and/or advanced payments and from offering any pre-paid services. However, Staff will make this determination after the completed application has been received.**

Claricom respectfully requests a waiver of the requirement that it provide financial information solely for the Claricom (the applicant). Claricom is, unfortunately, unable to provide this information, because as stated in its application, since the acquisition of Claricom's parent company, Claricom Holdings, Inc., by Staples, Inc. in February, 1999, Claricom has reported on a consolidated basis with its ultimate parent company, Staples, Inc. Copies of the 1999 SEC Form 10-K and most recent SEC Form 10-Q reports of Staples, Inc., which include financial information for Claricom, were submitted as Exhibit E to Claricom's original application filing. Claricom, therefore, respectfully requests that the Commission waive the requirement that Claricom provide financial information solely for itself, and permit evaluation of Claricom's application on the basis of the consolidated financial statements included as part of its original application filing.

3. **The application and proposed tariff are unclear as to the service territory Claricom intends to provide. Item 11 of the application states that Claricom intends to resell all incumbent local exchange carriers. Item 12 of the application and Section 2 of the proposed tariff list all of the counties in South Dakota as its service territory. On the contrary, the application and proposed tariff also state that Claricom will only provide service in US West Communications, Inc. (now Qwest Communications) territory. For clarification purposes, is it the applicant's position that it will provide services only in Qwest territory and that in the future, should the applicant choose to provide local exchange services statewide, with respect to rural telephone companies, that the applicant will have to come before the Commission in another proceeding before being able to provide local service in rural areas? If yes, please update the application and proposed tariff to remove all indications of other ILEC territories and the counties in South Dakota not served by Qwest.**

Claricom hereby clarifies that it will resell all the services made available by Qwest for resale, and that it will provide local exchange services only in the South Dakota service territory served by Qwest. The affected sections of Claricom's application and tariff have been revised accordingly (see Exhibit A and Exhibit B, respectively).

4. **Item 12 of the application and Section 2 of the proposed tariff attempt to "incorporate by reference" the maps of the underlying carriers. It is my opinion that your tariff should be all-inclusive and therefore cannot incorporate by reference any other company's tariff. Please update.**

Claricom has revised the affected sections of its application and tariff to remove all references to any other company's tariff (see Exhibit A and Exhibit B, respectively).

5. **Please increase the due date in Section 3.C.1 of the proposed tariff to a minimum of 15 days so it is in accordance with ARSD 20:10:05:03.**

Claricom has revised Section 3.C.1 of its proposed tariff to increase the referenced due date to fifteen (15) days in accordance with ARSD 20:10:05:03 (see Exhibit B).

6. **Section 3.D of the proposed tariff attempts to limit the liability of the Company. Under South Dakota law found at 49-13-1 and 49-13-1.1, a person has the right to claim damages from a telecommunications company by coming to the Commission or a court of competent jurisdiction. Please delete the last five lines in Section 3.D.1. starting with "not exceed the applicable..." and replace with "be determined in accordance with SDCL 49-13-1, 49-13-1.1 and any other applicable law." In Section 3.D.2., please delete the sentence "in no event shall the Company's liability for any failure, breakdown, or interruption in service exceed the charges applicable under this Tariff for such service." Please delete Section 3.D.3. Please insert the phrase "beyond the Company's control" to the end of the first sentence in Section 3.D.7. Please replace "may" with "shall" in the first sentence of the second paragraph of Section 3.D.7.**

Claricom has revised the above-referenced sections of its proposed tariff in compliance with the Commission's request (see Exhibit B).

7. **Please include a section in the tariff that discusses how the applicant will handle customer disputes.**

Claricom has revised its proposed tariff to include a section that discusses how it will handle customer disputes (see Exhibit B, Section 3.J.).

8. **Section 4 of the proposed tariff does not include any rates or a section for rates, why?**

Claricom has revised Section 4 of its proposed tariff to include the rates to be charged for the services it plans to offer (see Exhibit B, Section 4).

* * * * * * * * * * * * *

We have included an extra copy of this filing, marked "Stamp and Return," as well as a self-addressed, pre-paid overnight airbill and delivery envelope. Please stamp and return the extra copy to confirm your receipt.

Please direct any inquiries regarding this filing to the undersigned.

Respectfully submitted,
CLARICOM NETWORKS, INC. D/B/A STAPLES COMMUNICATIONS – NETWORKS

By _____
Valerie M. Furman

VMF/klh
Enclosures

cc: Keith Senger, Utility Analyst

EXHIBIT A

BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

In the Matter of	)	
	)	
Claricom Networks, Inc. d/b/a	)	
Staples Communication-Networks	)	
	)	Docket No. _____
For Authority to Operate as a Reseller of Local	)	
Exchange Telecommunications Service Within the	)	
State of South Dakota	)	

APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Claricom Networks, Inc. d/b/a Staples Communications-Networks ("Claricom"), by its undersigned counsel and pursuant to 20:10:32:03 of the South Dakota Administrative Rules hereby submits its application for a Certificate of Public Convenience and Necessity authorizing Claricom to provide basic local exchange telecommunications services as a reseller throughout the State of South Dakota. In support of its application, Claricom hereby states as follows:

1. **Applicant's Name, Address, and Telephone and Fax Numbers**

Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484
Voice: (203) 402-7500
Fax: (203) 402-7873

Claricom is a corporation.

3. Name(s) Under Which Applicant Will Provide Local Exchange Services, If Different Than in Section 1 of This Application

Claricom will not provide service under any name(s) other than those listed in Section 1 above.

4. Corporate Information

A. Location of Claricom's Principal Office in the State of South Dakota and Current Registered Agent for the State of South Dakota

Claricom does not currently have, and does not at this time intend to have, any offices in the State of South Dakota. Claricom's principal offices are located in Shelton, Connecticut.

Claricom's current registered agent for the State of South Dakota is:

CT Corporation System
319 South Coteau St.
Pierre, SD 57501

B. Shareholders Owning Twenty Percent or More of the Interest in the Business and Corporate Officers and Directors

As stated above, Claricom is a wholly-owned subsidiary of Claricom Holdings, Inc. and, therefore, Claricom Holdings, Inc. is the only entity owning twenty percent (20%) or more of Claricom's stock. A complete list of Claricom's officers and directors is attached to the original application filings as Exhibit B.

C. State of Incorporation, Date of Incorporation, and Copy of Certificate of Incorporation

Claricom, formerly known as Clarity Telecom LD Network Services, Inc., was incorporated in the State of Delaware on May 20, 1996. On December 15, 1997, Clarity Telecom LD Network Services, Inc. formally changed its name to Claricom Networks, Inc. Claricom recently added the "d/b/a" name "Staples Communications-Networks" to its name, and the Company is now known as Claricom Networks, Inc. d/b/a Staples Communications-Networks. A copy of Claricom Networks, Inc.'s certificate of incorporation and amended articles of incorporation are attached to its original application filing as Exhibit A.

Claricom Networks, Inc. is a privately-held, wholly-owned subsidiary of Claricom Holdings, Inc., which is also a Delaware corporation. Claricom experienced an indirect change in control last year as a result of the merger of its parent corporation, Claricom Holdings, Inc. with Sigma Acquisition Corp., a newly-formed, wholly-owned subsidiary of Staples, Inc. The merger was consummated on February 26, 1999. Prior to the merger, Claricom Holdings, Inc. owned 100% of Claricom's outstanding capital stock. Pursuant to the merger agreement between the parties, Sigma Acquisition Corp. merged with and into Claricom Holdings, Inc. Claricom Holdings, Inc. was the surviving corporation of the merger. As a result of the merger, Staples, Inc. now owns in excess of 90% of the shares of Claricom Holdings, Inc. and no other shareholder of Claricom Holdings, Inc. owns in excess of 5% of the shares. Claricom remains a wholly-owned subsidiary of Claricom Holdings, Inc.

D. Certificate of Authority to Transact Business in South Dakota

Claricom is registered as a foreign corporation in State of South Dakota. A copy of Claricom's Certificate of Authority to transact business in South Dakota is attached to its original application filing as Exhibit C.

4. Claricom's Experience in Providing Telecommunications Services in South Dakota and Other Jurisdictions

Claricom's officers and directors have extensive experience in the provision of telecommunications services and the operation of telecommunications companies. Claricom currently operates as a reseller of intrastate interexchange (toll) telecommunications services within the states of Alabama (9/16/97), Arizona (interim authority only - 6/13/97), Arkansas (3/20/97), California (5/6/97), Colorado (8/1/97), Connecticut (9/3/97), Delaware (2/18/97), Florida (7/18/97), Georgia (6/3/97), Idaho (10/15/96), Illinois (11/19/97), Indiana (3/26/97), Iowa (not regulated), Kansas (3/11/97), Kentucky (3/7/97), Louisiana (5/8/97), Maine (9/14/98), Maryland (5/28/97), Massachusetts (2/19/97), Michigan (9/16/96), Minnesota (9/9/97), Mississippi (9/12/97), Missouri (9/25/97), Montana (5/21/96), Nebraska (9/3/97), Nevada (8/7/97), New Hampshire (1/20/98), New Jersey (10/3/96), New Mexico (6/20/00), New York (2/24/97), North Carolina (7/23/97), North Dakota (3/19/97), Ohio (2/28/97), Oklahoma (6/19/97), Oregon (4/14/97), Pennsylvania (2/11/99), Rhode Island (12/17/97), South Carolina (9/9/97), South Dakota (9/17/97), Tennessee (7/30/97), Texas (8/21/96), Utah (9/12/96), Vermont (2/2/00), Virginia (5/7/97), Washington (6/10/97), West Virginia (10/23/97) and Wyoming (7/16/97), and has an application pending for authority to resell intrastate interexchange (toll) telecommunications services within the state of Arizona.

As of the date of this filing, Claricom has been granted authority or is otherwise authorized to resell local exchange telecommunications services in the states of Connecticut (6/19/00), Florida (5/5/00), Indiana (5/17/00), Maryland (7/12/00), Massachusetts (9/11/00), New Hampshire (6/8/00), New Jersey (1/19/00), New York (2/24/97), Oregon (7/12/00), Pennsylvania (2/16/00), Rhode Island (11/2/99), South Carolina (9/28/00), Vermont (2/2/00), Wisconsin (4/7/00) and West Virginia (2/29/00). In addition, Claricom currently has applications for authority to resell local exchange telecommunication services pending in the District of Columbia and the states of Arizona, Arkansas, California, Delaware, Kentucky, Louisiana, Maine, Montana, New Mexico, North Carolina and Ohio. The services proposed in the pending applications are the same as those proposed herein. Claricom plans to seek authority to resell local exchange telecommunications services in the remaining states in coming months. Claricom's sister corporation, Clarity Telecom Local Network Services, Inc., is authorized to resell local exchange telecommunications services in the states of Illinois and Washington.

Claricom received authority from the Federal Communications Commission to provide international telecommunications services pursuant to Section 214 of the Communications Act of 1934, as amended, effective October 18, 1996 (*See* Report No. I-9611, IA-96-1756 (dated October 24, 1996); 11 FCC Rcd 13911 (1996)).

Claricom attached as Exhibit D to its original application biographical descriptions of the company officers who will have primary management responsibility for Claricom's business operations, as evidence that Claricom's management team possesses more than sufficient technical and managerial expertise to resell local exchange telecommunications services to customers in the State of South Dakota.

2. Affiliates, Subsidiaries and Parent Organizations

Claricom has no subsidiaries. Claricom Holdings, Inc., Claricom's immediate parent company, and Claricom, Inc. and Clarity Telecom Local Network Services, Inc., Claricom's sister corporations, are all located at the same address as Claricom. Staples, Inc., Claricom's ultimate parent company, is located at:

500 Staples Drive
Framingham, Massachusetts 01702
(508) 370-8500

6. List and Specific Description of the Types of Services Claricom Seeks to Offer and the Means by Which the Services Will be Provided

Claricom intends to operate as a non-facilities based reseller of local exchange telecommunications services, and intends to resell services made available for resale by US West Communications, Inc. (now Qwest Communications). A list and specific description of these services is contained in Claricom's proposed tariff. Claricom intends to provide service primarily to business customers, but requests authority to provide service to both business and residential customers in the State of South Dakota. Claricom intends to offer service within the existing South Dakota service territories of US West Communications, Inc. (now Qwest Communications).

As a non-facilities based reseller of local exchange telecommunications services, Claricom will rely exclusively on the facilities of its underlying carrier, US West, to provide the services proposed herein, and will not construct any plant, property or facilities in the State of South Dakota. Claricom intends to begin providing service to business and residential customers as soon as practicable after receiving certification from the Commission and having its resale agreement with US West approved by the Commission.

7. Geographic Service Area

Claricom intends to resell the local exchange telecommunications services of US West in US West's exchange areas throughout the State of South Dakota. Claricom's local calling areas will mirror US West's local calling areas.

8. Technical Competence

Claricom is technically qualified to provide service in the State of South Dakota. As stated in Section 4 above, Claricom is currently authorized to resell interexchange telecommunications services in virtually all states and has been granted authority to resell local exchange telecommunications service in more than fifteen (15) states. Claricom attached as Exhibit D to its original application biographical descriptions of the company officers who will have primary management responsibility for Claricom's business operations, as evidence that Claricom's management team possesses more than sufficient technical and managerial expertise to resell local exchange telecommunications services to customers in the State of South Dakota.

Claricom will make service available to customers 24 hours per day, 7 days per week throughout the year. Customer inquiries and complaints will be handled by representatives at Claricom's National Customer Service Center, which is staffed 24 hours per day, 7 days per week. The toll-free number for Claricom's National Customer Service Center is (800) [illegible] 0866. Customer service matters and complaints may also be directed to Claricom's customer service contact person by writing to:

Thomas Maier
Vice President, Network Division
Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

[illegible]

As a non-facilities based reseller of local exchange telecommunications services, Claricom will rely primarily on its underlying carrier, US West, to perform the facility and equipment maintenance necessary to ensure compliance with the Commission's quality of service requirements. Thomas Maier, the Vice President of Claricom's Network Division, is knowledgeable about Claricom's operations, and is responsible for monitoring and overseeing Claricom's maintenance and repair systems. Mr. Maier may be contacted at the following address and/or telephone number:

Thomas Maier
Vice President, Network Division
Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484
Voice (203) 402-7500

9. Access to Emergency Services, Operator Services, Interexchange Services, Directory Assistance and Telecommunications Relay Services

In compliance with the Commission's rules, Claricom will coordinate with US West, its underlying carrier, to provide Claricom's customers with access to emergency services (e.g., 911 and E-911), operator services, interexchange services, directory assistance and telecommunications relay services.

10. Financial Information

Claricom has attached hereto as Exhibit E the unaudited consolidated financial statements of Claricom, its parent corporation, Claricom Holdings, Inc., and its sister corporations, Claricom, Inc. and Clarity Telecom Local Network Services, Inc. that reflect the financial performance of the Claricom family of companies for the twelve months ending December 31, 1998, as evidence of its more than sufficient financial resources and

qualifications to resell local exchange telecommunications services within the State of South Dakota. Since the acquisition of its parent company, Claricom Holdings, Inc., by Staples, Inc. in February, 1999, Claricom has reported on a consolidated basis with its ultimate parent company, Staples, Inc. Copies of the 1999 SEC Form 10-K and most recent SEC Form 10-Q reports of Staples, Inc. are also attached hereto as Exhibit E.

Although Claricom has more than sufficient financial resources and qualifications to resell local exchange telecommunications services within the State of South Dakota, if necessary, Claricom may draw upon the resources of its ultimate parent, Staples, Inc., for its proposed operations in the State of South Dakota. Staples, Inc. is a publicly-traded company that operates a nationwide chain of office supply stores with annual sales in excess of seven billion dollars. As the SEC Form 10-K and 10-Q reports included in Exhibit E show, Staples, Inc.'s financial resources are considerable. The financial statements and other financial information attached as Exhibit E confirm that Claricom has the financial resources necessary for its proposed South Dakota operations.

11. Interconnection with Local Exchange Carriers

As stated above, Claricom intends to operate as a non-facilities based reseller of local exchange services. As such, Claricom will not interconnect with any carrier. Claricom does, however, intend to enter into a resale agreement with US West and plans to submit a letter to US West in the near term requesting the negotiation of a resale agreement.

12. Proposed Initial Tariff

A proposed initial tariff containing the rules, regulations, terms, and conditions for service is attached hereto as Exhibit F.

13. Marketing of Claricom's Local Exchange Services

Claricom will market its services to primarily business customers in the State of South Dakota by direct sales, and will not engage in multi-level marketing of its services. Because Claricom is currently in the initial stages of developing its marketing materials for the State of South Dakota, Claricom has not included any such materials as part of its application.

14. Service in Areas Served by Rural Telephone Companies

Claricom does not request authority to provide local exchange service in the service areas served by any rural telephone companies. As stated above, Claricom requests authority to provide service in the South Dakota service territories served by US West only.

15. List of States in Which the Applicant is Registered or Certified to Provide Telecommunications Service and Information Regarding Denials and Revocation of Certificates

A complete list of the states in which Claricom is registered or certified to provide telecommunications service may be found in Section 4 above. As of the date of this filing, Claricom has not been denied registration or certification in any state.

Claricom's interexchange and local exchange operating authority were revoked by the Wisconsin Public Service Commission by letter dated June 13, 2000, for failure to file a 1999 Alternative Telecommunications Utility – Telecommunications Reseller annual report. As explained in Section 3 above, Claricom experienced an indirect change in control in 1999 as a result of the merger of its parent corporation, Claricom Holdings, Inc, with Sigma Acquisition Corp., a wholly-owned subsidiary of Staples, Inc. In an effort to

eliminate redundant company operations, Claricom's accounting division was dissolved shortly after the above-described acquisition of Claricom's parent company by Staples, Inc. in February, 1999. All tax reporting and accounting functions related to Claricom's operations were then transitioned to Staples, Inc.'s corporate headquarters in Framingham, Massachusetts. The tax reporting and accounting functions related to Claricom and Staples, Inc.'s operations were later outsourced to Ernst & Young, including the preparation and filing of state utility commission annual reports. Unbeknownst to Claricom and Staples, Inc., however, Ernst & Young was apparently unfamiliar with the filing of such state utility annual report forms, and, therefore, was unable to complete them. As a result, Claricom's annual report was not timely filed. Further compounding matters, Claricom relocated it corporate headquarters in Spring, 2000, which resulted in substantially delayed receipt of the Commission's mailings regarding the missing annual report. On January 11, 2001, Claricom filed an application with the Wisconsin Public Service Commission requesting re-certification as a reseller of interexchange and local exchange telecommunications service, and anticipates that re-certification will be received within the next two to four weeks.

Claricom's local exchange authority was cancelled by the Oregon Public Utilities Commission by Order entered January 2, 2001. In July 2000, the Oregon Commission sent an Order to Claricom related to its recently-received local exchange authority, attached to which was a form requesting financial information regarding participation in Oregon's planned universal service fund. The Order and information request form was forwarded to the accounting division at Staples, Inc.'s corporate headquarters in Framingham, Massachusetts for processing. The accounting division personnel mistakenly believed that the document was a Commission Order for its records only, and, as such, did not require processing. In October 2000, the Commission contacted Claricom's in-house regulatory

counsel regarding the information request, at which point the form was completed and filed by facsimile with the Oregon Commission. Unfortunately, the Oregon Commission apparently did not receive the facsimile filing, and believed Claricom's form had not been filed. As a result, the Oregon Commission took action to cancel Claricom's local exchange authority. Oregon law provides a sixty-day window during which the Oregon Commission may reconsider its decision to cancel a certificate. Claricom is currently working directly with members of the Oregon Commission's staff to resolve this matter, and anticipates that its certificate of authority will ultimately be reinstated.

In light of the above actions, and to ensure that no such actions occur in the future, Claricom recently engaged an outside consultant to conduct an audit of all of Claricom's regulatory compliance filings, to confirm that all required filings have been made , and to correct any deficiencies that are discovered.

16. Customer Service

As stated in Section 8 above, Claricom will make service available to customers 24 hours per day, 7 days per week throughout the year. Customer inquiries and complaints will be handled by representatives at Claricom's National Customer Service Center, which is staffed 24 hours per day, 7 days per week. The toll-free number for Claricom's National Customer Service Center is (800) 678-9866. Customer service matters and complaints may also be directed to Claricom's customer service contact person by writing to:

Thomas Maier
Vice President, Network Division
Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484
Voice: (203) 402-7506
Fax: (800) 498-2329
tmaier@staplescom.com

Inquiries regarding regulatory matters may be directed to:

Paul Sweeney
Clarkcom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484
Voice: (203) 402-7520
Fax: (800) 498-2329
psweeney@staplescom.com

15. Billing and Collection

Clarkcom will bill and collect charges for service from customers directly using industry accepted methods.

18. Description of New Customer Verification Procedures

Claricom will send new customers an order package which contains service order verification forms to be completed and signed by the customer including a letter of authorization identifying Claricom as the Primary Interexchange Carrier, which must be photocopied on to the customer's letterhead. An order placed without these forms properly executed will be rejected. Upon receipt of properly executed forms, Claricom will make a follow-up telephone call to the customer to verbally verify the new order. Each sales agent must attend multiple sales training sessions and follow the protocol outlined above to ensure that new customers affirmatively select Claricom to provide services.

19. Number and Nature of Complaints with any State or Federal Commission Regarding the Unauthorized Switching of a Customer's Telecommunications Provider and the Act of Charging Customers for Services That Have Not Been Ordered

Information regarding complaints filed with any state or federal commission regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered is attached hereto as Exhibit G.

20. Federal Tax Identification Number

Claricom's federal taxpayer identification number is 043314894.

21. Exhibits

Exhibit A: Certificate of Incorporation and Amended Articles of Incorporation

Exhibit B: Claricom's Officers and Directors

Exhibit C: Certificate of Authority to Conduct Business in South Dakota

Exhibit D: Biographies of the Claricom Officers and Other Senior Management Personnel That Will Have Primary Responsibility for Claricom's Business Operations

Exhibit E: Financial Information

Exhibit F: Proposed Initial Tariff

Exhibit G: Information Regarding Complaints Filed with State or Federal Commissions Regarding the Unauthorized Switching of a Customer's Telecommunications Provider and the Act of Charging Customers for Services That Have Not Been Ordered

CONCLUSION

Claricom submits that Commission approval of its application to resell local exchange telecommunications services in the State of South Dakota is in the public interest, because Claricom's market entry will bring a host of benefits to the State's telecommunications users. Included among those benefits are the following:

(i) increased diversity in the supply of telecommunications providers, which will offer additional and new consumer choices;

(ii) the entry of new telecommunications providers into the State's telecommunications marketplace, which will have no adverse impact upon prices; instead, it will introduce competitive pressures that will foster lower prices; and

(iii) the entry of new telecommunications providers into the State telecommunications marketplace, which will enhance competitive pressures that will foster higher quality service from all providers.

Wherefore, applicant Claricom Networks, Inc. d/b/a Staples Communications-Networks respectfully requests that the Commission grant it a certificate of service authority to operate as a reseller of local exchange telecommunications servicesin the State of South Dakota.

Respectfully submitted,
CLARICOM NETWORKS, INC. D/B/A
STAPLES COMMUNICATIONS-NETWORKS

By: _____

Albert H. Kramer, Esq.
Valerie M. Furman, Esq.
Dickstein Shapiro Morin & Oshinsky LLP
2101 L Street, N.W.
Washington, D.C. 20037
Voice: (202) 833-5017
Fax: (202) 887-0689

Counsel for Claricom Networks, Inc.
d/b/a Staples Communications-Networks

Dated: January 25, 2000
(revised and resubmitted)

EXHIBIT B

Local Exchange Telecommunications Resale Services Tariff

of

Clarkcom Networks, Inc. d/b/a Staples Communications - Networks

for the

State of South Dakota

CHECK SHEET

Pages 1 through XX inclusive of this Tariff are effective as of the date shown on the bottom of the respective pages. Original and revised pages, as named below, comprise all changes from the original tariff and are currently in effect as of the date at the bottom of this page:

Page Number	Issue	Page Number	Issue
1	Original	22	Original
2	Original	23	Original
3	Original	24	Original
4	Original	25	Original
5	Original	26	Original
6	Original	27	Original
7	Original	28	Original
8	Original	29	Original
9	Original	30	Original
10	Original	31	Original
11	Original	32	Original
12	Original	33	Original
13	Original	34	Original
14	Original	35	Original
15	Original	36	Original
16	Original	37	Original
17	Original	38	Original
18	Original	38	Original
19	Original	40	Original
20	Original	41	Original
21	Original	42	Original

Issued:

Effective:

Issued by:
Joyce E. Johnson
Corporate & Regulatory Counsel and Assistant Secretary
Claricom Networks, Inc. d/b/a Staples Communications - Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

CHECK SHEET (continued)

Page Number	Issue	Page Number	Issue
41	Original	64	Original
42	Original	65	Original
43	Original	66	Original
44	Original	67	Original
45	Original	68	Original
46	Original	69	Original
47	Original	70	Original
48	Original	71	Original
49	Original	72	Original
50	Original	73	Original
51	Original	74	Original
52	Original	75	Original
53	Original	76	Original
54	Original	77	Original
55	Original	78	Original
56	Original	79	Original
57	Original	80	Original
58	Original	81	Original
59	Original	82	Original
60	Original	83	Original
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Issued by:
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TARIFF FORMAT

A. PAGE NUMBERING - Sheet numbers appear in the upper right corner of the sheet. 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 page added between pages 1 and 2 would be page 1.1.

B. PAGE REVISION NUMBERS - Revision numbers also appear in the upper right corner of each sheet. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the 3rd Revised Sheet 14. Because of various suspension periods, deferrals, etc., that the Commission follows in their tariff approval process, the most current sheet number on file with the Commission is not always the sheet in effect. Consult the Check Sheet currently in effect.

C. 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 are reflected on some sheets). The tariff user should refer to the latest check sheet to find if a particular sheet is the most current on file with the Commission.

EXPLANATION OF SYMBOLS

When changes are made in any Tariff page, a revised page will be issued canceling the Tariff page affected. Changes will be identified on the revised page(s) through the use of the following symbols:

(C) - To signify a changed condition or regulation.

(D) - To signify a discontinued rate, regulation or condition.

(I) - To signify an increase in rates or charges.

(M) - To signify material relocated from or to another part of this tariff with no change in text, rate, condition or regulation.

(N) - To signify new material, including rates, conditions or regulations.

(R) - To signify a reduction in rates or charges.

(S) - To signify a correction or reissued matter.

(T) - To signify a change in text, but no change in the rate, regulation or condition.

CONCURRING, CONNECTING AND OTHER PARTICIPATING CARRIERS

Concurring Carriers

None

Connecting Carriers

None

Other Participating Carriers

None

APPLICATION OF TARIFF

This Tariff contains the regulations, terms, conditions, services offerings, rates and charges applicable to Claricom Networks, Inc. d/b/a Staples Communications - Networks ("Company") furnishing of resold local exchange and intrastate intraLATA toll telephone service in the State of South Dakota to customers in all areas served by US West Communications, Inc. (now Qwest Communications) ("Underlying Carrier") as made available under US West Communications (now Qwest Communications) tariffs. The rates and rules contained herein are subject to change pursuant to the statutes, rules and regulations of the State of South Dakota.

This Tariff is on file with the South Dakota Public Utilities Commission located at State Capitol 500 East Capitol Street, Pierre, South Dakota 57501. In addition, this Tariff is available for review at the Company's corporate headquarters located at 4 Research Drive, Suite 500, Shelton, Connecticut 06484.

SECTION 1 - DEFINITIONS AND ABBREVIATIONS

AUTHORIZED USER - A person, firm or corporation which is authorized by the Customer or Joint User to be connected to the service of the Customer or Joint User, respectively. An Authorized User must be specifically named in the application for service.

BIT - The small unit of information in the binary system of notation.

CERTIFICATED CARRIER - Any carrier approved by the Commission to provide telecommunications service.

COMMISSION - The South Dakota Public Utilities Commission.

COMPANY - Claricom Networks, Inc. d/b/a Staples Communications - Networks.

CONSUMER - The calling party utilizing the services of Company and responsible for payment of charges, unless that responsibility has been accepted by others, such as in the case of collect and third party calls. (Consumer may also be referred to as "User" in this Tariff.)

CPE - Customer Premise Equipment; telecommunications terminal equipment that is located at the Customer's residence or place of business. CPE includes devices ranging from simple single-line telephones on up through multi-line systems (such as key systems or PBXs) offering sophisticated capabilities for handling voice or combined voice/data transmissions on and off the premises.

CUSTOMER - A firm, corporation or other business entity which contracts with Company for the provision of services offered by Company.

DAY - For billing purposes, day rates shall apply 8:00 a.m. to 4:59 p.m. Monday through Friday.

DEDICATED ACCESS - An arrangement whereby a Customer or other common carrier uses a dedicated private line facility to access the Company switching facility port.

DID - Direct Inward Dialing, a feature of PBXs and Centrex systems which allows callers on the public switched network to directly dial a specific PBX/Centrex extension telephone.

DISCOUNT - (1) A percentage reduction in rates due to time of call, holiday or weekend; (2) A percentage reduction in rates due to Customer commitment to maintain service either for a specified length of time or for a specified annual usage rate.

EVENING - For billing purposes, evening rates shall apply 5:00 p.m. to 10:59 p.m. Monday through Friday and Sunday.

HOLIDAY - Company recognized holidays for rate purposes are: New Year's Day, Labor Day, Thanksgiving Day, Independence Day and Christmas Day.

SECTION 1 - DEFINITIONS AND ABBREVIATIONS (continued)

JOINT USER - A person, firm or corporation designated by a Customer as a User of service furnished to that Customer and to whom a portion of the charges for the service will be billed under a "Joint User" arrangement as specified herein.

KBPS - Kilobits per second, denotes thousands of bits per second; a measurement of speed in a digital transmission system.

LATA - Local Access Transport Area; one of 161 local telephone exchange areas established as a result of the MFJ which serve to distinguish local phone service from long-distance service.

LOCAL CALLS - All calls which if similarly originated through the local exchange telephone company, would be rated as a home region call.

MBPS - Megabits per second, denotes millions of bits per second.

MFJ - Modification of Final Judgment; a term applied to the divestiture agreement that forced AT&T to get out of the local exchange business and give up its local phone companies.

NIGHT - For billing purposes, night rates shall apply 11:00 p.m. to 7:59 a.m. Monday through Friday, and all day Saturday and Sunday until 5:00 p.m. and after 11:00 p.m.

PBX - Private Branch Exchange; a device, installed on the user's premises, that provides for the automatic selection of outgoing lines in accordance with user-defined criteria. the PBX functions as a switch that permits a user to receive incoming calls, to dial any other telephone on the premises, to access tie trunk leading to another PBX or to access an outside trunk to the public switched telephone network. In addition, PBXs offer a wide variety of call-control and call-accounting features.

PORT - A facility or equipment system or subsystem set aside for the sole use of a specific Customer.

PREMISES - The space occupied by a User in a building or buildings or contiguous property (except railroad rights of way, etc.) not separated by a highway.

TYPE I - Both the originating and terminating end points are supplied by the same underlying carrier.

TYPE II - Either the originating or the terminating end points are supplied by the Company's underlying carrier, but the other end point is supplied by an alternative Local Exchange Carrier ("LEC").

UNDERLYING CARRIER - US West Communications, Inc. (now Qwest Communications).

USER - An Authorized User, Customer or Joint User at whose Premises the Company furnishes service.

SECTION 2 - SERVICE AREA

The Company will resell the local exchange services of its Underlying Carrier throughout the State of South Dakota in the exchange areas served by the Company's Underlying Carrier (US West Communications, Inc., now Qwest). The Company's local calling areas will correspond to the local calling areas of its Underlying Carrier.

SECTION 3 - TERMS AND CONDITIONS

A. AVAILABILITY OF SERVICE

Local exchange and intrastate intraLATA toll service will be offered by the Company to any firm, corporation or other business entity ("Customer") located in areas served by the Company's underlying carriers. The Company will not offer service to residential customers. The Company will make service available to any Customer that wishes to receive service from the Company, subject to the terms and conditions of this tariff. Service is available twenty-four (24) hours per day, seven (7) days per week.

B. LIMITATIONS ON SERVICE

1. Services are offered subject to the availability of the necessary facilities and subject to the terms and conditions of this Tariff. The Company reserves the right to limit or to allocate the use of the existing facilities of its underlying carrier(s), or of additional facilities offered by the Company's underlying carrier(s), when necessary because of a lack of facilities, or due to any other cause beyond the Company's control.

   The furnishing of service under this Tariff is subject to the availability on a continuing basis of all the necessary facilities the Company may obtain from other carriers, to furnish service from time to time as required at the sole discretion of the Company.

2. The Company reserves the right to discontinue service or cancel an application for service without liability upon written notice when necessitated by conditions beyond its control, and in accordance with Section I of this Tariff.

3. Service may not be used for any unlawful purpose or for any use as to which Customer has not obtained all governmental approvals, authorizations, licenses, consents and permits required to be obtained by Customer with respect thereto.

4. The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.

5. The Customer may not use the services so as to interfere with or impair service over any facilities or associated equipment, or so as to impair the privacy of any communications over such facilities and associated equipment.

6. There is no limit on the number of calls placed or the length of individual calls.

SECTION 3 - TERMS AND CONDITIONS (continued)

C. RENDERING AND PAYMENT OF BILLS

1. Bills for service will be rendered monthly to each Customer. Payment will be due within fifteen (15) days following the rendering of the bill. If payment is not received within fifteen (15) days of the rendering of a bill, then a late payment charge of one and one-quarter percent per month will be applied to the outstanding balance until payment is received.

2. Customer is responsible for the payment of bills for all calls or services, including any calls or services:

   a. Originated at the Customer's number(s);
   b. Accepted at the Customer's number(s) (e.g., Collect Calls);
   c. Billed to the Customer's number via Third Number;
   d. Billing if the Customer is found to be responsible for such call or service;
   e. Billed to the Customer's number via the use of a Calling Card or the use of a special billing number; or
   f. Incurred at the request of the Customer.

3. The Customer is responsible for the payment of any sales, use, gross receipts, excise, access or other local, state and federal taxes, charges or surcharges (excluding taxes on the Company's net income) based upon the provision, sale and use of services provided pursuant to this Tariff.

4. The Company does not require a deposit for any services provided hereunder.

D. LIMITATION OF LIABILITY

1. The liability of the Company for damages arising out of the furnishing of these services, including but not limited to mistakes, omissions, interruptions, delays, or errors or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts of commission or omission, shall be determined in accordance with SDCL 49-13-1, 49-13-1.1, and any other applicable law.

2. The Company shall not be liable for loss or damage sustained by reason of failure in or breakdown of facilities or equipment provided by third parties not under its control.

SECTION 3 - TERMS AND CONDITIONS (continued)

3. The Company shall not be liable for any failure of performance due to causes beyond its control, including but not limited to, acts of God, fires, lightning, floods or other catastrophes; any law, order, regulation, direction, action, or request of the United governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies, insurrections, riots or wars, strikes, lockouts, work stoppage or other labor difficulties, any failure of local exchange company lines or delays caused by the underlying local exchange company or the Customer or end-user.

4. The Customer is required to notify the Company of any changes to Customer's equipment including software controlling the equipment's function. The Company is not liable for interruptions in service caused by Customer's failure to notify the Company prior to any change.

5. The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of any installation so provided.

6. The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays associated with normal construction procedures of its underlying carrier(s) beyond the Company's control. Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for construction, delays in obtaining right-of-way approvals, and delays in actual construction work.

   The Company shall undertake to use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this Tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.

7. The Company is not liable for any defacement of or damage to the Premises of a Customer (or authorized or Joint User) resulting from the furnishing of services or equipment of such Premises or the installation or removal thereof, when such defacement or damage is not the result of negligence or willful misconduct on the part of agents or employees of the Company.

8. THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH HEREIN.

SECTION 3 - TERMS AND CONDITIONS (continued)

9. The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment which the Company does not furnish or for any act or omission of Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with Company services provided hereunder.

E. INDEMNIFICATION

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

2. The Customer and any Authorized Users or Joint Users, jointly and severally, shall indemnify and save the Company harmless from claims, loss, damage, expense (including attorneys' fees and court costs), or liability for libel, slander, or copyright infringement arising from the use of the service; and from claims, loss, damage, expense or liability for patent infringement arising from (1) combining with, or using in connection with facilities the Company furnished, facilities the Customer furnished, Authorized User, or Joint User furnished, or (2) use of facilities the Company furnished in a manner the Company did not contemplate and over which the Company exercises no control; and from all other claims, loss, damage, expense (including attorneys' fees and court costs), or liability arising out of any commission or omission by the Customer, Authorized User, or Joint User in connection with the service. In the event that any such infringing use is enjoined, the Customer, Authorized User, or Joint User, at its option and expense, shall obtain immediately a dismissal or stay or such injunction, obtain a license or other agreement so as to extinguish the claim of infringement, terminate the claimed infringing use, or modify such combination so as to avoid any such infringement. In addition and without limitation, the Customer, Authorized User, or Joint User shall defend, on behalf of the Company and upon request by the Company, any suit brought or claim asserted against the Company for any such slander, libel, infringement or other claims.

F. TESTING, MAINTENANCE, AND ADJUSTING

Upon receipt of suitable notice from Company's underlying carrier(s), the Company will notify Customer of the need to make such tests, adjustments, and inspections as may be necessary to maintain the underlying carrier(s) facilities in a satisfactory operating condition.

SECTION 3 - TERMS AND CONDITIONS (continued)

No interruption allowance will be credited to the Customer for the period during which the Company's underlying carrier(s) performs such tests, adjustments or inspections.

The Company shall have no responsibility for the maintenance and repair of any kind with respect to equipment and facilities not provided by the Company. The Company will charge the Customer for any maintenance visits with respect to service problems which are determined to arise from equipment or facilities not provided by the Company.

G. NON-ROUTINE INSTALLATION

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

H. GOVERNMENTAL AUTHORIZATIONS

The provision of any services herein are subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. The Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses, and permits that may be required to be obtained by it. The Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the services into conformance with any rules, regulations, orders, decisions, or directives imposed by the Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by the Company to comply with any such rules, regulations, orders, decisions or directives.

I. CANCELLATION OF SERVICE

1. In the event of non-payment of any sums due the use of foul or profane expressions, the impersonation of another with fraudulent intent, or any other violation of the Communications Act of 1934, as amended, or of the Rules and Regulations of the Federal Communications Commission or this state, the Company may either temporarily deny service or terminate service.

2. Denial of Service Without Notice
The Company may discontinue service without notice for any of the following reasons:

SECTION 3 - TERMS AND CONDITIONS (continued)

a. Unauthorized Use of Service: Customer's unauthorized use of service by any method that causes hazardous signals over the network; and/or

b. Illegal Use of Service: Customer's use of service in a manner to violate the law.

3. Denial of Service Requiring Notice

The Company may deny service for any of the following reasons provided it has notified the Customer of its intent, in reasonable time of not less than seven (7) days, or as otherwise specified in these regulations, in which to remove the cause for denial:

a. Non-compliance with Regulations: For violation of or non-compliance with regulations of the Commission, or for violation of or non-compliance with this Tariff.

b. Failure on Contractual Obligations: For failure of the Customer to fulfill its contractual obligations for service or facilities subject to regulation by the Commission.

c. Non-payment of Bill.

(1) For non-payment of bill of service, provided that the Company has made a reasonable attempt to effect collection and has given the Customer written notice of its intent to deny service if settlement of his account is not made and provided the Customer has at least seven (7) days, excluding Sundays and holidays in which to make settlement before his service is denied.

(2) In cases of bankruptcy receivership, abandonment of service, or abnormal toll usage, less than seven (7) days notice may be given if necessary to protect the Company's revenues.

(3) Except in cases where a prior promise to pay has not been kept or bankruptcy, receivership, abandoned service, or abnormal toll usage is involved, the Company may not deny service on the day preceding any day on which it is not prepared to accept payment of the amount due and to reconnect service.

4. Customers wishing to cancel any service under this Tariff shall notify the Company in writing at least thirty (30) days prior to such cancellation.

SECTION 3 - TERMS AND CONDITIONS (continued)

J. CUSTOMER INQUIRIES AND COMPLAINTS

Customer inquiries and complaints will be handled by representatives at Claricom's National Customer Service Center, which is staffed 24 hours per day, 7 days per week. The toll-free number for Claricom's National Customer Service Center is (800) 678-9866. Customer service matters and complaints may also be directed to Claricom's customer service contact person by writing to:

Thomas Maier
Vice President, Network Division
Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

SECTION 4 - SERVICES, RATES AND CHARGES

A. EXCHANGE SERVICES

EXCHANGES AND THEIR EXTENDED AREA SERVICE (EAS) POINTS

Extended Area Service entitles the customer to service without other charge to all access lines connected with a designated exchange, commonly called Extended Area Service. EAS refers to such service provided by means of special extended service circuits between the two exchanges.

Extended area service may not be terminated once established except through a termination plan that continues rates for a sufficient period of time after the investment is removed to recover costs. Such consideration may be made on a case-by-case basis. Where EAS is provided, the exchanges with which it is provided are shown indented below the principal exchange.

EXCHANGE	RATE GROUP	EXCEPTION
Aberdeen Cresbard Frederick Mellette	E	2FB and 2FR service is obsolete.
Arlington Lake Preston	C	2FB and 2FR service is obsolete.
Belle Fourche Nisland W. Belle Fourche	C	2FB and 2FR service is obsolete. - Also serves rural territory in the state of Wyoming.
Canton-Fairview Worthing	C	2FB and 2FR service is obsolete. Also serves rural territory in the state of Iowa.
Cavour Huron Iroquois	E	2FB and 2FR service is obsolete.
Chamberlain Ft. Thompson Kimball Pukwana Reliance	C	2FB and 2FR service is obsolete.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

EXCHANGE	RATE GROUP	EXCEPTION
Colman Flandreau	C	2FB and 2FR service is obsolete.
Deadwood Lead Spearfish Whitewood W. Spearfish	E	2FB and 2FR service is obsolete.
DeSmet Lake Preston	C	2FB and 2FR service is obsolete.
Elk Point	A	2FB and 2FR service is obsolete.
Flandreau Colman	C	2FB and 2FR service is obsolete.
Harrisburg Lennox Sioux Falls Tea	I	2FB and 2FR service is obsolete. - Also serves rural territory in state of Iowa.
Hill City Hermosa Keystone Rapid City	G	2FB and 2FR service is obsolete.
Huron Cavour Hitchcock Iroquois Wolsey	E	2FB and 2FR service is obsolete.
Iroquois Cavour Huron	E	2FB and 2FR service is obsolete.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

EXCHANGE	RATE GROUP	EXCEPTION
Lake Preston Arlington (includes towns of Badger and Hetland) DeSmet	C	2FB and 2FR service is obsolete.
Lead Deadwood Spearfish Whitewood W. Spearfish	E	2FB and 2FR service is obsolete.
McIntosh Lemmon Morristown		2FB and 2FR service is obsolete. - Also serves rural territory in state of North Dakota.
Madison Chester Nunda Oldham-Ramona Wentworth Winfred		2FB and 2FR service is obsolete.
Milbank Revillo Stockholm Summit Wilmot		2FB and 2FR service is obsolete.
Miller		2FB and 2FR service is obsolete.
Mitchell		2FB and 2FR service is obsolete.
Morristown Lemmon McIntosh	D	2FB and 2FR service is obsolete - Also serves rural territory in state of North Dakota
Pierre-Ft. Pierre Hayes	E	2FB and 2FR service is obsolete.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

EXCHANGE	RATE GROUP	EXCEPTION
Rapid City Hermosa Hill City Keystone	G	2FB and 2FR service is obsolete.
Redfield Doland Tulare	C	2FB and 2FR service is obsolete.
Sioux Falls Baltic Brandon Colton Crooks Dell Rapids Garretson Harrisburg Hartford Tea Valley Springs	I	2FB and 2FR service is obsolete.
Sisseton Claire City New Effington Peever Rosholt Veblen	C	2FB and 2FR service is obsolete.
Spearfish Deadwood Lead Whitewood W. Spearfish	E	2FB and 2FR service is obsolete. - Also serves rural territory in state of Wyoming.
Sturgis	C	2FB and 2FR service is obsolete.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

EXCHANGE	RATE GROUP	EXCEPTION
Tea Harrisburg Lennox Sioux Falls		2FB and 2FR service is obsolete.
Timber Lake	B	2FB and 2FR service is obsolete.
Vermillion	C	2FB and 2FR service is obsolete.
Volga-Bruce Brookings Municipal Brookings Rural Sinai	C	2FB and 2FR service is obsolete. Based on the Public Service Commission's Order TC94-092 dated June 22, 1995, Volga customers will be assessed $2.00 per access line for EAS to Brookings Municipal and Brookings Rural.
Watertown Castlewood Florence Hayti Lake Norden South Shore Willow Lake	E	2FB and 2FR service is obsolete.
Whitewood Deadwood Lead Spearfish W. Spearfish	E	2FB and 2FR service is obsolete.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

EXCHANGE	RATE GROUP	EXCEPTION
Yankton Irene (Includes community of Mayfield) Lesterville Tabor Wakonda (Includes towns of Gayville and Volin)	E	2FB and 2FR service is obsolete. - Also serves rural territory in state of Nebraska

EXCHANGE AREA RATE GROUPS

1. Local exchange service rates are established under a state-wide grouping plan generally recognizing both value and cost of service and based upon the number of terminals available, without toll charge, within the local calling service area. In this manner, local exchange service rates are applied uniformly throughout the state by size of exchange and scope of service available to customers.

2. Local Exchange Main Line Service rates apply for each local exchange access line.

3. Exchange rates for each exchange are established by rate groups, determined by the total number of terminals excluding Company office, assessable within the local calling area of that exchange, and those provided under the Extended Calling Plan. "Terminal" as used here, is a telephone number termination in a Company central office. When it is established that any exchange no longer is within its classified group limits as outlined below, either through increased or decreased development, the Company shall apply to the State Public Utilities Commission for the automatic reclassification of such exchange to its proper group as follows:

   a. When through normal access line gain or loss the terminal development of the local calling area is above or below the group limitation for six consecutive months and such development reaches four percent above or below the upper or lower limits, as applicable, of the rate group in which the exchange is presently classified.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Through the enlargement of the local calling area resulting from the consolidation of exchanges.

RATE GROUP	TERMINAL DEVELOPMENT
A and B	1 - 1,000
C and D	1,001 - 5,000
E	5,001 - 20,000
G	20,001 - 45,000
I	45,001 - 60,000

Classification of Exchanges by Rate Groups. All Exchanges have Local Measured Service available.

RATE GROUP	
A	Elk Point
B	Timber Lake
C	Arlington, Belle Fourche, Canton-Fairview, Chamberlain, Colman, DeSmet, Flandreau, Lake Preston, Milbank, Miller, Redfield, Sisseton, Sturgis, Vermillion, Volga-Bruce
D	McIntosh, Morristown
E	Aberdeen, Cavour, Deadwood, Huron, Iroquois, Lead, Madison, Mitchell, Pierre-Ft. Pierre, Spearfish, Watertown, Whitewood, Yankton
G	Hill City, Rapid City
I	Harrisburg, Sioux Falls, Tea

LOCAL SERVICE INCREMENTS

1. Extended Calling Plan

a. This section contains the rate plan and conditions applicable to the Extended Calling Plan.

b. The Extended Calling Plan shall be the only method of expanding the local calling service area after November 1, 1977, except for exchange consolidation.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. The Extended Calling Plan, as described below, provides for extension of the local calling service area to contiguous exchanges in South Dakota at rates specified herein.

d. Provision of the Extended Calling beyond contiguous exchanges is not contemplated. Should there be a demonstrated community of interest for the Extended Calling Plan beyond a contiguous exchange, the Company will consider such demand on a case-by-case basis. Specially computed charges may apply in addition to those specified in 4. following.

e. The provision of the Extended Calling Plan shall include all customers connected to common use and identity switching equipment. Any cost incurred to subdivide the switching equipment shall be borne exclusively by subscribers requiring such subdivision.

f. The Extended Calling Plan is available between Company exchanges. Requests for the plan to be provided between Company and Independent Company exchanges will be considered on a case-by-case basis.

g. This plan may not be terminated once established except through a termination plan that continues rates for a sufficient period of time after the investment is removed to recover costs. Such consideration may be made on a case-by-case basis.

h. The Extended Calling Plan provides for two-way or one-way customer dialed calling between exchanges with contiguous exchange boundaries.

i. The rate increment for the Extended Calling Plan is determined on a case-by-case basis to cover the cost of provisioning plus lost toll revenues.

j. The number of lines required to provide the Extended Calling Plan will be determined by the Company subject to Commission approval as hereinafter provided. At the end of the first year that the plan is in effect, the network will be adjusted based on actual usage. Thereafter, the network requirement will be reviewed annually. If usage is such that additional lines are required, proposed rates reflecting the additional cost of additional lines shall be submitted to the South Dakota Public Utilities Commission for its approval of both, whether additional lines should be added, and whether the proposed rates are just and reasonable.

k. The Extended Calling Plan may be provided only upon demonstration of a substantial majority of customer acceptance at rates as determined by the conditions of this Tariff.

l. All customers to exchange service in exchanges where the Extended Calling Plan is in effect must also subscribe to the Extended Calling Plan.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

LOCAL SERVICE INCREMENTS (Cont'd)

m. The Extended Calling Plan may be suspended only when the exchange service with which it is associated is suspended. The rates and conditions for the suspension of the Extended Calling Plan are the same as those specified for the suspension of exchange service in Section 2.

n. The minimum service period for the Extended Calling Plan is the same as for local exchange service.

o. The monthly rates shall be determined on a case-by-case basis. Such rates shall be calculated to recover the cost of providing the service plus the toll revenues lost with implementation of Extended Calling Plan. All calculations for rates shall be submitted to the South Dakota Public Utilities Commission for approval.

RESIDENCE MAIN STATION PER MONTH	BUSINESS MAIN STATION PER MONTH
ICB	ICB

BORDER EXCHANGES

1. Big Stone City, South Dakota

This Tariff applies to service furnished from the Ortonville, Minnesota exchange to the territory located in South Dakota; namely, the town of Big Stone City and surrounding area.

The General Regulations and the Exchange and Network Services Tariff for the State of Minnesota are hereby made a part of this Tariff and apply to this service except as otherwise provided herein.

The rates listed below entitle the customer to service without other charge to all stations connected to the Ortonville, Minnesota exchange (includes Big Stone City stations) as well as all stations connected to the Clinton and Odessa, Minnesota exchanges.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

BORDER EXCHANGES (Cont'd)

The base rate area is within the boundary shown on the Ortonville, Minnesota Base Rate Area Map.

	MONTHLY RATE	USAGE ALLOWANCE
Business		
One-Party Flat	$34.61	N/A
Measured Service	21.31	–
Residence		
One-Party Flat	13.96	N/A
One-Party Measured	8.73	3 hours

Measured Service Usage Charges

DISTANCE IN MILES	INITIAL MINUTE RATE	EACH ADDITIONAL MINUTE RATE
0 - 10	$0.05	$0.01
11 - over	0.06	0.02

2. South Dakota Rural Territory Near Sioux City, Iowa

This Tariff applies in the portion of the Sioux City, Iowa exchange located in the State of South Dakota.

The Exchange and Network Services Tariff for the State of Iowa is hereby made a part of this Tariff and applies to this service except as otherwise provided herein.

A Late Payment Charge applies as specified herein.

The rates listed below entitle the customer to service without other charge within the Sioux City, Iowa exchange. The Sioux City exchange includes, in addition to North Sioux City, South Dakota and vicinity, the territory in Iowa comprising Sioux City, Iowa and vicinity. Extended Area Service is provided to the Merrill and Sergeant Bluff, Iowa, and the South Sioux City and Dakota City, Nebraska exchanges.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	MONTHLY RATE	USAGE ALLOWANCE
Business		
One-Party Flat	$30.15	N/A
Measured Service	24.00	
Usage charge, per minute - $0.03		
Public Carrier Access	24.00	N/A
Residence		
One-Party Flat	12.05	N/A
Basic (Measured)	7.50	
Budget Pac (Measured)	9.25	3 hours
Value Pac (Measured)	11.40	6 hours
Usage Charge, per minute - $0.02		

APPLICATION OF BUSINESS AND RESIDENCE RATES

1. This section describes the application of business and residence rates.

2. Business service is furnished to customers at a location that is primarily used for performing a business, trade or practice.

3. Residence service is furnished at a location used primarily for domestic purposes.

4. Where residence service is permitted in non-residential locations, such as at churches or elementary schools, only one-party service shall be provided within the base rate area. Also where shared usage with another party would not be practical, such as fraternity and sorority houses or similar locations, only one-party service shall be provided within the base rate area.

5. Customers changing from business service to residence service will be assigned a different telephone number. Referral to the new residence number assigned will not be provided.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

6. Business Service

Business rates apply at the following locations:

- Office, stores, factories and all other places of a strictly business nature
- Hospitals
- Administrative locations of nursing homes and homes for the aged
- Colleges and universities (excluding dormitories)
- Senior High, Junior High Schools and elementary schools
- Day care centers
- Administrative offices of church organizations such as denominational state or district headquarters. (Does not include individual churches.)
- Quarters occupied by charitable organizations, libraries, clubs, civic organizations and fraternal societies. Where the quarters of a club or fraternal society are infrequently used, such as for weekly meetings, and no attendant or administrative staff is provided, residence service may be installed. Fraternal societies, as here used, does not include college fraternity or sorority houses in which members lodge or board.
- At any location, including residence, where the customer advertises with a business listing, except when a residence number is an alternative call number in connection with a business telephone number.
- At any location provided to or through a reseller of local exchange service.

7. Residence Service

Residence rates apply at the following locations:

- Private residences. This location typically contains cooking and sleeping facilities.
- Buildings which are a part of the customer's domestic establishment and used only for domestic purposes such as private garages, stables and boat houses.
- Private rooms or apartments including those located in hotels, clubs, nursing homes and homes for the aged where the service is confined. College dormitories, fraternity and sorority houses where the members lodge or board.
- Rooms occupied by clubs or fraternal societies which are infrequently used, such as for weekly meetings, and no attendant or staff is regularly provided (see also definition under Business Service)
- Churches, even though the telephone is to be used for church administrative purposes. See "Business Service" for administrative offices of church organizations.
- Senior High, Junior High (see definition under business section) and Elementary schools. Applies only at locations in service prior to December 31, 1989.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

8. Nonrecurring Charges

A nonrecurring charge is a one-time charge made under certain conditions, to connect, move or change telephone service or facilities.

Nonrecurring charges, where applicable, are specified with services as stated in each section of the Tariff, unless otherwise specified or included in this section.

Nonrecurring charges do not apply for the following customer initiated requests providing work is limited to that specified:

Changes from one to another grade of service (one-, two-, four-party or rural service) including changes in wiring which may be required by such change in grade.

Nonrecurring charges apply as appropriate for change in class of service.

		NONRECURRING CHARGE	
	USOC	RESIDENCE	BUSINESS
Change due to regrading from business to residence service, each	NCK	$9.55	$10.00
Change of any class of local service to any other class of local service[1]	GCS	9.55	10.00

9. Residence Individual Auxiliary Lines

During such period as a residence customer has a regular residence individual line in service at their place of dwelling, at the regular rate for the exchange involved, one or more residence individual auxiliary lines may be installed on the same premises and in the same dwelling unit for the use of the immediate family for whose use the initial residence individual line is in service.

[1] Does not apply to residence customers converting from flat rate service to measured service, measured service to flat rate service, or between any Local Measured Service offerings, or to customers converting to or from TELECHOICE service.

Such residence individual auxiliary lines may not be numbered consecutively nor served on a rotary (hunting) basis with the primary service. They may be non-listed or non-published according to usual practice, if desired, and are furnished at a monthly rate, equal to the monthly rate for a residence one-party (flat rate) line, as covered following for the exchange in which furnished. In zoned areas or exchanges, the rate is related to the zone rate for such service; otherwise extra exchange line mileage charges apply.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MEASURED SERVICE

1. Budget Pac (Residence Only)

Budget Pac is a local exchange service furnished with rates for an exchange access line and usage. It is an optional offering on a single party basis. It is limited to where facilities and equipment are available. The rates for usage vary based on the number of local messages, the duration (holding time) of each message, the distance between calling and called numbers, and the time of day the call is made.

One-party residence subscribers in exchanges with the necessary measuring capabilities will have an option of maintaining their current telephone service or subscribing to Budget Pac.

In exchanges where Budget Pac is offered, multiparty service will be obsolete, except where limited by outside plant facilities. Those customers who currently subscribe to multiparty service will be allowed to retain such service at their present location.

Nonrecurring charges do not apply to residence customers converting from flat rate service to measured service, measured service to flat rate service, or between any Local Measured Service offerings.

Budget Pac local usage charges will not apply to calls placed on the Measured Service line to the Company Business Office, Repair Service, Directory Assistance, or to 911 or "0" for Emergency Agencies, such as Police, Fire, Rescue or Ambulance.

Budget Pac and flat rate service will not be allowed for business customers on the same premises, with the exception of:

The non-administrative, inward terminations at a Telephone Answering Bureau.

A flat rate Foreign Exchange line which is switched it a location whose calling area does not include the calling area of the normal service exchange.

The selection of either flat rate service or measured service for all administrative lines of a Radio Carrier.

The following services are not offered the option of subscribing to Budget Pac:

- Non-administrative lines of Radio Carriers
- Business Service
- PAL Service

The maximum one-party Budget Pac monthly billing or fixed monthly rates and usage charges for sent paid local calls originating on the Budget Pac line will not exceed 150 percent of the current one-party residence flat rate charges. Sent paid local calls include Dial Station-to-Station, Operator Station-to-Station and Person-to-Person calls.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The following rates and charges are applicable to individual line Budget Pac Service.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Rate Groups A, C, E, G and I			
Each line	RIM	$25.00	$11.05
Rate Groups Band D [1]			
Each line			
BRA	RIM	25.00	8.00
OBRA	RIM	25.00	11.00

The basic monthly rates for Budget Pac include usage allowances as follows:

	USAGE ALLOWANCE
Each line	$2.50

The method of applying the usage allowance will be as shown following:

- The usage allowance is applied only toward sent paid usage charges accumulated above.
- No credit is given for any unused allowance during a billing month, nor is any unused allowance accumulated and/or carried forward over billing months.

[1] See Rates and Charges specified herein for applicable Touch-Tone charges.

The following usage charges apply for local calls over the call allowance:

CALL AREA	DEFINITION[1]	INITIAL MINUTE OR FRACTION THEREOF	EACH ADD'L MINUTE OR FRACTION THEREOF
A	Intraexchange EAS	$0.05	$0.010
B	0 - 22 Miles	0.07	0.020
C	23 - 30 Miles	0.09	0.025
D	31 - 40 Miles	0.11	0.030
E	41 - 55 Miles	0.13	0.035

Local calls to points within the Budget Pac customer's exchange are considered intraexchange calls.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

For Budget Pac Service, usage charges exceeding twenty dollars ($20.00) per line within a monthly billing period will be discounted thirty percent (30%).

For Local Station-to-Station calls placed which require operator assistance, a service charge will be assessed in addition to usage charges. Rates apply as specified herein.

For Local Person-to-Person calls placed, a service charge will be assessed in addition to usage charges. Rates apply as specified herein.

The quotation of "time and charges", duration of messages and the associated charge to be billed the customer, will not be provided on local messages.

(I) Local calls to points outside the measured service customer's exchange are considered Extended Area Service (EAS) calls and are rated according to airline mileage between the rate center of the originating customer's exchange and the rate center of the called exchange. The method of computing this airline mileage is the same as used for long distance message telecommunications service.

2. Measured Usage Charges

Measured usage charges are applicable to local messages completed on a dial station-to-station basis.

The initial period rate is the rate in effect at the time the connection is established. The rate for each additional period is the rate in effect at the beginning of each additional period.

Measured usage charges accumulate on a monthly basis commencing on the billing date.

3. Initial and Additional Periods

Initial period usage charges are for a connection of one minute or any fraction thereof

Additional period usage charges are for each additional minute or any fraction thereof that the connection continues beyond the initial period.

4. Discounts

The discount for the reduced rate period given in the rate discount and application period table following is expressed as a percent reduction of the sum of the initial and additional period charges calculated at the rates published in the usage charges table and is applied to message connections established during the period indicated in the rate discount and application period table.

The initial period discount is the discount in effect at the time the connection is established. The discount for each additional period is the discount in effect at the beginning of each additional period.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

On Christmas Day, New Year's Day, Independence Day, Thanksgiving Day and Labor Day, the holiday rate applicable is the Evening rate unless a lower rate would normally apply.

5. Local Discount Time Periods

	MON	TUES	WEDS	THURS	FRI	SAT	SUN
9:00 AM to 9:00 PM	Day Rate Period Full Rate						
9:00 PM to 9:00 AM	Evening, Night and Weekend Rate Period 50% Discount						

Discounts apply to initial minute and additional minutes. Discounts do not apply to operator service charges.

6. Hourly Usage Package Service (Residence Only)

Hourly Usage Package Service is local exchange service for which rates are based upon exchange access and usage.

Hourly Usage Package Service is available to residence customers in exchanges where central office facilities are available.

In an exchange where Hourly Usage Package Service is offered, multiparty service will no longer be offered, except where limited by outside plant facilities. Those customers who currently subscribe to multiparty service will be allowed to retain such service at their present location.

The following services are not offered the option of subscribing to Hourly Usage Package Service:

- Multiparty Service
- Business Service

The following rates and charges are applicable to individual line Hourly Usage Package Service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Rate Groups A, C, E, G and I

PACKAGE	USOC	NONRECURRING CHARGE	MONTHLY RATE
3 Hour Package	RWV,AWV	$25.00	$11.05
6 Hour Package	RWG,AWJ	25.00	13.15
9 Hour Package	RWH,AWQ	25.00	15.25

Rate Groups B and D

3 Hour Package			
BRA	RWV,AWV	25.00	8.00
OBRA	RWV,AWV	25.00	11.00
6 Hour Package			
BRA	RWG,AWJ	25.00	10.10
OBRA	RWG,AWJ	25.00	13.10
9 Hour Package			
BRA	RWH,AWQ	25.00	12.20
OBRA	RWH,AWQ	25.00	15.20

The Hourly Usage Package Service additional usage charge is for each sent paid local calling minute exceeding the package rate. The timing of local messages is as specified for Budget Pac Service.

	USAGE CHARGE
Additional usage charge, per minute	$0.02

(T) See Rates and Charges specified herein for applicable Touch-Tone charges.

Hourly Usage Package Service usage charges will not apply to calls placed on an Hourly Usage Package Service line to the Company Business Office, Repair Service, Directory Assistance, or to 911 or "O" for Emergency Agencies, such as police, fire, rescue or ambulance.

Each Hour package includes an hourly usage allowance. The method of applying the hourly usage allowance is the same as additional usage and:

- The usage allowance is applied only toward sent paid usage charges.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- No credit is given for any unused allowance during a billing month, nor is any unused allowance accumulated and/or carried forward over billing months.

Nonrecurring charges do not apply to residence customers converting from flat rate service or measured service, measured service to flat rate service, or between any Local Measured Service offerings.

For local Station-to-Station calls placed which require operator assistance, a service charge will be assessed in addition to usage charges listed above. Rates apply as specified in herein.

For local Person-to-Person calls placed, a service charge will be assessed in addition to usage charges listed above. Rates apply as specified in herein.

The quotation of "time and charges", duration of messages and the associated charge to be billed the customer, will not be provided on local messages.

7. Value Pac (Business Only)

Value Pac is a local exchange service furnished with rates for an exchange access line and usage. It is an optional offering on a single party basis. It is limited to where facilities and equipment are available. The rates for usage vary based on the number of local messages, the duration (holding time) of each message, the distance between calling and called numbers, and the time of day the call is made.

In exchanges where Value Pac is offered, multiparty business service is no longer offered except where limited by facilities or equipment. Those customers who currently subscribe to multiparty business service will be allowed to retain such service at the current location.

Nonrecurring charges, specified in herein will not apply for conversion to Value Pac or for conversion back to the previous service within 12 months of the date at which Value Pac is offered in the central office serving the customer. After this 12-month period, nonrecurring charges will apply to conversions from measured to flat-rate services.

Value Pac usage charges do not apply to calls placed to the Company Business Office, Repair Service, Directory Assistance, 91 1 or "0" for Emergency agencies such as police, fire, rescue or ambulance, or to long distance.

Combinations of Value Pac and flat rate service will not be allowed on the same premises, with the exception of:

- The non-administrative, inward terminations at a Telephone Answering Bureau.

- A flat rate Foreign Exchange line which is switched at a location whose calling area does not include the calling area of the normal serving exchange for the Measured Service lines.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- The selection of either flat rate service or measured service for all administrative lines of a Radio Carrier.

Usage billing will be on a bulk basis.

The following rates and charges are applicable to individual line Value Pac Service.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Rate Groups A, C, E, G and I			
Each line	BIM	$47.00	$28.65
Rate Groups B and D			
Each line			
BRA	BIM	47.00	25.00
OBRA	BIM	47.00	28.00

The basic monthly rate for Value Pac includes usage allowances as follows:

	USAGE ALLOWANCE
Each line	$5.00

The method of applying the usage allowance will be as shown following.

- The usage allowance is applied only toward sent-paid local usage charges as accumulated above.

- No credit is given for any unused allowance during a billing month, nor is any unused allowance accumulated and/or carried forward over billing months.

[T] See Rates and Charges specified herein for applicable Touch-Tone charges.

The following usage charges apply to Value Pac Service in addition to the above rates for completed calls which are originated on the Value Pac line:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

CALL AREA	DEFINITION[2]	USAGE RATES[1] INITIAL MINUTE OR FRACTION THEREOF	USAGE RATES[1] EACH ADD'L MINUTE OR FRACTION THEREOF
A	Intraexchange EAS	$0.05	$0.010
B	0 - 22 Miles	0.07	0.020
C	23 - 30 Miles	0.09	0.025
D	31 - 40 Miles	0.11	0.030
E	41 - 55 Miles	0.13	0.035

For Value Pac Service, usage charges exceeding twenty dollars ($20.00) per line (or trunk) within a monthly billing period will be discounted thirty percent (30%).

The quotation of "time and charges," duration of messages, and the associated charge to be billed the customer will not be provided on local messages.

The timing of local messages is the same as specified for Budget Pac Service.

For local Station-to-Station calls placed from Value Pac lines which require operator assistance, a service charge will apply in addition to usage charges. Handicapped exemptions will apply to all sent-paid calls. These charges and regulations will be the same as specified elsewhere in this Tariff.

[1] The exchange usage charges shown will be discounted based on time of day and day of week originated as specified elsewhere.

[2] Local calls to points within the Value Pac customer's exchange are considered intraexchange calls. Local calls to points outside the Value Pac customer's exchange are considered Extended Area Service (EAS) calls and are rated according to airline mileage between the rate center of the originating customer's exchange and the rate center of the called exchange. The method of computing this airline mileage is the same as used for long distance message telecommunications service.

For local Person-to-Person calls placed from Value Pac lines, a service charge will apply in addition to usage charges. These charges and regulations will be the same as specified herein.

Definitions of Classes of Service for local calls: Dial Station-to-Station, Operator Station-to-Station and Person-to-Person apply to local calls originated from Value Pac and are specified herein.

On Christmas Day, New Year's Day, Independence Day, Thanksgiving Day and Labor Day, the holiday rate applicable is the Evening rate unless a lower rate would normally apply.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

8. Local Discount Time Periods

	MON	TUES	WED	THURS	FRI	SAT	SUN
9:00 AM to 9:00 PM	Day Rate Period Full Rate						
9:00 PM to 9:00 AM	Evening, Night and Weekend Rate Period 50% Discount						

Discounts apply to initial minute and additional minutes. Discounts do not apply to operator service charges.

9. Hearing or Speech Impairment Discount

Disabled persons who have been certified to the Company as having a hearing or speech impairment which necessitates that they communicate by a Telecommunications Device for the Deaf (TDD) - sometimes referred to as a teletypewriter or TTY device - will receive, upon written application to the Company, credit on day, evening, and certain night rates intrastate dial station-to-station calls from a certified account premises where a TDD is located.

The credit given for these dial station-to-station calls will be a 35% discount of the full day rates for 9 a.m. to, but not including, 9 p.m. weekdays, a 60% discount of the full day rate for 9 p.m. to, but not including, 9 a.m. weekdays and all hours for weekends. For certain holidays as specified below, the 60% discount will apply unless a lower rate as specified earlier in this paragraph would apply. The discount does not apply to charges for operator assistance.

For a customer with more than one line or trunk, written application will be required for each line or trunk.

The billing period for this discount will be determined by the toll billing date. The customer will receive the discount at the beginning of the next toll billing period after application approval. The customer has the option of withdrawing at either the beginning or ending of the billing period. A nonrecurring charge does not apply to establish this service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

10. Measured Service And Hourly Usage Package Service Billing Options

Measured Service/Hourly Usage Package Service Billing Options will provide customers, where these services are available, several options on how local usage charges will be billed, and in which format and amount of detail the bill will be rendered.

a. Local Reverse Billing (USOC LRB)

This option provides for the billing of the called party (flat or measured customer) rather than the calling party for local measured service charges.

(1) Individual Line Usage (USOC OMDSB) only with LRB

This option provides a summary listing of local usage per line rather than on an account total.

(2) Local Usage Detail (USOC OMD) only with LRB

Local Usage Detail will provide customers detail of their local incoming measured calls under several options. Detail is available separately from the bill on either paper, magnetic tape or microfiche. This option provides the following detail: the central office prefix of the calling number, connect time, duration (holding time), date of call, and amount of each local call.

Local Reverse Billing is available to business customers for inward calls on a per message basis. Calls must originate from telephone lines located in Company exchanges. The customer has the option of enrolling in or withdrawing from the service at either the beginning or ending of the billing period. There will be no billing of fractional amounts.

Individual Line Usage will be provided for the first line of the following arrangements:

- Multiline hunt groups
- Simulated Facility Groups
- Centrex Data Consoles and CENTRON
- MARKET EXPANSION LINE Service

It will not be provided on customer accounts with exceptions NNX-XXXX numbering, such as PBX trunks.

The customer has the option of enrolling in or withdrawing from the service at either the beginning or ending of the billing period. There will be no billing of fractional amounts.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Local Usage Detail is available on a total account basis only and becomes effective on the customer's billing date. The customer has the option of enrolling in or withdrawing from the service at either the beginning or ending of the billing period. There will be no billing of fractional amounts.

	USOC	RECURRING CHARGE	NON-MONTHLY RATE	RATE PER MESSAGE
Local Reverse Billing, per line or terminal arranged	LRB	$ 5.00	$1.50	$0.01
Individual Line Usage, per line or terminal arranged for inward calls	OMDSB	15.00	1.50	-
Local Usage Detail, per line or terminal arranged for inward calls	OMD	15.00	1.50	0.01

FLAT RATE SERVICE

Flat Rate Service is an exchange service for which a specified rate is charged, regardless of the amount of usage. Two and four-Party Service are obsolete offerings limited to existing installations for the same customer on the same premises. When facilities are available, customers must convert to one-party service and the customer's two or four-party service will be eliminated.

1. Residence Flat Rate Service

The rates for each rate group are shown for Base Rate Areas (BRA) and Outside Base Rate Areas (OBRA). Refer to the individual exchanges for exceptions.

a. Nonrecurring Charges

	USOC	NONRECURRING CHARGE
One-party line	IFR,AFH	$25.00
Two-partyline[1]	2FR,2FE,2RW	25.00
Four-partyline[1]	4FR,4RW	25.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Monthly Rates

	MONTHLY RATE PER RATE GROUP				
	A	C	E	G	I
One-party line	$15.05	$15.75	$16.55	$17.75	$18.25
Two-party line[1]	13.80	14.35	15.10	16.10	16.55
Four-party line[1]	-	13.70	14.15	15.05	15.45

	MONTHLY RATE PER RATE GROUP[2]	
	B	D
One-party line		
- BRA	$12.00	$12.70
- OBRA[3]	15.00	15.70
Two-party line[1]		
- BRA	10.75	11.30
- OBRA	13.00	13.55
Four-party line[1]		
- BRA	-	10.65
- OBRA	12.40	12.75

[1] Service is obsolete. Offering limited to existing installations, subject to continuity of service for the same customer on the same premises.

[2] See Rates and Charges specified herein for applicable Touch-Tone charges.

[3] Available only where facilities permit.

2. Business Flat Rate Service

a. Nonrecurring Charges

	USOC	NONRECURRING CHARGE
One-party line	IFB	$47.00
Incoming line	7FB	47.00
Two-party line [1]	2FB	47.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Monthly Rates

MONTHLY RATE PER RATE GROUP

	A	C	E	G	I
One-party line	$27.25	$29.65	$32.45	$36.60	$38.40
Incoming line	24.90	27.05	29.55	33.30	34.95
Two-party line[1]	25.20	27.20	29.60	33.10	34.60

[1] Service is obsolete. Offering limited to existing installations, subject to continuity of service for the same customer on the same premises.

MONTHLY RATE PER RATE GROUP[1]

	B	D
One-party line		
BRA	$23.60	$26.00
OBRA	26.60	29.00
Incoming line		
BRA	21.25	23.40
OBRA	23.95	26.10
Two-party line[2]		
BRA	21.55	23.55
OBRA	23.80	25.80

[1] See Rates and Charges specified herein for applicable Touch-Tone charges.

[2] Service is obsolete. Offering limited to existing installations, subject to continuity of service for the same customer on the same premises.

3. Hunting (Rotary Service)

Business main station lines may be arranged for hunting, level hunting or similar service where, by means of central office equipment, a call to one or more lines in a group will be completed to an idle line in that group when the called line is in use. Circular Hunt permits a complete hunt of incoming calls over all the lines in a Multiline Hunt Group (MLHG) regardless of which line in the group is dialed. [1]

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

[1] Multiline Hunt Group (MLGH) is a group of lines usually associated with one directory number. A call completing to the directory number will hunt over the lines in the group until an idle line is found.

Hunting service is furnished only where necessary facilities are available. Rates for hunting service are not applicable to trunks, Centrex or CENTRON lines, or residence lines.

Preferential List Hunt permits an incoming call to pre-hunt over a subset or preferential list of lines within the same MLHG as the dialed number. If all lines within the preferential list are busy, the hunt continues over the remainder of the lines in the MLHG. Each line within a MLHG may subscribe to a preferential list with a maximum of 18 MLHG lines per preferential list. This service includes Circular Hunt.

	USOC	NONRECURRING CHARGE [2]	MONTHLY RATE
Circular Hunt, per Hunt Group	HCKPG	$11.00	$3.00
Preferential List Hunt, per line in list except the last line [3]	HSHHP	11.00	1.00

[2] The nonrecurring charge for any of the offerings is not reapplied when a customer moves within the same central office, and keeps the same hunting services.

[3] The nonrecurring charge is reapplied for any change in a Preferential List.

In addition to the business individual basic rate, all lines in hunting will pay an additional amount as specified below:

		MONTHLY	NONRECURRING
	USOC	CHARGE	RATE
Per line	HTG	$11.00	$8.95
Rearrange Hunting Service	AAV	11.00	-

Rotary (Line Hunting) Break Arrangement

This arrangement permits the control of the rotary or line hunting feature when it is necessary to limit the number of incoming calls.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The following rates and charges are in addition to applicable rates and charges for the service with which associated.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Relay Circuit	P89	$11.00	$2.55
Control Circuit		[1]	[1]
For altering the break arrangement to change the number of lines available for incoming calls	AAV	11.00	

[1] Use rates and charges as specified herein.

4. Public Response Calling Service

Public Response Calling Service (PRCS) provides facilities for call-in programs, promotional activities, and contests which are publicly advertised and result in mass calling by the general public to a telephone number.

Public Response Calling Service is offered to customers where facilities are available and the conditions listed below exist.

In order to avoid possible interference with the service of other customers, those customers who solicit large volumes of calls resulting in the conditions listed below will be required to subscribe to PRCS, or modify or discontinue the call-in activity.

- Number of calls being directed to an advertised telephone number exceeds 200 in a given hour of time, and

- More than 15 percent receive a busy signal, or

- The number of busy signals exceed 1,000 per week.

PRCS lines may not hunt or call forward-busy to a non-PRCS line.

One or more exchange access lines may be provided for use with PRCS and the central office prefix assigned will be specified by the Company.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The telephone number assigned to PRCS may be listed in the directory and on directory assistance records of the exchange from which the associated PRCS lines are furnished. Additional listings as specified herein may be purchased by the customer.

Customers utilizing MARKET EXPANSION LINE Service for mass call-in activity (as defined below) must have the calls directed to a PRCS line.

Customers outside the central office where PRCS is provided may be served from the PRCS prefix. The calls must be directed to a standard exchange access line.

Business flat rates as specified herein shall apply.

Nonrecurring charges based upon cost may apply where unusual quantities of facilities are needed to meet a customer's service requirements, considered by the Company to be beyond the normal scope of the service.

Rates as specified herein apply to message toll calls placed to the advertised telephone number.

5. Dormitory Communication Service

Dormitory Communication Service (DCS) is available to accredited public and private educational institutions for residential use by students, faculty members, or employees who reside in dormitories or other residential quarters owned, leased, or under control of the educational institution.

DCS is furnished from central office equipment located on Company premises and associated facilities arranged to provide the equivalent of residence individual line rotary-dial or Touch-Tone local exchange service. DCS lines ftimished to an educational institution must be of the same class of residence individual line service, and a mix of different services is not permitted.

The local calling area for DCS is the same as that specified in the Local Exchange Tariff for residence individual line service in the exchange in which the DCS central office equipment is located. DCS local calls, including calls between DCS lines served by the same DCS central office equipment, are subject to the same local exchange service usage charges as applicable to residence individual line service.

DCS is furnished to an educational institution upon the condition that use of the service shall not be made subject to any charge by the educational institution in excess of the charges set forth in the tariffs of the Company.

The educational institution is responsible for payment of all charges except that the Company will bill and collect DCS sent paid or collect long distance messages, telegrams, cablegrams, and radiograms, and will bill and collect local exchange service usage.

The terms and conditions set forth herein for deposits and payment of service are applicable.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The educational institution shall agree to render assistance to the Company in the prompt collection of charges billed to DCS lines.

In the event of nonpayment of any charges billed, the Company may suspend or terminate a DCS line until all charges due have been paid. Service which is so suspended or terminated is subject to the charges specified in herein for restoral or reestablishment of service.

The nonrecurring charges specified above for residence service apply to the service connection, move, and change of DCS.

DCS lines may be temporarily suspended, at the educational institution's request, subject to the terms and conditions specified for the temporary suspension of individual line residence service herein.

The rates and charges specified for DCS lines below do not include directory listings in the alphabetical section of the directory of the Company. Directory listings for DCS are furnished with the consent of the educational institution at the same rates and charges specified for residence additional directory listings herein.

DCS extension station lines will be provided with the consent of the educational institution only within the same dormitory room or suite or other residential quarters as the associated DCS line.

Subject to the availability and type of DCS central office equipment provided, and with the consent of the educational institution, DCS lines may be equipped for Touch-Tone Service at Rates and Charges (applicable only for certain Rate Groups) specified in 5.4.2, and/or Custom Calling Service (5.4.3 of the Exchange and Network Services Catalog) at the same rates and charges as specified for such services for residence individual lines.

The initial contract period for each DCS line is the same as the initial contract period specified for residence individual line service.

	USOC	RATES AND CHARGES
- Dormitory Communication Services lines, each	IDF	[1]

[1] Apply the same rates and charges as specified herein for residence individual line service in the exchange in which the DCS central office is located.

6. Extension Service

Extension Service provides the user with the capability for originating calls from or receiving calls at locations in addition to the location of the main line service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Extension Service is furnished in connection with all classes of individual and party line service.

Extension Service may be installed only at locations where the use will be confined to the customer, employees or representatives engaged in the business, family unit or guests or persons permitted to use the service as provided for under the regulations governing joint user service.

Extension Service may be installed at locations not on the customer's premises only when there is other telephone service at those locations adequate, in the opinion of the Company, to take care of exchange and toll requirements. Such service is installed subject to the transmission limitations of exchange circuits.

If special construction is required in the installation of Extension Service, construction charges shall apply.

Rates for Extension Service are as specified herein.

7. Incoming Lines And Trunks

Customers for individual line business flat rate service, or private branch exchange service, may be provided, respectively, with one or more additional lines or trunks to be used exclusively for inward service from the central office.

Stations for terminating inward lines associated with individual line business service are not placed off the premises where the individual line service is located.

The monthly rate for each inward line is specified herein.

The monthly rate for each inward trunk to a private branch exchange is as specified herein for the serving exchange.

Except in zoned areas or exchanges, extra exchange line mileage charges apply in addition to the monthly rate, if the station or private branch exchange in which the inward line terminates is located outside of the Base Rate Area of the exchange. In zoned areas or exchanges, mileage charges are not applied; rates are determined as specified above.

8. STAND-BY Line Service

STAND-BY Line is an offering on a month-to-month basis which will allow business customers to expand access to their business and expand their capacity to make outgoing calls as needed. This service is designed for customers that experience periodic peaks and valleys in calling volumes to and from their business.

This service will be offered to business customers only.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

STAND-BY Line measures both incoming and outgoing calls on a per minute or use basis. The incoming and outgoing call capability is always active.

Any mandated charges or special surcharges, e.g., 91 1, TDD, EUCL, Telephone Assistance Plan, will apply under the same terms as a measured business line.

Directory Assistance and long distance service will apply under the same terms as a measured business line.

Customers must have at least one flat rated business line at the location for which they are ordering STAND-BY Line service. STAND-BY Line cannot be used as the primary business line.

No listing will be provided with the STAND-B Y Line. Terms, conditions, rates and charges as described elsewhere in this Tariff, apply as appropriate. STAND-BY Line Service will be provided where technically and economically feasible. Customers are not charged to change from STAND-BY Line to an individual business line.

STAND-BY Line Service may be temporarily suspended only when the main service with which it is associated is suspended. STAND-BY Line Service will remain at the full rate.

The Initial Service Period described herein does not apply for STAND-BY Line Service. Nonrecurring charges apply to establish STAND-BY Line Service. In addition, nonrecurring charges, specified herein for USOC GCS, apply to change from an individual business line to STAND-BY Line Service.

a. Nonrecurring Charges

	USOC	NONRECURRING CHARGE
STAND-BY Line Service, per line	ITM	$47.00

b. Monthly Rates

	MONTHLY RATE PER RATE GROUP				
	A	C	E	G	I
Per line	$14.70	$15.90	$17.30	$19.35	$20.25

	MONTHLY RATE PER RATE GROUP[1]	
	B	D
Per line		
BRA	$11.80	$13.00
OBRA	13.30	14.50

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. Incoming and Outgoing Usage

	CHARGE
Per minute of use[2]	$0.05

[1] See Rates and Charges specified herein for applicable Touch-Tone charges.
[2] Applies to connections of one minute or fraction thereof.

g. Four-Wire Service Terminating Arrangement

The Four-Wire Service Terminating Arrangement permits equipment that is designed to use four-wire terminations to be connected to the Company's standard two-wire Foreign Exchange (FX) facilities toll network. While this offering contemplates the use of four-wire facilities between the local serving central office and the premises switching equipment, two-wire facilities may be used.

Transmission performance that meets the established standards of the Company will be obtained over facilities connected to a Four-Wire Service Terminating Arrangement. If a customer requests improvement beyond this, additional equipment will be provided, where facility conditions permit, subject to additional rates and charges based on the costs incurred.

The following rates and charges are for the Four-Wire Service Terminating Arrangement only and are in addition to the applicable rates and charges for the FX trunk with which it is associated.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Four-Wire Service Terminating Arrangement, each			
- When installed coincident with the trunk with which associated	4WF	$55.00	$12.50
- When installed subsequent to the trunk with which associated	4WF	80.00	12.50

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

10. Private Branch Exchange (PBX) Trunks

a. Direct-inward-dialing (DID) Service

DID Service is a special trunking arrangement which permits incoming calls from the exchange network to reach a specific Private Branch Exchange ("PBX") station directly without an attendant's assistance.

DID Service may be provided in addition to regular Foreign Central Office ("FCO") or Foreign Exchange ("FX") trunk rates and charges in the Aberdeen, Rapid City and Sioux Falls exchanges where CO facilities are available and where the customer-provided switching equipment ("PBX") capabilities permit.

The charges applicable to DID Service contemplate the use of standard Company equipment and serving arrangements. When equipment or service of a special type is requested and provided, rates and charges will apply on an individual case basis.

DID Service must be provided on all lines in a trunk group arranged for DID Service. Each trunk group is considered a separate service. One primary directory listing is provided with DID Service. Additional listings of departments, locations, titles and individuals may be provided subject to the terms and conditions, rates and charges specified herein.

The customer is responsible for providing interception of calls to vacant and nonworking assigned DID station numbers by means of an attendant intercept, recorded announcement service or by Company Intercept Services, as provided in 5.8.4.

Sequential numbers may be assigned if blocks of numbers are available and at the discretion of the Company. A DID sequential number block is a group of twenty (20) telephone numbers in numeric order. The last digit of the first number within the block is a zero (0), and the last number within the number block must include an odd number in the sixth digit and a nine (9) in the last digit. Customers requesting that numbers in a sequential number block be removed from the block will be charged a Block Compromise Charge as specified in the Rates and Charges following.

DID Service is only offered with switching vehicles served by trunk service. Answer Supervision is required from the customer's switching vehicle.

The rates and charges specified for DID Service are in addition to the rates and charges for other services or facilities with which this services is associated. The customer may reserve additional DID numbers for future use at the rates and charges stated below.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
DID Service			
In-Only DID Trunk Termination (Rotary Dial Outpulse Signal from CO), each [1,2]	NDT	$50.00	$35.00
In-Only DID Trunk Termination (DTMF Outpulse Signal from CO), each [1,2]	NTP	50.00	35.00
Two-Way Digital DID Trunk Termination with Answer Supervision (Rotary Dial Outpulse Signal from CO), each [1,2,3]	ND2	50.00	35.00

[1] Does not require Touch-Tone Service on the Exchange DID PBX trunk.
[2] In addition, a PBX or DSS trunk is required as specified herein.
[3] Only available with Digital Switched Service (DSS) trunks.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Two-Way, Four-Wire analog DID Trunk Circuit Termination, each [1]	NAY	$ 50.00	$35.00
Each In-Only Analog Trunk Circuit Termination provisioned for DID Call Transfer [2]	NAR	50.00	35.00
DID Telephone Numbers			
Nonsequential telephone number, each	NHN	1.00	0.15
DID block of 20 sequential			

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

telephone numbers, per block	NGS	20.00	3.00
Block Compromise Charge			
Removal of a telephone number from a sequential number group, (other than temporary removal) per sequential number block	REAGF	450.00	-
Temporary removal of a telephone number from a sequential number group, (for temporary transfer of calls only) per sequential number block	REAGG	50.00	-

[1] In addition, a Two-way, Four-wire trunk (USOC THHCX), as specified herein, is required.
[3] In addition, an In-only Analog DID for Call Transfer trunk (USOC TRH1X), as specified herein, is required. Certain switch limitations may apply.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Reserving Telephone Numbers			
Nonsequential number, per number [1]	NHNRN	-	$0.15
Sequential number block, per block [1]	NGQ	-	3.00

Customer requests for (a) specific number(s) will be assessed the Personalized Number rates and charges specified in the U S WEST Custom Number Service section of this Catalog when the request is not due to customer equipment technical limitations. The rates and charges will also not be applicable when the customer requests a sequential number block consecutive to a current sequential number block. Only one (1) custom number charge will be applied per sequential number block.

[1] Rates apply only if the customer does not currently subscribe to DID service. Customers currently subscribing to DID will be charged the NHN or NGS rates and charges as appropriate.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The following nonrecurring charges are applied to rerouting of telephone numbers to another trunk or trunk group or when changing the number of digits outpulsed to the PBX or to change DTMF signaling to DP or vice versa.

	USOC	NONRECURRING CHARGE
Rerouting of telephone numbers, per number	N/A	[1]
Changing number of digits outpulsed, per change	REAGM	50.00
Changing signaling, per change	REAGN	50.00

[1] Same nonrecurring charge as specified for initial installation of DID telephone numbers.

(1) Optional Features

Expanded Answer for 1A/1EESS Central Offices

Expanded Answer enables customers with Call Forwarding - Don't Answer or Call Forwarding - Busy Line/Don't Answer to forward their unanswered calls to a DID station number. This feature includes common equipment and Call Completion Software Positions.

Expanded Answer is furnished only in IA/IE ESS central offices where adequate and suitable facilities are available. Central offices will be equipped with this feature at the discretion of the Company.

The expanded Answer common equipment includes two Call Completion Software Positions ("CCSP"). Additional CCSPs may be required if the volume of calls attempting to complete to the DID station number exceeds the processing limitations of the software.

Both the DID station number and the number equipped with the Call Forwarding - Don't Answer or Call Forwarding - Busy Line/Don't Answer feature must be in the same central office.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Common equipment, including first two CCSPs	FT3CX	$200.00	$ 20.00
Each DID station number equipped	FT5	5.00	0.30
Additional CCSPs			
Third CCSP	FT3A1	-	35.00
Fourth CCSP	FT3A2	-	55.00
Fifth CCSP	FT3A3	-	65.00
Sixth CCSP	FT3A4	-	75.00
Seventh CCSP	FT3A5	-	85.00
Eighth CCSP	FT3A6	-	100.00
Ninth CCSP	FT3A7q	-	110.00
Tenth CCSP	FT3A8	-	120.00
Addition or removal of CCSP subsequent to initial installation of common equipment per order. [1]	PT3CT	50.00	-

[1] Only applies if Expanded Answer remains in service.

(2) DID Trunk Queuing

DID Trunk Queuing is an arrangement whereby incoming calls that are placed to station lines within a DID system can be held in queue if all trunks between the central office switch and the customer's PBX are busy. Calls in queue will be held in their order of arrival until a trunk becomes available. Calls in queue are served on a first-in first-out basis. Calls held in queue will hear ringing until answered.

Delay Announcement allows for incoming calls held in queue to hear a recorded announcement after a predetermined amount of time. The announcement can be accessed a maximum of four times and the customer has the option of providing their own announcement or a standardized Company announcement. Depending upon the customer's choice, ringing, silence or music will be returned after each announcement. Music on Queue allows for customer-provided music to be played to customers held in queue after a recorded announcement has been accessed. This option can only be provided with Delay Announcement.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

DID Trunk Queuing and its associated options will only be provided where adequate and suitable CO facilities exists. The provision of this feature requires that the customer subscribe to a sufficient number of facilities to adequately handle the volume of incoming calls.

The customer must purchase one queue slot for each call the customer wants to hold in queue. For example, a customer wanting to hold two calls in queue when all lines are busy must have two queue slots in the queue group.

The music on queue option requires a Voice Grade Private Line Transport Channel between the serving central office and a customer-provided music source at the customer's premises. The customer must specify the length of time a call is held in queue before going to delay announcement. The customer must also specify the number of announcements (maximum of four) and the amount of time between announcements. Changes to these values may only be made through the issuance of a service order.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Queuing			
Per DID Station number equipped	UQQ	$ 2.50	0.25
- Per queue group	UQQPG	175.00	-
- Per queue slot in group	UQQPQ	-	15.00
- Change in quantity of queue slots in queue group, per group	REAE9	100.00	-
Delay Announcement	N/A	[1]	[1]
Music on Queue	N/A	[2]	[2]

[1] Apply rates and charges as specified in herein for Uniform Call Distribution - Delay Announcement.
[2] Apply rates and charges as specified in herein for Uniform Call Distribution - Music on Queue.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(3) DID Call Transfer

DID Call Transfer allows the user of a specially provisioned, in-only or 2-way trunk with DID to transfer any incoming call to another line or trunk outside of the system and then to leave the connection without disconnecting the call.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
- DID Call Transfer, each 2-way trunk equipped, or specially provisioned in-only analog DID trunk equipped [1]	3CW	[2]	$13.00

[1] Certain switch limitations may apply
[2] Same nonrecurring charge as specified for business Custom Calling Services.

(4) CALL PLANNER

A forwarding feature designed for business customers to enable their employees, who work away from the office, to receive their business calls directly at a remote location. The service is uniquely designed to work with DID Service. The employee may remotely forward their business calls from any location, and may forward the calls based upon time of day and/or day of week.

CALL PLANNER is available to customers who subscribe to PBX trunks which terminate on a DID number. The CALL PLANNER DID number cannot be the main billing telephone number or a directory listed number.

Each customer system will be equipped with a number of PBX trunks equipped with DID based on a standard Poisson Capacity Table. This table provides the number of trunks for the number of lines in a system. These trunks provide a standard level of usage for the customer system. The Company reserves the right to invoke a throttling process that could block calls in order to protect extraordinary traffic loads on the network, in the event that call loads could be hazardous to the network.

The following are restrictions to forwarding destinations for CALL PLANNER:

- No International numbers - only United States NPAs allowed.
- No 700, 800, 900, 950 or 976.
- No N11 or 555-1212.
- No operator assisted calls (0-, 0+, 00-, 00+, 01+, 10XXX+0, 10XXX+00,

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

10XXX+0+, 10XXX+01+).
- No speed dial codes or customized dialing plans. No third-number billed calls.
- A limit of four destination changes per hour.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
CALL PLANNER			
- Per DID number	WH2	$15.00	$7.95

11. Premium Exchange Services

a. Custom Calling Services

Custom Calling Services furnish the following dial service features to the customer, where facilities permit.

Abbreviated Access allows a customer to place a call to a predetermined telephone number by dialing an abbreviated code. Two arrangements are available, namely, Abbreviated Access, one-digit or Abbreviated Access, two-digit.

The customer shares a speed call list with their Abbreviated Access provider and the provider controls the speed call list and informs clients of the digit(s) to dial to reach the predetermined telephone number.

Call Curfew allows the customer the ability to block incoming and outgoing calls. The feature can be turned on and off manually or automatically by pre-set schedules which have been defined by the customer.

When the feature is activated, incoming calls will be blocked and calling party will hear an announcement that the customer is unavailable. For outgoing calls, the customer will hear a fast busy and the call will not be completed. When the feature is not activated, normal call processing will occur.

Call Forwarding - Variable permits the automatic redirection of incoming calls to any alternate telephone number furnished. The alternative telephone number is selected by the customer each time this feature is activated.

Call Forwarding - Busy Line (Expanded) allows a customer to have incoming calls forwarded to another predetermined number in a different central office switch if the called number is busy.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Call Forwarding - Busy Line (External) allows a customer to have incoming calls forwarded to another predetermined number outside the customer's system but within the same central office switch if the called number is busy.

Call Forwarding - Busy Line (Overflow) allows a customer to have incoming calls forwarded to another predetermined number within the same central office switch if the called number is busy.

Call Forwarding - Busy Line (Programmable) allows a customer to have incoming calls forwarded to another number when the called number is busy. The customer can activate and deactivate the forwarding feature by dialing a code as well as establish or change the number to which calls will be forwarded.

Call Forwarding - Don't Answer allows a customer to have an incoming call forwarded to another number within the same central office switch if the customer does not answer after a preset number of ringing cycles.

Call Forwarding - Don't Answer (Expanded) allows a customer to have incoming calls forwarded to another predetermined number in a different central office switch if the customer does not answer after a preset number of ringing cycles.

Call Forwarding - Don't Answer (Programmable) allows a customer to have incoming calls forwarded to another number if the customer does not answer after a preset number of ringing cycles. The customer can activate and deactivate the forwarding feature by dialing a code as well as establish or change the number to which calls will be forwarded.

Call Forwarding - Busy Line/Don't Answer (Expanded) allows a customer to have incoming calls forwarded to another predetermined number in a different central office switch if the called number is busy or if the customer does not answer after a preset number of ringing cycles.

Call Forwarding - Busy Line (External)/Don't Answer allows a customer to have incoming calls forwarded to another predetermined number outside the customer's system but within the same central office switch if the called number is busy or to any number within the same central office switch if the customer does not answer after a preset number of rings (where available).

Call Forwarding - Busy Line (Overflow)/Don't Answer allows a customer to have incoming calls forwarded to another predetermined number within the same central office switch if the called number is busy or if the customer does not answer after a preset number of rings.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Call Rejection enables a customer to reject call attempts from up to 15 numbers of calling parties by dialing a code and the telephone numbers of calls to be rejected. Any call attempts to the customer from these numbers will be prevented from terminating to the customer and will instead be connected to an announcement informing the caller that the call is not presently being accepted by the called party. A customer may also reject future calls from the most recent call received by dialing a code after completing the call.

Call Trace allows a called party to initiate an automatic trace of the last call received. Call Trace is available on a usage basis only. After receiving the call which is to be traced, the customer dials a code and the traced telephone number is automatically sent to the Company for future action. The customer originating the trace will not receive the traced telephone number. The results of the trace will be furnished only to legally constituted law enforcement agencies or authorities upon proper request by them. The Company is not liable for damages if, for any reason, the Call Trace attempt is not successful.

Call Transfer enables a customer to transfer an incoming call to a third party or add a third party to an existing call, forming a three party connection, and then to leave the connection without disconnecting the call.

Call Waiting provides for signaling a customer who is talking on his line that another call has been placed to his line. He may, by switchhook operation, hold the first call, answer the second, return to the first or converse alternately with both.

Where Central Office facilities are available, Call Waiting Deactivation will be provided without additional charge. This feature gives Call Waiting customers the ability to control when Call Waiting functions on their line.

A customer with Call Waiting may also receive name and/or number information on a call that is waiting (USOC: N2W). (The customer must have the appropriate CPE.)

A customer who subscribes to Call Waiting may enhance their service to separately identify local and long distance calls. Different tones will distinguish the two types of calls, whether at the initial ring cycle or in the call waiting mode. There is no additional charge for this Long Distance Alert feature enhancement, nor will the Company charge to add this feature.

A customer who subscribes to Call Waiting may also enhance their service by adding Talking Call Waiting to their line. Talking Call Waiting is an enhancement that provides an audible announcement of the incoming caller's name. The audible announcement consists of the regular Call Waiting tone followed immediately by the calling party's name.

Caller ID with Privacy includes the Caller Identification - Name and Number functionality and, in addition, provides the customer with the ability to screen private and unidentified calls that are placed to their number.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Callers placing a call from a private or blocked telephone number to a CALLER ID WITH PRIVACY+ customer will hear a series of prompts asking them to unblock their line or record their name for delivery to the called party. Callers placing a call from an unidentified number will be asked to record their name for identification purposes and to hold the line.

When the calling party records their name, the service will call the CALLER ID WITH PRIVACY + customer and the Caller ID unit will display "PRIVACY +" which identifies that the call is from the CALLER ID WITH PRIVACY + service. The customer will also hear a distinctive ring unless they subscribe to Custom Ringing. If the customer answers the call from the CALLER ID WITH PRIVACY + service, they will hear the recorded name and may then choose between three options for handling the incoming call. They may accept the original call, they may choose not to accept the original call, or, if they subscribe to Voice Messaging, they can direct the original call to their mailbox.

Caller Identification - Name And Number allows for the automatic delivery of a calling party's name and telephone number (including nonpublished and nonlisted telephone numbers) to the called customer, which gives the called customer an opportunity to decide whether to answer the call immediately or not. The name and number are displayed on customer provided equipment.

The name displayed shall be the name associated with the calling telephone number as shown on the Company's records. The Company, in its discretion, may abbreviate or limit that name for display purposes. The Company does not assure name accuracy, and it shall not be liable to any party for errors, omissions or mistakes. The Company's sole and only obligation shall be to reasonably correct errors in names when notified in writing of such errors.

Caller Identification Customers who do not wish to receive blocked calls can activate Anonymous Call Rejection (USOC: AYK) by pressing *77 (1177 on rotary phones). The code to deactivate is *87 (1187 on rotary phones). While the feature is activated, incoming blocked calls are routed to an announcement in the central office. Anonymous Call Rejection is automatically available to residence subscribers of Caller Identification and to business subscribers where technically feasible.

Caller Identification - Number allows for the automatic delivery of a calling party's telephone number (including nonpublished and nonlisted telephone numbers) to the called customer, which gives the called customer an opportunity to decide whether to answer the call immediately or not. The number is displayed on customer provided equipment.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Caller Identification Customers who do not wish to receive blocked calls can activate Anonymous Call Rejection (USOC: AYK) by pressing *77 (1177 on rotary phones). The code to deactivate is *87 (1187 on rotary phones). While the feature is activated, incoming blocked calls are routed to an announcement in the central office. Anonymous Call Rejection is automatically available to residence subscribers of Caller Identification and to business subscribers where technically feasible.

Continuous Redial allows a customer to dial a code that will cause the feature to automatically redial the last number the customer dialed. If the called number is busy, the feature will redial the called number for a limited period of time. A tone alerts the customer when the called number becomes available. This service is available on a usage or subscription basis.

Customer Changeable Speed Calling permits a customer to place calls to a preselected telephone number by dialing fewer digits than the complete telephone number. The customer may preselect a repertory list of maximum 8 or 30 telephone numbers. The customer may change the information content of his repertory list by dialing a special code followed by the new telephone number to be placed in the list.

Dial Call Waiting allows a customer with a line equipped with the feature to direct a Call Waiting tone or a Distinctive Alert signal to a line equipped with Distinctive Alert. The feature is activated by dialing a preset access code and the telephone number of the line to which the signal is directed.

Dial Lock allows a customer the ability to manager their outbound calls(local, local long distance, and toll) by selectively blocking different types of calls placed from their line. This service will allow blocking to: all non-emergency local calls; long distance calls; international calls; operator assisted; toll free; information services; and directory assistance calls. The customer will select the types of calls they wish to have blocked. Customers may override the blocking at anytime through a personalized assigned PIN code.

Directed Call Pick Up allows a customer to answer a call, during the ringing cycle, that is directed to another line by dialing a preset access code and the telephone number of the line to be answered. Both the originating line and the line to be answered must be equipped with the feature.

Directed Call Pick Up With Barge-In allows a customer to answer a call directed to another line which has been answered or is ringing by dialing a preset access code and the telephone number of the line to be answered. Both the originating line and the line to be answered must be equipped with the feature.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Distinctive Alert allows a customer to receive an audible Call Waiting tone or Distinctive Ringing signal from a line equipped with Dial Call Waiting. If the called line is idle, a Distinctive Ringing signal will be heard. If the called line is busy, the called line receives a Call Waiting tone.

Do Not Disturb allows a customer to prevent the ringing of their telephone. When the feature is activated, callers hear a customer selected greeting indicating that the customer is not available. If the customer has messaging service the caller may stay on the line and leave a message.

Hot Line Service allows a customer to establish a switched connection to a predetermined number when the customer's telephone goes off-hook. No dialing is required and the call is processed automatically to the predetermined telephone number.

Last Call Return allows a customer to dial a code that will cause the feature to automatically redial the number of the last incoming call to that line, whether the call was answered or not. The customer does not have to know the number of the calling party. If the called number is busy, the feature will redial the called number for a limited period of time. A tone alerts the customer when the called line is available. This service is available on a usage or subscription basis.

Last Call Return customers who do not wish to receive blocked calls can activate Anonymous Call Rejection (USOC: AYK) by pressing *77 (1177 on rotary phones). The code to deactivate is *87 (1187 on rotary phones). While the feature is activated, incoming blocked calls are routed to an announcement in the central office. Anonymous Call Rejection is automatically available to residence customers of Last Call Return and to business customers where technically feasible; and to monthly (subscription) customers only.

Priority Call allows a customer to assign a maximum of 15 callers' telephone numbers to a special list. The customer will hear a distinctive ring at his/her location when calls are received from callers' telephone numbers on that list.

No Solicitation allows a customer to deter sales and telemarketing calls received by the customer. This is accomplished via a recorded message which informs the caller that the customer does not accept telephone solicitations, and asks solicitors to hang up and to place the called party on the solicitors "do-not-call" list. No Solicitation automatically screens calls between the hours of 8:00 A.M. until 9:00 P.M. daily (may be disabled by the customer at any time if desired). A caller may press one, or stay on the line to complete the call connection.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Remote Access Forwarding (Call Following) a function which allows all incoming calls to be forwarded to another telephone number. It allows the customer to remotely change the termination of their incoming calls. From any tone signaling telephone, the customer can activate, deactivate, or change the destination number. This service is marketed to residential customers under the name Call Following.

Scheduled Forwarding a function which allows all incoming calls to be forwarded to another telephone number. It allows a customer to remotely change the termination of their incoming calls and base the termination upon a time schedule. From any tone signaling telephone, the customer can activate, deactivate, or change the times, days and destination numbers.

Selective Call Forwarding allows a customer to specify a special list of a maximum of 15 telephone numbers. Incoming calls placed to the customer from telephone numbers on that list will automatically be forwarded to a predefined telephone number. All other calls will be handled normally.

Terminal Make Busy Key this optional feature is used only with Uniform Call Distribution or Preferential List Hunt. Permits a terminal (line) or group of terminals (lines) to appear busy to incoming calls.

Three-Way Calling permits adding a third party to an existing call. This service is available on a usage or subscription basis.

Receptionist Service allows the customer to control the disposition of incoming calls while in an offhook condition via a visual display unit.

Additionally, it allows for the automatic delivery of a calling party's name and/or telephone number (including nonpublished and nonlisted telephone numbers) to the called customer, which gives the called customer an opportunity to decide whether to answer the call immediately or not. The name and number are displayed on customer provided equipment.

The name displayed shall be the name associated with the calling telephone number as shown on the Company's records. The Company, in its discretion, may abbreviate or limit that name for display purposes. The Company does not assure name accuracy, and it shall not be liable to any party for errors, omissions or mistakes. The Company's sole and only obligation shall be to reasonably correct errors in names when notified in writing of such errors.

Customers who do not wish to receive blocked calls can activate Anonymous Call Rejection (USOC: AYK) by pressing *77 (1177 on rotary phones). The code to deactivate is *87 (1187 on rotary phones). While the feature is activated, incoming blocked calls are routed to an announcement in the central office. Anonymous Call Rejection is automatically available to residence subscribers of Caller Identification and to business subscribers where technically feasible.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Custom Calling Services referenced to herein are available only to those customers who are served from a central office equipped to provide Custom Calling Services. If available, Custom Calling Services can be furnished to individual line business and residence customers only.

Due to technical limitations, customers who subscribe to Abbreviated Access, one-digit may not purchase an additional Abbreviated Access, one-digit or Speed Calling-8 number and customers who subscribe to Abbreviated Access, two-digit may not purchase an additional Abbreviated Access, two-digit or Speed Calling-30 number.

Control of the number assignment on the shared speed call list associated with Abbreviated Access resides with the provider. The provider must have an access line in the same central office as their client for the purpose of controlling the speed call list. The access line will be restricted from dialing any toll calls billable to the end user. A line equipped with Hot Line Service can be used for incoming calls, but cannot initiate outgoing calls except to the predetermined number.

Due to technical limitations, customers who subscribe to Call Transfer and Speed Calling 8-number capacity will only have 6-number capacity available for their use.

The predetermined number associated with Hot Line Service cannot be changed except through the issuance of a service order. A line equipped with Hot Line Service is totally dedicated to operate in the manner outlined herein. There is no ability to operate the line in any other manner. For example, calls to 911 or other emergency numbers cannot be placed from a line equipped with Hot Line Service. Hot Line Service will be provided where technically and/or economically feasible and where sufficient demand exists to warrant the provision of the service.

Operator Verification and Interrupt will not function on lines equipped with any of the Call Forwarding features.

Due to technical limitations, the calling number and the called number must be in the same central office switch for the following features: Directed Call Pick Up, Directed Call Pick Up with Barge-In, Distinctive Alert and Dial Call Waiting.

A telephone number must be assigned to lines equipped with Directed Call Pick Up, Directed Call Pick Up with Barge-In, Distinctive Alert and Dial Call Waiting.

Last Call Return, Continuous Redial and Three-Way Calling are available on a subscription or usage basis. The usage basis pricing options will be available where facilities permit. For any month, the total usage billing will not exceed $7.60 for each service, per line. Customers may request the removal of these services at any time, at no charge.

Some of the features may be subscribed to separately or in a combination of several on the same line in a package rate.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

A 60 Day Product Guarantee allows customers who are new subscribers of Remote Access Forwarding and Scheduled Forwarding, who are not completely satisfied with the product, to receive credit for all monies billed for the product. The customer must notify the Company of their dissatisfaction and request disconnection of the product within 60 days of the installation of the product.

Recognizing the potential for misuse associated with Remote Access Forwarding and Scheduled Forwarding, the Company will attempt to verify that requests for these services are being made by the subscriber of record, not unauthorized parties.

The following are restrictions to forwarding destinations for Remote Access Forwarding and Scheduled Forwarding:

- No International numbers - only United States NPAs allowed.
- No 700, 800, 900, 950 or 976.
- No N11 or 555-1212.
- No operator assisted calls (0-, 0+, 00-, 00+, 01 +,10XXX+0, 10XXX+00, 10XXX+0+, 1-XXX+01+).
- No speed dial codes or customized dialing plans.
- No third-number billed calls.
- A limit of four (4) destination changes per hour.

Call Manager Connection is a package of services available to business customers. The services in this package are defined by the Company but the customer does have the choice of including, at no additional charge, Call Waiting or the Call Waiting feature which meets their needs, e.g. Call Waiting ID or Receptionist Service. The package includes:

- Call Rejection
- Call Forwarding-Variable
- Caller Identification-Name and Number
- Continuous Redial
- Priority Call
- Three-Way Calling

Caller Identification - Number and Caller Identification - Name and Number may not be available to all customers due to technical limitations.

The following rates and charges apply in addition to all other rates and charges applicable to the associated individual line service. If more than one Custom Calling feature of those listed below is installed on the same line on the same day, only one nonrecurring charge will apply. If the nonrecurring charges are different, the highest charge applies.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The nonrecurring charge will not apply to discontinue all Custom Calling features, or to change from Caller Identification to CALLER ID WITH PRIVACY+.

BUSINESS	USOC	NONRECURRING CHARGE	MONTHLY RATE
Per individual line equipped with:			
Abbreviated Access, one digit			
- Each shared speed call list	EV5	$11.00	$20.00
- Each line arranged	EV4	11.00	0.50
Abbreviated Access, two-digit			
- Each shared speed call list	EV9	11.00	30.00
- Each line arranged	EV8	11.00	0.50
Call Forwarding			
- Variable	ESM	11.00	5.00
- Busy Line (Expanded)	FBJ	11.00	3.00
- Busy Line (External)	EVB	11.00	3.00
- Busy Line (Overflow)	EVO	11.00	8.95
- Busy Line (Programmable)	ERB	11.00	8.95
- Don't Answer	EVD	11.00	4.00
- Don't Answer (Expanded)	FDJ	11.00	4.00
- Don't Answer (Programmable)	ERD	11.00	4.50
- Busy Line/Don't Answer (Expanded)	FVJ	$11.00	5.50
- Busy Line (External)/ Don't Answer	EVF	11.00	5.50
- Busy Line (Overflow)/ Don't Answer	EVK	11.00	10.45

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

BUSINESS	USOC	NONRECURRING CHARGE	MONTHLY RATE
Call Manager Connection	NLUBQ	11.00	19.95
- with Call Waiting	NLUBR	11.00	19.95
- with US WEST Receptionist	NLUBS	11.00	19.95
- with Call Waiting ID	NLUBT	11.00	19.95
Call Rejection	NSY	11.00	4.50
Call Transfer	E03	11.00	6.00
Call Waiting	ESX	11.00	5.00
CALLER ID WITH PRIVACY +	N6S	11.00	10.95
Caller Identification - Name and Number	NNK	11.00	7.95
Caller Identification - Number	NSD	11.00	7.50
Continuous Redial	NSS	11.00	3.50
Per individual line equipped with:			
Customer Changeable Speed Calling			
- Capacity of 8 preselected numbers	E8C	$11.00	$4.00
- Capacity of 30 preselected numbers	E3D	11.00	9.10
Dial Call Waiting	WDD	11.00	2.15
Dial Lock	OC4	11.00	3.95
Directed Call Pick Up	PUN	11.00	1.00
Directed Call Pick Up with Barge-In	PUQ	11.00	1.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Distinctive Alert	DHA	11.00	1.00
Do Not Disturb	D7T	11.00	3.95
Hot Line Service	HLA	15.00	2.00
Last Call Return	NSQ	11.00	4.00
Priority Call	NSK	11.00	3.50
No Solicitation	SB5	11.00	6.95
Remote Access Forwarding	AFD	11.00	7.95
- Discounted [1]		11.00	6.95
Scheduled Forwarding	ATF	11.00	8.95
- Discounted [1]		11.00	7.95

[1] Discounted rate applies when this feature is added as part of Business CUSTOMCHOICE.

Selective Call Forwarding	NCE	$11.00	$ 3.50
Talking Call Waiting [1]	TW1	11.00	3.95
Three-Way Calling	ESC	11.00	4.00
US WEST Receptionist			
- with Name& Number	EWY2X	11.00	12.95
- with Number only	EWY20	11.00	12.50
- with CALLER ID WITH PRIVACY +	EWY29	11.00	18.45

[1] The rate for Talking Call Waiting is in addition to the rate for Call Waiting.

RESIDENCE	USOC	NONRECURRING CHARGE	MONTHLY RATE
Per individual line equipped with:			
Abbreviated Access, one digit			

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- Each line arranged	EV4	$6.00	$0.50
Abbreviated Access, two-digit			
- Each line arranged	EV8	6.00	0.50
Call Curfew	RCU	6.00	3.95
Call Forwarding			
- Variable	ESM	6.00	3.00
- Busy Line (Expanded)	FBJ	6.00	0.25
- Busy Line (Overflow)	EVO	6.00	0.25
- Busy Line (Programmable)	ERB	6.00	1.85
- Don't Answer	EVD	6.00	0.65
- Don't Answer (Expanded)	FDJ	6.00	0.65
- Don't Answer (Programmable)	ERD	6.00	2.60
- Busy Line/Don't Answer (Expanded)	FVJ	6.00	0.80
- Busy Line (Overflow)/ Don't Answer	EVK	6.00	0.80
Per individual line equipped with:			
Call Rejection	NSY	$6.00	$4.50
Call Transfer	E03	6.00	6.00
Call Waiting	ESX, N2W	6.00	5.00
CALLER ID WITH PRIVACY +	N6S	6.00	9.95
- Discounted [1]	-	-	2.95
Caller Identification-Name and Number	NNK	6.00	6.95

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Caller Identification-Number	NSD	6.00	6.95
Continuous Redial	NSS	6.00	3.50

[1] Discounted rate applies when this feature is added as part of CUSTOMCHOICE.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
RESIDENCE			
Per individual line equipped with:			
Customer Changeable Speed Calling			
- Capacity of 8 preselected numbers	E8C	$ 6.00	$2.00
- Capacity of 30 preselected numbers	E3D	6.00	3.00
Dial Call Waiting	WDD	6.00	2.15
Dial Lock	OC4	6.00	3.95
Directed Call Pick Up	PUN	6.00	1.00
Directed Call Pick Up with Barge-in	PUQ	6.00	1.00
Distinctive Alert	DHA	6.00	1.00
Do Not Disturb	D7T	6.00	3.95
Hot Line Service	HLA	15.00	2.00
Last Call Return	NSQ	6.00	3.95
Priority Call	NSK	6.00	3.50
No Solicitation	SB5	6.00	6.95
Remote Access Forwarding (Call Following)	AFM	$6.00	$ 5.00
Scheduled Forwarding	ATF	6.00	6.00

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Selective Call Forwarding	NCE		6.00	3.50
Talking Call Waiting [1]	TWI	6.00		2.95
Three-Way Calling	ESC	6.00		3.50
Receptionist				
- with Name& Number	EWY2X	6.00		11.95
- with Number only	EWY20	6.00		11.95
- with CALLER ID WITH PRIVACY +	EWY29	6.00		14.95

[1] The rate for Talking Call Waiting is in addition to the rate for Call Waiting.

Custom Calling Services, per occurrence

	CHARGE
Call Trace, per activation	
- Business	$1.55
- Residence	1.55
Usage Basis Continuous Redial, per activation [1]	
- Business	0.95
- Residence	0.95
Usage Basis Last Call Return, per activation [1]	
- Business	0.95
- Residence	0.95
Usage Basis Three-Way Calling, per activation [1]	
- Business	0.95
- Residence	0.95

[1] Monthly rate does not apply to customers using the service on a per activation basis.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Market Expansion Line Service

MARKET EXPANSION LINE (MEL) is a service which allows a customer to obtain a telephone number which, when called, will automatically transfer the call to another telephone number. The number transferred to may be either a local or long distance number. MEL service is available for incoming-calls only. Outgoing calls may not be originated from a MEL.

MARKET EXPANSION LINE is offered subject to the availability of facilities. One directory listing, in the exchange where the MEL central office is located, is provided with this service. Identification of the originating telephone number will not be provided to MARKET EXPANSION LINE customers.

MARKET EXPANSION LINE is provided on the condition that the customer subscribe to sufficient features or facilities to adequately handle calls without interfering or impairing services offered by the Company. If, in the opinion of the Company, additional MARKET EXPANSION LINE features or facilities are needed to avoid interference with or impair-nent of services offered by the Company, the customer will be required to subscribe to such additional features or facilities. In the event the customer refuses to subscribe to adequate MARKET EXPANSION LINE features or facilities, the service shall be subject to termination.

The calling party is responsible for toll charges associated with calls between the originating station and the call forwarding location. The MARKET EXPANSION LINE customer is responsible for the applicable customer dialed station-to-station charges associated with messages between the call forwarding location and the terminating station. On local calls, the MARKET EXPANSION LINE customer is responsible for the payment of applicable local measured usage charges.

On local exchange calls, the following rates apply in addition to the applicable local usage charges specified herein for Measured Business Service, and other applicable tariffed stipulations.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
MARKET EXPANSION LINE			
- Per first access line	RCF	$35.50	$16.00
- Each additional line included on the same service order	RCA	-	16.00
- Each subsequent order for additional lines	RCA	35.50	16.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

When at the request of the customer a number change is requested for the call forwarding location, the number to which calls are forwarded or both, nonrecurring charges apply.

(1) The nonrecurring charge associated with each additional line applies only if the additional line is installed on a subsequent order. There is no additional charge when it is installed on the same order as the first access line.

c. Home Intercom/intra Call Service

Home Intercom Service provides a special calling feature to residence lines while INTRACALL provides the same for business lines. It allows customers to use their standard residence or business telephone line to provide an intercom systembetween their primary telephone and any extension telephone. This is accomplished by the customer dialing an access code, hanging up, letting the telephone ring, and allowing both primary and extension to talk to each other. The ringing supplied to the line is a special ringing circuit which allows the customer to distinguish between a normal incoming call and a Home IntercomlINTRA CALL call.

Home IntercomlINTRACALL is available to single party line residence and business customers. Home IntercomlINTRACALL is provided subject to availability of central office facilities and Company assessment of market demand for the product. Home IntercomlINTRA CALL will not be available to customers who subscribe to Public Access Line Service, Trunks, Foreign Exchange Service, Multiparty Service or lines in a rotary hunt group. The nonrecurring charge applies for adding Home IntercomlINTRACALL on any service order activity. Interaction between Home IntercomlINTR,4CALL and Custom Calling Services depends on the type of central office from which the customer is served.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
- Home IntercomlINTRA CALL Service, per line			
- Business	EIN	$11.00	-
- Residence	EIN	10.00	-

d. Custom Ringing

Custom Ringing is a central office based service which provides up to three distinctive ringing codes on incoming calls, using one individual access line. The distinctive ringing codes are achieved by assigning up to 3 additional telephone numbers to the access line.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Custom Ringing Service is provided with individual exchange access lines and may be unavailable with some services due to technical limitations. Custom Ringing numbers are subject to a minimum service period of one month. Custom Ringing will be billed to the primary exchange access line number. Itemized billing is not available on Custom Ringing numbers.

Intercept service regulations and charges, as specified herein apply to Custom Ringing on a per number basis. When the exchange access line number remains in service, Custom Ringing numbers can be individually intercepted. When the exchange access line number is intercepted, all Custom Ringing numbers must be intercepted. Exception: If another exchange access line is installed at the premises, Custom Ringing numbers can either remain in service or be individually intercepted.

When the customer's exchange access line is equipped with Call Waiting, and the line is busy, incoming calls will generate a distinctive Call Waiting tone at no additional charge. When the customer's exchange access line is equipped with Call Forwarding Variable, the customer can choose to have Call Forwarding-Variable only on the exchange access line number, or to have all Custom Ringing Number Service numbers forwarded with the access line number.

This choice is made, or changed, at the time the customer places an order with the Company. Call Forwarding-Variable rates apply only to the exchange access line number. Distinctive ringing will not be heard at the forwarded location.

The nonrecurring charge applies to install Custom Ringing and to change the ringing pattern associated with the service. Only one nonrecurring charge shall apply per order. When the customer requests additions or changes to the Call Forwarding options, the service and equipment charges specified herein for Custom Calling Individual Line Service shall apply. When the customer requests a change in telephone number, the service and equipment charge as specified herein shall apply. The charge to change a Custom Ringing number to the exchange access line number is the same as the charge to install a new exchange access line as specified herein. This service is subject to the regulations, rates and charges applicable to other exchange services and is in addition to the basic rates and charges for the services with which it is associated.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
First additional number			
Business	RGGI+	$11.00	$7.45
Residence	RGGI+	6.00	5.00
Second additional number			
Business	RGG2+	11.00	5.25

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Residence	RGG2+	6.00	2.50
Third additional number			
Business	RGG3+	11.00	5.25
Residence	RGG3+	6.00	2.50

12. Packed Services

a. Packages Associated with Basic Exchange Service

(1) CUSTOM CHOICE

CUSTOMCHOICE is a package of features available to residential customers in conjunction with an additional or individual flat rate access line. Residence customers subscribing to the package are entitled to unlimited use of the services/features specified below:

- Anonymous Call Rejection
- Call Following (Remote Access Forwarding)
- Call Forwarding
  - Busy Line (expanded)
  - Busy Line (overflow)
  - Busy Line/Don't Answer (expanded)
  - Busy Line (overflow)/Don't Answer
  - Busy Line (programmable)
  - Don't Answer
  - Don't Answer (expanded)
  - Don't Answer (programmable)
  - Variable
- Call Rejection
- Call Waiting
- Call Waiting ID
- Caller ID - Name and Number
- Continuous Redial
- Custom Ringing Service
- Do Not Disturb
- Last Call Return
- Long Distance Alert
- Message Waiting Indication
- Non-listed Service Listing
- Priority Call
- Selective Call Forwarding
- Speed Calling - 8 Number

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- Speed Calling - 30 Number
- Talking Call Waiting
- Three-way Calling
- Receptionist - Name and Number

A customer may select an unlimited number of compatible services or features from the list above. All terms and conditions specified elsewhere for the respective services/features requested as part of this service shall apply.

The monthly rates for CUSTOMCHOICE must be and may only be applied in addition to the rates specified herein for residence additional or individual line flat rate service. Where applicable, incremental charges specified herein apply.

Existing CUSTOMCHOICE customers cannot take advantage of promotions for CUSTOMCHOICE or any of the services/features specified herein unless specifically allowed by the terms and conditions of the promotion.

Where CUSTOMCHOICE is provided in association with the installation of a new residence individual line flat service or the move of a residence individual line flat rate service from one location to another, normal nonrecurring charges associated with the line shall apply.

		MONTHLY RATE PER RATE GROUP				
	USOC	A	C	E	G	I
Per individual flat rate residence line	PGOCC	$17.90	$17.20	$16.40	$15.20	$14.70

MONTHLY RATE PER RATE GROUP	
B	D
$20.95	$20.25

		MONTHLY RATE PER RATE GROUP				
	USOC	A	C	E	G	I
Per additional flat rate residence line	PGOCA	$14.90	$14.20	$13.40	$12.20	$11.70

MONTHLY RATE PER RATE GROUP	
B	D
$17.95	$17.25

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(2) VALUECHOICE

VALUECHOICE is a package of features available to residential customers in conjunction with an additional or individual flat rate access line. Residence customers subscribing to the package are entitled to unlimited use of the services/features specified below:

- Anonymous Call Rejection
- Call Waiting
- Continuous Redial
- Last Call Return
- Three-Way Calling

In addition to the standard features, a customer may select on or more of the following optional features:

- Call Forwarding-Variable
- Do Not Disturb
- Non-listed Service Listing
- Priority Call
- Talking Call Waiting

A customer is automatically provided with all of the standard services or features from the above lists. All terms and conditions specified elsewhere for the respective services/features requested as part of this service shall apply.

The monthly rates for VALUECHOICE must be and may only be applied in addition to the rates specified herein for residence additional or individual line flat rate service. Where applicable, incremental charges specified herein apply.

Existing VALUECHOICE customers cannot take advantage of promotions for VALUECHOICE or any of the services/features specified herein, unless specifically allowed by the terms and conditions of the promotion.

Where VALUECHOICE is provided in association with the installation of a new residence individual line flat service or the move of a residence individual line flat rate service from one location to another, normal nonrecurring charges associated with the line shall apply.

VALUECHOICE will be provided at the following rates. Customers may add additional optional features within the package at no extra charge.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATE PER RATE GROUP				
	USOC	A	C	E	G	I
Per individual or additional flat rate residence line	PGOVC	$11.90	$11.20	$10.40	$9.20	$8.70

MONTHLY RATE PER RATE GROUP	
B	D
$14.95	$14.25

(3) Business CUSTOMCHOICE

Business CUSTOMCHOICE is a package of features available to one, two and three line business customers in conjunction with an additional or individual flat rate access line. Business customers subscribing to the package are entitled to unlimited use of the services/features specified below:

Standard Services/Features:

- Anonymous Call Rejection
- Call Forwarding
  - Busy Line (Expanded)
  - Busy Line (External)
  - Busy Line (Overflow)
  - Busy Line/Don't Answer (Expanded)
  - Busy Line (External)/Don't Answer
  - Busy Line (Overflow)/Don't Answer
  - Busy Line (Programmable)
  - Don't Answer
  - Don't Answer (Expanded)
  - Don't Answer (Programmable)
  - Variable
- Call Transfer
- Call Waiting
- Call Waiting ID
- Caller ID Name and Number
- Continuous Redial
- Custom Ringing
- Do Not Disturb
- Hunting

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- Last Call Return
- Long Distance Alert
- Message Waiting Indication
- Priority Call
- Remote Access Forwarding
- Scheduled Forwarding
- Selective Call Forwarding
- Speed Call - 8 Number
- Speed Call - 30 Number
- Three-Way Calling
- Receptionist - Name & Number

Optional Services/Features:

- Minutes Free Calling Plan
- Area Wide Plan

A business customer may select an unlimited number of compatible services or features from the list above. All terms and conditions specified elsewhere apply for the respective services/features requested as part of this service.

Existing Business CUSTOMCHOICE customers cannot take advantage of promotions for Business CUSTOMCHOICE or any of the services/features specified above unless specifically allowed by the terms and conditions of the promotion.

Business CUSTOMCHOICE is subject to a minimum billing period of one month. The Company may withdraw this offering to customers at any time with appropriate notice.

The monthly rates that follow must be and may only be applied in addition to the specified herein for rates business individual flat rate or additional flat rate line service. Where applicable, incremental charges specified herein apply.

Existing customers will not incur nonrecurring charges when switching to Business CUSTOMCHOICE.

Normal nonrecurring charges associated with the line apply where Business CUSTOMCHOICE is provided in association with the installation of new business individual line flat rate service or, the move of a business individual line flat rate service from one location to another.

Business CUSTOMCHOICE will be provided at the following rates:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATE PER RATE GROUP			
	USOC	A	B	C	D
Per individual or additional flat rate business line	PGOCL	$27.70	$31.35	$25.30	$28.95
		E	G	I	
		$22.50	$18.35	$16.55	

(4) Minutes Free Calling Plan

The plan includes a designated number of minutes of intraLATA toll. For all additional plan calls, the customer will be charged a special rate. The plan is available on an account level basis, where one or more lines are billed to the same account. Where the customer has one account that includes multiple lines, the plan applies to total usage of the combined lines. This plan applies only to intraLATA, dial station-to-station calls.

This plan is not available with any other MTS calling plan.

		PER MINUTE RATE PERIOD	
USOC	MINUTES	INITIAL (30 SEC.)	ADDITIONAL (6 SEC.)
OBK5X	0 - 100	-	-
	101 and over	$0.045	$0.009

(5) Area Wide Plan

Area Wide Plan customers will be charged a special rate for their intrastate/ intraLATA, Dial Station-To-Station long distance calls as described herein. For other than Dial Station-To-Station long distance calls, the charges specified herein apply. The plan is available on an account level basis. When the customer has one account that includes multiple lines, the Plan benefits apply to all lines.

Issued by:
Joyce E. Johnson
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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

All calls made by Plan customers to cities in the Plan region are treated as calls made within the local calling area. Local Operator Assistance service charges herein may apply to in-region calls. The plan also provides a special price for the Dial Station-To-Station calls outside the Area Wide Plan region.

This plan is not available with any other MTS calling plan. The following exchanges are considered in-region. This Plan is only available to customers in these exchanges:

- Belle Fourche
- Deadwood
- Lead
- Spearfish
- Sturgis
- West Belle Fourche, WY
- Hill City
- Rapid City
- West Spearfish, WY
- Whitewood

		PER MINUTE RATE PERIOD	
	USOC	INITIAL (6 SEC.)	ADDITIONAL (6 SEC.)
Outside the Area Wide Plan region	OFFS2	$0.009	$0.009

(6) SmartPak

SmartPak is a package of services/features available to residential customers in conjunction with an individual flat rate access line. Residence customers subscribing to the package are entitled to unlimited use of the services/features specified below.

SmartPak and the optional Area Wide Plan are available only in the following exchanges:

- Belle Fourche
- Deadwood
- Lead
- Spearfish
- Sturgis
- West Belle Fourche, WY
- Hill City
- Rapid City
- West Spearfish, WY
- Whitewood

Standard Services/Features

- Anonymous Call Rejection
- Call Waiting or Call Waiting ID
- Caller Identification - Name and Number
- Three-Way Calling

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Optional Service/Features

- Area Wide Calling

All terms and conditions specified elsewhere for the respective services/features as part of this service shall apply.

The monthly rates, following, must be and may only be applied in addition to the rates specified herein for residence individual line flat rate service. Existing SmartPak customers cannot take advantage of promotions for SmartPak unless specifically allowed by the terms and conditions of the promotion. Where SmartPak is provided in association with the installation of a new residence individual line flat service or the move of a residence individual line flat rate service from one location to another, normal nonrecurring charges associated with the line shall apply.

	USOC	MONTHLY RATE PER RATE GROUP C	E	G
Per individual or additional flat rate residence line	NLUXG	$9.20	$8.40	$7.20

Area Wide Plan is offered to single and multiline customers subscribing to SmartPak. When the customer has one account that includes multiple lines the plan benefits apply to all the lines.

Area Wide Plan customers will be charged a special rate for their intrastate/ intraLATA, Dial Station-To-Station long distance calls as described herein. For other than Dial Station-To-Station long distance calls, the charges specified herein apply. The plan is available on an account level basis. When the customer has one account that includes multiple lines, the Plan benefits apply to all lines.

All calls made by Plan customers to cities in the Plan region are treated as calls made within the local calling area. Local Operator Assistance service charges specified herein may apply to in-region calls. The plan also provides a special price for the dial station-to-station customer calls outside the Area Wide Plan region.

This plan is not available with any other MTS calling plan.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	PER MINUTE RATE PERIOD INITIAL (30 SEC.)	ADDITIONAL (6 SEC.)
Outside the Area Wide Plan region	OFFS1	$0.050	$0.010

(7) SMARTSET Feature Packages*

SMARTSET Feature Packages are optional packages available to business customers. SMARTSET Feature Packages offer the customer a choice of subscribing to either the SMARTSET or SMARTSET PLUS Package as described below.

SMARTSET Packages

- Call Waiting (includes Call Waiting ID)
- Caller ID Name and Number
- Call Forwarding Variable

SMARTSET PLUS Packages

- Call Waiting (includes Call Waiting ID)
- Caller ID Name and Number
- Call Forwarding Busy Line/don't Answer Expanded o Message Waiting Indication - Audible

The rates and charges are in addition to all rates and charges for the associated underlying service. All terms and conditions specified elsewhere for the respective services/features shall apply. Nonrecurring charges do not apply to change an existing Custom Calling Package to either the SMARTSET or SMARTSET PLUS Package.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
SMARTSET Package, each line arranged	NLUY1	$11.00	$11.95
SMARTSET PLUS Package, each line arranged	NLUY2	$11.00	11.95

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(8) Additional Line Feature Packages

Additional Line Feature Packages are optional packages available to residence customers. Additional Feature Packages offer the customer a choice of subscribing to either the Fax Package, Teen/Roommate Package, or Home Office Package as described below.

Fax Package

- Custom Ringing
- Continuous Redial
- Last Call Return

Teen/Roommate Package

- Call Waiting
- Three-Way Calling
- Last Call Return

Home Office Package

- Caller ID
- Call Forwarding Variable
- Three-Way Calling
- Custom Ringing

The rates and charges are in addition to all rates and charges for the associated underlying service. All terms and conditions specified elsewhere for the respective services/features shall apply. Nonrecurring charges do not apply to the packages. Normal nonrecurring charges for the additional line apply as appropriate. Packages are available only on additional lines and only one package will be provided per additional line.

Customers must agree to subscribe to all services in the packages.

	USOC	MONTHLY RATE
Fax Package, each line arranged	FPR2U	$3.95
Teen/Roommate Package, each line arranged	FPR3W	5.95

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Home Office Package, each line arranged	FPR4X	7.95

TELEPHONE ASSISTANCE PROGRAMS

1. Lifeline Assistance

The Lifeline Assistance Plan (Lifeline) assists qualified low-income applicants with reductions in their monthly local exchange service rate. The assistance applies for a single telephone line at the applicant's principal place of residence. Residents living on reservations can also qualify for the Federal portion of the Lifeline program based on terms and conditions for Tribal Lifeline.

To be eligible for assistance, an applicant must participate in one of the following:

-Medicaid (e.g. Title XIX/Medical, state supplemental assistance)
-Food Stamps
-Supplemental Security Income (SSI)
-Federal public housing assistance
-Low-Income Home Energy Assistance Program (LHEAP)

An applicant may request telephone assistance through completion of a form provided by the Company. The Lifeline credit will apply to the following Local Exchange Service:

-Residence One-Party Flat Rate Service
-Residence One-Party Local Measured Service
-Residence Multiparty Flat Rate Service
-Hourly Usage Package Service

The Lifeline Assistance Plan credit will begin with the first billing date after the Company is notified by applicants who qualify for benefits or when new service is established by a qualifying customer.

Nonrecurring charges will not apply to establish this program on existing service.

This credit shall apply only to a customer's principal residence line.

	CREDIT USOC	MONTHLY CREDIT[1]
- Lifeline Assistance Plan Credit	ASGFX	$6.10

[1] The total monthly credit consists of the $4.35 baseline FCC Lifeline support and an additional $1.75 FCC Lifeline support. See Tribal Lifeline for expanded federal lifeline benefits available to residents living on reservations.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

2. Tribal Lifeline

Tribal Lifeline provides additional lifeline support of up to $25.00, in addition to the baseline Federal Lifeline support of $6.10 for qualifying low-income individuals living on reservations as defined by the Bureau of Indian Affairs (BIA) regulations.

Residents living on reservations are eligible for the Tribal Lifeline benefit if they participate in one or more of the following programs:

-Medicaid (e.g. Title XIX/Medical, state supplemental assistance),
-Food Stamps,
-Supplemental Security Income (SSI),
-Federal public housing assistance,
-Low-Income Home Energy Assistance Program (LHEAP),
-Bureau of Indian Affairs general assistance program,
-Tribally administered Temporary Assistance for Needy Families block grant program,
-Head Start programs (only for those meeting its income-qualifying standard),
-National School Lunch Program's free lunch program.

The Company must obtain the customers signature on a document in which the eligible customer certifies, under penalty of perjury, that such customer receives benefits from at least one of the programs above, and lives on a reservation. In addition to identifying the program or programs from which that customer receives benefits, the customer must also agree to notify the Company if that customer ceases to participate in the qualifying program or programs.

Tribal Lifeline benefits apply to the primary flat local residential access line, outside the base rate area and touch-tone service charges , mileage charges, zone charges, or other non-discretionary charges associated with basic residential service. The benefit may not bring the basic local residential access line rate below $1.00 per month.

Monthly Credit[1]

	CREDIT USOC[2]	CREDIT AMOUNT
Flat individual line (I FR)		
Chamberlain	ASGFT	$13.00
Flandreau	ASGFT	13.00
Pierre	ASGFT	13.80
Sturgis	ASGFT	13.00
Morristown/McIntosh		
-Base Rate Area	ASGFT	11.45
-Outside Base Rate Area	ASGFT	14.45

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Timber Lake		
-Base Rate Area	ASGFT	10.75
-Outside Base Rate Area	ASGFT	13.75

[1] The ASGFX credit of $6. 1 0 applies in addition to the Tribal Lifeline credit.

[2] The credit amount is calculated by adding the IFR rate and any applicable outside the base rate area and touch-tone charges plus the $4.35 subscriber line charge together. The ASGFX credit of $6. 1 0 is subtracted from the total and the remaining difference less $1.00 which is the minimum Tribal Lifeline rate allowed, is the credit amount. For example: Tribal Lifeline customer in Timber Lake, outside the base rate area, ($15.00 + $1.50 + $4.35 = $20.85 - $6.10 = $14.75 - $1.00) = $13.75 credit.

3. Link-Up

South Dakota residents who are participating in one of the eligible programs listed below may also qualify for the FCC's Link Up Program. A 50% discount (USOC LNK) up to $30.00 will be applied to access line nonrecurring charges to connect service at a new address. This discount applies only on a single line at the principal place of residence for the applicant.

The consumer shall receive the benefit of the Link Up program for a second or subsequent time only for a principal place of residence with an address different from the residence address at which Link Up assistance was provided previously.

To be eligible for assistance, an applicant must participate in one of the following:

-Medicaid (e.g. Title XDC/Medical, state supplemental assistance)
-Food Stamps
-Supplemental Security Income (SSI)
-Federal public housing assistance
-Low-income Home Energy Assistance Program (LHEAP)

An applicant shall request telephone connection assistance through completion of a form provided by the Company. An applicant may defer payment of the service connection charges. Payments may be deferred up to 12 months with a payment schedule of equal payments of up to $200.00 assessed for commencing service. Interest will not be charged on deferred payments.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Expanded Link-Up Program

Residents living on reservations who qualify for Tribal Lifeline, are eligible for an additional Expanded Link-Up benefit of up to $70.00, in addition to the Link- Up Program. Therefore Link-Up benefits could total up to $100.00. The additional benefit will apply towards 100% of the connection charges between $60.00 and $130.00 which are assessed to begin service at the principle residence of the eligible resident. Eligible charges include any charges customarily assessed to connect the subscriber to the network, including line extension charges, zone connection charges and special construction charges.

Nonrecurring Charge Credit

	CREDIT USOC
Expanded Link-Up	LNKEL

PRIVATE BRANCH EXCHANGE (PBX) TRUNKS

1. Measured Rate Trunks

Measured Rate Trunks are offered at the following rates and charges.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Two-way trunk, each	T12CX	[1]	[1]
Inward trunk, each	T121X	[1]	[1]
Outward trunk, each	T12OX	[1]	[1]
Guest Dialing Access, Hotel/Motel, each	T86	[1,2]	[1,2]
Inward trunk used with DID service, each	TVO	[1]	[1]

[1] Refer to Rates and Charges for Value Pac Service herein.

[2] Rates also apply for Hotel/Motel long distance trunks (T86). Business Measured Service rates apply to hotels and motels.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

2. Flat Rate Trunks

a. Business Trunks

Two-Way, 4-Wire Trunk: Includes E&M signaling, DID Service and hunting. Not available to Joint User Service customers.

In-Only Analog DID Trunk provisioned for DID Call Transfer: Includes DID Service, hunting and reverse battery signaling. Certain switch limitations may apply.

b. Nonrecurring Charges

	USOC	NONRECURRING CHARGE
Two-way trunk, each	TCG	$47.00
Inward trunk, each	TCK	47.00
Inward trunk used with DID Service, each	TDD	47.00
Outward trunk, each	TCM	47.00
Two-way, 4-wire trunk, each	THHCX	47.00
In-only analog DID trunk provisioned for DID Call Transfer, each	TRHIX	47.00

c. Monthly Rates

	MONTHLY RATE PER RATE GROUP				
	A	C	E	G	I
Two-way trunk, each	$36.25	$38.65	$41.45	$45.60	$47.40
Inward trunk, each	33.90	36.05	38.55	42.30	43.95
Inward trunk used with DID Service, each	33.90	36.05	38.55	42.30	43.95
Outward trunk, each	36.25	38.65	41.45	45.60	47.40
Two-way, 4-wire trunk, each	77.65	77.65	77.65	77.65	77.65
In-only analog DID trunk for DID Call Transfer, each	77.65	77.65	77.65	77.65	77.65

	MONTHLY RATE PER RATE GROUP[1]	
	B	D
Two-way trunk, each	$32.60	$35.00
BRA	35.60	38.00
OBRA		

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Inward trunk, each		
BRA	30.25	32.40
OBRA	33.25	35.40
Inward trunk used with DID Service, each		
BRA	30.25	32.40
OBRA	33.25	35.40
Outward trunk, each		
BRA	32.60	35.00
OBRA	35.60	38.00
Two-way, 4-wire trunk, each	74.00	74.00
In-only analog DID trunk for DID Call Transfer, each	74.00	74.00

3. Rate Stabilized Flat PBX Trunk

Rate Stabilized Flat PBX Trunk is an optional plan offered for Flat PBX Trunk customers only. The rate levels are determined by two elements: the total number of PBX trunks at a single customer location and the period of the Rate Stability Plan as agreed to by the customer and the Company.

A customer subscribing to the Rate Stability Plan agrees to a specified rate, based upon the number of trunks at a given location and a specified rate stability period. The customer must subscribe to at least 20 trunks at the primary or secondary location in order to qualify for the Rate Stability Plan.

Terms, conditions, rates and charges as specified elsewhere will apply as appropriate. The minimum stabilized period for this plan is twelve (12) months. The termination provisions set forth herein apply.

The rate Stability Plan will be offered subject to the availability of existing facilities.

The Rate Stability Plan charges will be guaranteed by the Company during the length of the Plan. This Rate Stability Plan provides discount rate stability for the analog transport loop portion of service only.

Termination charges will apply if the customer violates the regulations of the Rate Stability Plan or the Rate Stability Plan is terminated for cause by the Company.

- A customer will be considered to have violated the regulations of the Plan if the customer cancels service during the term of the Rate Stability Plan or reduces the number of trunks at the customer location to a level 20% below that in service at the rate stability initiation.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- The Rate Stability Plan may be terminated for "cause" if the Company provides the customer with 30 days written notice specifying the cause for termination and the customer does not comply with the requirements specified in the notice within the 30 day period. "Cause" constitutes any customer material breach of the ten-ns of the Plan including, but not limited to, failure to pay applicable charges on time.

Termination charges will be applied as specified herein. Termination charges apply regardless of the reason for the Rate Stability Plan violation, including closure or sale of the business.

Additional trunks purchased during the rate stability period can be incorporated into the terms of the existing Plan without renegotiating the Plan. If a lower rate is applicable due to the additional number of trunks, the larger discount will be applied once the trunks are in service, until the conclusion of the Plan.

If a customer's business is moved during the Plan period, the Plan may remain in effect as long as the new location is served by the Company and the minimum number of PBX trunks is maintained. If a customer qualifies for distance sensitive pricing, charges at the new location will reflect the distance associated with that new location.

In the event a customer's business is sold, the Rate Stability Plan may be transferred to the new owner, if the following conditions are met:

- The Company is notified in advance of the sale and a "Change of Responsibility" form is issued.
- The new customer assumes the liabilities and terms of the existing Plan which are in effect at the time of transfer;
- Existing facilities remain in place;
- A "Change of Responsibility" agreement is signed by both parties and notarized; and
- The transfer of responsibility is accepted by the Company.

The nonrecurring charge to establish or transfer service will be the same in amount and application as applies for trunks.

Once the Rate Stability Plan period ends, the customer may negotiate a new Plan or continue service under month-to-month rates in effect at that time.

Rates will be applied on a "stairstep" scale. This means a separate rate will be applied to a customer's first 1-20 trunks; a lower rate will be applied to the same customer's next 21-50 trunks; and a distance sensitive rate will be applied to 51 trunks and over.

Rate Stabilized Flat PBX Trunks, 50 and under, located outside the Base Rate Area will be subject to rates and charges found in the Private Line Transport Services Catalog, in addition to the Rate Stabilized Flat PBX Trunk specified herein.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Month-to-month flat PBX trunk rates are as specified in this section under Rates and Charges.

Each customer will be required to sign a contractual agreement for the furnishing of services on a rate stabilized basis.

Rate stabilized flat PBX trunk, each

	USOC
Incoming	TF41X
Outgoing	TF40X
Two-Way	TF4CX
DID	TKKIX

RATE GROUP A[1]

TWO-WAY AND OUTGOING TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
1 - 20 trunks[2]	$36.25	$36.25	$36.25
21 - 50 trunks[2]	35.00	34.25	33.75
51 trunks and over			
1 Qtr mile from CO	33.42	33.05	32.87
2 Qtr miles from CO	33.79	33.36	33.14
3 Qtr miles from CO	34.14	33.65	33.41
4 Qtr miles from CO	34.59	34.03	33.74
5 Qtr miles from CO	35.01	34.37	34.06
6 Qtr miles from CO	35.42	34.72	34.37
7 Qtr miles from CO	35.94	35.15	34.75

RATE GROUP A[1]

TWO-WAY AND OUTGOING TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
8 Qtr miles from CO	36.35	35.49	35.06
9 Qtr miles from CO	37.07	36.09	35.60
10 Qtr miles from CO	38.74	37.48	36.85
11 Qtr miles from CO	39.38	38.01	37.33
12 Qtr miles from CO	41.71	39.96	39.08
13 Qtr miles from CO	43.44	41.40	40.38
14 Qtr miles from CO	44.11	41.96	40.88

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

15 Qtr miles from CO	45.31	42.96	41.78
16 Qtr miles from CO	47.92	45.13	43.74
17 Qtr miles from CO	48.70	45.79	44.33
18 Qtr miles from CO	49.34	46.32	44.81
19 Qtr miles from CO	49.94	46.81	45.25
20 Qtr miles from CO[3]	53.09	49.44	47.62

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

RATE GROUP A[1]

INCOMING AND DID TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
1 - 20 trunks[2]	$33.90	$33.90	$33.90
21 - 50 trunks[2]	32.65	31.90	31.40
51 trunks and over			
1 Qtr mile from CO	31.07	30.70	30.52
2 Qtr miles from CO	31.44	31.01	30.79
3 Qtr miles from CO	31.79	31.30	31.06
4 Qtr miles from CO	32.24	31.68	31.39
5 Qtr miles from CO	32.66	32.02	31.71
6 Qtr miles from CO	33.07	32.37	32.02
7 Qtr miles from CO	33.59	32.80	32.40
8 Qtr miles from CO	34.00	33.14	32.71
9 Qtr miles from CO	34.72	33.74	33.25
10 Qtr miles from CO	36.39	35.13	34.50
11 Qtr miles from CO	37.03	35.66	34.98
12 Qtr miles from CO	39.36	37.61	36.73
13 Qtr miles from CO	41.09	39.05	38.13
14 Qtr miles from CO	41.76	39.61	38.53
15 Qtr miles from CO	42.96	40.61	39.43
16 Qtr miles from CO	45.57	42.78	41.39
17 Qtr miles from CO	46.35	43.44	41.98
18 Qtr miles from CO	46.99	43.97	42.46
19 Qtr miles from CO	47.59	44.46	42.90
20 Qtr miles from CO[3]	50.74	47.09	45.27

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

TWO-WAY AND OUTGOING TRUNKS	RATE GROUP B[1,2] 12 To 35 MONTHS	36 To 59 MONTHS	60 TO 84 MONTHS
Within Base Rate Area			
1 - 20 trunks[3]	$32.60	$32.60	$32.60
21 - 50trunks[3]	31.35	30.60	30.10
51 trunks and over			
1 Qtr mile from CO	29.77	29.40	29.22
2 Qtr miles from CO	30.14	29.71	29.49
3 Qtr miles from CO	30.49	30.00	29.76
4 Qtr miles from CO	30.94	30.38	30.09
5 Qtr miles from CO	31.36	30.72	30.41
6 Qtr miles from CO	31.77	31.07	30.72
7 Qtr miles from CO	32.29	31.50	31.10
8 Qtr miles from CO	32.70	31.84	31.41
9 Qtr miles from CO	33.42	32.44	31.95
10 Qtr miles from CO	35.09	33.83	33.20
11 Qtr miles from CO	35.73	34.36	33.68
12 Qtr miles from CO	38.06	36.31	35.43
13 Qtr miles from CO	39.79	37.75	36.73
14 Qtr miles from CO	40.46	38.31	37.23
15 Qtr miles from CO	41.66	39.31	38.13
16 Qtr miles from CO	44.27	41.48	40.09
17 Qtr miles from CO	45.05	42.14	40.68
18 Qtr miles from CO	45.69	42.67	41.16
19 Qtr miles from CO	46.29	43.16	41.60
20 Qtr miles from CO[4]	49.44	45.79	43.97
Outside Base Rate Area			
1 - 20 trunks[3]	35.60	35.60	35.60
21 - 50 trunks[3]	34.35	33.60	33.10

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] See Rates and Charges specified herein for applicable Touch-tone charges.
[3] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[4] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

INCOMING AND DID TRUNKS	RATE GROUP B[1,2] 12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Within Base Rate Area				
1 - 20 trunks[3]	$30.25	$30.25	$30.25	
21 - 50 trunks[3]	29.00	28.25	27.75	
51 trunks and over				
1 Qtr mile from CO		27.42	27.05	26.87
2 Qtr miles from CO	27.79	27.36	27.14	
3 Qtr miles from CO	28.14	27.65	27.41	
4 Qtr miles from CO	28.59	28.03	27.74	
5 Qtr miles from CO	29.01	28.37	28.06	
6 Qtr miles from CO	29.42	28.72	28.37	
7 Qtr miles from CO	29.94	29.15	28.75	
8 Qtr miles from CO	30.35	29.49	29.06	
9 Qtr miles from CO	31.07	30.09	29.60	
10 Qtr miles from CO	32.74	31.48	30.85	
11 Qtr miles from CO	33.38	32.01	31.33	
12 Qtr miles from CO	35.71	33.96	33.08	
13 Qtr miles from CO	37.44	35.40	34.48	
14 Qtr miles from CO	38.11	35.96	34.88	
15 Qtr miles from CO	39.31	36.96	35.78	
16 Qtr miles from CO	41.92	39.13	37.74	
17 Qtr miles from CO	42.70	39.79	38.33	
18 Qtr miles from CO	43.34	40.32	38.81	
19 Qtr miles from CO	43.94	40.81	39.25	
20 Qtr miles from CO[4]		47.09	43.44	41.62
Outside Base Rate Area				
1 - 20 trunks[3]	33.25	33.25	33.25	
21 - 50 trunks[3]	32.00	31.25	30.75	

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] See Rates and Charges specified herein for applicable Touch-Tone charges.
[3] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[4] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

	RATE GROUP C[1]		
TWO-WAY AND OUTGOING TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
1 - 20 trunks[2]	$38.65	$38.65	$38.65
21 - 50 trunks[2]	37.40	36.65	36.15

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

51 trunks and over			
1 Qtr mile from CO		35.82	35.45 35.27
2 Qtr miles from CO	36.19	35.76	35.54
3 Qtr miles from CO	36.54	36.05	35.81
4 Qtr miles from CO	36.99	36.43	36.14
5 Qtr miles from CO	37.41	36.77	36.46
6 Qtr miles from CO	37.82	37.12	36.77
7 Qtr miles from CO	38.34	37.55	37.15
8 Qtr miles from CO	38.75	37.89	37.46
9 Qtr miles from CO	39.47	38.49	38.00
10 Qtr miles from CO	41.14	39.88	39.25
11 Qtr miles from CO	41.78	40.41	39.73
12 Qtr miles from CO	44.11	42.36	41.48
13 Qtr miles from CO	45.84	43.80	42.78
14 Qtr miles from CO	46.51	44.36	43.28
15 Qtr miles from CO	47.71	45.36	44.18
16 Qtr miles from CO	50.32	47.53	46.14
17 Qtr miles from CO	51.10	48.19	46.73
18 Qtr miles from CO	51.74	48.72	47.21
19 Qtr miles from CO	52.34	49.21	47.65
20 Qtr miles from CO[3]	55.49	51.84	50.02

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

RATE GROUP C[1]

INCOMING AND DID TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
1 - 20 trunks[2]	$36.05	$36.05	$36.05
21 - 50 trunks[2]	34.80	34.05	33.55
51 trunks and over			
1 Qtr mile from CO		33.22	32.85 32.67
2 Qtr miles from CO	33.59	33.16	32.94
3 Qtr miles from CO	33.94	33.45	33.21
4 Qtr miles from CO	34.39	33.83	33.54
5 Qtr miles from CO	34.81	34.17	33.86
6 Qtr miles from CO	35.22	34.52	34.17
7 Qtr miles from CO	35.74	34.95	34.55
8 Qtr miles from CO	36.15	35.29	34.86
9 Qtr miles from CO	36.87	35.89	35.40

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

10 Qtr miles from CO	38.54	37.28	36.65
11 Qtr miles from CO	39.18	37.81	37.13
12 Qtr miles from CO	41.51	39.76	38.88
13 Qtr miles from CO	43.24	41.20	40.18
14 Qtr miles from CO	43.91	41.76	40.68
15 Qtr miles from CO	45.11	42.76	41.58
16 Qtr miles from CO	47.72	44.93	43.54
17 Qtr miles from CO	48.50	45.59	44.13
18 Qtr miles from CO	49.14	46.12	44.61
19 Qtr miles from CO	49.74	46.61	45.05
20 Qtr miles from CO[3]	52.89	49.24	47.42

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

TWO-WAY AND OUTGOING TRUNKS	RATE GROUP D[1,2] 12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
Within Base Rate Area			
1 - 20 trunks[3]	$35.00	$35.00	$35.00
21 - 50 trunks[3]	33.75	33.00	32.50
51 trunks and over			
1 Qtr mile from CO		32.17	31.80 31.62
2 Qtr miles from CO	32.54	32.11	31.89
3 Qtr miles from CO	32.89	32.40	32.16
4 Qtr miles from CO	33.34	32.78	32.49
5 Qtr miles from CO	33.76	33.12	32.81
6 Qtr miles from CO	34.17	33.47	33.12
7 Qtr miles from CO	34.69	33.90	33.50
8 Qtr miles from CO	35.10	34.24	33.81
9 Qtr miles from CO	35.82	34.84	34.35
10 Qtr miles from CO	37.49	36.23	35.60
11 Qtr miles from CO	38.13	36.76	36.08
12 Qtr miles from CO	40.46	38.71	37.83
13 Qtr miles from CO	42.19	40.15	39.13
14 Qtr miles from CO	42.86	40.71	39.63
15 Qtr miles from CO	44.06	41.71	40.53
16 Qtr miles from CO	46.67	43.88	42.49
17 Qtr miles from CO	47.45	44.54	43.08
18 Qtr miles from CO	48.09	45.07	43.56
19 Qtr miles from CO	48.69	45.56	44.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

20 Qtr miles from CO[4]	51.84	48.19	46.37
Outside Base Rate Area			
1 - 20 trunks[3]	38.00	38.00	38.00
21 - 50 trunks[3]	36.75	36.00	35.50

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] See Rates and Charges specified herein for applicable Touch-Tone charges.
[3] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[4] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

	RATE GROUP D[1,2]			
INCOMING AND DID TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS	
Within Base Rate Area				
1 - 20 trunks[3]	$32.40	$32.40	$32.40	
21 - 50 trunks[3]	31.15	30.40	29.90	
51 trunks and over				
1 Qtr mile from CO		29.57	29.20	29.02
2 Qtr miles from CO	29.94	29.51	29.29	
3 Qtr miles from CO	30.29	29.80	29.56	
4 Qtr miles from CO	30.74	30.18	29.89	
5 Qtr miles from CO	31.16	30.52	30.21	
6 Qtr miles from CO	31.57	30.87	30.52	
7 Qtr miles from CO	32.09	31.30	30.90	
8 Qtr miles from CO	32.50	31.64	31.21	
9 Qtr miles from CO	33.22	32.24	31.75	
10 Qtr miles from CO	34.89	33.63	33.00	
11 Qtr miles from CO	35.53	34.16	33.48	
12 Qtr miles from CO	37.86	36.11	35.23	
13 Qtr miles from CO	39.59	37.55	36.53	
14 Qtr miles from CO	40.26	38.11	37.03	
15 Qtr miles from CO	41.46	39.11	37.93	
16 Qtr miles from CO	44.07	41.28	39.89	
17 Qtr miles from CO	44.85	41.94	40.48	
18 Qtr miles from CO	45.49	42.47	40.96	
19 Qtr miles from CO	46.09	42.96	41.40	
20 Qtr miles from CO[4]	49.24	45.59	43.77	
Outside Base Rate Area				
1 - 20 trunks[3]	35.40	35.40	35.40	
21 - 50 trunks[3]	34.15	33.40	32.90	

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] See Rates and Charges specified herein for applicable Touch-Tone charges.
[3] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[4] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

	RATE GROUP E[1]		
TWO-WAY AND OUTGOING TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 TO 84 MONTHS
1 - 20 trunks[2]	$41.45	$41.45	$41.45
21 - 50 trunks[21	40.20	39.45	38.95
51 trunks and over			
1 Qtr mile from CO	38.62	38.25	38.07
2 Qtr miles from CO	38.99	38.56	38.34
3 Qtr miles from CO	39.34	38.85	38.61
4 Qtr miles from CO	39.79	39.23	38.94
5 Qtr miles from CO	40.21	39.57	39.26
6 Qtr miles from CO	40.62	39.92	39.57
7 Qtr miles from CO	41.14	40.35	39.95
8 Qtr miles from CO	41.55	40.69	40.26
9 Qtr miles from CO	42.27	41.29	40.80
10 Qtr miles from CO	43.94	42.68	42.05
11 Qtr miles from CO	44.58	43.21	42.53
12 Qtr miles from CO	46.91	45.16	44.28
13 Qtr miles from CO	48.64	46.60	45.58
14 Qtr miles from CO	49.31	47.16	46.08
15 Qtr miles from CO	50.51	48.16	46.98
16 Qtr miles from CO	53.12	50.33	48.94
17 Qtr miles from CO	53.90	50.99	49.53
18 Qtr miles from CO	54.54	51.52	50.01
19 Qtr miles from CO	55.14	52.01	50.45
20 Qtr miles from CO[3]	58.29	54.64	52.82

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

	RATE GROUP E[1]		
INCOMING AND DID TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 TO 84 MONTHS
1 - 20 trunks[2]	$38.55	$38.55	$38.55

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

21 - 50 trunks[2]	37.30	36.55	36.05	
51 trunks and over				
1 Qtr mile from CO		35.72	35.35	35.17
2 Qtr miles from CO	36.09	35.66	35.44	
3 Qtr miles from CO	36.44	35.95	35.71	
4 Qtr miles from CO	36.89	36.33	36.04	
5 Qtr miles from CO	37.31	36.67	36.36	
6 Qtr miles from CO	37.72	37.02	36.67	
7 Qtr miles from CO	38.24	37.45	37.05	
8 Qtr miles from CO	38.65	37.79	37.36	
9 Qtr miles from CO	39.37	38.39	37.90	
10 Qtr miles from CO	41.04	39.78	39.15	
11 Qtr miles from CO	41.68	40.31	39.63	
12 Qtr miles from CO	44.01	42.26	41.38	
13 Qtr miles from CO	45.74	43.70	42.68	
14 Qtr miles from CO	46.41	44.26	43.18	
15 Qtr miles from CO	47.61	45.26	44.08	
16 Qtr miles from CO	50.22	47.43	46.04	
17 Qtr miles from CO	51.00	48.09	46.63	
18 Qtr miles from CO	51.64	48.62	47.11	
19 Qtr miles from CO	52.24	49.11	47.55	
20 Qtr miles from CO[3]	55.39	51.74	49.92	

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

	RATE GROUP F[1,2]			
TWO-WAY AND OUTGOING TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS	
Within Base Rate Area				
1 - 20 trunks[3]	$37.80	$37.80	$37.80	
21 - 50 trunks[3]	36.55	35.80	35.30	
51 trunks and over				
1 Qtr mile from CO		34.97	34.60	34.42
2 Qtr miles from CO	35.34	34.91	34.69	
3 Qtr miles from CO	35.69	35.20	34.96	
4 Qtr miles from CO	36.14	35.58	35.29	
5 Qtr miles from CO	36.56	35.92	35.61	
6 Qtr miles from CO	36.97	36.27	35.92	
7 Qtr miles from CO	37.49	36.70	36.30	
8 Qtr miles from CO	37.90	37.04	36.61	

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

9 Qtr miles from CO	38.62	37.64	37.15
10 Qtr miles from CO	40.29	39.03	38.40
11 Qtr miles from CO	40.93	39.56	38.88
12 Qtr miles from CO	43.26	41.51	40.63
13 Qtr miles from CO	44.99	42.95	41.93
14 Qtr miles from CO	45.66	43.51	42.43
15 Qtr miles from CO	46.86	44.51	43.33
16 Qtr miles from CO	49.47	46.68	45.29
17 Qtr miles from CO	50.25	47.34	45.88
18 Qtr miles from CO	50.89	47.87	46.36
19 Qtr miles from CO	51.49	48.36	46.80
20 Qtr miles from CO[4]	54.64	50.99	49.17
Outside Base Rate Area			
1 - 20 trunks[3]	40.80	40.80	40.80
21 - 50 trunks[3]	39.55	38.80	38.30

[1] CAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] See Rates and Charges specified in 5.4.2 for applicable Touch-Tone charges.
[3] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[4] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

	RATE GROUP F[1,2]		
INCOMING AND OUTGOING TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
Within Base Rate Area			
1 - 20 trunks[3]	$34.90	$34.90	$34.90
21 - 50 trunks[3]	33.65	32.90	32.40
51 trunks and over			
1 Qtr mile from CO		32.07	31.70	31.52
2 Qtr miles from CO	32.44	32.01	31.79
3 Qtr miles from CO	32.79	32.30	32.06
4 Qtr miles from CO	33.24	32.68	32.39
5 Qtr miles from CO	33.66	33.02	32.71
6 Qtr miles from CO	34.07	33.37	33.02
7 Qtr miles from CO	34.59	33.80	33.40
8 Qtr miles from CO	35.00	34.14	33.71
9 Qtr miles from CO	35.72	34.74	34.25
10 Qtr miles from CO	37.39	36.13	35.50
11 Qtr miles from CO	38.03	36.66	35.98
12 Qtr miles from CO	40.36	38.61	37.73

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

13 Qtr miles from CO	42.09	40.05	39.03
14 Qtr miles from CO	42.76	40.61	39.53
15 Qtr miles from CO	43.96	41.61	40.43
16 Qtr miles from CO	46.57	43.78	42.39
17 Qtr miles from CO	47.35	44.44	42.98
18 Qtr miles from CO	47.99	44.97	43.46
19 Qtr miles from CO	48.59	45.46	43.90
20 Qtr miles from CO[4]	51.74	48.09	46.27
Outside Base Rate Area			
1 - 20 trunks[3]	37.90	37.90	37.90
21 - 50 trunks[3]	36.65	35.90	35.40

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] See Rates and Charges specified herein for applicable Touch-Tone charges.
[3] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[4] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

RATE GROUP G[1]

TWO-WAY AND OUTGOING TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
1 - 20 trunks[2]	$45.60	$45.60	$45.60
21 - 50 trunks[2]	44.35	43.60	43.10
51 trunks and over			
1 Qtr mile from CO		42.77	42.40 42.22
2 Qtr miles from CO	43.14	42.71	42.49
3 Qtr miles from CO	43.49	43.00	42.76
4 Qtr miles from CO	43.94	43.38	43.09
5 Qtr miles from CO	44.36	43.72	43.41
6 Qtr miles from CO	44.77	44.07	43.72
7 Qtr miles from CO	45.29	44.50	44.10
8 Qtr miles from CO	45.70	44.84	44.41
9 Qtr miles from CO	46.42	45.44	44.95
10 Qtr miles from CO	48.09	46.83	46.20
11 Qtr miles from CO	48.73	47.36	46.68
12 Qtr miles from CO	51.06	49.31	48.43
13 Qtr miles from CO	52.79	50.75	49.73
14 Qtr miles from CO	53.46	51.31	50.23
15 Qtr miles from CO	54.66	52.31	51.13
16 Qtr miles from CO	57.27	54.48	53.09
17 Qtr miles from CO	58.05	55.14	53.68

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

18 Qtr miles from CO	58.69	55.67	54.16
19 Qtr miles from CO	59.29	56.16	54.60
20 Qtr miles from CO[3]	62.44	58.79	56.97

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

INCOMING AND DID TRUNKS	RATE GROUP G[1] 12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS
1 - 20 trunks[2]	$42.30	$42.30	$42.30
21 - 50 trunks[2]	41.05	40.30	39.80
51 trunks and over			
1 Qtr mile from CO		39.47	39.10	38.92
2 Qtr miles from CO	39.84	39.41	39.19
3 Qtr miles from CO	40.19	39.70	39.46
4 Qtr miles from CO	40.64	40.08	39.79
5 Qtr miles from CO	41.06	40.42	40.11
6 Qtr miles from CO	41.47	40.77	40.42
7 Qtr miles from CO	41.99	41.20	40.80
8 Qtr miles from CO	42.40	41.54	41.11
9 Qtr miles from CO	43.12	42.14	41.65
10 Qtr miles from CO	44.79	43.53	42.90
11 Qtr miles from CO	45.43	44.06	43.38
12 Qtr miles from CO	47.76	46.01	45.13
13 Qtr miles from CO	49.49	47.45	46.43
14 Qtr miles from CO	50.16	48.01	46.93
15 Qtr miles from CO	51.36	49.01	47.83
16 Qtr miles from CO	53.97	51.18	49.79
17 Qtr miles from CO	54.75	51.84	50.38
18 Qtr miles from CO	55.39	52.37	50.86
19 Qtr miles from CO	55.99	52.86	51.30
20 Qtr miles from CO[3]	59.14	55.49	53.67

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

RATE GROUP I[1]

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

TWO-WAY AND OUTGOING TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS	
1 - 20 trunks[2]	$47.40	$47.40	$47.40	
21 - 50 trunks[2]	46.15	45.40	44.90	
51 trunks and over				
1 Qtr mile from CO		44.57	44.20	44.02
2 Qtr miles from CO	44.94	44.51	44.29	
3 Qtr miles from CO	45.29	44.80	44.56	
4 Qtr miles from CO	45.74	45.18	44.89	
5 Qtr miles from CO	46.16	45.52	45.21	
6 Qtr miles from CO	46.57	45.87	45.52	
7 Qtr miles from CO	47.09	46.30	45.90	
8 Qtr miles from CO	47.50	46.64	46.21	
9 Qtr miles from CO	48.22	47.24	46.75	
10 Qtr miles from CO	49.89	48.63	48.00	
11 Qtr miles from CO	50.53	49.16	48.48	
12 Qtr miles from CO	52.86	51.11	50.23	
13 Qtr miles from CO	54.59	52.55	51.53	
14 Qtr miles from CO	55.26	53.11	52.03	
15 Qtr miles from CO	56.46	54.11	52.93	
16 Qtr miles from CO	59.07	56.28	54.89	
17 Qtr miles from CO	59.85	56.94	55.48	
18 Qtr miles from CO	60.49	57.47	55.96	
19 Qtr miles from CO	61.09	57.96	56.40	
20 Qtr miles from CO[3]	64.24	60.59	58.77	

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

	RATE GROUP I[1]			
INCOMING AND OID TRUNKS	12 To 35 MONTHS	36 To 59 MONTHS	60 To 84 MONTHS	
1 - 20 trunks[2]	$43.95	$43.95	$43.95	
21 - 50 trunks[2]	42.70	41.95	41.45	
51 trunks and over				
1 Qtr mile from CO		41.12	40.75	40.57
2 Qtr miles from CO	41.49	41.06	40.84	
3 Qtr miles from CO	41.84	41.35	41.11	
4 Qtr miles from CO	42.29	41.73	41.44	
5 Qtr miles from CO	42.71	42.07	41.76	

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

6 Qtr miles from CO	43.12	42.42	42.07
7 Qtr miles from CO	43.64	42.85	42.45
8 Qtr miles from CO	44.05	43.19	42.76
9 Qtr miles from CO	44.77	43.79	43.30
10 Qtr miles from CO	46.44	45.18	44.55
11 Qtr miles from CO	47.08	45.71	45.03
12 Qtr miles from CO	49.41	47.66	46.78
13 Qtr miles from CO	51.14	49.10	48.08
14 Qtr miles from CO	51.81	49.66	48.58
15 Qtr miles from CO	53.01	50.66	49.48
16 Qtr miles from CO	55.62	52.83	51.44
17 Qtr miles from CO	56.40	53.49	52.03
18 Qtr miles from CO	57.04	54.02	52.51
19 Qtr miles from CO	57.64	54.51	52.95
20 Qtr miles from CO[3]	60.79	57.14	55.32

[1] EAS rates apply in addition to the Rate Stabilized Flat PBX Trunk.
[2] Any additional rate increments are not applicable for distance-sensitive Rate Stabilized flat PBX trunk.
[3] All Rate Stabilized trunks beyond this increment will be priced on an individual case basis.

3. Network Access Registers

Network Access Registers (NARS) permit the dialing of exchange and MTS calls to and from a CENTRON/Centrex Plus system. The number of simultaneous calls between the exchange or MTS network and a CENTRON/Centrex Plus system is limited by the number of NARs to which the customer subscribes. These facilities may be provided as two-way, one-way incoming, one-way outgoing or a combination thereof

a. Nonrecurring Charges

	USOC	NONRECURRING CHARGE[1]
In-only, each	EQB	$10.00
Two-way, each	EQA	10.00
Out-only, each	EQC	10.00
Out-only Hotel Guest, each	EQD	10.00

b. Monthly Rates

	MONTHLY RATE PER RATE GROUP				
	A	C	E	G	I

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

In-only NAR, each	$23.65	$25.80	$28.30	$32.05	$33.70
Two-way, out-only and out-only Hotel Guest NARS, each	28.00	30.40	33.20	37.35	39.15

	MONTHLY RATE PER RATE GROUP[1] B	D
In-only NAR, each		
BRA	$20.90	$23.05
OBRA	23.90	26.05
Two-way, out-only and out-only Hotel Guest NARS, each[2]		
BRA	25.25	27.65
OBRA	28.25	30.65

[1] Applies to establish Network Access Registers.
[2] Includes touch-tone rate.

4. Touch-Tone Calling Service

Touch-Tone calling service provides for the origination of calls by means of instruments equipped for tone type address signaling and special office facilities.

Touch-Tone charges specified herein, following, apply only to exchanges in Rate Groups B and D. See above for a list of exchanges by Rate Group.

Touch-Tone calling is available in those single central office exchanges in which the central office has been equipped for Touch-Tone calling.

In those exchanges served by more than one central office located in the same building or in different building, Touch-Tone calling is available only to those customers served by a central office equipped for Touch-Tone calling.

If facilities are available, Touch-Tone calling may be provided those customers served by central offices not equipped for Touch-Tone calling. A change of telephone number is required. Also, additional charges apply if the customer is provided with Touch-Tone calling from a central office other than one which normally serves his location.

If available, Touch-Tone calling can be provided with all classes and grades of service. It is not contemplated, however, that Touch-Tone calling would be offered in connection with dial branch exchange and Centrex Systems on which the following types of services are furnished:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- Dial dictation recording terminals
- Dial Code Call Systems
- Foreign Exchange and Foreign Central Office service from central offices not arranged for Touch-Tone calling
- Dial tie lines connected with dial branch exchange or Centrex Systems not arranged for Touch-Tone calling

When a station or branch exchange system is arranged for touch-tone calling, all lines for which such a station or branch exchange system has out-dialing capabilities must be arranged for touch-tone calling.

Nonrecurring charges apply for converting stations to touch-tone service.

When, at the customer's request, other than as outlined above, a station is changed to touch-tone service subsequent to the initial establishment of touch-tone service, nonrecurring charges apply.

Touch-tone rates and charges, as provided below, apply where the customer has the capability to originate calls by means of instruments equipped for tone-type address signaling and where the special central office facilities exist.

The following rates and charges for touch-tone calling are in addition to the monthly rates and nonrecurring charges applicable for the services and facilities with which it is associated.

A. Individual and Party Line Service

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Per flat rate exchange access line equipped			
Residence, per customer	TTS	$ 1.10	$ 1.50
Business, per customer	TTS	2.15	2.00
PAL Service	TTS	2.15	2.00
Private or Hotel Branch Exchange Service Manual or Dial			
Trunks (except incoming), each	TJB	2.15	2.00

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Dial Private Branch Exchange Service Equipment Systems			
Trunks (except incoming), each	TJB	2.15	2.00
Centrex Systems			
Touch-tone Common Equipment[1]	TTN	9.50	41.50
Main and restricted station lines, each[2]	TDN	-	1.00

[1] A twelve-month minimum service period applies.
[2] A minimum of 25 main and restricted touch-tone lines applies, per system.

Dial Intercommunicating Service			
20-40 Dial Selective Communicating System and Communicator IV package system, each system	TDS	$22.00	$47.25

5. Data Conditioning

Data Conditioning will provide to customers a level of transmission performance for voice and analog data of no more than a 4 decibel (dB) loss (measured at 1004 Hz) between the network interface on the customer's premises and the serving central office. Data Conditioning will also guarantee that the parameters established for attenuation distortion, signal to noise ratio, C-notched noise, impulse noise and peak to average ratio (P/AR) are met.

Transmission Analysis Service provides for an on-site, one-time check of the line facilities for customers who need to determine if the standard transmission line quality meets the needs of their premises equipment.

Data Conditioning is furnished only in central offices where adequate and suitable facilities are available. Central offices will be equipped for Data Conditioning at the discretion of the Company and in accordance with regular engineering practices.

Data Conditioning is not available in connection with WATS and toll trunks (TTT).

Transmission Analysis Service will provide the customer a written report stating measurement results of the analysis.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

This service is subject to the regulations, rates and charges applicable to other exchange services and is in addition to the basic rates and charges for the service with which it is associated.

The Transmission Analysis nonrecurring charge will be deducted from the Data Conditioning nonrecurring charge if ordered within 90 days of receiving the analysis.

A 20% discount will apply on the nonrecurring charge when a customer requests Transmission Analysis Service to be performed or Data Conditioning to be equipped on ten or more lines on an account.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Data Conditioning for voice and data, per line	THPVD	$190.00	$15.00
Transmission Analysis Service, per line	THPAS	70.00	-

This service is subject to the regulations, rates and charges applicable to other exchange services and is in addition to the basic rates and charges for the service with which it is associated.

The Transmission Analysis nonrecurring charge will be deducted from the Data Conditioning nonrecurring charge if ordered within 90 days of receiving the analysis.

A 20% discount will apply on the nonrecurring charge when a customer requests Transmission Analysis Service to be performed or Data Conditioning to be equipped on ten or more lines on an account.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Data Conditioning for voice and data, per line	THPVD	$190.00	$15.00
Transmission Analysis Service, per line	THPAS	70.00	-

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

6. Concession Services

a. Employee Telephone Service

Regular employees of the Company that are served by the Company, except those employed on an occasional basis, may be provided with exchange telephone service at their residences, consistent with and limited to their reasonable requirements, at 50 percent of the regular rate for each item of service and equipment provided.

This discount applies to the main access line, installation facilities, and all associated services.

If the computed rate includes a fractional part of a cent, the rate to be charged is obtained by raising or lowering the computed rate to the nearest cent. If the fractional part is one-half of a cent, the next higher cent is to be applied.

7. Directory Services

a. Directory Listings (General)

The alphabetical telephone directory is an alphabetical list, with telephone numbers and addresses of customers, joint users and others who are entitled to use the customer's telephone service under the rules and regulations governing such use. The basic purpose of the alphabetical directory is to provide a convenient means for obtaining telephone numbers for the completion of calls. To insure that this fundamental purpose is fulfilled, the Company reserves the right to determine the propriety of any listing to be included in the directory.

The directory for each exchange is published at intervals determined by the Company. In some directories, the customers of two or more exchanges may be listed in the same directory, either in separate sections or in one list as determined by the Company.

Listings shall be the names of individuals, businesses, clubs, associations, corporations or partnerships of customers or authorized users of exchange telephone service.

As an aid in identifying business customers, certain business or professional designations are furnished in connection with listings for business service. If, in the judgment of the Company, it is necessary in order to identify properly a listing, descriptive titles or designations also may be furnished in connection with listings of residence service. Business designations are not furnished in connection with listings of residence service.

Normally all listings will be spelled in full and common abbreviations will be used only with customer acceptance. Where more than one line is required to list properly a person or firm, no additional charge is made.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

When a customer desires a listing which contains informative matter in addition to the name, standard designation, address, and telephone number, and the inclusion of this informative material results in additional lines, additional listing rates will apply to each such additional line.

Limitations concerning content of primary listings:

(1) Any form of listing which does not facilitate directory service or otherwise is objectionable or unnecessary for purposes of identification is not permitted.

(2) The listing of a service, commodity or trade name will not be permitted except when the name of the service, commodity or trade name is the name of an integral part of the name under which the listed party is doing business.

(3) Listings that include advertising, such as words describing a product or including the price of a product or service, are not permitted.

(4) Names designed to alphabetize a customer's listing ahead of or near competitors' listings are not permitted.

(5) Listings which are offensive to good taste are not permitted. Listings which are a subterfuge for illegal goods or services are prohibited.

(6) Evidence may be required in the form of cancelled checks, letterheads, invoices, tax receipts, or other documents which, in the opinion of the Company, substantiate that a name is in fact the name under which business is regularly conducted.

(7) The Company may require evidence of consent to the use of any name other than that of the subscriber.

b. Primary Listings

A primary listing is provided as a part of, and is included in the rate for, exchange telephone service. It is furnished in the directory of the serving exchange.

A primary listing normally is the name and address of (1) the person or firm contracting for exchange telephone service, (2) a joint user, (3) a party for whom the exchange telephone service was contracted for by another party, (4) the name under which a firm regularly conducts business or (5) the same surname with no more than two individuals' given names. Each given name, for purposes of this Tariff, is defined as any combination, not to exceed two, of the following:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- First name
- Middle name
- Initial
- Nickname
- Maiden name

An additional listing reversing the order of the individuals' given names may be obtained at the rates for regular additional listings as specified in of the Exchange and Network Services Catalog. The restriction of no more than two given names applies only to listings involving two individuals' names.

The primary listing, provided with a customer's second residence exchange service line, may be the name or names and address of members of a customer's family residing in his household. Such primary listings with more than one name must be indented under another primary listing.

When two or more lines serve a customer in a group arranged for a 'hunting' operation, each group of lines is considered one telephone number and is entitled to only one primary listing.

Except as outlined above, a primary listing is provided with each main station associated with Business, Residence, PAL, Rural and Service Station services, with each Joint User, and for Night Terminal Service. One primary listing per system is provided for Branch Exchange, Centrex and Radio Carrier systems.

If a customer or joint user has both business and residence service, the primary residence listing may be indented under the business listing without repeating the name.

Dual name listings may be provided for two customers subscribing to residence service who may or may not share the same surname but who share the same service and reside at the same address. Dual name listings are defined as listings which contain the names or initials of two persons.

A customer's listing may be omitted from the directory but otherwise posted on the information records and will be given out on request. This is referred to as non-listed service and is furnished subject to rates specified in Rates and Charges following.

A customer's listing may be omitted from the directory but will be posted on the information records without a telephone number. This is referred to as "nonpublished" service, and is furnished subject to rates specified in Rates and Charges following.

The following exceptions are furnished without charges either as Nonlisted or Nonpublished Directory Service:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(1) Other listed telephone service in the same name and in the same exchange or in an exchange in which directory listings are intersorted with those of the exchange in which the published listing applies.

(2) Special Reverse Charge Toll Service.

(3) Foreign Exchange Service where the customer is also furnished Local Exchange Service.

(4) Inward Wide Area Telecommunications Service.

(5) Temporary service (construction sites, election campaigns, special events, radio broadcasts, etc.).

(6) Service involving data terminals where there is no voice use contemplated.

(7) Residence teletype service.

Incoming calls to nonpublished service telephone numbers will be completed by the Company only when the calling party places the call by number. The Company will adhere to this practice notwithstanding any claim of emergency the calling party may present. The acceptance by the Company of the customer's request to furnish nonpublished service does not create any relationship or obligation, direct or indirect, to any person other than the customer.

In the absence of willful misconduct, no liability for damages arising from publishing the telephone number of a nonpublished or nonlisted service customer in the directory, or disclosing a nonpublished service telephone number to any calling party, shall be attached to the Company; and where such a number is published or is disclosed by a Company employee, the Company's liability shall be limited to and satisfied by a refund of any monthly charges which the Company may have made for such service.

Nonpublished and nonlisted telephone numbers including the name and address of the customer may be displayed on a call-by-call basis at Public Service Answering Points (PSAP) that are equipped with Enhanced 911 ("E911") Universal Emergency Number Service.

One free directory listing will be provided for 800 SERVICELINE Option. Additional directory listings will be provided at applicable additional listing rates shown herein.

Nonpublished information may be released to emergency service providers, to customers who subscribe to Company offerings which require the information to provide service and/or bill their clients, or, to telephone customers who are billed for calls placed to or from nonpublished numbers and to entities which collect for the billed services. Nonpublished names and/or telephone numbers may also be delivered to customers on a call-by-call basis.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. Additional Listings

There are six types of additional listings furnished in addition to the primary listings:

(1) regular;
(2) alternate;
(3) foreign;
(4) temporary;
(5) informational; and
(6) cross reference.

A listing arrangement of not more than two individuals with the same or different surname(s), sharing the same service, and residing at the same address, may also be provided as additional listings according to the terms and conditions as specified herein.

When it appears necessary as an aid to the use of the directory, and provided satisfactory service can be furnished, a listing may be permitted with the offpremise address of a branch exchange station, Centrex station or push button telephone station or multiline telephone station equipped with intercommunication between the primary listing address and the off-premises address, and provided further that the off-premise address is occupied by the subscriber or qualified joint user.

Additional listings are available for unrestricted stations of Centrex systems.

Where a customer is served by two or more lines in a group arranged for a "hunting" operation, additional listings may be provided on any of the lines in the group.

Charges for additional listings date from the day the related service order is completed. However, upon customer request, the charges will be made effective with the next directory issue; in which case, the listing will not be made available from directory assistance until that time.

Additional listings may be provided without charge where, in the opinion of the Company, they are essential to the convenient use of the directory.

Business additional listings, if qualified under regulations governing use of the service, may be the name of the customer or joint user; the names of members of the fin-n, names of officers of the corporation, club, association, partnership or business, the names of employees or representatives of the customer or joint user; the names of firms, persons, corporations, associations, or institutions which the customer or joint user owns, controls or represents.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Representation is defined as the relationship in which one acts as an agent for another. It does not include cases where one sells commodities or performs other services, but in so doing acts for oneself and not as the agent for another.

Residence additional listings, if qualified under regulations concerning use of the service, may be the name of the customer, the names of members of the family, and others residing in the household; names of permanent guests or tenants who maintain their residence in a hotel or apartment house, dormitory or club, where the service of such guests or tenants is provided through the branch exchange of the hotel or apartment house, dormitory or club; students and others furnished residence service under the Centrex offering; the names of permanent guests who maintain their residence in a boarding or rooming house where service is provided by means of pay telephone service.

A residence customer who has regular additional business listings, may have the residence indented under such business listings.

"Alternate Listings" refer a directory user to another telephone number during certain periods of time or when a called telephone is not answered.

A "foreign listing" is a listing in a directory of an exchange other than the one in which the primary listing is furnished.

A "temporary listing" is a listing furnished to persons leasing or subleasing the premises of a residence customer during the customer's temporary absence who have arranged to use the customer's service during that time.

A "cross-reference listing" is a listing of the name by which the customer is commonly known to the public and includes a reference to the customer's other listed name. Cross-reference listings may include the customer's telephone number. These listings may be provided without charge where, in the opinion of the Company, they are essential to the convenient use of the directory or where their use will facilitate the handling of telephone calls.

"Informational Listings" contain additional material (non-promotional in nature) that is included with a primary, additional or foreign directory listing and is necessary for the proper routing of calls. The primary or additional listing consists of the name, a designation or title, if appropriate, address (unless omitted) and a telephone number. Any information in addition to this is considered an Informational listing.

d. Termination of Service

Additional directory listing service is furnished only by directory periods established by the Company. Subject to the conditions hereinafter set forth, the charges for such service may be terminated prior to the expiration of an established period.

to the same termination provisions as other additional listings.

E-Mail Address Listings identify the customer's electronic mail (E-Mail) address used to send and receive mail on a computer. An example of a standard E-Mail address is: userid@companyx.com.

Uniform Resource Locator (URL) Address Listing identifies the customer's URL address used to identify resources on the Internet's World Wide Web. An example of a standard URL is: http://www.companyx.com.

E-Mail/URL Address Listing Package provides a discounted monthly rate for E-Mail Address Listing and URL Address Listing on the same account.

The appropriate nonrecurring charge applies to each:

- Change in Primary Listing other than when the customer moves to a new address;

- Additional listing established or changed;

- Nonpublished or Nonlisted Service established or changed;

- Residence service to transfer the service of a customer to an applicant and change the Primary Listing when the customer and applicant are members of the same household and there is no lapse in service;

- Business service, to transfer the service of a customer to an applicant with a change in the Primary Listing when the same business is continued and there is no lapse in service;

- Change from one Nonpublished Service to a Nonlisted Service or a Nonlisted Service listing to a Nonpublished Service.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Except as hereinafter provided, the charge for an additional directory listing which has been posted on the information records, but which has not appeared in the directory, may be terminated at any time upon payment of charges due to time of termination of the listing, subject to a minimum of one month's charges.

Additional directory listings appearing in the current directory may be terminated at other than directory periods only when, due to termination of the main station service, removal of the listed party from the location of the main station service, installation of separate main station service for the listed party, or other causes, it is evident that the listing has no further value. Such termination is subject, however, to payment of a minimum of one month's charges except as hereinafter provided.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The nonrecurring charge will not apply to:

- Change from Nonpublished or Nonlisted to listed service;
- Transfer residence service of a customer to an applicant who is a member of the customer's family when there is no change in the Primary Listing and no lapse in service;
- Transfer business service of a customer to an applicant without a change in the Primary Listing when the same business is continued and there is no lapse in service.

e. Listing Rates

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Regular Additional Listing, each			
Business	CLT	$10.00	$6.00
Residence	RLT	5.00	1.50
Temporary Listing, each			
Business	CLT	10.00	6.00
Residence	RLT	5.00	1.50
Alternate Listing, each			
Business	CLT, FNA NSH	10.00	6.00
Residence	RLT	5.00	1.50
Cross-Reference Listing, each			
Business	CLT	10.00	6.00
Residence	RLT	5.00	1.50
Foreign Listing, each			
Business	FAL,DAL	10.00	6.00
Residence	FAL	5.00	1.50
Informational Listings, each			
Business	XLL	10.00	6.00
Residence	XLL	5.00	1.50
Nonlisted Service, each			
Business	NLT	$10.00	$ 2.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Residence	NLT	8.00	2.00
Nonpublished Service, each			
Business	NPU	15.00	3.00
Residence	NPU	8.00	3.00
Listing Change, each			
Business	1W1	10.00	-
Residence	1W1	5.00	-
E-Mail Address Listing, each [1]			
Residence	EM6	5.00	1.50
URL Address Listing, each [1]			
Residence	NL1	5.00	12.00
Listing Packages			
E-Mail/URL Address Listing, each [1]			
Residence	L9GEU	5.00	10.50

(1) Nonrecurring charge applies to establish or change.

I. Custom Number Services

This service is applicable for telephone number assignment when the customer requests a specific telephone number other than those offered by the Company. If the telephone number requested is available, the Company may assign the number to the customer.

US WEST Custom Number charges are not applicable to the following services:

-800 Service
-DID/Number Blocks

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The Company will offer up to 5 numbers for customers to choose from at no charge. If a customer requests further or more specific number choices, there will be a charge based on the customer's needs as specified hereafter. US WEST Custom Number nonrecurring charges will not apply when the customer requests assignment of the same number within one year of termination.

The Company reserves and retains the right:

(1) To discontinue a charge or reassign telephone numbers in any exchange area whenever it deems it necessary or appropriate in the conduct of its business, or in accordance with the rules and regulations of the Company. If this should occur within a one year period following assignment, the Custom Number nonrecurring charges will be refunded to the customer.

(2) To reject any request for specific numbers for any reason, including, but not limited to, numbers that may, in the Company's opinion, be offensive to good taste, limited by central office capacity or by relocation of a central office.

(3) Of ownership of all telephone numbers and prohibits the reassignment or resale of a telephone number by any customer.

The Company shall in no event be liable to any customer for direct, indirect or consequential damages caused by failure of service, change of number or assignment of a requested number to another customer whether prior to or after establishment of service. In no event shall the Company be liable to any person, firm or corporation for any amount greater than such person, firm or corporation has actually paid to the Company for the Custom Number Services.

Requests for a specific telephone number will be granted providing the requested telephone number is available, e.g., not assigned to a current customer, ready to be assigned and no equipment limitations exist. Requests for a specific telephone number will be honored on a first-come first-served basis.

In the event that a request for a specific number is granted and that number is inadvertently assigned to some other customer, the liability of the Company is limited to a refund of any nonrecurring charges paid for that number by the customer whose request could not be fulfilled. The rules and regulations specified elsewhere herein for assigning of numbers are also applicable.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE RESIDENCE	NONRECURRING CHARGE BUSINESS
Each number requested and provided	RNCSP	$75.00	$250.00

8. Directory Assistance Service

The Company furnishes Directory Assistance Service whereby customers may request assistance in determining telephone numbers within or outside this State.

If a customer abuses or fraudulently uses Directory Assistance Service, the appropriate Directory Assistance charges may be assessed on that customer's telephone account.

A caller may request a maximum of two telephone numbers for each call to Directory Assistance. There are no call allowances for Directory Assistance Service.

Charges do not apply to Directory Assistance calls from requests originating from telephone services the Company has determined are used on a regular basis by a person certified incapable of using a published telephone directory.

A nonrecurring charge does not apply to establish or remove Directory Assistance exemption.

In locations (including Public Access Line telephones) where the customer has the capability to direct dial Directory Assistance but chooses to place the call as a Mechanized Calling Card or Operator-Assisted Station-to-Station call, the appropriate charge applies as specified herein, in addition to the Directory Assistance charge. The following charges apply for calls to Directory Assistance.

	CHARGE
Each call directly dialed by customer	$0.85
Each call placed from Public Access Lines	
- Direct dialed	0.60
- Alternately billed	0.85

8. Operator Services

a. Intercept services

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Intercept services provide new number or explanatory information to callers dialing changed or disconnected numbers. They include messages delivered either mechanically or by operator.

Basic Intercept Service includes all intercept recordings that do not provide the new number information.
New Number Referral Service includes all intercept recordings that provide the new number information.

Split Referral Intercept Service provides for calls to the disconnected number to be routed to the Operator who will challenge the incoming call and provide the new number information dependent on the caller's response.

Intercept services apply to temporary or permanently disconnected numbers, including vacation suspension service and telephone number changes.

Intercept services are offered for periods up to three months for residential customers and up to 12 months for business customers. Extended durations may also be available.

Intercept services are subject to the availability of the disconnected number and the availability of CO facilities.

The Company will be held harmless from any claims which may arise out of the Company's provision of Intercept Services.

New Number Referral Service is available, at no charge, for the primary listed number and up to one additional line number per residential or business customer. A charge will apply for the second additional line and all subsequent additional lines. A charge will also apply, for all intercepted numbers, if the customer extends the intercept service over the 3 and 12 month period.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	CHARGE
Busy Intercept	N/A	-
New Number Referral		
Residence, per primary line, and one additional line 3 months	N/A	-
Business, per primary line, and one additional line 12 months	N/A	-
Second and subsequent additional lines		
Residence, per line - 3 months	AIW3X	$ 15.00
Business, per line - 12 months	AIWTX	20.00
CENTRON/DID, per line/number - 12 months	AISPL	16.00
NPA 800, 900 and 975, per line - 12 months	AIWTX	40.00
Extended Duration		
Residence, per line After 3 months, per month	AIWIX	5.00
Business After 12 months, per month	AIWIX	15.00
CENTRON/DID, per line/number After 12 months, per month	AIWIX	15.00
NPA 800, 900 and 975, per line After 12 months, per month	AIWIX	30.00
Split Number Referral		

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Residence, per line, per month	SIW	15.00
Business, per line, per month	SIW	50.00
CENTRONIDID, per line/number, per month	SIW	50.00
NPA 800, 900 and 975, per line, per month	SIW	100.00

Automatic Intercept Service provides per line intercept and new number referral service for Centrex/CENTRON and PBX-DID customers who have incurred a number change. This service is subject to availability of facilities and will be prov ided for a period of twelve months or until the next directory is published, whichever is longer, at the following charges:

	USOC	NONRECURRING CHARGE
Primary Listed Directory Number	N/A	-
Additional Lines		
Per System	AISPS	$85.00
Per Line	AISPL	16.00

9. Shared Use Service

Shared Use Service is an arrangement which permits the shared use of a customer's service not otherwise allowed under the General Regulations of local service. Such use is available only to individuals, firms, or corporations specifically designated by the customer to share the service. Shared Use customers may be located on the customer's premises or at another location.

Shared Use Service is available only for use with Business Service.

A directory listing for Shared Users may be furnished at rates and charges found elsewhere for additional listings. These listings are furnished to Shared Users under the same condition as to customers.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Application for Shared Use Service, and for changes in service or equipment therewith, must be executed by the customer. The customer is responsible for payment of all charges incurred, regardless of whether such charges are associated with the customer's usage or that of any of the customer's Shared Users.

The Company is not responsible for the confidentiality of service between customers and their users.

Charges for Shared Use Service date from the day the contract is executed and are payable monthly in advance. The minimum contract period for Shared Use Service is one month, except for directory listings and directory advertising which is for a directory period; however, where the directory listing (or listings) associated with Shared Use Service has been posted on the directory assistance records but has not appeared in the directory, the Shared Use Service may be terminated at any time upon payment of charges due at time of termination of the Shared Use Service, subject to a minimum of one month's charges. Otherwise contracts for Shared Use Service may be terminated at the end of the directory period or at any time upon payment of all charges for service for the minimum contractual period. Shared Use Service is terminated and charges for Shared Use Service are automatically discontinued upon termination of the customer's telephone service or when a Shared User subscribes to service for themselves.

Shared Users of a customer's service have the option of obtaining service directly from the Company.

These Shared Use provisions shall apply to services furnished by the Company.

Where available, customers may subscribe to services from the Company that will provide the users with service similar to that provided by the Company.

Monthly rates and nonrecurring charges apply as specified for Measured Business Service.

Apply usage charges from the Usage Schedule as specified for Measured Business Service herein. Usage Charges exceeding twenty dollars ($20.00) per line (or trunk) within a monthly billing period will be discounted thirty percent (30%).

In those exchanges where Measured Service is not available, the rate per local call is $0.06 in lieu of Measured Business usage rates. The access line rate is equal to the Measured Business line rate less the call allowance.

B. MESSAGE TELECOMMUNICATION SERVICE

TWO-POINT MESSAGE TELECOMMUNICATIONS SERVICE

Local Telecommunication Service is that of furnishing telephone communications within local service areas. Local operator assistance is furnished to customers upon request in order to complete local calls.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Message Telecommunication Service (MTS) applies to service furnished by the Company, or furnished jointly by the Company and its Connecting Companies, between points within the State of South Dako

MTS is that of furnishing facilities for telecommunication between station lines in different local servi areas of the same LATA in accordance with the terms and conditions and rates specified herein.

The Company does not undertake to transmit messages but furnishes the use of its facilities to its customers for communications.

Subject to compliance with the above mentioned rules, when a shortage of facilities exists either for temporary or protracted periods, MTS will be established before all other services. However, the duration of MTS calls may be limited when facility shortages are caused by emergency conditions.

The service is furnished subject to the conditions that there will be no abuse or fraudulent use of the service. Abuse or fraudulent use of service includes:

- The use of service or facilities of the Company to transmit a message or to locate a person or otherwise to give or obtain information, without payment of the charge applicable for service;

- The obtaining, or attempting to obtain, or assisting another to obtain or to attempt to obtain MTS, by rearranging, tampering with, or making connection with any facilities of the Company, or by any trick, scheme, false representation, or false credit device, or by or through any other fraudulent means or device whatsoever, with intent to avoid the payment, in whole or in part, of the regular charges for such service;

MTS is available to and from customers of a Radio Carrier with arrangement for interchange of telephone traffic. This service is furnished through interconnecting equipment and local connecting facilities provided by the Company. The rates between the applicable rate center and the rate center of the Radio Carrier are the rates set forth in this Catalog for two-point service. The rate center of the Radio Carrier is the rate center of the Company's serving exchange. An additional charge, which the Radio Carrier bills to and collects from its customer, is applicable to the remainder of the haul as set forth in the Radio Carrier's Tariff on file with the South Dakota Public Utilities Commission.

Charges apply according to the class of call the calling person selects as defined below:

1. Dial Station-to-Station

   Applies when the calling person dials the desired telephone number without the assistance of an operator and the call is billed to the calling number. This includes calls forwarded by call forwarding equipment. Dial Station-to-Station also applies when the operator:

   a. Records the calling telephone number for areas without recording equipment.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Fully-Assisted: Applies when the customer elects to have the operator place the entire person-to-person call for them. This also applies to calls placed from PALS.

5. Dial Station-to-Station class of service applies to operator station-to-station calls placed sent-paid from residence service lines or trunks which are certified by a qualified authority as services of persons who are disabled and unable to dial telephone numbers. This also applies to the business telephone of a certified customer where other assistance is not available. All station-to-station calling card calls charged to the certified line are subject to the charges listed below.

6. Certification is provided upon the customer's written application to the Company for each residence line or trunk to be included. Certification becomes effective with the bill following approval of the application. Requests to change to or from certification are not subject to charge. Customers may verbally identify themselves as being unable to dial a call because of their disability. Only the Dial Station-to-Station charges will apply to these sent-paid calls.

7. The rates for local operator assistance are in addition to the rate for each local message originating from a pay telephone.

8. Operator assistance charges on local calls will be in addition to any local usage charges and any local service charges. These charges will apply to all calls placed from an exchange tariffed for this service even if calls are charged to a calling card or third number of an independent company exchange not tariffed for this service. Local Operator Service service will not be subject to discounts.

9. On Dial Station-to-Station, Payphone-Dial Station-to-Station, Customer Dialed Calling Card (Mechanized) and Operator-Assisted Station-to-Station, the timing of a call begins when the calling and called stations are connected.

10. On Person-to-Person calls, the timing of a call begins when the calling party is connected to a specified person, station or an agreed upon alternate.

11. Chargeable time ends when the connection is terminated at any point.

The following charges apply to local calls, in addition to any applicable local message charge.

Customer-Dialed Calling Card (Mechanized)	$0.55

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Operator-Assisted Station-to-Station	
- Partially-Assisted [1]	2.10
- Fully-Assisted	3.10
Operator-Assisted Person-to-Person	
- Partially-Assisted	4.50
- Fully-Assisted	5.50

[1] Applies to Operator-Assisted Station-to-Station calls to Directory Assistance.

OPERATOR VERIFICATION/INTERRUPT SERVICE

1. Operator Verification/Interrupt Service is furnished to customers upon request to provide line status or busy interrupt for a requested line or trunk.

2. The provision of line status involves an operator determining the condition of a line or trunk that a customer requests to be checked. The status of this line or trunk is verified to the customer for a rate as listed below.

3. The provision of Busy Interrupt involves an operator interrupting a line or trunk that a customer requests to be checked. Information concerning the busy interrupt to this line or trunk is passed to the customer for a rate as listed below.

4. This service is provided where facilities exist for line status or busy interrupt through a Company operator.

5. No request will be processed on a reversal of charges basis, i.e., collect call.

6. No charge will apply if the line situation indicates a trouble condition. No charge applies when the request is identified as an emergency request by the customer and originates from or to an authorized emergency agency, as filed with the Public Utilities Commission.

7. When exchange telephone service used for MTS is directly connected (i.e., not connected through a Multiline Terminating System) at a customer's premises to a communications system, chargeable time for all classes of calls begins when a call from the telecommunications network terminates in or passes through the first multiline terminating system or terminal equipment on that communications system. It is the customer's responsibility to furnish the appropriate answer supervision to the point of connection with the exchange telephone service so that chargeable time may begin.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

8. MTS service rates are quoted in terms of initial and additional minutes. The initial minute is the first minute or any fraction after connection is made. The additional minutes are measured by 1/10 of a minute (6 second) increments. Any fraction is rounded up to the nearest tenth. Independent Exchange Carriers are not obligated to provide 6 second timing to their end-users.

9. The timing of a call does not include time lost because of service faults or defects that are reported to the Company.

10. On all classes of service, the rate charged is determined by the day and the time standard or daylight saving - at the rate center of the calling station.

11. Charges for all MTS calls are billed to the calling party, except:

    a. Charges for person-to-person and operator station-to-station calls may be billed to the called party if the telephone number is not restricted from receiving collect calls and the called party agrees to accept the charges. When the called station does not accept the charges and the calling party requests that the call be tried again later, on a collect basis, the classification of the call is changed to Person-toPerson.

    b. Charges may be billed against the called party under the Special Reversed Charge Service arrangements as covered herein.

    c. Charges may be billed to an authorized Company calling card or special billing number.

    d. Charges may be billed to a third telephone number unless restricted from accepting this call type.

12. The charge for MTS is determined by the following:

    a. Time of day and day of week
    b. Duration of call
    c. Class of call

13. The MTS rate for Dial Station-to-Station calls is the sum of the first minute charge plus the additional minute(s) which are billed in tenth of a minute increments. For other than Dial Station-to-Station calls, the charges specified herein apply to long distance calls in addition to the applicable MTS rates. Local operator service charges are specified herein.

The schedule is as follows:

A. RESIDENCE - Applies to customer-dialed station-to-station calls

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

DAY RATE PERIOD		EVE/NIGHT/WEEKEND RATE PERIOD	
INITIAL (60 SEC)	ADD'L (6 SEC)	INITIAL (60 SEC)	ADD'L (6 SEC)
$0.29	$0.029	$0.19	$0.019

b. BUSINESS - Applies to customer-dialed station-to-station calls

DAY RATE PERIOD		EVE/NIGHT/WEEKEND RATE PERIOD	
INITIAL (60 SEC)	ADD'L (6 SEC)	INITIAL (60 SEC)	ADD'L (6 SEC)
$0.27	$0.027	$0.27	$0.027

c. MISCELLANEOUS - Applies to operator-assisted calls (including mechanized calling card) and all alternately billed calls. This charge also applies where billing capabilities do not exist to separately identify residence and business customer-dialed station-to-station calls.

DAY RATE PERIOD		EVE/NIGHT/WEEKEND RATE PERIOD	
INITIAL (60 SEC)	ADD'L (6 SEC)	INITIAL (60 SEC)	ADD'L (6 SEC)
$0.29	$0.029	$0.27	$0.027

In cases where a message begins in one rate period and ends in another, the initial period rate is the rate in effect at the time the connection is established. The rate for each additional period is the rate in effect at the beginning of each additional period.

The total amount of the call will be rounded to the nearest cent if the computed rate of the call results in a fractional charge.

The Evening rate applies to the holidays listed below unless a lower rate applies:

- New Year's Day (January 1)
- Independence Day (July 4)
- Labor Day
- Thanksgiving Day
- Christmas Day (December 25)

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The charges for a call paid for by coin deposit in a pay telephone, utilizing a Smart PAL, is the sum of the appropriate rate rounded to the nearest multiple of $0.05.

Applies to all Company carried non coin calls (billed to a third number, calling card, or collect) placed from pay telephones. This charge is in addition to all other applicable charges.

The following charges apply in addition to MTS rates.

	CHARGE
Payphone-Dial Station-to-Station[2]	$1.30
Customer-Dialed Calling Card (Mechanized)	1.05
Operator-Assisted Station-to-Station	
- Partially-Assisted	2.25
- Fully-Assisted	3.40
Operator-Assisted Person-to-Person	
- Partially-Assisted	4.90
- Fully-Assisted	6.05
Pay Telephone Charge	0.26

[1] Applies to MTS cash calls from pay telephones utilizing Smart PAL.

The charges listed below are in addition to the rates and charges associated with local or MTS. These charges will apply to all calls placed from an exchange tariffed for this service even if calls are charged to a calling card or third number of an independent company exchange not tariffed for this service.

	CHARGE
Line status	$ 1.25
Busy Interrupt	2.00

1-800 CALLING SERVICE

1. 1-800 Calling Service provides the customer access to an interactive voice response platform via a 1-800 number. The customer will be able to select one or more features. Two pricing options are available.

2. This Service can be used to select one or more of the following features and one billing option.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

a. Alternately Billed IntraLATA Calling

Billing Option 1 allows the customer to use the 1-800 number to place alternately billed intraLATA calls at a special rate that is not sensitive to distance, time of day or day of week. Operator service charges specified below apply.

Billing Option 2 allows the customer to use the 1-800 number to place alternately billed intraLATA calls at special rates that are not sensitive to distance, time of day, or day of week. Billing Option 2 differs from Billing Option I in that the customer elects a higher per minute rate, in lieu of paying an operator service charge for non-operator assisted calls.

b. Speed Dial

This option allows the customer to use the 1-800 number to make mechanized calling card calls to up to eight frequently called numbers by entering the appropriate speed dial number.

c. Directory Assistance

This option allows the customer to use the 1-800 number to place mechanized calling card calls to access directory assistance for obtaining telephone numbers in the same LATA from which the calling party is calling.

3. Operator Service Charges

Charges for the following services may apply in addition to the 1-800 number MTS, local or optional feature charge, as specified below. These charges apply according to the type of call the customer places and the pricing option they choose.

4. Mechanized Station-to-Station

Applies when the customer chooses Option I and dials the 1-800 number to place an entirely mechanized calling card call which requires no operator assistance. This also applies to calls placed from pay telephones.

5. Operator Assisted

a. Partially-Assisted Station-to-Station

Applies when the customer dials the 1-800 number, the terminating number and calls are completed with the assistance of an operator. Examples of these calls include collect, billed to another telephone number, and operator-assisted calling card. This also applies to calls placed from pay telephones.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Fully-Assisted Station-to-Station

Applies when the customer dials the 1-800 number and elects to have the operator place the entire call for them. This also applies to calls placed from pay telephones.

c. Operator-Assisted Person-to-Person

Applies when the customer dials the 1-800 number and names the particular party to be reached by an operator. This also applies to calls placed from pay telephones. The party may be a person, station, department or office reached through a PBX attendant.

Person-to-Person also applies when the calling party cannot speak to the intended person or station but agrees to speak to someone else or requests an operator to make arrangements with a person to receive a call at a specified time.

6. The 1-800 number MTS rates are for a connection of one minute or any fraction thereof The initial period of the call is billed at the full minute rate and each additional period is billed in 6 second increments.

7. Customers may use the 1-800 number for local calls at the flat rate specified in C. If operator assistance is required, the partially-assisted, fully-assisted or person-toperson service charge applies, in addition to the local message charge.

8. Directory Assistance charges specified herein do not apply to customers obtaining Directory Assistance through 1-800- Calling Service.

9. The class of calls noted above do not apply to calls placed using 1-800- Calling Service in this section.

10. A Pay Telephone Charge, which applies to all calls placed from pay telephones, is charged in addition to all other applicable 1-800 Calling Service charges.

MTS Charge

	RATE PERIOD INITIAL (60 SEC.)	ADD'L. (30 SEC.)
Option 1, per call [1]	$0.20	$0.10
Option 2, per call		
- Mechanized Station-to-Station call - Business	0.25	0.125

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- Residence	0.30	0.150
- Operator Assisted call	[2]	[2]

Local Message Charge [3]

	CHARGE
Per call	$0.50
Optional Features	
Directory Assistance, per call[4]	$0.95
Speed Dial	[5]

[1] The mechanized service charge also applies. If operator assistance is required, appropriate operator service charges apply in lieu of the mechanized service charge.

[2] Option I charges apply.

[3] If operator assistance is required, the appropriate operator service charge applies, in addition to the local message charge.

[4] The mechanized service charge also applies.

[5] The applicable MTS or local 1-800- Calling Service charges apply.

Operator Service Charges

	CHARGE
Mechanized Station-to-Station	
- Option 1	0.80
- Option 2	-
Operator Assisted	
- Partially-Assisted Station-to-Station	1.25
- Fully-Assisted Station-to-Station	2.25
- Operator-Assisted Person-to-Person	3.00
Pay Telephone Charge	
- Per completed call[1]	0.26

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(T) This charge is in addition to all other applicable charges listed for 1-800 Calling Service.

SPECIAL REVERSED CHARGE SERVICE

1. Special Reversed Charge Service provides an arrangement whereby a customer's patrons are given the ability to call the customer from points where a long distance charge applies, without paying a long distance charge and without requesting that the charge be reversed.

2. Each arrangement provides one listing with a special number which is inserted in a "foreign exchange directory." Callers in that "foreign" exchange may originate long distance messages on an automatically - collect basis at sent-paid rates to the customer for such listing. The operator at the "foreign" exchange, where the Special Reverse Charge Listing appears, bills each call "collect" without further verification to the account of the customer at the terminating exchange.

3. This service is not available to customers served only by stations equipped with pay telephones.

4. The exchanges in which such service is furnished are selected by the customer subject to the approval of the Company and when necessary for the proper operation of the service, the Company assigns and lists in the directory a special call number designation for the use of patrons in each such exchange.

5. Special Reversed Charge Service is available only from stations of the exchanges selected and when a special number designation is used, only those calls placed by calling this special number are considered as coming within the scope of the service.

6. The customer assumes the charges for all long distance calls placed under this plan.

7. The initial contract period for this service is one month.

In addition to the rates and charges specified below, MTS rates and Operator Handled Station rates apply in connection with Special Reversed Charge Service on a per call basis. Nonrecurring charges apply to establish service.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Each arrangement	ENT	$20.00	$3.00

OPTIONAL MESSAGE TELECOMMUNICATIONS SERVICE OFFERINGS

1. Guaranteed Rate Calling Connection

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Guaranteed Rate Calling Connection provides customers the opportunity to contract for intrastate/intraLATA calls at a special charge. The customer guarantees a monthly usage level for a specified time period and is guaranteed a charge per minute associated with that level. The customer will pay for at least the guaranteed minimum usage, plus additional usage above the guaranteed minimum usage level.

	USOC
Guaranteed Rate Calling Connection	OLHIX

Individually priced contracts are available.

2. Calling Connection Plans

Message Telecommunication Service (MTS) Calling Plans (hereafter referred to as the Plans) are optional toll calling discount plans. These Plans are not available with the following:

- Directory Assistance Service
- Information Delivery Service sponsor charges
- Other Company Discount Calling Plans
- Toll Only Accounts
- Operator Verification/Interrupt Service
- Hearing or Speech Impairment Discount

When the customer initially subscribes to or disconnects this service, if a partial month is billed, the customer's minutes and/or monthly rate will be prorated.

These Plans are available on an account level basis, where one or more lines are billed to the same account.

Where the customer has one account which includes multiple lines, these Plans apply to total usage of combined lines.

These Plans apply to all intraLATA Direct Distance Dialed, Calling Card, Operator Handled and payphone originated calls (where the call is billed to the customer's telephone number) unless otherwise specified.

These Plans are available (where billing capabilities exist) to business and residence accounts with the restrictions and limitations set forth in other provisions herein.

The rates and charges for this service are in addition to the rates and charges for the local exchange service with which it is associated.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The minimum service period is one month. Nonrecurring charges do not apply. Unless otherwise specified herein, all Operator Handled charges apply. Calls that qualify for these Plans will be timed using a 30 second initial period and 6 second additional period(s).

These Plans do not apply to intraLATA calls placed in another state and billed back to the account.

These Plans may be suspended only when the main service with which it is associated is suspended. No charge applies to suspension of the Plan. The customer may elect to retain these Plans at the full charge while their local exchange service is on full suspension.

These Plans are available only in territories where the Company is the toll provider and billing capabilities exist.

a. Business Daytime Connection Plus

Customers subscribing to this plan will be charged a monthly rate for which they receive a designated number of minutes of intraLATA toll. For all additional calls, the customer will be charged a special rate specified in C., following. The monthly rate will always apply. In addition, customers will receive a discount on the customer-dialed calling card (mechanized) charge specified below.

b. Volume Calling Connection

Volume Calling Connection is available only to business customers. Customers subscribing to this plan are charged a special rate that is not distance sensitive as specified in C., following. In addition, customers receive a discount based on the monthly MTS Plan usage billed to their account. The discount applies to the customer's total amount of intraLATA toll billed each month, per account. Customers receive call detail with this plan. Customers also receive a discount on the customer-dialed calling card (mechanized) charge as specified below.

A multi-location option is available to customers with additional locations within the state. Each different account(s) must have a legal or formal affiliation such as a partnership or subsidiary relationship with the main account. A customer may have a maximum number of 25 account(s) and the account(s) must be authorized by the main account. The main account and location account(s) must be located in the same telephone company territory.

The main account and location account(s) will receive an additional discount specified below. In addition, customers will receive a discount on the customer-dialed calling card (mechanized) charge specified below. The monthly rate specified below, is applied to the main account only.

c. City Connection

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Customers subscribing to this plan are charged a monthly rate for which they may select a city most frequently called, as represented by a Company exchange, and for calls placed to that city, they receive a discount as specified below, over the established MTS rates in effect. All additional calls receive a separate discount as specified below. These discounts do not apply to operator-assisted charges.

d. Simple Value Calling Plan

The Simple Value Calling Plan is available to residence and business customers. Customers subscribing to this Plan will be charged special rates based on the time-of-day and day-of-week as specified below. This Plan applies only to intraLATA, dial station-to-station long distance calls.

e. Super Savings Calling Plan

Super Savings Calling Plan customers will be charged a special rate, specified below, for their intrastate/intraLATA dial station-to-station long distance calls, as described herein. The Plan is available to business and residential service customers. Customers must have single or multiple, business or residential lines at single customer premises, billed on one retail bill to one billing telephone number.

3. The following rates apply to residence and business accounts.

a. Business Daytime Connection Plus

Customers subscribing to this plan will receive a 30% discount on the customer-dialed calling card (mechanized) charge.

USOC	MONTHLY RATE	MONTHLY MINUTES	RATE PERIOD INITIAL (30 SEC)	RATE PERIOD ADDNL (6 SEC.)
OBK6X	$8.40	0 - 60	-	-
		61 and over	$0.070	$0.014

b. Volume Calling Connection and Multilocation Option

	USOC	MULTILOCATION DISCOUNT	MONTHLY RATE
o Plan with Call Detail	OVDXX	-	$5.00
o Multilocation-Main Account	OVMIM	2%	5.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

o Multilocation-Location Account OVMIA 2%

Customers subscribing to this plan will receive a 30% discount on the customer-dialed calling card (mechanized) charge.

The following table is used to apply rates for calls subscribed to under this plan. The time periods of day, evening, and night/weekend are the same as found herein.

	INITIAL PERIOD (30 SECONDS)	ADDITIONAL PERIOD (6 SECONDS)
- All days and hours	$0.050	$0.010

VOLUME DISCOUNT

MONTHLY PLAN USAGE	ADDITIONAL DISCOUNT
$ 50.00 - $99-99	10%
100.00 and over	20%

c. City Connection

USOC	RATE	DISCOUNT PRESELECTED CITY	DISCOUNT ALL OTHER CALLS
OAPXX	$1.00	20%	5%

d. Simple Value Calling Plan

	USOC	RATE PERIOD INITIAL (30 SEC.)	RATE PERIOD ADD'L. (6 SEC.)
Business	OLGJX		
- Peak[1]		$0.055	$0.011
- Off-Peak[2]		0.040	0.008
Residence	OLGJX		
- Peak[1]		0.110	0.022
- Off-Peak[2]		0.045	0.009

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

e. Super Savings Calling Plan

	USOC	NONRECURRING CHARGE[3]	RATE PERIOD INITIAL (30 SEC.)	ADD'L. (6 SEC.)
Business	OLGFX	-	$0.040	$0.008
Residence	OLGFX	$3.00	0.050	0.010

[1] The peak rate period is from 7 A.M.-7 P.M., Monday through Friday.

[2] The off-peak rate period is from 7 P.M.-7 A.M., Monday through Friday, and 24 hours on Saturdays and Sundays.

[3] The nonrecurring charge does not apply to new or existing residential customers who subscribe to Custom Choice or Value Choice packages found herein.

C. MILEAGE CHARGES

EXTRA EXCHANGE LINE MILEAGE

1. Mileage charges apply in connection with main stations, private branch exchange systems, hotel branch exchange systems and Centrex systems which are located outside of the base rate area, but within the exchange area, and which have not had a rate structure established by means of zoning or a locality special rate area.

2. Where for the purpose of furnishing any of the classes of circuits, as specified above, it is necessary to provide new construction, such construction will be provided under the terms and conditions found in Section 4, Construction Charges.

3. Extra exchange line mileage charges are computed on airline measurements from the point on the boundary of the base rate area nearest the customer's location to the customer's location, and separately for each circuit or for each party-line main station. If a lower rate may be obtained for customer's outside a locality special rate area by using a point of measurement on the boundary of the special area and adding the computed mileage to the basic monthly rate for such an area, such a method shall be used.

The following charges are in addition to the base or locality special rates, as applicable, for the class of service furnished.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	MONTHLY RATE
Individual line or trunk line, either message rate or flat rate, per eighth-mile or fraction thereof	1LXXX	$0.75
Central office lines, Centrex, per eighth-mile or fraction thereof	1LXXX	0.75
Two-party lines, per eighth-mile or fraction thereof	1LXXX	0.55

The maximum mileage charges applicable for the class of service as outlined above are as follows:

	MAXIMUM CHARGE
Business individual line or trunk line	18.90
Centrex central office line	18.90
Business two-party line	15.10
Residence individual line	13.50
Residence two-party line	11.35

PRIVATE OR HOTEL BRANCH EXCHANGE STATION LINE MILEAGE

1. Optional Mileage Charges

Where a cable distribution system is to be installed to provide private branch exchange station service in two or more buildings on a customer's continuous property, or property separated only by a public thoroughfare, a carrying charge may apply, if the customer so elects, in lieu of the private branch exchange station line mileage charges. The amount of such carrying charge will be based upon the estimated costs involved for the plant used, or reserved for use by the customer, as a cable distribution system. Where all or a portion of a cable distribution system must be newly installed, the Company may require the application of installation and/or basic termination charges in addition to such carrying charges.

D. WIDE AREA TELECOMMUNICATIONS SERVICE

1. 800 Service and 800 Serviceline Option

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

a. Wide Area Telecommunications Service (WATS) includes three types of service which are 800 Service (Inward WATS), 800 Serviceline Option and Two-Way (Outward and Inward) WATS.

b. 800 Service and Two-Way WATS are the furnishing of facilities for dial type telecommunications from or to a station associated with a WATS access line and stations within the State of South Dakota in accordance with the terms and conditions and schedule of charges specified herein. The rates and charges set forth in this Catalog are in payment for the service furnished between the calling and called stations.

c. A WATS access line is a transmission path from the customer's premises to a Company central office which is provided for the purpose of completing WATS calls. Each such line will be arranged at the customer's option for 800 or Two-Way Service.

d. 800 Serviceline Option is not an access line, but is the furnishing of an 8XX service number to be associated with an individual line or trunk.

e. Dial-type telecommunications, as specified above, is a call dialed and completed from, or to, a WATS Service without the assistance of a Company operator, except that a Company operator will:

- Reestablish a call which has been interrupted after the called number has been reached; or

- Reach the called telephone number where facilities are not available for customer dial completion.

f. The term "Service Group" as used in connection with 800 Service and Two-Way WATS denotes the access lines arranged in the central office equipment as part of a given hunting arrangement.

g. Intrastate 800 Service and/or Two-Way WATS Service will be provided jointly by the Company and the Interexchange Carrier on a shared basis. A shared WATS access line is where the Company provides the WATS access line, transports the intraLATA traffic and bills both the WATS access line and intraLATA usage to the end user as set forth in this Catalog. An Interexchange Carrier transports the interLATA traffic and bills interLATA usage to the end user at the Interexchange Carrier's applicable WATS usage rates.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

h. Intrastate 800 Serviceline option may be provided jointly by the Company and the Interexchange Carrier on a complementary basis. A complementary service is where the Company provides the 8XX number to be associated with an individual line or trunk, transports the intraLATA traffic and bills both the 8XX number and intraLATA usage to the end user as set forth herein. The interLATA traffic is transported and billed by the Interexchange Carrier as set forth above.

i. A dual jurisdiction WATS access line is a facility used for the provision of interstate and intrastate WATS and is provided subject to the terms and conditions of the Company's Interstate Access Service Tariff F.C.C. No. 1. Any intrastate intraLATA traffic retained and transported by the Company will be billed to the end user at the usage charges set forth herein. The interLATA traffic is transported and billed by the Interexchange Carrier as set forth above.

j. Interstate interLATA 800 Service and Two-Way will be provided by the Interexchange Carrier.

k. IntraLATA only 800 Service and Two-Way WATS will not be provided by the Company.

l. IntraLATA only 800 Serviceline Option will be provided by the Company.

m. The rates and charges for WATS access lines and extension lines include all necessary equipment up to the Network Interface.

n. For extension terminations located in a different building, see the "Private Line Transport" Section herein.

o. For the purpose of administering this condition with respect to the determination of charges for a fractional part of a month, every month is considered to have 30 days.

p. The charges for a fractional part of a month will be a proportionate part of the monthly recurring rate based on the actual number of days the service is provided, as specified above.

q. Directory listings for 800 Service and Two-Way Service will be provided at rates applicable for business additional listings, as specified herein.

r. One free Directory listing will be provided for 800 Serviceline Option. Additional Directory listings will be provided at applicable additional listings rates, as specified herein.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

s. The Pay Telephone Charge applies to all calls placed from pay telephones. This charge is in addition to all other applicable 800 Serviceline rates and charges.

t. Nonrecurring Charges apply to connect each WATS access line. Change Charges apply to move or change each WATS access line or to make changes to the WATS record according to the components of work required.

2. Definitions of Services

a. 800 Service

800 Service allows customers to receive and pay for incoming long distance calls by use of a telephone number which begins with the special service area code 8XX (i.e., 800, 822, 833, 844, 855, 866, 877, 888, as available). 800 Service is provided on a Shared WATS basis. Shared WATS is where the Company provides the WATS access line and transports the intraLATA traffic. An Interexchange Carrier provides the interLATA traffic. Both companies bill usage to the end user at their applicable charges. IntraLATA only 800 Service will not be provided. Usage is bulk billed as defined below.

b. 800 Serviceline Option

This option is served over a customer-provided exchange facility. One 8XX number (i.e., 800, 822, 833, 844, 855, 866, 877, 888, as available) may be assigned to each existing or newly provided exchange telephone number which allows for the completion of 8XX calls in addition to all other usage normally handled on this termination. Message detail (calling number/calling location where possible and duration of calls) is included. Billing is based on a specified rate per hour. Volume discounts shall apply as described below.

c. Two-Way Service

WATS access lines arranged for both Outward and Inward Service provides for the origination and termination of calls from locations within the State of South Dakota for the purpose of telecommunications. It is a separate category of service and cannot be combined with 800 Service for the completion of a given call. Two-Way Service is provided on a Shared WATS basis. Shared WATS is where the Company provides the WATS access line and transports the intraLATA traffic. An Interexchange Carrier provides the interLATA traffic. Both companies bill usage to the end user at their applicable charges. IntraLATA only Two-Way Service will not be provided. Usage is bulk billed as defined below.

3. Limitation of Service

a. WATS does not include person-to-person, collect, conference or other calls requiring operator handling except as above.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. WATS is not represented as adapted for connection to other services of the Company or to customer-provided facilities. The service contemplates the provision of satisfactory transmission only between the access line and the calling or called station. The access line will be terminated only at a customer's premises located in the State of South Dakota and in the same LATA.

c. 800 Service, 800 Serviceline Option and Two-Way WATS are furnished upon condition that the customer contract for adequate facilities to permit the use of the service without interfering or impairing this or any other service rendered by the Company.

d. The service is furnished subject to the condition that there will be no abuse or fraudulent use of the service. Abuse or fraudulent use of service includes:

- The placing or acceptance of a WATS call by a WATS customer, agent, employee or representative, in response to an uncompleted message toll call, which was not completed in order to transmit or receive intelligence without payment of the applicable message toll charge.

- The obtaining, or attempting to obtain, or assisting another to obtain or to attempt to obtain WATS by rearranging, tampering with, or making connection with any facilities of the Company, or by any trick, scheme, false representation or false credit device, or by or through any other fraudulent means or device whatsoever, with intent to avoid the payment, in whole or in part, of the regular charge for such service.

- The use of service or facilities of the Company for a call or calls, anonymous or otherwise, if in a manner reasonably to be expected to frighten, abuse, torment or harass another.

- The use of profane or obscene language.

e. Where an application for service is canceled by the applicant prior to the start of installation of facilities, no charge applies. Where installation of facilities has been started prior to cancellation, installation charges apply.

f. The minimum contract period is one day.

g. All rates and charges quoted herein provide for the furnishing of 800 Service or Two-Way WATS where facilities are available or where the construction or furnishing of facilities does not involve unusual costs. Where the construction or furnishing of facilities involves excessive costs, additional charges may be made to cover the excess costs involved.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

h. After the minimum contract period, an 800 Service or Two-Way WATS access line may be suspended for a period of not less than two weeks and not more than two months. Service will be suspended at the rates set forth below. The suspension rate will not be applicable for a subsequent suspension until the service has been restored to the full rate for one month.

i. Suspension of service is not applicable to 800 Serviceline Option. It is applicable to the associated line or trunk.

j. Interruptions to the access line of two consecutive hours to 24 hours not due to the negligence of the customer, are credited at one-thirtieth of the monthly access line charge. After the first 24 hours, an additional credit of one-thirtieth of the monthly charge is applied for each 24-hour period or any fraction thereof. When WATS is interrupted, message toll telecommunications service furnished at a customer's request is charged for at the message toll rates contained herein. When 800 Serviceline Option is interrupted, the credit allowance is the same as for the service with which it is associated.

k. When 800 Service or 800 Serviceline Option is directly connected (i.e., not connected through a multiline terminating system) at a customer's premises to a communications system, chargeable time begins when the 800 Service or 800 Serviceline Option call terminates in or passes through the first multiline terminating system or terminal equipment on that communications system. It is the customer's responsibility to furnish appropriate answer supervision to the point of connection with the 800 Service or 800 Serviceline Option so that chargeable time may begin.

l. All calls completed in one billing period in a service group must average at least one minute in duration. All calls completed in one billing period through 800 Serviceline Option will be billed a minimum of 30 seconds per call.

4. Method of Determining Usage Charges for Two-Way WATS

a. Determine the total number of calls for the service group.

b. Determine the equivalent hours used by applying the minimum average time requirement of 60 seconds (1 call = 1 minute).

c. Determine the actual number of hours used for the service group.

d. Determine the chargeable hours which is the greater of the equivalent hours used or the actual number of hours used, rounded to the nearest tenth (one decimal place).

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

e. Determine the number of access lines in service during the month. Access lines in service for a fraction of the month are based on the number of days in service divided by 30 days. The result is rounded to the nearest hundredth (two decimal places).

f. Determine the average use per line in the service group by dividing the chargeable hours in d., preceding, by the number of access lines in service during the month.

g. Determine the usage charge per access line by multiplying the hourly rate in the appropriate taper(s) by the number of hours used in each taper and totaling these charges.

h. Determine the total usage charge in the service group by multiplying the usage charge per access line by the number of access lines in service during the month.

3. Method of Determining Usage Charges for 800 Service

a. Determine the total number of calls for the service group.

b. Determine the equivalent hours used by applying the minimum average time requirement of 30 seconds (1 call = 30 seconds or 1/2 minute).

c. Determine the actual number of hours used for the service group.

d. Determine the chargeable hours which is the greater of the equivalent hours used or the actual number of hours used rounded to the nearest tenth (one decimal place).

e. Determine the number of access lines in service during the month. Access lines in service for a fraction of the month are based on the number of days in service divided by 30 days. The result is rounded to the nearest hundredth (two decimal places).

f. Determine the average use per line in the service group by dividing the chargeable hours in d., preceding, by the number of access lines in service during the month.

g. Determine the usage per line by multiplying the hourly rate in the appropriate taper(s) by the number of hours used in each taper and totaling these charges.

h. Determine the total usage charge in the service group by multiplying the usage charge per access line by the number of access lines in service during the month.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Non-Recurring Charges

	NONRECURRING CHARGE
Number changes	$57.00
Hunting arrangement changes	10.00
Suspend and restore	36.00
For change of interexchange carrier 800 Service or Two-Way	15.00

800 Service

800 Service Access Line

	USOC	MONTHLY RATE
Each line, shared with AT&T, includes touch tone	8L9S+	$45.00
Each line, shared with an interexchange carrier other than AT&T, includes touch-tone, Company bills interLATA usage on behalf of IC	8Q9++	45.00
Each line, interexchange carrier bills own interLATA usage, includes touch-tone	8J9++	45.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	NONRECURRING CHARGE
Install or connect new	$87.00
Suspension of service	45.00

Monthly Usage Rate Table

The hourly rates apply to the average use for each rate period, rounded to the nearest tenth of an hour, for each access line within a service group.

Average hours of use per line	HOURLY RATE
0 - 10 hours	$14.50
10.1 - 25 hours	13.00
25.1 - 40 hours	12.00
40.1 - 80 hours	11.10
Over 80 hours	10.25

800 Serviceline Option

800 Serviceline Option Number

	USOC	MONTHLY RATE
Each number	WFA++	$5.00

	NONRECURRING CHARGE
Changes, each 800 Serviceline Option number	$20.00

	HOURLY RATE
Usage Rate - Fractional hours will be rounded to the nearest tenth of an hour.	$6.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Volume Discounts

All usage in excess of $60.00 will be discounted by the following:

AMOUNT			DISCOUNT
0	thru	$60.00	0%
$60.01	thru	$200.00	10%
$200.01	thru	$500.00	12%
$500.01	thru	$1,000.00	15%
Over $ 1,000.00			20%

EXAMPLE:

A customer with 21 hours of use:

Total charge (without discount) 21 hours x $12.00 $252.00

The discounts would be applied as follows:

	DISCOUNT	AMOUNT BILLED
First $60	0%	$ 60.00
Next$140	10%	126.00
Next $52	12%	45.76
Total Billed		$231.76

	CHARGE
Pay Telephone Charge, per completed call [1]	$0.26

[1] This charge is in addition to all other applicable 800 Serviceline rates and charges.

Issued:

Effective:

Issued by:
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Corporate & Regulatory Counsel and Assistant Secretary
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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Two-Way WATS

Two-Way WATS Access Line

	USOC	MONTHLY RATE
Each line, shared with AT&T, includes touch tone	TWAS+	$45.00
Each line, shared with an interexchange carrier other than AT&T, includes touch-tone, Company bills interLATA usage on behalf of IC	TWX++	45.00
Each line, interexchange carrier bills own interLATA usage, includes touch-tone	TW4++	45.00

	NONRECURRING CHARGE
Install or connect new	$87.00
Suspension of service	45.00

Monthly Usage Rate Table

The hourly rates apply to the average use for each rate period, rounded to the nearest tenth of an hour, for each access line within a service group.

Average hours of use per line	HOURLY RATE
0 - 10 hours	$16.00
10.1 - 25 hours	14.50
25.1 - 40 hours	13.20
40.1 - 80 hours	12.20
Over 80 hours	11.25

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Four-Wire Terminating Arrangement

This charge is in addition to the access line monthly recurring charge.

	USOC	MONTHLY RATE
Four-wire terminating arrangement	4WA	$9.50

E. INTEGRATED SERVIES DIGITAL NETWORK

Integrated Services Digital Network (ISDN) is a digital architecture that provides an integrated voice/data capability to the customer premises facility, utilizing the public switched network. ISDN distributes voice, data, image and facsimile by two standard methods of access: a Basic Rate Service (BRS) or a Primary Rate Service (PRS). These are business serving arrangements which conform to internationally developed, published, and recognized standards generated by the International Telecommunications Union (formerly CCITT).

1. Basic Rate Service

BRS consists of up to three distinct channels on one pair of wires: one or two B (Bearer) channels and one D (Delta) channel. BRS is offered on either an individual case basis or in a packaged offering, referred to as Single Line ISDN Service. Single Line Service is available on a flat rate basis.

2. B (Bearer) Channel

The B-channel carries circuit switched voice and/or data communications and packet switched data communications at speeds up to 64 kbps, from the customers premises, over the loop facility, to the central office.

3. B-Channel Circuit-Switched Data

Circuit-switched Data provides the capability of making data calls over the public switched network. Information is transmitted the same way as digitized voice. Like a voice call, a circuit-switched data call ties up network/system resources for the duration of the call. B-channel packet is not available with Single Line Service.

4. D-Channel Packet-Switched Data

The X.25 Logical Circuit Call allows users to originate and receive X.25 data calls over the D-channel. Multiple data calls can be active simultaneously on a single D-channel.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

5. D (Delta) Channel

The D-channel carries signaling and/or packet data information, at speeds up to 16 kbps on BRS and signaling only information up to 64 kbps for PRS, from the customer's premises to the central office. The D-channel has both data and signaling functionality; it does not have voice capability.

6. Primary Rate Service (PRS)

PRS has a capacity of 1.544 megabits per second (Mbps) and has multiple channels: 23 B-channels, and one D-channel, and is also known as 23 B+D access. The B-channels carry the circuit switched and packet data information, while the D-channel handles signaling information.

7. The customer or the customer's authorized agent will be responsible for the procurement of associated customer premises equipment (CPE) and will ensure compatibility with the ISDN digital switch serving the customer.

8. This tariff may be used in conjunction with or referenced by other Company tariffs.

9. This Catalog does not provide for service furnished by a remote switch located on the customer's premises.

10. Company shall terminate Single Line Service at the Company Standard Network Interface (SNI). The SNI shall be the location, as established by State Commission Order, where applicable, or by mutual agreement between the parties, where the Company's protected network facilities and services end, and inside wire or a customer's network begins.

11. Single Line Service does not offer B-channel packet capabilities.

12. Should any change in inside wiring (including riser cable) not owned by the Company, or CPE, require the Company to redesign ISDN service, the customer shall reimburse the Company for all costs incurred by the Company in making such a change. Should ISDN service fail due to inside wiring (including riser cable) not owned by the Company, or CPE, the responsibility for failure shall be solely that of the customer and the Company shall have no liability of any kind.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

13. A customer may cancel an order for the installation of service at any time prior to notification by the Company that service is available for the customer's use. The cancellation date is the date the Company receives written or verbal notice from the customer that the order is to be canceled. Cancellation charges will apply as discussed below. Cancellation charges will be determined based on estimated costs incurred in conjunction with the provision of an order. In addition, if a customer or a customer's end user is unable to accept service within 30 business days after the original service date, then the order will be canceled and cancellation charges will apply.

14. Service date intervals are associated with the provisioning of an order. Certain critical dates are used by the Company to monitor the service order provisioning progress. Cancellation charges are based on the estimated costs incurred by the Company at the time the order is canceled. The Company monitors which critical date was last scheduled and determines what percentage of the Company's provisioning costs have been incurred as of that critical date. A cancellation charge will not apply if the scheduled Service Date has not been provided to the customer.

15. Costs incurred in conjunction with the provision of an order start on the Application Date. The Application Date is the date the customer provides a firm commitment and sufficient information to the Company for order placement. The Application Date is the date the Company enters the order into the Company's order distribution system(s). This is sometimes referred to as the order date. When a customer cancels an order prior to the Application Date, no charges shall apply. When a customer cancels an order or part of an order, on or after the Application Date, a charge equal to the estimated costs incurred by the Company shall apply.

16. The customer is responsible for placement, installation, operation, maintenance, repair and replacement of all inside wire (including riser cable), not owned by the Company, and CPE that the customer uses in connection with this service. Premises wiring and CPE must be compatible with the Company's provision of ISDN Service.

17. If an ISDN Service interruption, disconnection, error, performance failure, or some other out-of-service condition occurs and lasts for more than 24 consecutive hours after the customer gives the Company notice of such out-of-service condition, except for problems caused by the customer's actions, inside wiring, interface, and/or CPE, an out-of-service credit will be applied to the customer's bill. This service shall be based on a 30 day month and shall be calculated by dividing the monthly rate for the service affected by 30 days and multiplying that daily rate by the number of days, or major fraction thereof, that the service was interrupted. This will be the customer's sole remedy.

18. Availability

    a. The rates and charges for Single Line ISDN Service are applicable only to customers whose serving central office has been identified by the Company as having ISDN available.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Single Line ISDN Service may be provided to customers from a central office other than their normal serving office depending on available facilities.

c. Single Line ISDN Service is offered where ISDN compatible facilities and equipment are available. Service is generally considered available for loops 18 kilofeet or less in length. Loops greater than 18 kilofeet in total length must meet ISDN extension technology design requirements and will be considered available if ISDN compatible pair gain systems are in place or planned to serve the area based on the scheduled placement of compatible pair gain systems. If no pair gain system is in place or planned, loops greater than 18 kilofeet in length will also be considered available if single line loop extension equipment can be deployed and the loop is within the design limitation of this type of extension equipment.

d. Some services are not available and/or compatible with ISDN.

19. Each customer, who is not subscribing to Single Line Service, will be required to sign a contract for the furnishing of ISDN service provided under this Catalog. Additions or changes to the contract may be negotiated only with agreement by both parties to new terms.

20. Individual Case-By-Case Basis

a. When equipment and/or facilities are not available, additional charges apply based on the individual circumstances.

b. Each ISDN customer, who is not subscribing to Single Line ISDN Service or Primary Rate Service, will be required to sign a contract for the furnishing of ISDN service not provided under this Tariff. Additions or changes to the contract may be negotiated only with agreement by both parties to new terms.

SINGLE LINE ISDN SERVICE

1. Single Line ISDN Service is a business service and is compatible with National ISDN. Single Line Service includes circuit-switched voice, circuit-switched data and packet functionality.

2. Two sets of features are being offered: One for "voice" and one for "data". Because of CPE selected by the customer or the customer's agent, some of the features offered may function differently, may not be available or may be required to be offered via an access code. The standard features and functions support two terminals per BRS. The two feature sets are as follows:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

3. Call Appearance

Call Appearances are the positions on a terminal to which numbers are assigned. A Directory Number can be shared by more than one ISDN terminal. The quantity and/or position of Primary Directory Number (PDN), Secondary Directory Numbers (SDN) and Shared Call Appearances are limited by the standard configuration developed for the CPE. The standard configuration provides for three call appearances.

4. Call Exclusion

a. Automatic Exclusion

This feature allows a user to restrict other users that share a Call Appearance from bridging onto an active call or retrieving a held call. This feature is automatically invoked whenever the user goes off-hook to receive or place a call.

b. Manual Exclusion

This feature allows a user to restrict other users, which show the call appearances of a telephone number, from bridging onto on active call or retrieving a held call. This feature is activated by pressing a feature button before dialing or during the call.

2. Call Forwarding-Busy Line-All Calls (Preprogrammed)

This feature allows all calls to a busy PDN's to be forwarded to another number either within the same central office, for the same customer at the same location, outside the customer system within the same central office, or in a different central office.

3. Call Forwarding-Don't Answer (Preprogrammed)

This feature allows all calls terminating to an idle PDN to be forwarded to another number when the called PDN does not answer after a predetermined number of seconds.

4. Call Forwarding-Variable-All Calls

The user can forward all PDN calls to another number by pressing the Call Forwarding-Variable feature button. The forward-to number is customer changeable. The user must activate or deactivate the forwarding function by using either an access code or a feature button. The standard configuration provides for this feature on a feature button.

5. Call Hold

This feature allows the user to place a call on hold by depressing a button.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

6. Call Transfer

This feature enables the user to transfer a call to a third party by depressing a button.

7. Caller Identification Blocking - Per Call

This feature enables a customer to control the disclosure of his/her name and/or DN to a customer of Caller Identification (where technically feasible) by temporary 'ly changing the public/private status indicator of the DN. A customer must dial a code before each call to change the indicator from public to private. "Public status" allows delivery of the name and/or DN. "Private status" prevents delivery of the name and/or directory number. Per Call Blocking is provided at no charge.

8. Calling Line Identification

Calling Line Identification is provided on both an incoming and outgoing basis.

a. Incoming (ICLID)

This feature displays the call identification information and the calling party's DN (including nonpublished and nonlisted directory numbers) prior to the call being answered. Calling party's name is an optional feature. Callers have the ability to inhibit the display of calling party information to the terminating number. ICLID is provided to the PDN and to any associated SDNS. ICLID cannot just display to the PDN when the number is shared.

b. Outgoing (OCLID)

This feature provides a user who is originating a call with information about the called party and the facility or destination.

9. Conference

This feature allows a user to establish a three-way conference call by depressing a button.

10. Display

This feature provides to the ISDN terminal used with a display of the time and date, calling number, call appearance identification, called number, incoming call identifier and feature activation operation.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

11. Drop

The Drop button allows the user to drop the last party added to a conference call or to disconnect a two-party call.

12. Intercom

Intercom service allows the user to establish a dedicated priority call to any other station that is a member of the same intercom group within the same central office. Special alerting, depending on CPE, is provided for an incoming intercom call. As part of the standard package the user can select either Auto Intercom or Dial Intercom.

a. Auto Intercom

This feature allows two members to be part of an intercom group, which enables intercom calls to be completed by pressing the feature button. Dialed digits are not required.

b. Dial Intercom

This feature allows the user to establish a call to any other station that is a member of the same intercom group. This is done by pressing the Intercom bottom and dialing one or more digits. Special alerting, depending on CPE, is provided for an incoming Intercom call.

13. Message Waiting Indication

This feature is available on PDN's and notifies the user of a message waiting by providing either an audible stuttered dial tone or visually by illuminating a light on the customer's telephone set. Messages may be retrieved by calling the message service center or by accessing a voice mail system.

14. Primary Directory Number (PDN)

Each ISDN terminal is assigned one PDN. If more than two terminals are attached to a BRS, the additional PDN charge, specified in C., will apply.

15. Ringing Options

Ringing options allows ISDN station users to establish flexible call handling arrangements for answering incoming calls that terminate on the SCAs of a DN. The ringing options available on a per station basis for a shared DN are:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

a. Abbreviated Ringing

Ringing begins immediately for an incoming call and stops ringing after "N" seconds.

b. Delayed Ringing

Ringing for an incoming call is delayed for "N" seconds, however, the CA indicator or "status" lamp begins flashing immediately.

c. No Ringing

There is no ringing for an incoming call that terminates on a CA of the DN.

d. Normal Ringing

Ringing begins immediately for an incoming call and continues until the call is forwarded, answered, or abandoned.

16. Secondary Directory Number (SDN)

A SDN is any directory number other than the PDN assigned to an ISDN terminal. An ISDN terminal can have one or more SDN'S. One SDN is provided with the line.

17. Shared Call Appearance (SCA)

This allows several users to share one or more call appearances for a particular directory number. Origination of and termination of calls on one terminal will affect all terminals sharing the call appearance. All Shared Call Appearances must be provisioned from the same serving central office.

18. Speed Calling

Speed calling permits the user to dial pre-programmed numbers using fewer digits than normally required. A speed call list allows for up to 30 preprogrammed numbers per terminal.

19. Standard Configuration Group

The standard arrangement which associates a button of an ISDN station set to a feature.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

20 B-Channel Circuit-Switched Data Features

a. Call Forwarding-Busy Line for Circuit-Switched Data

This feature permits all circuit-switched data calls, attempting to terminate to a busy PDN, to be redirected to another customer-specified DN. A busy line condition exist when a circuit-switched data B-channel is unavailable. This feature can either be assigned to the user on an active basis or it can be assigned to a feature button that can be activated or deactivated by the user. If the feature is assigned to a feature button, the forward-to DN can be changed by dialing an access code and programming the new forward-to DN.

b. Call Forwarding-Don't Answer for Circuit-Switched Data

This feature permits all circuits-switched data calls attempting to terminate to an idle PDN to ring a specified number of seconds prior to being forwarded to a previously specified DN. This feature can either be assigned to the user on an active basis or it can be assigned to a feature button that can be activated or deactivated by the user. If the feature is assigned to a feature button, the forward-to DN can be changed by dialing an access code and programming the new forward-to DN.

c. Call Forwarding-Variable-All Calls for Circuit-Switched Data

This feature allows circuit-switched data calls, attempting to terminate to a line, to be redirected to another specified line. The user must activate or deactivate the forwarding function by either using an access code or a feature button. If the feature is assigned to a feature button, the forward-to DN can be changed by dialing an access code and programming the new forward-to DN.

21. D-Channel Packet-Switched Data Feature

a. X.25 Fast Select

Fast Select is a function of the CPE and is used on a per-call basis allowing the user to send up to 128 octets in the user data field of the call request packet to a terminal with Fast Select Acceptance.

b. X.25 Flow Control Parameter Negotiation

This packet feature permits negotiation on a per-call basis of the flow control parameters associated with a given virtual call, such as packet size and window size for each direction of data transfer. The data window size and the maximum packet size is negotiated automatically during an X.25 data call.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. X.25 Logical Channels

Virtual circuits rather than physical circuits are used to establish packet switched calls. When a virtual circuit is established, a logical channel is assigned at the CPE and the switch for the duration of the call. A virtual circuit does not use any capacity of the facility unless data is actually being transferred. Two logical channels are provided per DSL.

d. X.25 Reverse Charging

This is a function of the CPE. This packet feature allows a user to assign billing to the called data telephone number on a per call basis.

e. X.25 Throughput Class Negotiation

This packet feature permits negotiation on a per call basis of the throughput class for each direction of data transfer associated with a virtual call. The data terminal can negotiate the throughput class for an X.25 data call.

22. Optional Features and Functions

a. Additional Primary Directory Number

If more than two terminals are connected to a DSL, additional PDNs are required. Included with each PDN is the standard set of voice and data features. Rates and charges specified in C., following, apply for each additional PDN.

b. Analog Call Appearance

This feature enables analog station users to share their call appearance on a Single Line Service user's terminal. All Analog Call Appearances must be provisioned from the same serving central office as the Single Line Service. One appearance, per number, per terminal is allowed. Some analog services are not compatible with Single Line ISDN Service.

c. Call Pickup

Allows a user to answer a call at another station, even when the user's station does not have a CA for the called DN. While the other station is ringing, the user goes off-hook and enters a call pickup code or presses a call pickup feature button to answer the call.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

d. Caller Identification Blocking--All Calls

This feature provides a permanent private indicator on a per-station basis. Once the blocking is established on the station, the private status cannot be deactivated by the customer. Rates and charges are provided in C., following. Federal, State, and Local law enforcement agencies and non-profit domestic violence agencies may be provided additional arrangements for private status and/or all call blocking, on a per station basis, at no charge. Stations that share appearances of a restricted station must also be restricted to avoid passing caller identification information.

e. Calling Name Identification

With this feature, at the time of an incoming call, the name and number of the calling party is displayed on the called party's ISDN terminal. The called party may receive a private or unavailable indicator, in that case the caller's name and number will not be displayed. Calling Name Identification is used in conjunction with calling number identification which is part of the Display standard feature.

f. CLASS Features

(1) Call Rejection

This feature enables a customer to reject call attempts from up to 15 numbers of calling parties by dialing a code and the telephone numbers of calls to be rejected. Any call attempts to the customer from these numbers will be prevented from terminating to the customer and will instead be connected to an announcement informing the caller that the call is not presently being accepted by the called party.

(2) Continuous Redial

This feature allows the customer to dial a code that will cause the feature to automatically redial the last number the customer dialed. If the called number is busy, the feature will redial the called number for a limited period of time. A tone alerts the customer when the called number becomes available.

(3) Last Call Return

This feature allows a customer to automatically redial the number of the last incoming call to that line, whether the call was answered or not. The customer does not have to know the number of the calling party. If the called number is busy, the feature will redial the called number for a limited period of time. A tone alerts the customer when the called line is available.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(4) Priority Call

This feature allows a customer to assign a maximum of 15 callers' telephone numbers to a special list. The customer will hear a distinctive ring at their location, when calls are received from callers' telephone numbers on that list. The distinctive ring may be CPE dependent.

(5) Selective Call Forwarding

This feature allows a customer to specify a special list of a maximum of 15 telephone numbers. Incoming calls placed to the customer from telephone numbers on that list will automatically be forwarded to a predefined telephone number. All other calls will be handled normally.

g. Key Short Hunt

This voice feature provides the capability for incoming calls to search a set of DN appearances on an ISDN set for an idle DN for call termination.

h. Multiline Hunt Service

Hunting is available for circuit-switched voice and data on PDNS. Hunting service will affect the operation or availability of some other optional features on the hunting B-channel. The features most often affected include forms of Call Forwarding, Speed Calling and others, depending on the Service Configuration. Call Forwarding features will override the hunting services.

Hunting is done sequentially by terminal within the group. One or two B-channels are associated with each terminal in the group. One begin-hunt telephone number must be assigned to the first terminal within a Regular or Circular group of sequentially ordered terminals that form a Multiline Hunt Group (MLHG). Telephone numbers may be assigned, in any sequence, to terminals within a MLHG.

Multiline Hunt Service provides a hunting sequence that attempts to complete a call to the first available B-channel associated with the lead telephone number of the group. Busy tone is not sent to the caller unless all remaining B-channels in the hunt group list have been found busy. The call will be completed to the first available B-channel.

MLHGs can be assigned two types of telephone numbers; begin-hunt and non-hunting telephone numbers. The begin-hunt telephone number has the multiline hunt feature and, when called, starts the hunting sequence associated with the hunt group. An MLHG must have at least one begin-hunt telephone number but can have essentially one per terminal in the group. Non-hunting telephone numbers can be assigned to terminals within a MLHG; these terminals

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

do not have the multiline hunt feature. Incoming calls are terminated directly to the individual terminals.

(1) Regular hunting starts when a begin-hunt telephone number is called in a MLHG. Hunting proceeds in ascending order through each subsequent terminal in the group until an idle terminal is reached or the last (highest numbered) terminal in the group is reached.

(2) Circular hunting is provided optionally with regular hunting groups. Circular hunting occurs in these groups when the hunt for an idle terminal commences beyond the first terminal in the hunt group and finds all higher numbered terminals busy, the hunt returns to the first terminal in the group. The hunt ends with the terminal number preceding the terminal where the hunt in the group initially began.

This feature allows all terminals within a MLHG to be tested for busy regardless of the point of entry into the group before returning busy tone.

(3) Uniform Call Distribution (UCD) is a hunting arrangement that provides uniform termination call assignment (distribution) to members of a MLHG. UCD hunting does not include queuing or announcements.

i. Non-Standard Configuration Group

This is a terminal arrangement, associating buttons of a terminal with a feature, which differs from the standard arrangement.

j. Series Completion Hunt

This voice feature automatically redirects a call from a busy DN to another specified DN.

k. Six-Way Conference

This feature allows the user to sequentially add up to five additional parties, and add them together to make a six-way call.

l. Speed Calling 8

This feature pen-nits the user to dial-preprogrammed numbers using fewer digit than normally required. It allows the customer to change speed calling lists directly from their terminal.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

m. X.25 Fast Select Acceptance

This packet feature authorizes incoming packets from a sending data terminal equipment (DTE) to be transmitted to the destination DTE with Fast Select.

n. X.25 Reverse Charging Acceptance

This packet feature authorizes transmission of incoming call identified as Reverse Charge calls.

23. Local Service increments and the Optional Calling Plan rates and charges are applied per B-channel which carry circuit-switched voice and/or data traffic.

24. The standard package includes up to a total of six Call Appearances (CAs), per terminal. The CAs must include one Primary Directory Number (PDN). Analog CAs are not considered to be one of the six standard CAs.

25. Additional CAs are available at rates and charges specified following.

26. Single Line ISDN Basic Rate Access (BRA) may be rate stabilized for a minimum of one year. The RSP offers length of ten-n discounts for nonrecurring charges. Single Line ISDN BRAs in quantities greater than 25 shall be priced on an Individual Case Basis. The following terms and conditions apply.

a. The customer may add Single Line Service at contracted rates during the term of the agreement subject to terms and conditions specified in individual customer contracts. Such additions will be coterminous with the original contract.

b. If the quantity of BRAs falls below a minimum billing level, the customer will be assessed a termination charge. Termination charges will be applied as specified in the Termination/Waiver Policy set forth in 2.2.14. There is no minimum service period.

c. If a customer migrates to MegaBit Service from ISDN then the termination charges will be waived.

d. RSP BRAs may be located at different addresses within the state but must be billed on one summary bill.

e. Service may be moved, for the same customer, to a different address within the state and retain the RSP, provided the new service is billed on the summary bill. Nonrecurring charges will apply to the new installation.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

27. Single Line ISDN Service Basic Rate Access is offered as flat rated service. D-channel packet switching usage is included in the BRA monthly rates. These rates and charges apply in addition to applicable rates and charges for other services as provided in this and other Company tariffs.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Basic Rate Access Including Standard Features and Functions			
Month-to-Month			
Per BRA	BAFHB	$110.00	$72.00
Rate Stability Plan			
Per BRA	BAFTB		
- 1 year		$93.50	$70.56
- 2 years		82.50	69.12
- 3 years		55.00	67.68
- 5 years		-	64.80
Optional Features and Functions			
Additional Call Appearances, per appearance	ACS	$ 7.00	-
Additional PDN, per number[1]	A6PPK	12.00	$2.10
Additional Secondary Directory Number, per SDN	A6QPN	10.00	1.00
Additional Shared Call Appearance, per appearance	AS9	10.00	1.00
Additional X.25 Logical Channels, each	NW9AL	12.00	-

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Analog Call Appearance, per appearance	MAZ	7.00	1.00
Call Forwarding Busy Line-All Calls, per number[2]	NQ5PN	10.00	-
Call Forwarding Don't Answer-All Calls, per number[2]	NQ6PN	10.00	-
Call Forwarding Variable-All Calls, per SDN[2]	NZGPN	10.00	-

[1] Inherent with the purchase of an additional PDN are all of the standard voice and data features for Single Line ISDN Service.

[2] Optional with SDNS.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Call Pickup, per number	NZHPN	$12.00	-
Caller Identification Blocking-All Calls, per PDN[1]	NDD	8.75	$0.20
Calling Name Identification, per number	NMCPN	10.00	2.50
CLASS Features			
- Call Rejection, per PDN	FKQPN	8.75	0.70
- Continuous Redial, per PDN	FKAPN	8.75	0.20
- Last Call Return, per PDN	FKDPN	14.00	-
- Priority Call, per PDN	NC8PN	8.75	-
- Selective Call Forwarding, per PDN	FKEPN	8.75	0.55

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(T) The customer will receive a credit, equal to the feature rate for 90 days, the first month following subscription to the feature.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Key Short Hunt			
- Per group	NHGPG	$10.00	-
- Per number	NHGPN	10.00	$2.00
Multiline Hunt Service[1]			
Circular Hunt,			
Data, per B-channel	HDT	10.00	2.00
Data, per group	HDTPG	10.00	-
Voice, per B-channel	NZS	10.00	2.00
Voice, per group	NZSPG	10.00	-
Regular Hunt,			
Data, per B-channel	N2D	10.00	2.00
Data, per group	N2DPG	10.00	-
Voice, per B-channel	NZQ	10.00	2.00
Voice, per group	NZQPG	10.00	-
UCD Hunt,			
Data, per B-channel	H6U	10.00	8.50
Data, per group	H6UPG	20.00	-
Voice, per B-channel	NZT	10.00	8.50
Voice, per group	NZTPG	20.00	-

(T) There is no charge to change hunting arrangements due to the removal of a ten-ninal(s) from a hunt group.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Non-Standard Configuration Group, per button	N3CPB	$13.75	-
Redirecting Number Delivery, per number	RD7PN	10.00	$2.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Series Completion Hunt

- Per group	SE3PG	10.00	-
- Per number	SE3PN	10.00	2.00
o Six-Way Conference, per terminal	NZ6PK	15.50	0.20
o Speed Calling 8, per terminal	NN8PK	10.00	1.00
o X.25 Fast Select Acceptance, per number	GXEPN	7.00	-
o X.25 Reverse Charging Acceptance, per number	G5BPN	7.00	-

	USOC	NONRECURRING CHARGE
Change Charges		
Feature changes made to the standard voice or voice and data packages, per order[1]	REA1B	10.50
Change from voice to voice and data, one versa, per order[1]	REA1O	17.00

[1] Only one change charge applies per service order. If multiple changes are made on a service order, the highest charge charge will apply.

PRIMARY RATE SERVICE OFFERINGS

1. Primary Rate Service

The basic Primary Rate Service (PRS) structure consists of 23 B-channels and a D-channel, for a total transmission rate of 1.544 Mbps, which is equivalent to a TI facility. Each 64 kbps B-channel carries user information such as voice calls, circuit-switched data, or video. The D-channel is a 64 kbps channel that is used to carry the control or signaling information.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Circuit-Switched Data PRS consists of 23B + D, which is equivalent to a TI facility. The customer may use CPE to bond together 64 kbps B-channels for the transmission of circuit-switched data or video.

PRS is provided subject to the availability of central office facilities. Each PRS consists of one TI facility and one Service Configuration. A customer may request more than one PRS per premises.

Terms, conditions, rates and charges, as described for PRS, are in addition to the regular rates and charges for the service with which PRS is associated.

Some services are not available and/or compatible with PRS. Loop Diversity and Avoidance defined herein is available with PRS. Customers subscribing to Loop Diversity must also subscribe to additional PRS facilities and TCs for the secondary route.

Customers subscribing to Avoidance must pay DSI Transport Mileage rates between the local serving office and the alternate serving office.

The PRS facility may be provided from a foreign central office or foreign exchange at the DS Transport Mileage rates. Associated charges will be applied to the PRS facility.

PRS offerings are not available for use by Commercial Mobile Radio Carriers, Private Mobile Radio Carriers and Interexchange Carriers in the provision of services to their customers. Other digital services are offered by the Company for interconnection specifically for these Carriers.

The PRS facility for all channels may be provisioned on an existing or new T3 facility.

PRS customers must subscribe to a minimum of one 23B + D Service Configuration.

DID numbers associated with PRS is required for each inward or 2-way B-channel in a PRS.

Circuit-Switched Data PRS is only intended for data calls, including video.

2. Service Configurations

a. 23B + D

This service configuration provides for 23 B-channels and I D-channel. The B-channels carry user information such as voice calls, circuit-switched data, or video, while the D-channel handles signaling information. When equipped, the D-channel can control a maximum of 479 B-channels. The B-channels may be provisioned on the same facility as the D-channel or on other PRS T I facilities.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. 24B

This service configuration provides for 24 B-channels. The 13-channels carry user information such as voice calls, circuit-switched data, or video. The signaling information is provided by a D-channel on the first T I facility.

c. 23B + Back-up D

This service configuration provides for 23 B-channels and a back-up D-channel. The back-up D-channel is used if the primary D-channel, which provides signaling for multiple TI facilities, fails. Active calls are not maintained during the switch-over to the back-up D-channel.

I. Network Connections

a. Circuit-Switched Data Connection

A Circuit-Switched Data Connection is a central office translation that provisions 23 or 24 B-channels on a PRS TI facility. All B-channels are dedicated with 2-way operation and have access to the exchange network. Incoming calls are restricted to circuit-switched data or video

b. ISDN Trunk Connection

An ISDN Trunk Connection (TC) is a central office translation that provisions each B-channel in a PRS. The TC allows access to the exchange network. One ISDN Trunk Connection is required for each B-channel used in a PRS.

(1) Call-By-Call PRS

The PRS B-channels are configured to support inward and outward call flexibility predetermined by the customer's traffic flow.

(2) Dedicated PRS

Each B-channel is dedicated to inward, outward, or 2-way traffic.

c. Uniform Access Solution (UAS) Network Connection

The UAS network connection provides switching to the local exchange and toll networks, and includes the channel trunk-side configuration for the entire T I.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Standard Features

a. Calling Number Identification

This feature displays the call identification information and the calling party's DN (including non-published and non-listed DNs) prior to the call being answered. Callers have the ability to inhibit the display of calling party information to the terminating number.

b. Calling Number Identification Blocking-All Calls

All outgoing calls will be blocked for PRS customers where technically feasible as determined by the Company.

c. Direct Inward/Outward Dialing

Allows station users to place or receive calls by-passing the attendant.

d. Circuit-Switched Data

Allows the transmission of circuit-switched data on a voice channel.

5. Rates

Transport

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Stand alone T 1 facility, per 24 channel facility[l]	ZPTIX	$1,100.00	$150.00
T 1 facility, provisioned on a T3, per T1 facility activated[1]	ZP3	$1,100.00	-

Service Configuration

23B + D	ZPAZD	1,025.00	400.00
24B	ZPAIX	1,025.00	400.00
23B + Back-up D	ZPAZA	1,025.00	400.00

ISDN Trunk Connection, per B-Channel[2]

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Call-By-Call[3]	PT31C	82.00	23.00

[1] One Service Configuration is required for each T1 facility.

[2] ISDN Trunk Connection charges do not apply to B-channels on Circuit-Switched Data PRS.

[3] Requires a 2-way digital Did trunk circuit termination at rates and charges found herein.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Dedicated			
Inward[1]	PT311	$ 81.00	$23.00
Outward	PT310	81.00	23.00
2-Way[1]	PT312	81.00	23.00
Circuit-Switched Data Connection, per T1 facility			
23B data only channels	PT3TA	1,265.00	583.00
24B data only channels	PT3TB	1,340.00	608.00
UAS Network Connections, per T I facility			
UAS Network Connection	NWO	1,200.00	1,100.00
Two-Way Network Connection	NW02X	1,200.00	1,100.00
- In-Only Network Connection	NWOIX	1,200.00	1,100.00

Nonrecurring change charges apply as follows:

	NONRECURRING CHARGE
All miscellaneous changes or rearrangements of facilities, per facility	$50.00

[2] Requires an appropriate Did trunk circuit termination at rates and charges found herein.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

6. Primary Rate Service Rate Stability Plan

The PRS Rate Stability Plan (RSP) is an optional payment arrangement for TI facilities and Service Configurations for customers who agree to continue to subscribe to PRS facilities for a 3-year to 10-year period, and/or Discounted TI Facilities, Trunk Connections, and UAS Network Connections for 3-year or 5-year periods. Did trunk terminations are packaged in the rate stabilized in-only and two-way Trunk Connections. Customers who subscribe to a RSP are guaranteed against Company initiated changes in monthly rates.

Any additions of PRS facilities/Service Configurations to an existing RSP service are permitted with rates and charges as specified above or by subscribing to a separate RSP.

Early termination charges will apply if a RSP is terminated in whole or in part by the customer, or is terminated for cause by the Company. The customer must give 30 days written notice of termination. Termination changes as specified herein may apply.

If the customer terminates the RSP prior to the installation date, the customer shall pay termination charges including but not limited to: all engineering, planning, preparation, materials, supplies, placement, facilities, acquisition, transportation, installation, construction, and labor costs and charges incurred by the Company.

If the customer terminates the RSP after the date of installation but prior to the expiration of the 3-year to 10-year RSP, termination charges will apply as specified herein.

If a PRS facility is moved to an existing DS3 facility, termination charges will not apply.

The Company and any customer who agrees to accept the RSP will enter into a written agreement continuing terms and conditions consistent with this Table. PRS DS1 facility, common equipment, and network connections in quantities greater than 10 shall be priced on an Individual Case Basis.

TI facility	USOC	NONRECURRING CHARGE	STABILIZED MONTHLY RATE
3 Years	ZPT13	$1,100.00	$126.90
5 Years	ZPT15	1,100.00	109.98
7 Years	ZPT17	1,100.00	108.57
10 Years	ZPTIO	1,100.00	105.75

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Discounted T1 facility[1]			
3 Years	ZPTG3	550.00	126.90
5 Years	ZPTG5	-	109.98
Discounted T1 facility, provisioned on a T3, per T1 facility activated[1,2,3]			
3 Years	ZP3H3	550.00	126.90
5 Years	ZP3H5	-	109.98

[1] Requires a 3- or 5-year contract for ISDN Trunk Connections in addition to this rate.
[2] One Service Configuration is required for each T1 facility.
[3] Also requires a T3 facility and multiplexing specified elsewhere.

Service Configurations

	USOC	STABILIZED NONRECURRING CHARGE	STABILIZED MONTHLY RATE
23B + D			
3 Years	ZPXB3	$1025.00	$340.00
5 Years	ZPXB5	1025.00	292.00
7 Years	ZPXB7	1025.00	280.00
10 Years	ZPXBO	1025.00	280.00
24B			
3 Years	ZPXC3	1025.00	340.00
5 Years	ZPXC5	1025.00	292.00
7 Years	ZPXC7	1025.00	280.00
10 Years	ZPXCO	1025.00	280.00
23B + Back-up D			
3 Years	ZPXD3	1025.00	340.00
5 Years	ZPXD5	1025.00	292.00
7 Years	ZPXD7	1025.00	280.00
10 Years	ZPXDO	1025.00	280.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Discounted Service Configurations[1]

	USOC	STABILIZED NONRECURRING CHARGE	STABILIZED MONTHLY RATE
23B + D			
3 Years	ZPXJ3	$512.50	$340.00
5 Years	ZPXJ5	-	292.00
34B			
3 Years	ZPXK3	512.50	340.00
5 Years	ZPXK5	-	292.00
23B + Back-up D			
3 Years	ZPXL3	512.50	340.00
5 Years	ZPXL5	-	292.00

[1] Requires a 3- or 5-year contract for ISDN Trunk Connections in addition to this rate.

ISDN Trunk Connection, per B-channel

	USOC	STABILIZED NONRECURRING CHARGE	STABILIZED MONTHLY RATE
3-Year Plan			
Call-By-Call			
2-Way[1]	PT332	$66.00	$57.00
Dedicated			
Inward[1]	PT331	65.50	57.00
Outward	PT330	43.50	23.60
2-Way[1]	PT332	66.00	57.00
5-Year Plan			

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Call-By-Call			
2-Way[1]	PT332	-	54.00
Dedicated			
Inward[1]	PT351	-	54.00
Outward	PT350	-	21.60
2-Way[1]	PT352	-	54.00
UAS Network Connections, per T1 facility			
3-Year Plan			
Two-Way	NW023	600.00	1,100.00
In-Only	NW013	600.00	1,100.00
5-Year Plan			
Two-Way	NW025	-	1,100.00
In-Only	NW015	-	1,100.00

[1] Separate Did Trunk Termination charges do not apply.

INDIVIDUAL CASE ISDN

1. Recurring and nonrecurring charges, for customers other than those subscribing to Single Line Service or Primary Rate Service, will be determined on individual case-by-case basis (ICB) and specified in the associated contract. The ICB prices will apply in addition to applicable charges for other services as provided in this and other Company tariffs. The following provisions also apply.

2. Network Access Facilities may be required to provide connections with other switching arrangements and the exchange and toll network and are subject to charges the same in amount and application as specified herein.

3. The contract period offered will be negotiable between the Company and the customer.

4. The USOCs applicable for ISDN charges will be specified on the associated contract.

5. Contracted Individual Case ISDN is subject to the termination provisions set forth herein.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

F. MISCELLANEOUS EXCHANGE AND NETWORK SERVICE OFFERINGS

1. Extra Exchange Line Mileage

Mileage charges apply in connection with semipublic telephone lines which are located outside of the base rate area, but within the exchange area, and which have not had a rate structure established by means of zoning or a locality special rate area.

2. Miscellaneous Switching Arrangements for Night, Sunday and Holiday Service

A private branch exchange customer may be furnished with special numbers to assist in handling incoming calls at periods, outside of business hours, when the private branch exchange is not attended. Such a special number can, by the use of one of the customer's private branch exchange trunks, be associated with a station of the private branch exchange. All calls for the special number then are terminated at that station. Only one station line shall be connected to each special number.

The monthly rate for each special Night, Sunday, and Holiday number including the directory listing, is as follows:

	USOC	MONTHLY RATE
Night, Sunday and Holiday number, each	NCB	$2.20

3. Toll Restriction Service

a. Selective Class of Call Screening (Customnet Service)

Selective Class of Call Screening Service enables a customer to restrict outgoing toll calls from station users to only those calls which are charged to the called telephone, a third number or a Company credit card account or to fully restrict outgoing long distance calls.

All local calls and calls to Company numbers such as repair service, Directory Assistance Service and public emergency service numbers such as 911 will be permitted from the establishment.

This service is available only where facilities permit. Change or addition charges apply when customers change the existing Call Screening on the line or add Call Screening to a line.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Per access line equipped	SRG	$25.00	$3.00

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

To change restriction option, per occasion	NRCK5	25.00	-

b. Toll Diversion

Toll diversion, which restricts station users from the toll network, is not intended for use with standard installations. Where the service arrangement dictates that toll diversion be provided (schools, hospitals, and similar institutions), the diverting equipment is installed on a "per trunk" basis.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
- Per Trunk Equipped	TD7	$10.00	$6.25

c. Billed Number Screening

Billed Number Screening provides a customer the capability of restricting collect and/or third number billing to his/her telephone number.

Callers attempting to place a bill to third number or collect call to an equipped line will be advised by the operator that such billing is unauthorized and another form of billing is required.

Some calls, originating from locations that do not have screening capabilities, may not be capable of being intercepted and denied. These calls, e.g., International calls and calls that do not go through the Billing Validation Authority data base, will be billed to the customer if completed.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Residence	RTVXQ	$12.50	-
Business	RTVXQ	12.50	-

d. Toll Restriction

Toll Restriction provides for exchange access lines or trunks to be restricted from dialing sent paid toll calls. Local directory assistance calls are allowed. Attempted violation of the restrictions are routed to an announcement.

This service is offered, subject to the availability of existing CO facilities, to individual line residence, individual line business and dial switching type customers.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Provision of Toll Restriction does not alleviate customer responsibility for completed toll calls. Subscription to services that incorporate Toll Restriction may prevent the completion of 1-plus local calls. Toll Restriction is available to Lifeline customers without charge.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. Per line or trunk arranged	KX9	$25.00	$3.00
a. Per line or trunk arranged[1]	KX9	8.50	-

[1] Applies to residence customers subscribing to Deposit Alternative Service in Credit Culture Trial.

e. Pay-Per-Call Restriction

Pay Per Call Restriction enables residential and business customers with individual line flat rate or measured rate service to prohibit dialing to 1+900 numbers. This service is subject to availability of existing central office facilities.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
- Pay Per Call Restriction, per line equipped	RTVXN	$12.50	-

f. Blocking for 10xxx1+/10xxx011+

This service prevents IOXXXI+ and IOXXXOII+ calls from being completed. Blocked calls will be routed to an announcement.

This service is offered subject to the availability of existing central office facilities. Provision of 10XXX1+/10XXX011+ Blocking does not alleviate customer response responsibility for completed toll calls.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
- Per Line, Trunk or Network			

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Access Register Arranged	RTVXY	$12.50	$0.10

4. Supplemental Billing

a. Special Billing Plan

Special billing codes, provided by the Company, may be used by customers to allocate long distance messages to specific stations, departments or accounts.

	USOC	MONTHLY RATE
Each group of 50 codes or fraction thereof[1]	BLN	$6.25

[1] Minimum charge of $12.50 per month.

5. Caller Identification Blocking Options

a. Caller Identification Blocking - Per Call

Caller Identification Blocking - Per Call, enables a customer to control the disclosure of their name and/or telephone number to a subscriber of Caller Identification (where technically feasible) by temporarily changing the public/private status indicator of the telephone number. A customer must dial a code before each call to change the indicator from public to private. "Public Status" allows delivery of the name and/or telephone number. "Private Status" prevents delivery of the name and/or telephone number. Per Call Blocking is provided at no charge.

The Company cannot guarantee that Caller Identification Blocking will be successful. The Company shall not be liable for any damages whether consequential, incidental, or special.

	USOC	MONTHLY RATE
Caller Identification Blocking, per call	N/A	-

b. Caller Identification Blocking - Per Line

Caller Identification Blocking - Per Line provides a permanent private indicator on a customer's line. Once blocking is established on the customer's line, the private status can be deactivated by the customer by dialing a code, *82 or 1182 on rotary phones, before each call, to change

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

the indicator from private to public. This one call unblock allows the name and number to be sent for that one call only.

If a line is equipped with Caller Identification Blocking - Per Line, the name and number of that line will not be delivered to any subscriber of Caller Identification. Poison control centers, hospitals, medical centers and others who might use Caller Identification will not be able to identify callers with Caller Identification Blocking - Per Line who need assistance. E911 is not affected.

The Company cannot guarantee that Caller Identification Blocking will be successful. The Company shall not be liable for any damages whether consequential, incidental, or special.

Customers who choose Caller Identification Blocking - Per Line for the first time, or when one of the following conditions occurs, will not be charged the nonrecurring charge:

- The customer is ordering new exchange access line service.
- The customer is moving their exchange access line service from one address to another address within South Dakota.

Caller Identification Blocking - Per Line will always be provided free to law enforcement, domestic violence agencies, and crisis intervention agencies (including sexual abuse agencies).

Upon certification by domestic violence agencies, crisis intervention agencies or sexual abuse agencies, volunteers working for those agencies also qualify for free line blocking.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Caller Identification Blocking - per line, first line			
Business, per line	NKM	$ 0.00	-
Residence, per line	NKM	0.00	-
Caller Identification Blocking - per line, subsequent			
Business, per line	NKS	16.00	-
Residence, per line	NKS	6.00	-

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

6. Miscellaneous Central Office Services

a. Message Delivery Service

Message Delivery Service transmits call information pertaining to all incoming calls to a Message Delivery Service customer's Multiline Hunt Group (MLHG). This information includes the following:

- The called directory number. (10 digits where available.)
- The calling directory number (if the calling number is in the same central office switch as the customer; or from other Central Offices if technically available; 10 digits where available).
- The reason for forwarding on forwarded calls such as busy or don't answer.

This information is transmitted to the customer via a Call Data Input/Output Central Office Facility between the central office switch and the customer's equipment at the customer's premises.

This service enables the customer to identify the called client on forwarded calls and provide personalized answering responses to that client's calls. Additionally, the identity of the calling directory number (if the calling number is available) will allow the customer to provide more personalized answering to the caller.

The customer must have a MLHG in the same central office switch where the Call Data Input/Output Central Office Facility terminates that is used to transmit call information and the customer client telephone number. Under certain circumstances, the MLHG may be provided from a remote switch served by the Central Office where the Call Data Input/Output Central Office Facility terminates at the discretion of the Company. This is an intra-office service where the client and the customer's MLHG and Call Data Input/Output Central Office Facility are in the same Central Office Switch or a remote switch served by the same Central Office.

The customer must have a Call Data Input/Output Central Office Facility to each central office switch where client lines are resident.

Signaling on the Call Data Input/Output Central Office Facility is ASCII asynchronous.

More than one customer MLHG may be served by the same Call Data Input/Output Central Office Facility as long as the customer's equipment can interpret the data transmitted.

When used in conjunction with Message Waiting Indication - Audible, Visual or Audible/Visual, the customer must have compatible message desk customer provided equipment.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

A Voiceband/Data Circuit (or equivalent) is required in addition to the common equipment to provide signaling between the central office and the customer's premises to provide call information and/or message waiting indication.

Message Delivery Service will be provided where technically and/or economically feasible and where sufficient demand exists to warrant the provision of the service.

Customers shall be required to sign an agreement not to disclose the calling number identified as a result of the service unless permission is given by the calling party. Customers will only use the information to complete processing of that call or to provide Voice Messaging Service.

The customer is required to provide the modem or channel interface equipment at the customer premises end of the Call Data Input/Output Central Office Facility.

It is the customer's responsibility to ensure that requests from the customer's CPE to activate or deactivate Message Waiting Indication (via the Call Data Input/Output Central Office Facility) shall be made only for end user client's telephone numbers equipped with a Message Waiting Indication feature. Repeated invalid activation or deactivation requests for the same telephone number may adversely affect the network and, therefore shall be considered as a CPE trouble condition.

The following charges apply in addition to the charges applicable to the associated service.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Call Data Input/Output Central Office Facility, each	FCX	$400.00	$450.00
Per Multiline Hunt Group Terminating in Call Data Input/Output Central Office Facility	FHZPA	150.00	15.00
Call data, each line arranged	MBH	5.00	3.75

b. Message Waiting Indication

(1) Audible

Message Waiting Indication - Audible is a feature whereby subscribing clients will hear an audible interrupted tone when lifting the receiver, giving an indication of a message waiting for the client at the client's chosen Message Delivery Service provider. The

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

tone will be initiated by the provider over the provider customer's telephone line. The client may call the provider for their message or ignore the tone and place a call. The tone will continue until the message has been retrieved.

Each provider client subscribing to Message Waiting Indication - Audible must have their line programmed to accept Message Waiting Indication.

The provider must subscribe to Message Delivery Service in order to provide this

The rates and charges for this service are in addition to all rates and charges for the associated underlying service.

The nonrecurring charge to change the service is the same as the charge to install it.

Only one nonrecurring charge will apply when one or more Custom Calling features are ordered at the same time, for the same customer, on the same line. (See Custom Calling Services herein.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Each client line arranged			
Business	MWW	$11.00	$0.25
Residence	MWW	6.00	0.05

(2) Visual

Message Waiting Indication - Visual is a feature whereby subscribing clients will see a visual alerting signal giving an indication of a message waiting for the client at the client's chosen Message Delivery Service provider (provider). The signal will be initiated by the provider over the provider client's telephone line. The client may call the provider for their message or ignore the signal and place a call. The signal will continue until the message has been retrieved. The provider or client must provide the visual device.

Each provider client subscribing to Message Waiting Indication - Visual must have their line programmed to accept Message Waiting Indication - Visual.

The provider must subscribe to Message Delivery Service in order to provide this

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The rates and charges for this service are in addition to all rates and charges for the associated underlying service.

The nonrecurring charge to change the service is the same as the charge to install it.

Only one nonrecurring charge will apply when Message Waiting Indication and Custom Calling features are ordered at the same time, for the same customer, on the same line. (See Custom Calling Services listed herein.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Each client line arranged			
- Business	MV5	$13.00	$0.85
- Residence	MV5	11.00	0.25

(3) Audible/Visual

Message Waiting Indication - Audible/Visual is a feature whereby a subscriber will hear an audible interrupted tone when lifting the telephone receiver and see a visual alerting signal giving an indication of a message waiting. The signal will be initiated by the subscriber's Message Delivery Service provider, or other provider source capable of initiating the signal, over the subscriber's telephone line. The subscriber may call the provider for their message or ignore the signal and place a call. The tone and visual signal will continue until the message has been retrieved. The provider or subscriber must provide the visual device.

Each subscriber must have their line programmed to accept Message Waiting Indication - Audible/Visual.

The provider must subscriber to Message Delivery Service or other source capable of initiating the signal in order for this feature to function.

The rates and charges for this service are in addition to all rates and charges for the associated underlying service. The nonrecurring charge to change the service is the same as the charge to install it.

Only one nonrecurring charge will apply when Message Waiting Indication Audible/Visual and Custom Calling features are ordered at the same time, for the same customer, on the same line.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Each client line arranged			
- Business	MIW	$13.00	$1.10
- Residence	MIW	11.00	0.30

(4) Optional ONA Service Prepayment Plan

A prepayment option (lump sum) is also available in lieu of the recurring monthly rate at the election of the customer for specified Open Network Architecture (ONA) designated services. This prepayment option determination will be made solely by the Company.

A single up front payment is required for a defined quantity of units for a specified contract period at the applicable present worth discount rate.

If the customer chooses to completely disconnect the service or reduce the quantity of units below the contracted quantity, no refund will be due to the customer. The minimum billing level is the entire rate for the period contracted. The plan will be discontinued if the service with which it is associated is interrupted by the Company for non-payment of charges due. No refund will be returned to the customer.

A move (same premises) or transfer (different premises within the state) of service on an out-of-service basis where the Service Agreement or Contract is regarded as continuous does not terminate the plan.

A minimum service period of 36 months is required in order to qualify for the plan. Other contract periods are 48 or 60 months. In addition, a minimum quantity of 25 units per service address is required. Unit quantities cannot be aggregated for multiple customers from the same address or from other addresses or with other products or services in order to qualify for the plan.

Nonrecurring charges, as specified, and if applicable, apply to the establishment, installation, move or change of items of service included in the prepayment plan.

The monthly charge and prepayment amount can be calculated by multiplying the monthly charge(s) herein by the present worth factor applicable to the selected prepayment period.

The time value of money used in these calculations shall be the same as that used in computing the existing rates herein for the service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. Traffic Data Report Service

Traffic Data Report Service ("TDRS") provides customers a printed summary of their traffic data on certain network facilities, e.g., individual access lines, multiline hunt groups, trunk groups, network access registers, CENTRON system features, etc. Reports are available on a one-week, a one-month or on an ongoing basis.

TDRS is available where central office facilities permit. Data included in each TDRS study, i.e., usage, peg count and overflow, is contingent upon the facility or feature being studied and upon the type of central office switch. Weekly reports begin on Sunday and end on the following Saturday. The customer specifies the hours and consecutive days to be included in each report.

(1) Overflow (Attempt Failures)

Provides a count of the number of times incoming calls attempted to reach an access line or group but found all lines busy.

(2) Peg Count

Provides a count of all calls to an access line or group. In certain central offices and on certain facilities, specific peg count reports are available for abandon, attempt, delay, in-only, out-only, etc.

(3) Usage

Provides the measurement of usage, expressed in CCS (hundred call seconds), that a facility was in use.

The data provided in TDRS will be not less than 90 percent complete. Studies that are less than 90 percent complete will be treated as follows:

(1) One Week Reports

(a) Customer Accepts Incomplete Report

Issue credit adjustment towards nonrecurring charge.

(b) Customer Does Not Accept Incomplete Report

Reschedule another week at no additional charge, or adjust customer bill; no charge for report.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(2) One Month and Ongoing Reports

(a) Customer Accepts Incomplete Weekly Report

Issue credit adjustment

(b) Customer Does Not Accept Incomplete Report

Reschedule another week at no additional charge, or adjust customer bill for incomplete week.

The terms and conditions above constitute the customer's sole recourse for incomplete reports.

Ongoing and monthly reports are produced on a weekly basis. Monthly reports contain a minimum of four weeks (consecutive) of data.

The minimum service period (billing) for TDRS is as follows:

REPORT DURATION	MINIMUM SERVICE PERIOD
One week	One week
One month	One month
Ongoing	Two months

TDRS will be provided at the following rates and charges:

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Service Establishment Charge, per account, per order	TFDO1	$ 30.00	-
TDRS study, per facility, i.e., individual access line, group or queue			
- One week	TFPAW	120.00	-
- One month	TFPAM	210.00	-
- Ongoing	TFPAO	90.00	$120.00
TDRS study for dedicated common block features measurements			

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- One week	TFPBW	500.00	-
- One month	TFPBM	950.00	-
- Ongoing	TFPBO	350.00	600.00

	CREDIT ADJUSTMENT
Credit adjustment applicable when a customer accepts a less than 90 percent complete weekly report	
Each facility study	
One week	$ 30.00
One month	15.00
Ongoing	10.00
Each dedicated common block features/measurements study	
One week	135.00
One month	60.00
Ongoing	40.00

d. Disaster Recovery Services

(1) Contingency Plan Service

Contingency Plan Service provides the customer with the ability to activate predefined standby telecommunications services by notifying the Company. Activation of the customer's contingency plan will occur within 2 hours, under normal circumstances, after notification to and verification by the Company.

The customer will be required to provide the proper security information (ID number and password) in order to activate Contingency Plan Service.

The Company will furnish Contingency Plan Service where facilities permit.

Contingency Plan Service may be activated 24 hours a day, 7 days a week by notifying the Company.

The standby telecommunications service associated with Contingency Plan Service must be in place or subscribed to at the same time as Contingency Plan Service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The testing process may include - plan review with customer prior to test, coordinate test activity, validate customer notification procedure, resolve service inconsistencies and return service to pre-test configuration. It is the customer's or their authorized representative's responsibility to verify all features and/or elements of the Contingency Plan.

First occurrence per 12 month period - one test will be provided with each 12 month period at no additional charge to the customer.

Additional testing per occurrence - additional test occurrences requested by the customer will be charged the associated nonrecurring charge, per occurrence.

Contingency Plan Service provides the following:

- Accelerated activation of predefined services.
- Testing of predefined services.

(a) Service Establishment

The administration of the initial customer service request and testing of the predefined service configuration.

(b) Activation

The implementation of the customer's predefined contingency plan configuration for purposes other than testing.

(c) Occurrence

Each separate occasion that the contingency plan configuration is implemented, for testing or activation purposes.

(d) Testing

The implementation of the Contingency Plan Services for a predetermined interval to enable the customer and Company an opportunity to verify service quality and contingency planning operations.

(e) Call Redirection

Call Redirection enables customers to call the Company to activate Call Forwarding-Variable on their exchange access lines, data lines, two-way PBX

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

trunks and CENTRON station lines to protect against outages in the local loop and premises disasters.

(f) Call Redirection Capability For DID Numbers

Enables customers to activate Call Redirection for up to 10 of their most critical DID numbers. The only limits, as to the volume of calls or the number of locations that calls may be redirected, are defined by the associated Contingency Plan selected (A thru D).

(g) Administration

An administrative change to a predefined Contingency Plan Service configuration.

Contingency Plan A

- Activation of call redirection for 1, but not more than 3 predefined numbers.

- Activation of a predefined quantity of access facilities.

Contingency Plan B

- Activation of call redirection for 1, but not more than 6 predefined numbers.

- Activation of call redirection group for 1, but not more than 2 interoffice call redirection facilities.

- Activation of a predefined quantity of access facilities.

Contingency Plan C

- Activation of call redirection for 1, but not more than 10 predefined numbers.

- Activation of call redirection group for 1, but not more than 4 interoffice call redirection facilities.

- Activation of a predefined quantity of access facilities.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Contingency Plan D

- All other Contingency Plan Services not specified in one of the above contingency plans will be provided on an individual case basis.

Rates and charges for Contingency Plan Service are in addition to the rates and charges for any other services associated with Contingency Plan Service.

Nonrecurring charges, as specified elsewhere, will apply when adding or changing services associated with Contingency Plan Service.

	USOC	NONRECURRING CHARGE
Contingency Plan A		
Service Establishment Charge	SBYAX	$1,020.00
Activation, per occurrence	SBAAX	750.00
Testing		
- First occurrence, per 12 month period	N/A	-
- Additional occurrence, per occurrence	SBTAX	250.00
Change activation plan, per change	REAFH	120.00
Contingency Plan B		
Service Establishment Charge	SBYBX	1,205.00
Activation, per occurrence	SBABX	950.00
Testing		
- First occurrence, per 12 month period	N/A	-
- Additional occurrence, per occurrence	SBTBX	350.00
Change activation plan, per change	REAFJ	120.00
Contingency Plan C		
Service Establishment Charge	SBYCX	$1,400.00
Activation, per occurrence	SBACX	1,050.00
Testing		
- First occurrence, per 12 month period	N/A	-
- Additional occurrence, per occurrence	SBTCX	450.00
Change activation plan, per change	REAFK	120.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Contingency Plan D			
Service Establishment Charge		SBYDX	ICB
Activation, per occurrence		SBADX	ICB
Testing			
- First occurrence, per 12 month period		N/A	-
- Additional occurrence, per occurrence		SBTDX	ICB
Change activation plan, per change		REAFL	ICB

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Call Redirection Capability, per DID number equipped[1]	C2R	$9.50	$4.75

[1] Requires one of the Contingency Plans A through D.

(2) Business Continuation Routing

Business Continuation Routing provides the customer with the ability to activate predefined standby telecommunications services by notifying the Company. Business Continuation Routing will provide call redirection to any telephone number selected by the customer. Basic call redirection is considered to be redirection from one number to another. The customer may choose to redirect their calls using up to three options. In order to receive calls at their number, one of the options must redirect calls to that number. Only one option can be activated at any point in time. Business Continuation Routing is available on DSS trunks, PBX trunks, DID trunks, business exchange access lines, US WEST Single Line ISDN lines, Primary Rate Service ISDN lines and Centrex type station lines.

Service Establishment

The administration of the initial customer service request and testing of the predefined service configuration.

Activation

The implementation of the customer's predefined plan configuration.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Occurrence

Each separate occasion that the plan configuration is implemented for activation purposes.

Group

A group is a group of telephone numbers that will be redirected in the same way. For example, if redirection is requested, all telephone numbers within that group will be redirected. Another example is, if the customer chooses to have option three active in a particular group, then all main numbers in this group will be redirected according to the service option for that number.

Number Establishment or Change Charge

The creation of database elements allowing network forwarding to take place. Includes implementation of and or change to any option of a customer telephone number provisioned in the network.

Activation

The act of properly notifying the Company to invoke a pre-established Business Continuation Routing option by the customer.

The Company will finish Business Continuation Routing where facilities permit. Business Continuation Routing may be activated 24 hours a day, seven days a week by notifying the Company.

The standby telecommunications service associated with Business Continuation Routing must be in place or subscribed to at the same time as Business Continuation Routing.

Suspension of service, either full or partial of Business Continuation Routing, is not permitted.

Should the customer opt to redirect calls to an intra/interLATA exchange telephone number, the customer will be responsible for the selection of the interexchange carrier and all associated rates and charges billed by the interexchange carrier.

The Company will not be responsible for verification or working status of telephone numbers chosen by the customer for their option selections.

Each group may have a maximum of three redirect options. In all cases the first option will be the called number. For the second and third options, the actual telephone numbers that calls are being redirected to do not have to be the same.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The customer must forward all telephone numbers in a group. A group may be a floor, department, building, or some other breakdown other than the whole organization. These groups must be preassigned upon the establishment of the service.

Each group may have a maximum of three redirect options: the original telephone number plus up to two additional telephone numbers. The customer may call the Company as frequently as desired to redirect the calls to any of the group options preassigned.

The Company reserves the right to invoke a throttling process that could block calls in order to protect extraordinary traffic loads on the network, in the event that call loads could be hazardous to the network.

Rates and charges for Business Continuation Routing are in addition to the rates and charges for any other services associated with Business Continuation Routing.

Nonrecurring charges, as specified elsewhere, will apply when adding or changing services associated with Business Continuation Routing.

A Service Establishment charge will apply for Business Continuation Routing. This charge will apply again if the customer changes the service or reestablishes Business Continuation Routing at a later date.

Extraordinary Networking rates and charges will be developed on an individual case basis when unique engineering and/or customer specified dedicated investment is required.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Service Establishment Charge[1]	SEPCS	$150.00	-
Number Establishment or Change Charge	REAKY	8.50	-
Digital Switched Service capability, per Digital Switched Facility[2,3,4]	C2RDX	-	$75.00
Access Line/Trunk capability, per line and/or trunk[3,4]	C2RLX	-	3.50

[1] Applies on initial installation only.
[2] The maximum number of telephone numbers in a DSS facility is 144.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(I) A maximum of ten numbers can be used in any one hunt group for Business Continuation Routing forwarding without incurring extraordinary network charges.

(M) Includes the first Company activation occurrence in a month or 30 day period not to exceed 48 hours of continuous operation. Date for billing purposes is determined when the service is restored to normal condition or monthly, whichever occurs first.

	USOC	NONRECURRING CHARGE	MONTHLY RATE	DAILY RATE
Activation Charge[1]				
- 2nd or more occurrences, in a month or 30 day period or continuance of first occurrence beyond 48 hours of activation	SBAXA	$100.00	-	$200.00
Group Establishment Charge, per group[2]	SEPCU	50.00	-	-

(M) Includes the first Company activation occurrence in a month or 30 day period not to exceed 48 hours of continuous operation. Date for billing purposes is determined when the service is restored to normal condition or monthly, whichever occurs first.

(I) Does not apply to the first group on initial installation.

7. Voice Messaging Service

a. Residence Voice Messaging Service

Residence Voice Messaging Service (VMS) provides an audio mailbox to record, store, retrieve, review, save and to handle audio messages for residence customers. The service will greet incoming callers with a personal or a standard greeting in either English or Spanish. It provides audio prompts and personal security codes for customers and users of the service. Customers can send, reply and copy/forward messages to others on the same local messaging system as well as send messages to others on the same messaging system without having to dial their telephone numbers/mailbox numbers one at a time. Customers can access the service from any tone signaling telephone. Listed below are the types of VMS available to residence customers.

VMS will be provided 24 hours per day, 7 days per week.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The Company may disconnect without advance notice, any VMS which is used in such a manner as to prevent, obstruct, delay or otherwise interfere with the service of other users.

The Company, at its discretion, may change the customer interface such as the recorded prompts and directions, the length of time available for leaving messages, the number of messages which may be left and other aspects of the service without prior notice to the customer.

Customers subscribing to MARKET EXPANSION LINE may subscribe to Mailbox Only. These customers would not subscribe to another Call Forwarding feature nor would Message Waiting Indication be necessary.

The Company may apply, at no charge, additional features for the purpose of enhancing service. Easy Access, removal of the audio logo and the restart function are examples of these features.

Customers may save up to 35 messages for up to 100 days. Additional message capacity may be purchased as below.

The rates and charges for VMS with CFBDA/MWI or CFBDA/MWI-S include the provision of Call Forwarding-Busy Line/Don't Answer and Message Waiting Indication.

Except as otherwise indicated, the rates and charges for VMS are in addition to all rates and charges for the associated service.

When, at the request of the customer, changes are made to existing VMS, the nonrecurring charge shall apply.

Changes in the ringing cycle associated with the Call Forwarding Busy Line/Don't Answer feature may be charged for in accordance with the charges for that feature

The rates and charges may not apply to customers who subscribe to VMS during the term of a Voice Messaging promotion. A promotion may be in the form of a coupon offer. The periods and provisions of such promotion will be determined by the Company.

Mailboxes

(1) Call Forwarding-Busy Line/Don't Answer with Message Waiting Indication

This capability is provided by equipping a customer's telephone service with Call Forwarding-Busy Line/Don't Answer (CFBDA) and with Message Waiting Indication (MWI) in addition to a voice messaging mailbox. CFBDA automatically forwards incoming calls to the mailbox when the customer's telephone line is busy or does not answer. MWI provides a stutter dial tone when messages are waiting.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(2) Call Forwarding-Busy Line/Don't Answer with Message Waiting Indication Simultaneous (CFBDA/MWI-S)

This capability is provided by equipping a customer's telephone service with CFBDA and with MWI in addition to a voice messaging mailbox. CFBDA automatically forwards incoming calls to the mailbox when the customer's telephone line is busy or does not answer. CFBDA/MWI-S provides a simultaneous stutter dial tone and light indicator when messages are waiting.

(3) Mailbox Only

This capability is provided by equipping a customer's telephone service with a voice messaging mailbox only. It does not include any other service or feature. Customers subscribing to Mailbox Only must have their lines equipped with a Call Forwarding feature at rates and charges specified elsewhere. In addition, customers wishing to receive notification of new messages waiting to be retrieved, must have their lines equipped with Message Waiting Indication at rates and charges specified elsewhere.

b. Optional Features

(1) Message Notification

This option provides for the delivery or notification of new messages to a different location other than the customer's mailbox number. The customer has the option of sending messages to another telephone number or pager. The customer will have the ability to turn the notification on or off.

(2) Additional Message Capacity

This option allows customers to have additional capacity added to their mailbox which will allow them to save either an additional 50 or 100 messages for a maximum of 100 days. Customers who subscribe to Extension Mailbox may only purchase an additional 50 messages.

(3) Extension Mailbox

This option gives the customer three reduced function mailboxes, in addition to their personal mailbox. Messages can be left for any of these extension mailboxes by pressing certain digits on a tone signaling telephone. Each of the extension mailboxes can have a personal greeting which is played after the caller makes a selection. Messages left in an extension mailbox can only be retrieved using the extension mailbox's security code.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Mailboxes, each line arranged[1]			
With CFBDA/MWI	VMJXA	$6.00	$6.95
Discounted[2]	V4DXA	-	4.95
With CFBDA/MWI-S	VMJXB	6.00	6.95
Discounted[2]	V4DXB	-	4.95
Mailbox only	VMIXX	6.00	6.95
Discounted[2]	V4DXX	-	4.95
Optional Features, each line arranged[3]			
Additional Message Capacity			
50 Messages	VMCIX	-	3.00
100 Messages[4]	VMC2X	-	6.00
Extension Mailbox	VBS	-	2.00
Discounted[2]	V5D	-	1.00
Message Notification	VFN	-	3.00
Discounted[2]	V6D	-	2.00
Spanish	S8V	-	-

[1] The nonrecurring charge does not apply when changing from one type of Voice Messaging to another.
[2] Discounted rate applies when this mailbox is added as a part of CUSTOMCHOICE.
[3] The nonrecurring charge applies only when ordered subsequent to the installation of service.
[4] This feature is not available with Extension Mailbox.

c. Business Voice Messaging Service

Business Voice Messaging Service (BVMS) can answer incoming calls, placed to the customer's telephone line, when the called number is busy or if the called number is not answered. The service will greet incoming callers with a personal or a standard greeting in either English or Spanish. It then receives and saves the caller's messages for review by the customer. Customers can retrieve messages left for them from any tone signaling telephone.

The minimum service period for BVMS is one month. BVMS will be provided 24 hours per day, 7 days per week.

BVMS will be provided where technically and/or economically feasible and where sufficient demand exists to warrant the provision of the service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Customers subscribing to Voice Mail mailbox should have their lines equipped with Call Forwarding - Variable, Call Forwarding Busy Line, Call Forwarding Don't Answer, Call Forwarding Busy Line/Don't Answer, or Remote Access Forwarding/Scheduled Forwarding in order to transport their calls to the voice response unit. Customers wishing to receive notification of messages waiting to be retrieved must have their lines equipped with message waiting indication.

The Company does not guarantee this service. However, in the event of an interruption to the service which is not due to the negligence or willful act of the customer or the premises facilities beyond the Demarcation Point, a pro rata adjustment of the monthly charge for the service will be allowed. The adjustment will be allowed during the time said interruption continues for 24 hours or more. The customer must contact the Company within a reasonable time (generally 30 days) or the Company may not be able to provide the adjustment.

The sole remedy for errors, omissions and out of service conditions, even if it is the Company's fault, is the out of service credit. The Company shall not be liable for any other damages regardless of the theory, whether direct, indirect, incidental, special or consequential.

The Company makes no warranties to the customer and it expressly excludes and disclaims any implied warranties such as warranties of fitness for a particular purpose or merchantability.

The Company's voice messaging systems are designed to accommodate the user whose primary need is to have the user's telephone answered and messages taken on occasions when the user cannot or chooses not to answer the telephone. This service is not for use as an information service product that may be used by information providers whose primary use is to communicate information to a large number of callers or for use on other than a business exchange access line. If the Company determines that the customer will use the service as an information service, the Company reserves the right not to sell the service, or if the customer is using it as such, the Company may cancel the service.

The Company may disconnect, without advance notice, any BVMS which is used in such a manner as to prevent, obstruct, delay or otherwise interfere with the service of other users.

The Company, at its discretion, may change the customer interface such as the recorded prompts and directions, the length of time available for leaving messages, the number of messages which may be left and other aspects of the service without prior notice to the customer.

The Company may apply, at no monthly charge, additional features for the purpose of enhancing service. Easy access, Spanish, and the restart function are examples of these features.

Any long distance or usage charges that may be generated when using Call Routing to Number will be the responsibility of the Call Routing to Number customer.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Customers with a Voice Mail mailbox may save up to 35 messages for up to 100 days. Additional message capacity may be purchased as specified below.

During a Call Router Traffic Study, changes may not be made to the menu selections because changes will invalidate the report data.

The nonrecurring charges may not apply to customers who subscribe to BVMS during the term of a BVMS promotion. The periods and provisions of such promotion will be determined by the Company. A promotion may be in the form of a coupon offer.

The monthly rate may be refunded to customers who subscribe to BVMS during the term of a BVMS promotion. The periods and provisions of such promotion will be determined by the Company. A promotion may be in the form of a coupon offer.

The CRTS monthly rate applies for each menu selection on the call router being studied.

Changes in the ringing cycle associated with the Call Forwarding-Busy Line/Don't Answer feature will be charged for in accordance with the rates and charges for that feature.

The "add and/or change..." nonrecurring charge applies for each mailbox added or changed.

The rates and charges for BVMS are in addition to all rates and charges for the associated underlying service.

(1) Mailboxes

The following mailbox is available with BVMS. This mailbox is provided on a stand-alone basis, in association with one or more additional mailboxes, or withone or more options.

Voice Mail

This mailbox answers incoming calls placed to the customer when their telephone number is busy or if the call is not answered. The Voice Mail mailbox can greet callers with a personal or standard greeting. The mailbox receives and saves the caller's message for review by the customer. The basic features of the Voice Mail mailbox include Route To Other Number, personal and Extended Absence Greeting, security code, receiving and disposing of messages, pause, skip-forward, skip-backwards and replay of messages. Customers can also send, reply and copy/forward messages to others on the same local messaging system without having to dial their telephone numbers/mailbox numbers one at a time. Customers can retrieve messages left for them from any tone signaling telephone. It does not include any other service or feature. Customers subscribing to VoiceMail must have their lines equipped with a Call

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Forwarding feature at rates and charges specified elsewhere. In addition, customers wishing to receive notification of new messages waiting to be retrieved, must have their lines equipped with Message Waiting Indication at rates and charges specified elsewhere.

Call Forwarding-Busy Line/Don't Answer and Message Waiting Indication-Audible

This capability is provided by equipping a customer's telephone service with Call Forwarding-Busy Line/Don't Answer (CFBLDA) and with Message Waiting Indication-Audible (MWI-A) in addition to the Voice Mail mailbox. CFBLDA automatically forwards incoming calls to the mailbox when the customer's telephone line is busy or does not answer. MWI-A provides a stutter dial tone when messages are waiting.

Call Forwarding-Busy Line/Don't Answer and Message Waiting Indication Audible/Visual

Equipping a customer's telephone service with CFBLDA and with MWI-A/V in addition to a Voice Mail mailbox provides this capability. CFBLDA automatically forwards incoming calls to the mailbox when the customer's telephone line is busy or does not answer. MWI-A/V provides a simultaneous stutter dial tone and light indicator when messages are waiting.

Call Forwarding- Don't Answer and Message Waiting Indication- Audible

This capability is provided by equipping a customer's telephone service with Call Forwarding-Don't Answer (CFDA) and with Message Waiting Indication-Audible (MWI-A) in addition to the Voice Mail mailbox. CFDA automatically forwards incoming calls to the mailbox when the customer's telephone line does not answer. MWI-A provides a stutter dial tone when messages are waiting.

Call Forwarding-Don't Answer and Message Waiting Indication- Audible/Visual

Equipping a customer's telephone service with CFDA and with MWI-A/V in addition to a Voice Mail mailbox provides this capability. CFDA automatically forwards incoming calls to the mailbox when the customer's telephone line does not answer. MWI-A/V provides a simultaneous stutter dial tone and light indicator when messages are waiting.

Call Routing

This feature is a front-end call routing service, using menu selections, that helps callers make quick connections to a particular customer's or department's mailbox by pressing

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

single digits on a tone signaling telephone. This feature is used with two or more Voice Mail mailboxes. Calls placed to a call router may be directed to another call router. This feature is not technically compatible with an Extended Absence Greeting.

Call Routing to Number

This feature is a front-end call routing service, using menu selections, that helps touch-tone callers make quick connections to a particular customer's or department's Voice Mail mailbox, or another local or 800/800 type telephone number. Below are the potential options a caller will have once they are in the call routing mailbox:

- Route to a Voice Mail mailbox, leave a message or press "O" and route to the customer's attendant, and/or,

- Route to another telephone number. If this number is busy, isn't answered, or is answered by some form of telephone answering, the caller will not be routed back to the original routing mailbox.

Calls routed via this service may route to numbers within the same local calling area or 800/800 type numbers. The customer has the option of selecting a default option for calls placed from rotary dial telephones. This feature must be used in conjunction with two or more Voice Mail mailboxes that are billed to the same telephone number.

This feature is not technically compatible with an Extended Absence Greeting.

Additional Message Capacity

This option allows customers to have additional capacity added to their mailbox that will allow them to save either an additional 50 or 100 messages for a maximum of 100 days. Additional message capacity of 100 messages is not compatible with Extension mailboxes.

Call Router Traffic Study (CRTS)

A CRTS is a custom report that identifies, by call router, the number of calls routed to each menu selection. CRTS is available to customers subscribing to Call Routing and/or Call Routing to Number feature(s).

Data is available only on a monthly basis, i.e., the report period starts on the first day of a month and ends on the last day of that month. Studies may be requested for one or more months. Rotary calls will be included in the return to other number count.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Extension Mailbox

This option gives the customer three reduced function mailboxes, in addition to their personal mailbox. Messages can be left for any of these Extension Mailboxes by pressing certain digits on a tone signaling telephone. Each of the Extension Mailboxes can have a personal greeting that is played after the caller makes a selection. Messages left in an Extension Mailbox can only be retrieved using the individual Extension Mailboxes' security code. This option is not technically compatible with Scheduled Greetings or an Extended Absence Greeting.

Message Notification

This option provides for the delivery or notification of new messages to a different location other than the customer's mailbox number. The customer has the option of sending notification or messages to another number in their BVMS system, or notification only to a local telephone number or pager. A notification schedule may be established to call the customer immediately when new urgent messages are left in the customer's mailbox or when any message is left. The customer will have the ability to turn the notification on or off.

Scheduled Greetings

This option offers the customer the ability to have two separate greetings that would play at different times during the workday. These "open" and "closed" greeting times would be controlled by the customer. The customer can also designate that either of these greetings be played at different times during the weekend.

Month to Month Rates

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Add and/or change route and or Route to Other Number, per mailbox/router[1,2,3]	REAVD	$10.00	-

(1) Charge does not apply to optional features when associated with a new mailboxes being activated or when optional features are ordered subsequent to initial installation of associated mailbox.

(2) Customers may make from one to ten number changes to each call router associated with Call Routing or Number with each order placed. This note does not apply to changes in the Call Routing feature.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(M) Charge does not apply to add Extension Mailbox.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Mailboxes, each			
Voice Mail	MBB,MBBXA	$10.00	$12.75
- Discounted[1]	MBJ	-	11.00
- Discounted[2]	N/A	-	10.75
- With CFBLDA & MWI-A[3]	VVMAD	[4]	16.00
- With CFBLDA & MWI-AVI[3]	VVMAE	[4]	19.35
- With CFDA & MWI-A[3]	VVMAF	[4]	17.00
- With CFDA & MWI-AVI[3]	VVMAG	[4]	17.85

(D) The discounted rate applies when subscribed to in association with a SMARTSET Plus Package. No nonrecurring charge will apply if subscribed to on the same order as a SMARTSET Package.

(D) The discounted rate applies when subscribed to in association with Business CUSTOMCHOICE. No nonrecurring charge will apply if subscribed to on the same order as Business CUSTOMCHOICE.

(I) Nonrecurring charge applies in addition to the nonrecurring charge for voicemail mailbox.

(N) Nonrecurring charge is equal to the nonrecurring charge associated with the installation of message waiting indication and call forwarding features.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Optional mailboxes, each			
Call Forcing	VPH,VPHXA	-	$3.00

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Call Routing to Number	VJMXU.VJMXV	-	12.00
Optional features, per mailbox, each			
Additional Message Capacity			
50 Messages	VMCIX	-	3.00
100 Messages	VMC2X	-	6.00
Call Router Traffic Study, per menu selection	VTM+X	-	5.00
Call Router Traffic Study, add on charge, per menu selection	SEPVS	$39.00	-
Extension Mailbox	VBS	-	5.00
Message Notification	VFN	-	3.00
Scheduled Greetings	VGT	-	3.00

Monthly Rates - Volume Discounted

Volume discounts are offered to customers, which allows customers to pay a guaranteed fixed monthly rate for Voice Messaging over a 1 - to 6-year period. Customers who sign an agreement are guaranteed against Company initiated changes in the monthly rates for the length of the agreement. The minimum service period for these agreements is 12 months and mailbox quantities may vary within the contracted price category. The terms specified herein apply.

The nonrecurring charges are specified above.

12 To 23 MONTHS	24 To 35 MONTHS	36 To 59 MONTHS	60 To 72 MONTHS

Mailbox, each

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

1 - 5	$11.48	$11.22	$10.84	$10.84
6 - 15	11.22	10.84	10.46	10.20
16 - 40	10.84	10.46	10.20	9.95
41 - 150	10.46	10.20	9.95	9.56
151 - 300	10.20	9.95	9.56	9.18
301 +	10.20	9.56	9.18	8.93

	12 To 36 MONTHS	37 To 60 MONTHS
2 - 5	$10.20	$10.20
6 - 15	10.20	10.20

	12 To 23 MONTHS	24 To 35 MONTHS	36 To 59 MONTHS	60 To 72 MONTHS
Optional Features, Per Mailbox, each				
Additional Message Capacity - 10 Messages	$2.50	$2.25	$2.00	$1.75
Message Notification	2.50	2.25	2.00	1.75
Extended Greetings	2.50	2.25	2.00	1.75

5. Fax Services

5.1 Enhanced Fax Services

Enhanced Fax Services allow customers with or without their own facsimile (fax) machines to send/receive faxes. Faxes can be held during busy line periods, sent to one or more numbers automatically, sent to specific numbers at specific times of day, and stored electronically for callers to request.

For Fax Mail Plus, FAXREQUEST, and Broadcast Fax the customer must provide the Company with billing information for associated long distance calls.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Call Forward Busy Don't Answer, specified in 5.4.3, is required for NEVER BUSY FAX.

Facsimile

An electronic method of transmitting or receiving images or printed matter; more commonly known as fax.

Prime/Non-Prime/Midnight Special

Prime, non-prime and midnight special indicate the time of day, at the senders location, that the FAX is sent. Prime is from 7:00 AM to 7:00 PM. Non-prime is from 7:00 PM to 12:00 AM and 4:00 AM to 7:00 AM. Midnight special is from 12:00 AM to 4:00 AM.

Never Busy Fax

This service allows a customer's incoming faxes to be stored in memory for later delivery if the fax machine is busy, out of paper, or turned off.

Broadcast Fax

This service allows a customer to send documents to many locations simultaneously by faxing a document once to a Broadcast Fax number. This service allows the customer to create, edit, and delete distribution lists. At the customer's request, the Company will create, edit, and delete distribution lists at the charges specified below.

Features include stop, reschedule, and delete broadcast. The customer can also monitor documents and monitor broadcasts in progress.

Fax Mail Plus

This service allows customers to receive and store fax documents, as well as, broadcast or forward fax documents to multiple locations. As Fax Mail Plus receives faxes, the customer can be notified by voice mail or pager. The customer may direct their fax documents to any fax machine or fax modem equipped personal computer for printing.

This service includes Broadcast Fax capabilities except the features and monitoring.

Fax Request

Customers subscribing to FAXREQUEST can have a caller select pre-stored documents and direct them to any fax machine, including the fax machine from which the call is made. The caller must use a tone signaling phone or tone signaling fax machine. Callers accessing a

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

FAX REQUEST number from outside the local calling area will incur long distance charges, unless the FAX REQUEST number is an 800 number.

- 1 Call, 1 Document

The customer stores one document. The caller must be calling from a fax machine or fax modem equipped personal computer. The document will be sent over the same transmission.

- 2 Call, 1 Document

The customer stores one document. The document is sent to a specific fax telephone number entered by the caller so the caller need not call from a fax machine or fax modem equipped personal computer.

- 1 Call, Document/Directory

The customer can store 2 to 25 documents. The caller enters the number of the document requested or requests the directory. The caller must be calling from a fax machine or fax modem equipped personal computer. The document will be sent over the same transmission.

- 2 Calls, Document/Directory

The customer can store 2 to 25 documents. The caller enters the number of the document requested or requests the directory. The document is sent to a specific fax telephone number entered by the caller so the caller need not call from a fax machine or fax modem equipped personal computer.

- Custom

The customer may choose either the 1 call or 2 call method of document delivery. Custom also provides additional feature functionality.

	NONRECURRING CHARGE	MONTHLY RATE
MAYA BUSYFAX, per number[1,2]	$10.00	$12.95
Standard Fax, per number	25.00	12.95
Fax Mail Plus, per number	25.00	15.95
FAX REQUEST		

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

1 Call, 1 Document	25.00	12.95
2 Calls, 1 Document	25.00	12.95
1 Call, Document/Directory	25.00	25.00
2 Calls, Document/Directory	25.00	25.00
Custom		
1-10 Documents	40.00	25.00
11-50 Documents	75.00	50.00
51-100 Documents	150.00	100.00
101-200 Documents	200.00	150.00
201-500 Documents	500.00	250.00
501-1000 Documents	1,000.00	500.00

[illegible] Rates and charges for Call Forward Busy Don't Answer, specified herein, also apply.
[illegible] Monthly rate includes an allowance of 25 fax pages.

Per Usage Charges

The following charges are billed on a per page basis.

	Cover Sheets Send/Forward	Per Page Received	Send Prime	Send Non-Prime	Send Midnight Special
Voice Busy					
Fax [illegible]		$0.21	-	-	-
Broadcast Fax	$0.10		$0.21	$0.16	$0.12
Per Additional Page	0.10	0.21	0.21	0.16	0.12
Fax Storage			0.25	0.25	-

Volume Discounts

Volume discounts are applied, per customer bill, to the total amount of Enhanced Fax Service charges billed each month.

TOTAL BILLED REVENUE	DISCOUNT PERCENTAGE
$ 0 - $ 500	0%
$501 - 2,500	5%
2,501 - 5,000	10%
5,001 - 7,500	15%
7,501 +	20%

[illegible]

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

[redacted]

The following charges apply if, at the customer's request, the Company establishes/maintains their broadcast fax lists.

	CHARGE
Identify the fax number and create the broadcast list, per name	$1.00
Data entry for lists of fax numbers, per name and telephone number	0.50

[redacted] Fax Usage Charge applies, per page, after the 25 page monthly usage allowance.

[redacted] Rate Stability Plan (RSP)

The RSP is an arrangement whereby customers who agree to continue to subscribe to any of the Enhanced Fax Services for a designated period of time are guaranteed against Company initiated changes in the monthly rates for those services during the designated period.

Movement, rearrangement or other subsequent action on any of the services are subject to applicable nonrecurring charges.

All new Enhanced Fax Services installed under the RSP are subject to applicable nonrecurring type charges as specified above. Rate Stability for all service and facilities provided under the RSP terminate [redacted].

[redacted] Call Report Services

[redacted] Call Data Collection and Transmission Service

Call Data Collection and Transmission Service ("CDCT") provides an ASCII data file of incoming call traffic. The data from the ACSII file may generally include: time, date, calling party number, calling party name (when available), ZIP code, busy, no answer and length of answered call, etc. If the calling party has line blocking for caller identification, the data will only provide the area code, prefix and five digit ZIP Code, it will not provide the name or line number. The data file is sent to a third party authorized vendor or the customer acting as their own vendor. Data from multiple lines and/or locations in one or multiple states served by the Company are merged into one chronological file. The file is sent over the Internet to the customer (acting as the vendor or their vendor a minimum of once a day.

The customer must specifically authorize the collection and transfer of the traffic data and provide the vendor a written letter of authorization.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

If the customer establishes itself as a vendor, it must meet the Company's technical requirements. To receive the data, the customer must:

- have a personal computer running WINDOWS 95 or WINDOWS NT;
- provide encryption capabilities;
- have Internet access and FTP capability;
- provide a server with the ability to accept FTP transfers using an assigned user id and password (non-anonymous), with the ability to accept a minimum of 1 gigabyte of data per 24 hour period;
- provide connection to the server 24 hours per day/7 days per week;
- secure a connection to their Internet Service Provider with sufficient bandwidth to ensure file transfers at a rate of 200 kbps per second.

If the customer's vendor discontinues service, the customer must choose another vendor, establish itself as a vendor, or discontinue CDCT.

Vendors must meet the Company's technical requirements. The vendors must produce a written letter of authorization from the customer before the Company will send the data files. The Company may verify the authorization directly with the customer.

To receive the data, the vendor must:

- have a personal computer running WINDOWS 95 or WINDOWS NT;
- provide encryption capabilities;
- have Internet access and FTP capability;
- provide a server with the ability to accept FTP transfers using an assigned user id and password (non-anonymous), with the ability to accept a minimum of 1 gigabyte of data per 24 hour period;
- provide connection to the server 24 hours per day/7 days per week;
- secure a connection to their Internet Service Provider with sufficient bandwidth to ensure file transfers at a rate of 200 kbps per second.

Monitoring call data of individual customers is the vendors responsibility. Any suspected or actual missing data must be reported to the Company within 24 hours of receipt of data.

It is the vendor's responsibility to notify their customers of any changes in their business activities which would affect their customer's CDCT service, such as discontinuance of service.

The Company is not responsible for disputes between the customer and their vendor or with respect to any claims made by calling parties. The Company will discontinue the service immediately upon notice or request from the customer.

THE SOLE REMEDY FOR ERRORS, OMISSIONS AND OUT OF SERVICE CONDITIONS, EVEN IF IT IS THE COMPANY'S FAULT, IS THE OUT OF SERVICE CREDIT. THE COMPANY IS NOT

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

LIABLE FOR ANY OTHER DAMAGES, REGARDLESS OF THE THEORY, WHETHER DIRECT, INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL.

THE COMPANY MAKES NO WARRANTIES TO THE CUSTOMER AND IT EXPRESSLY EXCLUDES AND DISCLAIMS ANY IMPLIED WARRANTIES SUCH AS WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE OR MERCHANTABILITY.

The Company uses the ordinary Caller ID type network data for the service, and it has no liability or obligation to alter, change or refine this standard data.

The Per Number charge is billed to the end-user customer. A change charge will apply to the end user for changing vendors or changing telephone numbers with CDCT. The charge applies per order. Usage is billed to the vendor per Data Delivery Destination. The applicable usage rate is the total monthly aggregate of all end-user call data from all lines in all states served by the Company.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Business:			
• Per Number	ADC++	$25.00	$5.00
• Change Charge, per order	REAK2	10.00	-
Vendor:			

Monthly aggregate all numbers/all states	USAGE RATE PER CALL[1]
0 - 99,999	$0.014
100,000 - 999,999	0.013
1,000,000 - 1,999,999	0.012
2,000,000 - 4,999,999	0.011
5,000,000 and above	0.010

[1] The total number of calls at the end of the month determines the usage rate the customer will be billed.

b. Trackline Plus Service

TRACKLINE PLUS is a service for use with Call Data Collection and Transmission Service. TRACKLINE PLUS is a forwarding telephone number only, which originates and terminates in the same central office as the customer selected business telephone number it is associated with.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

When a customer activates TRACKLINE PLUS on their service, all incoming calls are automatically routed to the customer-selected business telephone number. The TRACKLINE PLUS telephone number is assigned for the purpose of facilitating the tracking of call data. This arrangement would normally be associated with a single advertisement or an advertising campaign.

TRACKLINE PLUS service is only available in association with Call Data Collection and Transmission Service (or products and services that use Call Data and Transmission Service).

A condition of providing TRACKLINE PLUS is that the customer orders sufficient facilities to adequately handle calls to the TRACKLINE PLUS number without interfering with or impairing any services offered by the Company. TRACKLINE PLUS allows ten simultaneous calls to be in progress at the same time. If, in the Company's opinion, additional TRACKLINE PLUS access paths are required at the call forwarding location or if facilities are needed at the terminating station, the customer will be required to subscribe to the additional required facilities. Customers who require additional simultaneous call capability must purchase additional capacity in increments of ten call paths. Should the customer refuse to subscribe to additional facilities, the customer's TRACKLINE PLUS service will be subject to termination.

A white page directory listing is not provided with this service since the purpose of this service is to test the effectiveness of the TRACKLINE PLUS number in advertisements.

In addition to the monthly rate for the service, usage is billed for each call placed to the TRACKLINE PLUS number that is forwarded to the business line.

In addition, Call Data Collection and Transmission Service rates and charges also apply.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
TRACKLINE PLUS, per number	RCF + +	$25.00	$5.00
Additional access paths, per 10 paths	RFV	-	5.00
			USAGE RATE
Usage per number, per call			[1]

[1] Usage rates apply as specified herein.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. Call Reports Service

CALL REPORTS Service provides summaries and analysis of various details on incoming calls. Call elements used in the summaries and analysis may generally include the time, date, calling party number, calling party name (when available), ZIP code, busy, no answer and length of answered call.

Call data is dependent upon the technology available.

Reports are provided on a per telephone number basis and are available either weekly or monthly. The same report frequency must be used for all telephone numbers on each account.

Weekly reports begin on Monday and end on the following Sunday. Monthly reports cover a full calendar month, not associated with the customer's bill date.

If the customer is not satisfied with the quality of call data and discontinues the service, the Company will refund all charges for the reporting period.

The reports will be delivered via accessing an Internet Website, floppy disk or paper. Shipping and Handling charges may apply depending upon the customer's choice of report delivery. The delivery mode must be the same for all lines on each account.

The customer may authorize a third party to access their data. With written permission, the Company allows CALL REPORTS for multiple lines or accounts be accessed by the customer's consultant.

If the calling party has line blocking for caller identification, the reports will only provide the area code, prefix and five digit ZIP Code.

The rates and charges include the provision of Call Data Collection and Transmission Service. Reports are billed on a per telephone number basis. Pricing tiers may be different per line on an account. There is no charge for the customer to change their pricing tier. The tier level in effect at the end of the month will be the pricing level billed to the customer.

Consultant Access to multiple reports is charged on a per account basis. Usage charges do not apply.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE	OVERAGE USAGE RATE
Per telephone number				
Monthly/Weekly Reports	KDB++, KDD++			
- Tier 1 0-1,000 calls		$50.00	$ 25.00	
Over 1,000 calls				$0.030
- Tier 2 0-2,500 calls		50.00	58.00	
Over 2,500 calls				0.025
- Tier 3 0-5,000 calls		50.00	115.00	
Over 5,000 calls				0.024
- Tier 4 0-10,000 calls		50.00	220.00	
Over 10,000 calls				0.023
- Tier 5 0-25,000 calls		50.00	500.00	
Over 25,000 calls				0.021
Consultant Access[1] multiple accounts per account	OAC	15.00	5.00	-

[1] This charge applies only if added after initial installation of CALL REPORTS Service.

Contract Pricing

In addition to the currently listed prices for Call Reports, contracted pricing is also available.

G. MISCELLANEOUS SWITCHED DIGITAL SERVICE OFFERINGS

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

DIGITAL SWITCHED SERVICE

1. Digital Switched Service ("DSS") provides digital exchange service for PBX customers. DSS includes a DSS facility, common equipment, local exchange switching and flat usage trunks for access to the local exchange and toll networks. Each DSS facility utilizes 24 channels which may be configured as either basic or advanced trunks, as defined below, or a combination of both types of trunks.

2. DSS Facility and Common Equipment includes the digital DSS facility, transmitting at a rate of 1.544 Mbps, and the common equipment necessary to interface each of the 24 channels into the central office switch. The DSS signal provided to the customer's premises will have a loss not greater than 16.5 dB. DS3 Service is a channel for point-to-point, two-way, digital transmission at a rate of 44.736 Mbps. A maximum of 28 DSS facilities may be provisioned on DS3 Service.

3. The DSS facility may be provided, at the customer's request, via a fiber optic facility.

4. DSS is provided subject to the availability of central office facilities.

5. The type of DSS facility installed will be determined by the Company.

6. Each DSS facility enables the customer to install up to a maximum of 24 trunks per DSS facility. The customer is billed for the actual number and types of trunks in service on each DSS facility.

7. The minimum service period for the DSS facility and common equipment is one month. The minimum service period for trunks is one month.

8. The following services will not be provided within the DSS facility:

   c. Local exchange trunks and lines as described in this Tariff (except for: Toll Access Trunks)
   e. Feature groups A, B, C or D
   f. Other private line/access services and facilities unless specified herein
   d. SWITCHNET 56

9. Suspension of service is only available for trunks and only if all trunks within the facility are suspended.

10. Loop Diversity and Avoidance, as defined herein are available with DSS. Customers subscribing to Loop Diversity must also subscribe to additional DSS facilities, common equipment and trunks for the secondary route. Customers subscribing to Avoidance must pay DS1 ICB transport channel rates, between the local serving office and the alternate serving office.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

11. The DSS facility and common equipment may be provided from a foreign central office or foreign exchange at the DS1 interoffice mileage rates specified in the Private Line Transport Services Catalog. DS1 interoffice mileage discounts may be applicable. Associated charges will be applied to the DSS facility and common equipment and will not apply to the trunks.

12. Voice Grade 32 and Voice Grade 33 circuits, and 56 kbps and 64 kbps Digital Services are available with DSS on vacant DSS facility channels at regulations, rates and charges specified herein.

13. Customers are required to provide muxing/demuxing, at the customer premises, for trunks riding the DSS facility, if appropriate.

14. The DSS facility and common equipment for all advanced trunks may be provisioned on an existing DS3 facility.

15. Basic Trunks

    a. In-Only Trunk: a one-way trunk which only allows traffic from the central office switch to be transmitted to the PBX.

    b. Out-Only Trunk: a one-way trunk which only allows traffic originating in the PBX to be transmitted to the central office switch.

    c. Two-Way Trunk: a trunk which allows for traffic to be transmitted from either the central office or the PBX.

16. Advanced Trunks

    a. In-Only with DID Trunk: an in-only trunk with Direct Inward Dialing (DID) feature. Requires a DID trunk circuit termination.

    b. Out-Only Trunk with Answer Supervision: an out-only trunk with answer supervision feature. This feature passes answer back signaling from the central office switch to the customer's PBX when a PBX call has been either completed or answered.

    c. Two-Way Trunk with DID and Answer Supervision: a two-way trunk with DID and answer supervision features. Requires a DID trunk circuit termination.

    d. Two-Way Data Trunk with DID: a two-way trunk with DID at a transmission speed of 56 kbps. Requires a DID trunk circuit termination and hunting.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

DSS will be provided at the following rates and charges:

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Stand alone DSS facility and common equipment, per 24 channel facility			
All basic trunks or a combination of basic and advanced trunks [1]	D7W	$1100.00	$310.00
All advanced trunks [1]	D7Z	1100.00	150.00
DSS facility and common equipment provisioned on DS1 Service, per DSS facility activated			
All advanced trunks	D3F	1100.00	-
Basic trunks with flat usage, each			
In-only trunk with hunting	T2DIX	86.00	30.00
Out-only trunk	T2DOX	85.00	30.00
Two-way trunk with hunting	T2DCX	86.00	30.00

[1] Same nonrecurring charge applies to change the system from all basic combination trunks to all advanced or vice versa.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Advanced trunks with flat usage, each			
In-only trunk with DID and hunting [1]	T2JIX	$81.00	$23.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Out-only trunk with answer supervision	T2JOX	87.00	23.00
Two-way trunk with DID, hunting, and answer supervision [1]	T2JCX	82.00	23.00
Two-way data trunk [1]	T2JCD	82.00	23.00

Nonrecurring charge charges apply as follows:

	USOC	NONRECURRING CHARGE
DS1 Facility and Common Equipment Change Charge		
Change system from all basic/ combination channels to all advance or vice versa.	N/A	[2]
Trunk Change Charges		
Miscellaneous changes within the categories of basic or advanced.	REAFZ	$ 38.00
Change from basic trunks to advanced trunks or vice versa.	REAFI	62.00
Add, change to or from, or rearrange hunting arrangement within a trunk group.	REAF2	39.00

[1] Requires an appropriate Direct Inward Dialing trunk circuit termination at rates and charges as found here.

[2] Same nonrecurring charges as for initial installation.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

DIGITAL SWITCHED SERVICE RATE STABILITY PLAN

The Digital Switched Service Rate Stability Plan ("RSP") is an optional payment arrangement, offered under contract between the Company and the customer. DSS RSP allows a customer to pay a guaranteed fixed monthly rate for the DSS facility and common equipment over a 3-year to 10-year period, and/or, receive stabilize monthly rates and discount nonrecurring charges for DSS Advanced Trunks with DID over a 3-year and 5-year period.

The following rates apply for rate stabilized DSS facility and common equipment.

	USOC	NONRECURRING CHARGE	STABILIZED MONTHLY RATE
DSS facility and common equipment, per 24 channel facility			
1 year			
All basic trunks or a combination of basic and advanced trunks	D7W2X	$1,100.00	$290.00
All advanced trunks	D7Z2X	1,100.00	126.90
Discounted DS1 with advanced trunks only [1]	D7ZD3	550.00	126.90
3 years			
All basic trunks or a combination of basic and advanced trunks	D7W3X	1,000.00	275.00
All advanced trunks	D7Z3X	1,000.00	109.98
Discounted DS1 with advanced trunks only [1]	D7ZD5	-	109.98
7 years			
All basic trunks or a combination of basic and advanced trunks	D7W4X	$1,100.00	$275.00
All advanced trunks	D7Z4X	1,100.00	108.57

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

10 years

All basic trunks or a combination of basic and advanced trunks	D7W5X	1,100.00	275.00
All advanced trunks	D7Z5X	1,100.00	105.75

Discounted DS3 facility and common equipment provisioned on DS3 Service, per DS3 facility activated [1]

1 years - All advanced trunks	D3FD3	$585.00	-
3 years - All advanced trunks	D3FD5	-	-

[1] Requires a 1- or 3-year contract for trunks in addition to this rate.

DIGITAL SWITCHED SERVICE VOLUME DISCOUNT PLAN

The Digital Switched Service Volume Discount Plan is available to customers subscribing to more than 50 DSS trunks at one premises on one customer billing number. The discounted rate, specified below, begins with the 51st DSS trunk at the same customer premises. Discounted trunks must be subscribed to by the same customer but the customer billing number may be different than the initial 50 trunks.

Trunks other than DSS trunks, utilizing the DSS common equipment, will not be discounted. Rates and charges for DSS facility and common equipment specified above apply to the DSS facility and common equipment and are not part of the Volume Discount Plan.

Rates and charges for 51 trunks and above are as follows:

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Basic trunks with flat usage, each			
Incoming trunk with hunting	2LMIX	$86.00	$25.50
Outgoing trunk	2LMOX	86.00	25.50
Two-way trunk with hunting	2LMCX	86.00	25.50

Advanced trunks packaged with DID trunk terminations are available on a rate stabilized basis. The following rates apply for under 241 trunks. Trunks in quantities of 241 or more, shall be priced on an Individual Case Basis.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE		STABILIZED MONTHLY RATE
5 Year Plan				
Advanced trunks with flat usage, each [1]				
In-only trunk with DID	TY413	$65.50	$57.00	
Out-only trunk with answer supervision	TY403	43.50	23.60	
Two-way trunk with DID and answer supervision	TY4C3	66.00	57.00	
3 Year Plan				
Advanced trunks with flat usage, each [1]				
In-only trunk with DID	TY415	-	54.00	
Out-only trunk with answer supervision	TY405	-		21.60
Two-way trunk with DID and answer supervision	TY4C5	-	54.00	
[1] Separate DID Trunk Termination charges do not apply.				
Advanced trunks with flat usage, each				
In-only trunk with DID and hunting [1]	2LJIX	$81.00	$19.55	
Out-only trunk with answer supervision	2LJOX	87.00	19.55	
Two-way trunk with DID, hunting and answer				

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

supervision [1]	2LJCX	82.00	19.55
Two-way data trunk [1]	2LJCD	82.00	19.55

(1) Requires an appropriate Direct Inward Dialing trunk circuit termination at rates and charges as found herein.

SWITCHNET 56 SERVICE

1. SWITCHNET 56 Service is a single-party, four wire conditioned service which is capable of switching and transmitting 56 kilobits per second of digital data. This service will allow for the transmission of 56 kilobits of data per circuit, both intraLATA and interLATA. This Tariff addresses intraLATA. In addition, the SWITCHNET 56 Service will be used in conjunction with Feature Group D to complete interLATA/interstate calling.

2. SWITCHNET 56 Service is furnished only in central office areas where adequate facilities are available. Central offices will be equipped for this service based on customer demand and at the discretion of the Company.

3. SWITCHNET 56 is a measured data access line service. The restriction against combining flat and measured service at the same location does not apply to SWITCHNET 56 Service.

4. Usage for SWITCHNET 56 is a bulk local summary statement on the bill.

5. Operator handled calls can not be completed on this service. Access to 911 and 411 is not available.

6. This service will be available to customers who are served from a central office that is compatible with the SWITCHNET 56 central office equipment. This offering is provided subject to the availability of appropriate network facilities. Mileage rates and charges as specified herein will apply to customers who are served out of a serving central office that is not compatible for SWITCHNET 56.

7. SWITCHNET 56 may be ordered on a month-to-month basis or under a fixed service agreement of one, three or five years.

8. When service is provided on a month-to-month basis, the minimum period for which rates and charges are applicable is one month.

9. When service is discontinued prior to the expiration of the one month minimum period, a one month charge will apply at the rates in effect at the time service is discontinued.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

10. Service provided under the non-stabilized month-to-month plan may be upgraded to fixed-period plans at any time without the customer incurring any nonrecurring or discontinuance charges.

11. The fixed-period service agreements allow the customer to order service with the assurance that during the period of the service agreement monthly rates for the purchased service will not exceed the levels in effect at the time the service is ordered, except as may be ordered by the South Dakota Public Utilities Commission.

12. The customer must specify the length of the fixed-period service at the time the service is ordered.

13. At the end of the fixed-service period, the customer may negotiate a new fixed period service agreement, convert to month-to-month service or may terminate service. The monthly rates will be those rates in effect at the time the new service period begins. Should the customer not make a choice by the end of a fixed service agreement, service rates will automatically revert to those in effect for the month-to-month option. If service is continued under any of the pricing plans, including non-stabilized month-to-month, nonrecurring charges will not apply.

14. If a rate decrease occurs during a customer's fixed-service period, the reduced rates will automatically be applied to the remaining term of the service agreement in effect at that time.

15. Fixed period service may be obtained in increments other than those mentioned above. Any increment longer than one of the above mentioned fixed periods but less than the fixed period will be charged at the rate of the shorter fixed period.

The following rates apply to SWITCHNET 56 Service:

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Month-to-Month	SM6	$460.00	$52.80
1 Year Contract	SZ1	460.00	47.50
2 Year Contract	SZ3	460.00	42.75
3 Year Contract	SZ5	460.00	37.50
Per minute usage charge			$0.02

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

UNIFORM ACCESS SOLUTION SERVICE

1. Uniform Access Solution ("UAS") Service provides an arrangement that allows channels to function with one number per channel group. UAS includes a DS1 facility with common equipment and a network connection which provides switching for local exchange and toll network access. Each DS1 facility utilizes I through 24 channels configured with trunk-side termination and one number functionality.

2. A Channel Group is a set of channels that are traffic engineered as a unit for the establishment of connections between switching systems in which all of the communications paths are identical.

3. The DS1 facility transmits at a rate of 1.544 Mbps, and includes common equipment necessary to interface each of the channels into the central office switch. The DS1 signal provided to the customer's premises will have a loss not greater than16.5 dB.

4. The Network Connection provides switching to the local exchange and toll networks, and includes the channel trunk-side configuration for the entire DS1 facility. The Network Connection can be ordered with in-only or out-only functionality.

5. The type of DS1 facility installed will be determined by the Company. A fiber optic facility will be engineered if requested by the customer.

6. The minimum service period for UAS is one month.

7. The following services will not be provided with UAS:

   a. PBX trunks
   b. Feature groups A, B, C or D
   c. Other private line/access services and facilities unless specified herein
   d. Basic exchange enhancement
   e. Joint User Service
   f. SWITCHNET 56 Service

8. Temporary suspension of service is not available for UAS service.

9. Loop Diversity and Avoidance are available.

   a. Customers subscribing to Loop Diversity must also subscribe to additional UAS Service for the secondary route.

   b. Customer subscribing to Avoidance must pay DS1 transport channel rates between the local serving office and the alternate serving office.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

10. UAS Service may be provided on a Foreign Central Office basis.

11. UAS Service is not available for use by Commercial Mobile Radio Carriers and Private Mobile Radio Carriers in the provision of service to their customers ' and Interexchange Carriers in the provision of access service to their customers. Other digital services are offered by the Company for interconnection specifically for these carriers.

12. UAS Service may be provisioned on an existing DS3 facility.

13. The UAS Service Rate Stability Plan is an optional payment arrangement, offered under contract between the Company and the customer.

14. UAS Service will be provided at the following rates and charges. The following nonrecurring charge applies to add or change UAS Service. UAS DS1 facility and common equipment in quantities greater than 10 shall be priced on an Individual Case Basis.

	USOC	NONRECURRING CHARGE	MONTHLY RATE
One DS1 facility with common equipment, per facility			
Month to Month	DIOXM	$1,100.00	$ 150.00
Rate Stability Plan- 3 years	DIOX3	1,100.00	126.90
Rate Stability Plan- 5 years	DIOX5	1,100.00	109.98
Rate Stability Plan- 7 years	DIOX7	1,100.00	108.57
Rate Stability Plan- 10 years	DIOXJ	1,100.00	105.75
One DS1 facility with common equipment provisioned on DS3 Service, per each DS1 facility activated [1]	D30	1,100.00	-
UAS Network Connection, per DS1 facility	NWO	1,200.00	1,100.00
Two-Way Network Connection, per DS1 facility	NW02X	1,200.00	1,100.00
Rate Stability Plan - 3 years	NW023	600.00	1,100.00
Rate Stability Plan - 5 years	NW025	-	1,100.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Point-to-Point Network Connection, per DS1 facility	NWOIX	1,200.00	950.00
Rate Stability Plan - 3 years	NW013	600.00	950.00
Rate Stability Plan - 5 years	NW015	-	950.00

(D) Also requires a DS3 facility and multiplexing specified herein.

INTEGRATED T-1 SERVICE

1. Integrated T-1 Service ("IT1") provides a 1.544 mbps private line facility from the customer's premise to the USW serving wire center. IT1 includes a DS1 facility, common equipment, local exchange switching and 24 flat rated channels for access to the local exchange and toll networks. Each IT1 facility utilizes 24 channels which may be configured to provide the services as defined below, or a combination thereof.

2. IT1 is provided subject to the availability of Company facilities, and the type of IT1 facility installed will be determined by the Company. Each IT1 facility enables the customer to configure up to a maximum of 24 channels per IT1 facility. The minimum contract period for the IT1 facility and common equipment is one year. IT1 is only offered on 1, 3 and 5 year contracts. Business EAS rates (as specified above) apply. Terms, conditions, rates and charges, as described in Section 5, apply as appropriate. When 800 Service lines terminate on a IT1 facility, the 800 Service access lines are classified as basic voice channels for the application of the IT1 facility and common equipment rates and charges. 800 Service rates and charges also apply. Customers are required to provide muxing/demuxing, at the customer premises, for channels riding the IT1 facility. The customer or the customer's authorized agent will be responsible for the procurement of associated customer premises equipment (CPE) and will ensure compatibility with the IT1 service. The customer is responsible for channel assignments terminated on the IT1 facility. The IT1 facility and common equipment may be provisioned on an existing DS1 facility. The customer can obtain any standard features associated with ISDN as provided herein.

3. Single Line ISDN Service includes a comprehensive 2B + D package. Contained in the standard package are numerous voice and data features. The standard features and functions support two terminals per BRS. Within the standard package there is limited flexibility for customization and various optional features can be added. Single Line ISDN Service does not offer B-channel packet service capabilities.

4. The customer is responsible for placement, installation, operation, maintenance, repair and replacement of all inside wire (including riser cable), not owned by the Company, and CPE that the customer uses in connection with this service. Premises wiring and CPE must be compatible with the Company's provision of IT1 service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

5. If an IT1 service interruption, disconnection, error, performance failure, or some other out-of-service condition occurs the service will be restored within four hours after the customer gives the Company notice of such out-of-service condition, except for problems caused by the customer's actions, inside wiring, interface or CPE. ISDN channels have an eight hour repair commitment but this is the only exception. An out-of-service credit will be applied to the customer's bill if the IT1 is totally out of service. Credits do not apply to the individual channels. The credit for the IT1 service is not to exceed the monthly rate. If the outage is in excess of the guaranteed time frames the credit formula is as follows:

- 4 hours up to but not including 8 hours	$ 60.00
- 8 hours up to but not including 16 hours	70.00
- 16 hours up to but not including 24 hours	80.00
- 24 hours and over	100.00

6. Because of CPE selected by the customer or the customer's agent, some of the features offered may function differently, may not be available or may be required to be offered via an access code.

7. 2B+D ISDN Single Line Service Channels and Frame Relay Dedicated Digital Data Channels are available only from ISDN or Frame Relay equipped central offices.

8. IT1 Facility and Common Equipment includes the digital DS1 facility, transmitting at a rate of 1.544 Mbps, and the common equipment necessary to interface each of the 24 channels into the Company's equipment.

9. Advanced Voice Channel

   a. In-Only Channel with DID

In-only channel with Direct Inward Dialing (DID) feature. Requires a DID channel circuit termination.

   b. Out-Only Channel with Answer Supervision

Out-only channel with answer supervision feature. This feature passes answer back signaling from the central office switch to the customer's CPE when a call has been either completed or answered.

   c. Two-Way Channel with DID and Answer Supervision

Two-way channel with DID and answer supervision features. Requires a DID channel circuit termination.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

C. Basic Voice Channel

1. U-Only Channel

One-way channel which only allows traffic from the central office switch to be transmitted to the CPE.

2. Out-Only Channel

One-way channel which only allows traffic originating in the CPE to be transmitted to the central office switch.

3. Two-Way Channel

Channel which allows for traffic to be transmitted from either the central office or the CPE.

D. Basic ISDN 2B + D Single Line Service

Basic ISDN 2B + D Single Line Service consists of two B (Bearer) channels and a D (Delta) channel. Basic ISDN 2B + D Single Line Service requires three sequential distinct channels on an IT1.

1. B Bearer Channel

The B-channel transports circuit-switched voice and/or data communications at speeds up to 64 kbps, from the customer's premises to the central office via an IT1 facility.

2. D Delta Channel

The D-channel carries signaling and/or packet data information at speeds up to 16 kbps on Basic ISDN 2B + D from the customer's premises to the central office. The D-channel has both data and signaling functionality, but does not have voice capability.

E. Basic Dedicated Digital Data Channel

Basic Dedicated Digital Data Channels are provided on an IT1 for 56 kbps or 64 kbps transmission of synchronous serial data. The actual bit rate is a function of the channel interface selected by the customer where applicable. The circuit provides a synchronous service, with timing provided by the Company through the Company's facilities, to the customer in the transmit bit stream. The Basic Dedicated Digital Data Channel as part of a DDS circuit is provided between customer-designated premises, between a customer-designated premises and a Company hub or designated digital wire center, or between Company hubs or designated digital wire centers.

(Continued)

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

16. Frame Relay Dedicated Digital Data Channel

Frame Relay Dedicated Digital Data Channel provides access to Frame Relay Service (FRS). Frame Relay Dedicated Digital Data channels are configured at 56 or 64 kbps speed. One or more Frame Relay Dedicated Digital Data channels can be aggregated to provide such access. Utilizing statistical multiplexing, FRS enables users to allocate circuit bandwidth to applications as needed, up to the maximum bandwidth purchased, rather than assigning fixed channels to specific applications.

(T) will be provided at the following rates and charges:

	USOC	NONRECURRING CHARGE	CONTRACT RATE
(T) Service			
1 year plan	EHID1	$1,600.00	$925.00
2 year plan	EHID2	1,000.00	879.00
3 year plan	EHID3	500.00	833.00

Nonrecurring charge charges apply as follows:

	USOC	NONRECURRING CHARGE
Miscellaneous changes or rearrangement of facilities		
per IT1 facility	REALD	$135.00
Channel Change Charges		
Miscellaneous changes, additions or rearrangements of any channels within the IT1, per channel changed	REALE	30.00

16. PRIVATE LINE TRANSPORT SERVICES

Private Line Transport provides a transmission path between customer designated premises or customer designated premises and a Serving Wire Center. Company Centrex CO-like switches are considered to be customer designated premises for purposes of administering and providing Private Line Transport.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

There are several types of services used to provide Private Line Transport. Each type has its own characteristics. All are subdivided by one or more of the following:

- Transmission specifications
- Bandwidth
- Speed (i.e., bit rate)

Customers can order a basic channel and select from a list of available transmission performance and channel interfaces, those that they desire to meet specific communications requirements.

For purposes of ordering channels, each has been identified as a type of Private Line Transport. However, such identification is not intended to limit a customer's use of the channel nor to imply that the channel is limited to a particular use.

Following is a brief description of each type of service:

1. Low Speed Data

A channel for the transmission of low speed loop status signals of up to 150 baud and for the transmission of McCulloh type alarm signals.

a. Basic Circuit Description

These unconditioned channels are capable of transmitting low speed varying signals at rates up to 30 baud or binary signals at rates of 0-150 baud. Low-Speed Data Channels are furnished and rated from a POT to a POT or bridging location to a POT. These channels are furnished on a two-point or multipoint basis.

Information pertaining to the technical specifications and compatible channel interfaces is set forth herein.

b. End-Link or Mid-Link Application

This application is intended for customers requiring Private Line Transport as part of an overall circuit, extending beyond the LATA. Several Channel Performances are available to facilitate compatibility and a mechanized Design Layout Report (DLR) is available to the customer to assist in their overall design. The network channel interface between the Company facility and the remainder of the overall circuit is referred to as the Mid User-POT (Point of Termination). The network channel interface that is at the terminating end of the overall circuit is referred to as the End User-POT. Following are the service categories that normally apply to the End-link or Mid-link application.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(1) Service Categories

(a) LS1 - A circuit suitable for signal transfer rates up to 30 baud. This service is provided over metallic or other appropriate facilities. This service is provided on a two-point basis only. The transmission interfaces are provided on a two-wire basis only. [1]

[1] When used as a control type channel, a CPE key may also be required.

(b) LS2 - A circuit suitable for transporting the three-level signal used in the McCulloh loop signaling system at speeds up to 15 baud. This service is provided over metallic or other appropriate facilities. This service is provided on a two-point or multipoint basis. The transmission interfaces are provided on a two-wire only basis.

(c) MT3 - A circuit suitable for the transmission of 60 Hz control signals and dc current. This service is provided over metallic facilities. This service is provided on a two-point or multipoint basis. The transmission interfaces are provided on a two-wire only basis. Available on an intra office basis only where facilities and operations permit.

(d) IG1 - A circuit suitable for the transmission of asynchronous transitions between two current levels at rates up to 75 baud. This service is provided on a two-point or multipoint basis. The transmission interfaces are provided on a two-wire or four-wire basis.

(e) IG2 - A circuit suitable for the transmission of asynchronous transitions between two current levels at rates up to 150 baud. This service is provided on a two-point or multipoint basis. The transmission interfaces are provided on a two-wire or four-wire basis.

c. End-To-End Application

This application is intended for customers requiring an overall Private Line Transport, furnished by the Company within the LATA. No DLR will be provided since the performance and maintenance will be the responsibility of the Company. The network channel interface at the terminating end of the overall circuit is referred to as the End User-POT. Following are the service categories that normally apply to the End-to-End application:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(1) Service Categories

(a) LS31 - Provides for data transfer at speeds within the range of 0 to 150 baud. The channel is further defined by speed into the following functions:

(i) 0-30 baud channels provide:

- Two-point service used for key control circuits or remote status monitoring, furnished on a two-wire only basis. [1]

- Two-point or multipoint service intended for use in McCulloh Alann-type applications, furnished on a two-wire only basis.

[1] When used as a control type channel, a CPE key may also be required.

- DC Channel (metallic channel) current or voltage interfaces on a two-wire basis. Available at the Company's option, on an intra office basis only where facilities and operations permit. This two-point or multipoint service is intended for applications where dc continuity is required.

(ii) 0-75 baud channels are available on a two-point or multipoint basis and are intended for telegraph grade applications.

(iii) 0-150 baud channels provide EIA RS 232 interfaces. The service is available on a two-point or multipoint basis and is intended for telegraph grade applications.

(2) Exchange or Mid-Link and End-To-End Application

(a) Low-Speed Data-Custom

A Custom Low-Speed Data channel may be provided upon request when parameters and/or features are not provided by the standard Low-Speed Data channels.

The Company believes that metallic facilities are in continually decreasing supply and the Company is not obligated to continue to provide such facilities. Due to facility rearrangements, continued use of metallic facilities may be denied to existing customers with no obligation on the Company's part to pay

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

customer equipment rearrangement costs. The Company will give the customer 90 days notification of the type of facility rearrangements. Metallic facilities are provided only where existing facilities and operating conditions permit.

All Network Access Channels must have the same Channel Performance. Any deviation from the established parameters on a given circuit will be handled on an individual case basis. All transmission measurements will be measured from the primary station.

Optional Features and Functions:

1. Central Office Bridging Capability

McCulloh Bridging allows the connection of up to 26 customer premises. This bridging is only available with McCulloh Alarm-type service. Telegraph Bridging allows the connection of three or more customer designated premises. Direct Bridging connects three or more customer designated premises on the DC Channel.

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
Switched or Shared		
LS1	XZY19	NT
LS2	XZY29	NU
MT3	XZY39	NV
TG1	XZG19	NW
TG2	XYG29	NY
Custom	XZYC9	MQ, NQ
Dedicated		
LS-31 Control Status	PYKAN	UY
LS-31 McCulloh Alarm Type	PYKMN	UY
LS-31 DC Channel	PYKGN	UY
LS-31 Telegraph 0-75 Baud	PYKJN	UY
LS-31 Telegraph 0-150 Baud	PYKKN	UY
Custom	PYKCN	UN

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

A. Voice Grade

A channel for the transmission of analog signals within an approximate bandwidth of 300-3000 Hz.

1. Basic Description

Voice Grade circuits are provided with a bandwidth of 300-3000 Hz designed to meet certain specifications based on Company standards of measurement for voice transmission, data transmission, remote metering, telephoto and miscellaneous signaling purposes. Such identification is not intended to limit a customer's use of the circuits nor to imply that the circuit is limited to a particular use. These circuits are not suitable for the transmission of direct current pulses. The number of stations that may be connected and the distance over which transmission is possible may be limited by operating and transmission factors. Circuits are furnished as either two-wire or four-wire on a two-point or multipoint basis.

Information pertaining to the technical specifications and compatible channel interfaces is set forth herein.

B. End-Link or Mid-Link Application

This application is intended for customers requiring Private Line Transport as part of an overall circuit, extending beyond the LATA. Several Channel Performances are available to facilitate compatibility and a mechanized Design Layout Report (DLR) is available to the customer to assist in their overall design. The network channel interface between the Company facility and the remainder of the overall circuit is referred to as the Mid User-POT (Point of Termination). The network channel interface that is at the terminating end of the overall circuit is referred to as the End User-POT. Following are the service categories that normally apply to the End-link or Mid-link application.

(1) Service Categories

(a) VC1 - Suitable for use as a basic two-point nonswitched voice circuit where the higher transmission quality of other end link services is not required. The transmission interfaces are either two-wire or four-wire.

(b) VC2 - Suitable for use as a voice two-point or multipoint private line and switched special service circuit. The transmission interfaces are either two-wire or four-wire.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- VG1 - Suitable for use as a two-point voice trunk-type circuit. The transmission interfaces are provided as either two-wire or four-wire.

- VG5 - Suitable for use as a two-point or multipoint voice grade data alarm-type circuit. The transmission interfaces may be either two-wire or four-wire.

- VG6 - Suitable for voice grade analog data circuits (Applications may be limited). This service is provided on a two-point or multi-point basis. The transmission interfaces are provided on a four-wire basis only.

- VG7 - Suitable for two-point use for a switched or nonswitched data circuit. The transmission interfaces may be either two-wire or four-wire.

- VG8 - Suitable for trunk type voice grade data circuit applications. This service is provided on a two-point basis only. The transmission interfaces are provided as either two-wire or four-wire.

- VG9 - Suitable for two-way simultaneous voice grade data circuit. This service is provided on a two-point basis only. The transmission interfaces are provided on a four-wire basis only.

- VG10 - Suitable for a specialized simultaneous two-way voice grade analog data circuit that extends US West Digital Data Service (DDS) into areas without DDS facilities. This service is provided on a two-point or multi-point basis. The transmission interfaces are provided as either two-wire or four-wire.

- VG12 - Suitable for specialized voice grade private line audio tone protective relaying circuit. High Voltage Power protection is required for provision of VG12 service. This service is provided on a two-point or multi-point basis. The transmission interfaces are provided as either two-wire or four-wire.

4. End-To-End Application

This application is intended for customers requiring an overall Private Line Transport, provided by the Company within the LATA. No DLR will be provided since the performance and maintenance will be the responsibility of the Company. The network channel interface at the terminating end of the overall circuit is referred to as the End

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

User - NOT. Following are the service categories that normally apply to the End-to-End application.

(1) Service Categories

(a) VG12 - is suitable for use as a two-point or multipoint line-type circuit. The basic channel is modified with Channel Performance providing no signaling, loop-start, automatic, manual or code-select signaling. Data capability may be added to specific combinations of loop-start signaling circuits. The loop-start signaling option provides the additional capabilities of extending the signaling ranges and of offering repeated ringing for PBX station ports.

(b) VG11 - is suitable for use as a two-point trunk-type circuit. The basic channel is modified with Channel Performance providing no signaling, E&M or ground-start signaling. Data capability may be added to specific combinations of E&M or ground-start signaling circuits.

(c) VG36 - is suitable for use as a two-point or multipoint voice grade (analog) circuit. All channels are provided with basic data transmission parameters modified by the appropriate Channel Performance. Additional conditioning parameters may be added to the basic Channel Performance. These conditioning parameters allow the section of attenuation distortion/envelope delay and intermodulation distortion as needed.

(d) Voice Grade Basic (VGB) Service is a two point and two wire transmission service designed to provide a low cost communication path between two locations served from the same wire center. This service does not provide technical specifications or signaling. There is also no guarantee of dc continuity.

(2) Subscriber or Mid-Link and End-To-End Application

(a) Voice Grade Custom (VGC)

VGC service is a voice grade service that may be "customized" by specifying any of the technical specifications for VG1 through VG12 or 32 through 36. The specifications and interfaces chosen must be compatible, technically feasible, and available.

Effective:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(2) VGC would be recommended when (1) a VG type does not meet a customers criteria, (2) parameters from more than one VG type meet the customer's requirements, (3) or the Company can provide according to the customer's specifications and the specifications are provided for in accordance with this catalog.

A. Optional Features and Functions

(1) Central Office Bridging Capability

Provides the capability to connect three or more customer designated premises. Various types of central office bridging are available as defined in the following:

(2) Resistive Bridging

For use on two-wire and four-wire Voice Grade services connected for voice or data communications.

(3) Bridge Lifter

A two-wire bridge capability that allows the connection of two stations to a single PBX or Centrex-type line.

(4) Split Frequency Bridging

An arrangement that provides for a four-wire (master station) split frequency bridge and multiple two-wire (remote station) ports. This application provides multipoint voice-frequency data or tone signaling arrangements. Two-way polling communication between the master station and each remote station is intended. Transmission between remote stations is not available. The frequency band between the master station and the remote stations is separate from the frequency band between the remote stations and the master station. The customer must designate these bands when ordering.

(5) Passive Bridging

An arrangement that provides for a two-wire (master station) common port and multiple two-wire (remote station) ports and is intended for data or tone signaling arrangements. Two-way polling communication between the master station and each remote station is intended. This service accommodates a maximum of ten points.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(6) Summation Bridging

An arrangement that provides for a two-wire (master station) common port and multiple two-wire (remote station) ports and is intended for data or tone signaling arrangements. One-way communication from each remote station to the master station is intended. The customer must insure that the combined power in the voice band of simultaneous data tones does not exceed -13dBmO.

(7) Transfer Arrangement

A bridging arrangement that affords the customer an additional measure of flexibility in the use of their Voice Grade services. This bridging capability can be utilized to transfer Private Line Transport from one circuit leg to another circuit leg that terminates in either the same or a different customer designated premises. A key activated control service is required to operate the transfer arrangement and will be rated as a Low-Speed Data (LS) channel as found in 6.1 following. The key will be provided by the customer and located at their premises.

(8) Conditioning

Conditioning provides enhanced transmission characteristics to each applicable Voice Grade service. These options allow the customer to specify attenuation distortion, envelope delay distortion, intermodulation distortion, or signal to C-notched noise. The conditioning option applies to each Network Access Channel. Refer to the Optional Features and Functions Table in 10. following and the Reference to Technical Publication preceding.

(9) Data Enhancement

Allows the customer to add data parameters to Voice Grade 32 and 33 services (i.e., for alternate voice/data type use).

(10) Effective Four-wire Transmission with Two-Wire Interface (Hybrid)

This option allows the customer to specify, where applicable, that the Company provide a four-wire transmission path throughout the network up to the two-wire transmission interface. Equipment will be required at the customer's premises to convert the four-wire channel to the two-wire transmission interface.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(11) Equal Level Echo Path Loss (ELEPL-2)

This option is available on an effective two-wire transmission at the four-wire POT. It provides for more stringent control of echo return loss and singing return loss. In order for this option to apply, the transmission path must be four-wire at one POT and two-wire at the other POT.

(12) Improved Return Loss

This option is available on effective two-wire transmission, at the two-wire POT. It provides more stringent echo control specifications. In order for this option to apply, the transmission path must be four-wire at one POT and two-wire at the other POT.

(13) Improved Termination

Where applicable, this option provides a matching 600 ohm impedance at a four-wire POT, an extended range of customer specified levels (-16 to +7 TLPi, and simplex reversal. This option requires Company equipment be placed at the customer designated premises.

(14) Data Channel Terminating Equipment

Data Channel Terminating Equipment (DCTE) is available for use on certain four-wire voice grade services. A customer powered DCTE unit is a standard provision whenever the customer specifies the DA interface code. The following options are available:

(a) The first option provides data equalization with central office powered 2713 Hz tone activated loop back relay. This option assists in providing service continuity during commercial ac power outages.

(b) The second option provides customer powered, customer selectable addressing and testing using a four digit DTMF (Dual Tone Multi-Frequency) code. The first three digits of this code select a unique station (up to 1000 different combinations) and the fourth digit selects one of three testing modes, which are: loop back, tone source or quiet termination. The customer may use the addressing and testing modes to sectionalize and terminate a station in trouble.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(c) The third option provides data equalization with customer powered, customer selectable tone activation loop back relay. The customer may select one of six available tones: 1513 Hz, 1613 Hz, 1713 Hz, 1813 Hz, 1913 Hz, 2413 Hz or 2513 Hz.

(15) Customer Specified Levels

The customer may specify transmit and/or receive levels within ranges as delineated in the appropriate technical reference. This option applies to customer specified level(s) other than the recommended level(s) shown in the technical references.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Service Information

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
End Link or Mid Link		
VG1	XZV19	LB
VG2	XZV29	LC
VG3	XZV39	LD
VG5	XZV59	LF
VG6	XZV69	LG
VG7	XZV79	LH
VG8	XZV89	LJ
VG9	XZV99	LK
VG10	XZVA9	LN
VG12	XZVC9	LR
Custom	XZVW9	LQ
End to End		
VG32	PYC2N	UC
VG33	PYC3N	UD
VG36	PYC6N	UG
VG Basic	PYC1N	UZ
Custom	PYC9N	UQ

3. Audio

A channel for the transmission of audio signals. The nominal frequency bandwidths are from 200 to 3,500 Hz, from 100 to 5,000 Hz, from 50 to 8,000 Hz or from 50 to 15,000 Hz. Audio multipoint private line channels are specially provided on a monthly basis for the closed circuit unidirectional transmission of voice and music in one direction only.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

A. Basic Description

Audio channels are provided for the transmission of non-broadcast program signals on a two-point or multipoint basis.

Audio channels are provided between customer designated premises or between customer designated premises and a Company wire center. The service arrangement is limited to the Audio service category and may not be combined with other Private Line Transport classes of service. The basic rate structure consists of the Network Access Channel, Channel Performance appropriate to the transmission level required and, if applicable, Transport Mileage from the appropriate mileage band. Service for broadcast audio purposes may be found in F.C.C. Tariff No. 1.

Information pertaining to the technical specifications and compatible channel interfaces is set forth in the Technical Publications listed under the Reference to Technical Publications preceding.

B. End-Link or Mid-Link Application

This application is intended for customers requiring Private Line Transport as part of an overall circuit, extending beyond the LATA. Several Channel Performances are available to facilitate compatibility and a mechanized Design Layout Report (DLR) is available to the customer to assist in their overall design. The network channel interface between the Company facility and the remainder of the overall circuit is referred to as the Mid User-POT (Point of Termination). The network channel interface that is at the terminating end of the overall circuit is referred to as the End User-POT. Following are the service categories that normally apply to the End-link or Mid-link application.

(1) Service Categories

(a) AP1 - provides a channel with a nominal bandpass from 200 to 3500 Hz.

(b) AP2 - provides a channel with a nominal bandpass from 100 to 5000 Hz.

(c) AP3 - provides a channel with a nominal bandpass from 50 to 8000 Hz

(d) AP4 - provides a channel with a nominal bandpass from 50 to 15000 Hz.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. End-To-End Application

This application is intended for customers requiring an overall Private Line Transport, furnished by the Company within the LATA. No DLR will be provided since the performance and maintenance will be the responsibility of the Company. The network channel interface at the terminating end of the overall circuit is referred to as the End User POT. Following are the service categories that normally apply to the End-to-End application:

(1) Service Categories

(a) AP31 - provides a non-equalized channel with a nominal bandpass from 200 to 3000 Hz.

(b) AP32 - provides an equalized channel with a nominal bandpass from 100 to 5000 Hz.

(c) AP33 - provides an equalized channel with a nominal bandpass from 50 to 8000 Hz.

(d) AP34 - provides an equalized channel with a nominal bandpass from 50 to 15000 Hz.

d. End-Link or Mid-Link and End-To-End Application

(1) AP Custom - a Custom Audio service may be requested on an individual case basis to meet specific customer needs not available with the AP standard Channel Performances.

e. Optional Features and Functions

(1) Central Office Bridging Capability

Central Office Bridging (distribution amplifier) is offered for connection of multiple customer designated premises of three or more.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Service Information

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
FastLink or MultiLink		
AP1-3.5 kHz	XZQ19	PE
AP2-5.0 kHz	XZQ29	PF
AP3-8.0 kHz	XZQ39	PI
AP4-15.0 kHz	XZQ49	PK
Custom	XZQCg	PQ
Point-to-Point		
AP31-3.0 kHz	APG3N	UE
AP32-5.0 kHz	APG5N	UE
AP33-8.0kHz	APG8N	UE
AP34-15.0 kHz	APGIN	UE
Custom	APGZN	UP

4. Foreign Exchange (FX)

a. Foreign Exchange (FX) Service provides dial tone from a w're center in an exchange from which the customer is not normally served, or where the customer is located outside an exchange in unassigned territory. This service is available to either residence or business customers but will not be provided for resale.

b. Where facility conditions permit, the Company will provide FX Service at the rates shown herein. Where FX Service is furnished at remote or isolated locations, or where facilities are not available, or where unusual costs are involved, additional nonrecurring, construction, and/or monthly charges may apply.

c. FX Service is normally furnished to a single customer premises. Where facility conditions permit, up to two additional points may be added.

d. When a customer subscribes to local services and requests an extension in a foreign exchange, a Network Access Channel, Channel Performance and Transport Mileage, as specified for Foreign Exchange Service, will apply to the extension.

e. Foreign Exchange Service is not furnished in connection with party line service or Smart Public Access Line Service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

i. Directory Listings:

(1) One directory listing will be provided for FX Service in the exchange where the customer's dial tone is obtained.

(2) Additional listings will be furnished at regular rates and charges as specified in the appropriate catalog.

(3) Listings in other directories will be furnished at the regular rates for foreign listings as specified in the appropriate catalog.

j. FX will not be provided on the same circuit as Foreign Central Office (FCO) Service.

k. Message toll rates are applicable in connection with FX Service when calls are placed to telephone numbers outside the local calling area of the dial tone wire center.

l. Rates and Terms and Conditions associated with Directory Assistance apply and are set forth herein.

m. Use of service limitations as delineated in the Exchange And Network Service Tariff apply to FX Service.

n. Foreign Exchange provides unlimited access to and from the local calling area of the foreign wire center.

o. Rates and charges for all Optional Features and Functions are as specified herein.

p. FX Service will obtain a line or trunk from the appropriate catalog. The Network Access Channel is also applicable.

q. The rates and charges for individual line service and PBX trunks are those in effect in the serving (foreign) exchange.

r. Locality, suburban, exchange zone rate area increments (ZNA) or extra exchange line mileage for any main station or PBX located outside the base rate area of the normal exchange do not apply to Foreign Exchange Service.

s. In the case of Centrex main stations, the basic secondary location Centrex station rate schedule will apply at each FX station location in addition to mileage and/or incremental charges.

t. Transport Mileage will be measured and rated from the customer's serving wire center to the remote wire center.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Rate Categories

(1) Exchange Service Element
(2) Network Access Channel (NAC)
(3) Channel Performance (CP)
(4) Transport Mileage (TM)

5. Service Information

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
Foreign Exchange Line	FXKTS	UC
Foreign Exchange Trunk	FXPTS	UD

6. Foreign Central Office (FCO)

a. Foreign Central Office (FCO) Service provides dial tone from a customer's serving wire center to a remote wire center in the same exchange. This service is available to either residence or business customers but will not be provided for resale.

b. FCO Service is offered on individual lines and PBX trunks.

c. FCO Service will obtain a line or trunk from the appropriate catalog. The Network Access Channel is also applicable.

d. FCO Service is not in accord with the normal plan of furnishing telephone service and the Company does not obligate itself to furnish such service, particularly where it involves undue expense or impairment of the service furnished to the general public.

e. Transport Mileage applies based on airline measurements from the wire center from which the customer actually is served to the serving wire center from which the customer would normally be served.

f. FCO will not be provided on the same circuit as Foreign Exchange (FX) Service.

g. Rates and charges for all Optional Features and Functions are as specified herein.

h. Locality, suburban or exchange zone rate area increments (ZNAI) for any main station or PBX located outside the base rate area of the normal exchange do not apply to Foreign Central Office Service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

i. Directory Listings

(1) One directory listing will be provided for FCO Service in the wire center where the customer's dial tone is obtained.

(2) Additional listings will be furnished at regular rates and charges as specified herein.

(3) Listings in other directories will be furnished at the regular rates for foreign listings as specified herein.

j. Message toll rates are applicable in connection with FCO Service when calls are placed to telephone numbers outside the local calling area of the dial tone wire center.

k. Rates and Terms and Conditions associated with Directory Assistance apply and are set forth herein.

l. Use of service limitations as delineated herein apply to FCO Service.

m. The rates for individual line service and PBX trunks are those in effect in the serving (foreign) central office.

n. In the case of Centrex main stations, the basic secondary location Centrex station rate schedule will apply at each FCO station location in addition to mileage and/or incremental charges.

o. Rate Categories

(1) Exchange Service Element
(2) Network Access Channel (NAC)
(3) Channel Performance (CP)
(4) Transport Mileage (TM)

p. Service Information

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
Foreign Central Office Line	FXKTL	UC
Foreign Central Office Trunk	FXPTL	UD

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

6. Exchange Service Extension (ESE) (non-PBX)

a. Channels which extend dial tone from a customer's serving wire center to a noncontinuous property station location. PBX off premises stations are provided via a Voice Grade 32 type circuit. This service is available to either residence or business customers but will not be provided for resale.

b. Exchange Service Extension charges are in addition to other rates and charges applicable to the particular service involved.

c. Extension service is provided only to individual lines which terminate at a different premises.

d. When a customer subscribes to local services and requests an extension in a foreign exchange, a Network Access Channel, Channel Performance and Transport Mileage, as specified for Foreign Exchange Service, will apply to the extension.

e. Rate Categories

(1) Network Access Channel (NAC)
(2) Channel Performance (CP)
(3) Transport Mileage (TM)

f. Service Information

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
Off Premises Extension Line	PYCDL	[1]

(1) Interoffice only

7. Digital Data

a. Digital Data Service (DDS) is provided on a two-point or multipoint, 4-wire basis and is capable of transmission of synchronous serial data at the rate of 2.4, 4.8, 9.6, 19.2 or 56 kbit/s. Digital Data Service is also provided at 64 kbit/s on a two-point only basis. Subrated DS0 Service is also available. The actual bit rate is a function of the channel interface selected by the customer where applicable. The circuit provides a synchronous service, with timing provided by the Company through the Company's facilities, to the customer in the received bit stream. US West Digital Data circuits are

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

provided between customer designated premises, between a customer designated premises and a Company Hub or designated digital wire center, or between Company Hubs or designated digital wire centers.

b. A Subrated DSO Service (HCO) transports multiple subrate digital data channels, i. e., twenty 2.4, ten 4.8, or five 9.6 kbit/s, between Digital Data Hubs.

c. When a 64 kbit/s DDS circuit is multiplexed onto a DS I Service, the DS I Service must be optioned for Clear Channel Capability.

d. Information pertaining to the technical specifications and compatible channel interfaces is set forth in the Technical Publications listed under the Reference to Technical Publications preceding.

e. End-Link or Mid-Link Application

This application is intended for customers requiring Private Line Transport as part of an overall circuit, extending beyond the LATA. Several Channel Performances are available to facilitate compatibility and a mechanized Design Layout Report (DLR) is available to the customer to assist in their overall design. The network channel interface between the Company facility and the remainder of the overall circuit is referred to as the Mid User-POT (Point of Termination). The network channel interface that is at the terminating end of the overall circuit is referred to as the End User-POT. Following are the service categories that normally apply to the End link or Mid-link application.

f. End-To-End Application

This application is intended for customers requiring an overall Private Line Transport, furnished by the Company within the LATA. No DLR will be provided since the performance and maintenance will be the responsibility of the Company. The network channel interface at the terminating end of the overall circuit is referred to as the End User-POT.

g. Optional Features and Functions

(1) Bridging

Bridging is an arrangement within Digital Data Hub(s) to connect three or more customer designated premises to form multipoint configurations. It permits a customer to transmit communications from one location to many locations simultaneously and/or receive communications at a single location from many locations. It is not available with 64 kbit/s or Subrated DSO. All

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Network Access Channels connected by Bridging must operate at the same transmission speed.

(2) Secondary Channel

Secondary Channel provides an independent lower rate channel which allows diagnostic, maintenance and network administration capabilities. This enhancement is available with 4.8, 9.6, 19.2 and 56 kbit/s on two-point and multipoint arrangements. This offering is contingent upon equipment and facility availability.

Secondary Channel Service does not constitute a 64 kbit/s Clear Channel Capacity nor shall the offering of Secondary Channel Service obligate the Company to provision it using any specific 64 kbit/s Clear Channel Capability protocols.

When the control leg of a multipoint 56 kbit/s DDS circuit with Secondary Channel is multiplexed onto a DS1 Service, the DS1 Service must be optioned for Clear Channel Capability.

Customer provided equipment interfacing with Secondary Channel service arrangements must be designed in accordance with technical specifications.

(3) Central Office DSO to Subrate (DSOB to DSOA Subrate) Multiplexing

An arrangement that provides a Company multiplexer which converts a Subrated DSO (DSOB) channel containing up to twenty 2.4 kbit/s, ten 4.8 kbit/s, or five 9.6 kbit/s channels into individual 2.4, 4.8, or 9.6 kbit/s circuits, each utilizing time division multiplexing. Where available, this option may be applied to both the DS1 to Voice/Data channel and DS1 to DSO channel multiplexing options, as specified under US WEST DS1 Service.

The placement of Digital Data Service and/or SVDS onto a DDS Central Office DSO to Subrate Multiplexer will only be provided in Digital Data Hub(s).

(4) Central Office Multiplexer to Multiplexer Connecting Arrangement

(a) Subrate to Subrate

An arrangement that allows a customer to connect an individual channel from one DSO to Subrate Multiplexer to an individual

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

channel of another DSO to Subrate Multiplexer, at 2.4, 4.8 or 9.6 kbit/s, within the same Digital Data Hub.

In addition, this arrangement allows a customer to connect an individual channel from one DSO to Subrate Multiplexer, to an individual channel of another DSO to Subrate Multiplexer located in a different Digital Data Bub, at 2.4, 4.8 or 9.6 kbit/s. Transport Mileage applies between Digital Data Hubs.

(b) DS0 to DS0

An arrangement that allows a customer to connect an individual channel from one DS1 to DS0 Multiplexer to an individual channel of another DS1 to DS0 Multiplexer, within the same Company serving wire center. In addition, this arrangement can be used to allow a customer to connect an individual channel of one DS1 to Voice Multiplexer to another DS1 to Voice Multiplexer, within the same Company serving wire center. DS0 to DS0 can be used for 2.4, 4.8, 9.6, 19.2, 56 and 64 kbit/s and Subrated DS0 Service. DS0 to DS0 with Secondary Channel can be used for 4.8, 9.6, 19.2, and 56 kbit/s.

In addition, this arrangement allows a customer to connect an individual channel from one DS1 to DS0/Voice Multiplexer, to an individual channel of another DS1 to DS0/Voice Multiplexer located in a different Digital Data Hub. Transport Mileage applies between Digital Data Hubs.

When a Central Office Multiplexer to Multiplexer Connecting Arrangement is made within the same Digital Data Hub, only one arrangement will apply. When a Central Office Multiplexer to Multiplexer Connecting Arrangement is made in different Digital Data Hub(s), one arrangement will apply for each Digital Data Hub. Transport Mileage will also apply. For example, a customer wants to connect one 2.4 kbit/s channel on a DS0 to Subrate Multiplexer from Digital Data Hub A to a DS0 to Subrate Multiplexer in Digital Data Hub B. The customer would pay for two Central Office Multiplexer to Multiplexer Connecting Arrangements and Transport Mileage as set forth in 6.9 following.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Service Information

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
End-Link or Mid-Link		
2.4 kbit/s	XZD19	XA
4.8 kbit/s	XZD29	XB
9.6 kbit/s	XZD39	XG
19.2 kbit/s	XDD59	XE
56 kbit/s	XZD49	XH
64 kbit/s	XZDH9	XE
Subrate DS0	XZDS9	HS
Custom	SYZE9	[1]

[1] Use same Network Channel Code as the speed with which the Custom offering is associated.

End-to-End		
2.4 kbit/s	PLDJN	US
4.8 kbit/s	PLDLN	US
9.6 kbit/s	PLDNN	US
19.2 kbit/s	XDD5N	US
56 kbit/s	PLDRN	US
64 kbit/s	PLDXN	US
Subrate DS0	DG3SN	HS
Custom	SYZEN	UX

g. Simultaneous Voice Data Service (SVDS)

a. Simultaneous Voice Data Service (SVDS) provides two-point or multipoint transport of full-duplex, asynchronous or synchronous digital data, at speeds of 2.4, 4.8, 9.6, or 19.2 kbit/s, while simultaneously carrying analog voice traffic over a shared, qualified, two-wire exchange access line or network access channel facility. Subrate DS0 Service is also available. The actual bit rate is a function of the channel interface selected by the customer. The Network Access Channel for SVDS is a derived channel of a customer's exchange access line.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. SVDS is provided only when the customer's designated premises serving wire center is equipped with SVDS compatible equipment and where provisioning parameters are met. SVDS is provided between customer designated premises or between a customer designated premises and an SVDS equipped serving wire center. [1]

c. A Subrated DSO Service (HCO) transports multiple subrate digital data channels, i.e., twenty 2.4, ten 4.8, or five 9.6 kbit/s, between SVDS equipped serving wire centers.

d. Information pertaining to the technical specifications for this service is found herein.

e. End-Link or Mid-Link Application

This application is intended for customers requiring Private Line Transport as part of an overall circuit, extending beyond the LATA. Several Channel Performances are available to facilitate compatibility and a mechanized Design Layout Report (DLR) is available to the customer to assist in their overall design. The network channel interface between the Company facility and the remainder of the overall circuit is referred to as the Mid User-POT (Point of Termination). The network channel interface that is at the terminating end of the overall circuit is referred to as the End User-POT. Following are the service categories that normally apply to the End-link or Mid-link application.

(N) When SVDS is provided jointly, by the Company and another Local Exchange Telephone Company, the service is provisioned through a Digital Data Hub.

(1) Service Categories

The SVDS data channel is designed to operate at the following speeds:

- 2.4 kbit/s
- 4.8 kbit/s
- 9.6 kbit/s
- 19.2 kbit/s

f. End-to-End Application

This application is intended for customers requiring an overall Private Line Transport, furnished by the Company within the LATA. No DLR will be provided since the performance and maintenance will be the responsibility of the Company. The network channel interface at the terminating end of the overall circuit is referred to as the End User-POT. Following are the service categories that normally apply to the End-to-End application:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(D) Service Categories

The SVDS data channel is designed to operate at the following speeds:

- 2.4 kbit/s
- 4.8 kbit/s
- 9.6 kbit/s
- 19.2 kbit/s

(E) The terms and conditions specified herein are in addition to other applicable regulations, terms and conditions specified herein.

(F) The provision of SVDS is subject to the availability of facilities and equipment.

(G) SVDS is furnished only in conjunction with services capable of transmitting voice over a qualified two-wire exchange access line or network access channel. The services include but are not limited to:

(a) Individual business and residence exchange service
(b) PBX trunks
(c) CENTRON/Centrex - type lines
(d) Foreign Exchange/Foreign Central Office services
(e) Outward WATS and 800 Services

(H) SVDS is available on a month-to-month basis, with a minimum service and billing period of one month. SVDS is also available on a discount pricing basis for contract periods of (36) thirty-six through (84) eighty-four months. The minimum service and billing periods for the contract options are 36 through 84 months.

(I) To qualify for discount pricing, the customer must have a minimum SVDS monthly billing of $200.00.

(J) A termination charge may apply if a customer falls below 80% of the billing level of the agreement. The termination charge is as specified above.

(K) If a customer completely cancels all or a portion of the contracted service at any time during the term of the agreement, a termination charge may apply as specified above.

(L) In any month, where the customer receives service generating a monthly billing amount greater than one hundred and twenty percent (120%) of the original contract billing level, the customer's contract billing level, shall then increase to ninety percent (90%) of the new billing amount for the remainder of the term of the agreement. The minimum billing level will be eighty percent (80%) of the contract billing level.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. Customers with service under a discount pricing agreement that is within 6 months of expiration may extend their discount pricing agreement rates for a period of 12 months, by notifying the Company in writing of their intent to do so. The 12 month extension will begin upon expiration of the existing discount pricing agreement. Extension of an existing discount pricing agreement is available only for the original customer of record of the service.

d. At the end of the discount pricing agreement or of the extension (whichever is applicable), the customer must choose to:

(1) Renew the service under a new discount pricing agreement,
(2) Continue service under the month-to-month option, or
(3) Discontinue the service.

e. If the customer renews the service, the monthly rates for a new discount pricing agreement will be the rates in effect, in the Catalog, on the renewal date. Should the customer not make a choice by the end of the existing discount pricing agreement or extension period, the rates will automatically revert to the month-to-month option.

f. When SVDS is provisioned with Foreign Exchange/Foreign Central Office service, the data channel is split at the premises serving wire center.

g. SVDS includes the Central Office Voice Data Multiplexer (CVDM) which is used to create the data channel between the customer location and the serving wire center.

h. It is the responsibility of the customer, or the customer's agent, to provide Remote Voice Data Multiplexers (RVDM) at the customer's premises. The RVDMs must be compatible with the Company's central office facilities and equipment, and are subject to interconnect/interface limitations specified in the appropriate Technical Publication.

i. Optional Features and Functions

(1) Bridging

Bridging is an arrangement within an SVDS equipped serving wire center or Digital Data Hub (1), to connect three or more customer designated premises, to form multipoint configurations. On a multipoint circuit which combines SVDS and DDS, bridging for DDS must be done in Digital Data Hub(s). It is not available with Subrated DSO.

(2) Bridging must be done in a Digital Data Hub, when the service is provided jointly by the Company and another Local Exchange Telephone Company.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Central Office DS0 to Subrate (DS0B to DS0A) Multiplexing

An arrangement that provides a Company multiplexer which converts a Subrated DS0 (DS0B) channel containing up to twenty 2.4 kbit/s, ten 4.8 kbit/s, or five 9.6 kbit/s channels into individual 2.4, 4.8, or 9.6 kbit/s circuits, each utilizing time division multiplexing. Central Office DS0 to Subrate Multiplexing will only be connected to either a 64 kbit/s DDS Network Access Channel or a DS1 Central Office Multiplexer.

The placement of SVDS Services onto an SVDS Central Office DS0 to Subrate Multiplexer will be provided in SVDS equipped serving wire centers. The placement of SVDS and DDS onto a DDS Central Office DS0 to Subrate Multiplexer will only be provided in Digital Data Hub(s).

A Subrated DS0 Service transports multiple digital data channels, i.e., twenty 2.4, ten 4.8, or five 9.6 kbit/s, between SVDS equipped serving wire centers, between a SVDS equipped serving wire center and a Digital Data Hub, or between Digital Data Hubs.

Central Office Multiplexer to Multiplexer Connecting Arrangement Subrate to Subrate

An arrangement that allows a customer to connect an individual channel from one DS0 to Subrate Multiplexer to an individual channel of another DS0 to Subrate Multiplexer, within the same SVDS equipped serving wire center, at 2.4, 4.8 or 9.6 kbit/s.

In addition, this arrangement allows a customer to connect an individual channel from one DS0 to Subrate Multiplexer, to an individual channel of another DS0 to Subrate Multiplexer located in a different SVDS equipped serving wire center, at 2.4, 4.8 or 9.6 kbit/s. Transport Mileage applies between serving wire centers.

DS0 to DS0

An arrangement that allows a customer to connect an individual channel from one DS1 to DS0 Multiplexer to an individual channel of another DS1 to DS0 Multiplexer, for SVDS at 2.4, 4.8, 9.6 or 19.2 kbit/s, within the same Company designated wire center. In addition, this arrangement can be used to allow a customer to connect an individual channel of one DS1 to Voice Multiplexer, to another DS1 to Voice Multiplexer, within the same Company designated wire center: DS0 to DS0 can be used for 2.4, 4.8, 9.6 and 19.2 kbit/s.

In addition, this arrangement allows a customer to connect an individual channel from one DS1 to DS0/Voice Multiplexer, to an individual channel of another DS1 to DS0/Voice Multiplexer located in a different Company designated serving wire center. Transport Mileage applies between SVDS equipped serving wire centers.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

When a Central Office Multiplexer to Multiplexer Connecting Arrangement is made within the same SVDS equipped service wire center, only one arrangement will apply. When a Central Office Multiplexer to Multiplexer Connecting Arrangement is made in different SVDS equipped serving wire centers, one arrangement will apply for each SVDS equipped serving wire center. Transport Mileage will also apply. For example, a customer wants to connect one 2.4 kbit/s channel on a DS0 to Subrate Multiplexer from SVDS equipped serving wire center A to a DS0 to Subrate Multiplexer in SVDS equipped serving wire center B. The customer would pay for two Central Office Multiplexer to Multiplexer Connecting Arrangements and Transport Mileage as set forth above.

f. Service Information

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
End-Link or Mid-Link		
- 2.4 kbit/s	XD619	XA
- 4.8 kbit/s	XD629	XB
- 9.6 kbit/s	XD639	XG
- 19.2 kbit/s	XD659	XE
- Subrate DS0	XD6S9	HS
End-to-End		
- 2.4 kbit/s	VDSJN	US
- 4.8 kbit/s	VDSLN	US
- 9.6 kbit/s	VDSNN	US
- 19.2 kbit/s	VDSPN	US
- Subrate DS0	VCDSN	HS

g. DS1

a. DS1 Service provides point-to-point digital facilities for two-way transmission of serial, bipolar, return to zero isochronous digital signals at a transmission speed of 1.544 Mbit/s per second.

b. Unless otherwise specified in a separate agreement between the Customer and the Company, the terms and conditions specified herein apply.

c. Information pertaining to the technical specifications and compatible channel interfaces is set forth herein.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

d. DS1 is available only on a two-point basis, 24 hours per day, 7 days a week.

e. DS1 Service can only be provided from wire centers equipped for digital transmission. This service is subject to the technical limitations of the CO equipment used by the Company.

f. A wire center or facilities may be equipped for digital transmission to accommodate a customer request. Special construction charges may apply depending on the circumstances in each case.

g. Unless otherwise specified in a separate agreement between the Customer and the Company, allowance for Interruption will be provided for as specified herein.

h. End-Link or Mid-Link Application

This application is intended for customers requiring Private Line Transport as part of an overall circuit, extending beyond the LATA. A mechanized Design Layout Report (DLR) is provided to the customer to assist in their overall design. The network channel interface between the Company facility and the remainder of the overall circuit is referred to as the Mid User-POT (Point of Termination). The network channel interface that is at the terminating end of the overall circuit is referred to as the End User-POT.

i. End-To-End Application

This application is intended for customers requiring an overall Private Line Transport by the Company within the LATA. No DLR will be provided since the performance and maintenance will be the responsibility of the Company. The network channel interface at the terminating end of the overall circuit is referred to as the End User-POT.

j. Optional Features and Functions

Optional features and functions available where determined by the Company to be technically feasible.

(1) Central Office Multiplexing

(a) DS1 to Voice - An arrangement that provides a Company multiplexer which converts a 1.544 Mbit/s channel to 24 channels. The 24 channels may be used for the provision of Voice or data applications.

(b) DS1 to DS0 - An arrangement that converts a 1.544 Mbit/s channel to twenty-three 64 kbit/s channels utilizing digital time division multiplexing.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(2) D.C. Line Power

D.C. Line Power provides a D.C. connection, between the simplexes of the transmit and receive pairs, and provides 60mA from a constant current source. The connection will be at the customer end user's point of termination, i.e., in accordance with Part 68 of the Federal Communications Commission Rules and in association with the DU channel interface code.

(3) Clear Channel Capability

An arrangement that allows a customer to transport 1.536 information rate signals through a 1.544 Mbit/s line rate with no constraint on the quantity or sequence of ones (mark) and zero (space) bits.

(a) Basic Option

This option requires the customer signal at the channel interface to conform to either the bipolar AMI line code with Zero Byte Time Slot Interchange (ZBTSI) algorithm or the Bipolar with Eight Zero Substitution (B8ZS) as described in Technical Reference PUB 77323. If the channel interface conforms to the B8ZS line code algorithm, it may be transcoded to ZBTSI for transmission through the network.

(b) B8ZS Option

This option requires the customer signal at the channel interface to conform to the Bipolar with Eight Zero Substitution (B8ZS) line code algorithm as described in Technical Reference PUB 77323. This option allows B8ZS line code transmission through the network without being transcoded.

i. Service Information

SERVICE	CLASS OF SERVICE	NETWORK CHANNEL CODE
Switched or Multi-Unit		
	1.544 Mbit/s	XZK19 HC
Individual		
	1.544 Mbit/s	PLD3N UH
	Custom	PLDCN UM

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

There are four basic rate categories which apply to Private Line Transport:

- Network Access Channel
- Channel Performance
- Transport Mileage
- Optional Features and Functions

1. Network Access Channel

The Network Access Channel provides a two-wire or four-wire communications path between the POT and the normal serving wire center of that premises. One Network Access Channel charge applies per channel terminated at the POT. This charge will apply even if the customer designated premises and the serving wire center are colocated in the same building. On certain services, the Network Access Channel may be derived from an existing service.

2. Channel Performance

The Channel Performance provides the electronic equipment which is added to the Network Access Channel to provide the desired level of transmission performance. It modifies the circuit with the basic performance necessary for the circuit to function. If appropriate, it may also provide various signaling parameters to enhance the basic performance. Included as part of the Channel Performance is a Network Channel Interface (NCI) or POT arrangement which defines the technical characteristics at the interface between the customer and the Company. One Channel Performance charge will apply per Network Access Channel.

3. Transport Mileage

The Transport Mileage provides for the transmission facilities between the serving wire centers associated with two customer designated premises. The Transport Mileage is portrayed in mileage bands. There are two rate elements that apply for each band, a flat rate per band and a rate per mile. Transport Mileage is measured by airline miles between serving wire centers via the V and H Coordinates Method, as set forth in the NATIONAL EXCHANGE CARRIER ASSOCIATION TARIFF F.C.C. NO. 4.

4. Optional Features and Functions

The Optional Features and Functions rate category provides for optional features and functions which may be added to Private Line Transport to improve its quality or utility to meet specific communications requirements. These are not necessarily identifiable with specific equipment, but rather represent the end result in terms of performance characteristics which may be obtained. These characteristics may be obtained by using various combinations of equipment. Although the equipment necessary to perform a specified function may be installed at various locations along the path of the service, they will be charged for as a single rate element.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Examples of Optional Features and Functions that are available include, but are not limited to, the following:

- Bridging Functions
- Bridging
- Multiplexing
- Conditioning
- Secondary Channel

A hub is a Company designated serving wire center at which bridging functions are performed. The bridging functions performed are to connect three or more customer designated premises in a multipoint arrangement. NATIONAL EXCHANGE CARRIER ASSOCIATION TARIFF F.C.C. NO. 4 identifies serving wire centers, hub locations and the type of bridging.

Standard offerings are available within each category of service. If a Standard offering does not meet a particular customer requirement, the customer may request and the Company may develop a Custom offering. The Channel Performance and/or Optional Features and Functions for customer services will be developed and rated on an individual case basis.

The two types of service configurations over which Private Line Transport can be provided are:

- Two-point
- Multipoint

1. Two-Point Service

   A two-point service connects two customer designated premises through Company wire centers or a customer designated premises and a wire center.

   Applicable rate categories are:

   - Network Access Channel
   - Transport Mileage (when applicable)
   - Channel Performance
   - Optional Features and Functions (when applicable)

2. Multipoint Service

   Multipoint service connects three or more customer designated premises through a Company wire center. There are two kinds of multipoint service: Multipoint Analog Service and Multipoint Digital Data Service. When more than four bridging locations are provided in tandem, the quality of the service may be degraded. Only certain types of Private Line Transport are provided as multipoint service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

When ordering, the customer may specify the desired bridging location(s) selected from the NATIONAL EXCHANGE CARRIER ASSOCIATION TARIFF F.C.C. NO. 4. The Company, when requested to do so, will assist the customer in selecting the bridge location(s).

Applicable rate categories are:

- Network Access Channel
- Transport Mileage (when applicable)
- Channel Performance
- Optional Features and Functions (when applicable)

A customer has the option of ordering digital facilities (e.g., DS1) to a facility hub for channelizing to individual circuits requiring lower capacity facilities (e.g., Voice Grade, Audio, etc.) where facilities are available.

Different locations may be designed as hubs for different facility capacities, e.g., multiplexing from digital to digital may occur at one location while multiplexing from digital to analog may occur at a different location. When ordering, the customer will specify the desired multiplexing hub(s) selected from the NATIONAL EXCHANGE CARRIER ASSOCIATION TARIFF F.C.C. NO. 4. This catalog identifies the types of multiplexing functions which are available and the serving wire centers at which they are available.

Some of the types of multiplexing available include the following:

- From higher to lower bit rate
- From digital to voice frequency channels

End-to-end services may be provided on channels of these facilities to a hub. The transmission performance for the end-to-end service provided between the customer designated premises will be that of the lower capacity or bit rate. For example, when a 1.544 Mbit/s facility is multiplexed to voice frequency channels, the transmission performance of the channelized services will be voice grade, not DS1.

The Company will commence billing the monthly rate for the facility to the hub on the service due date specified by the customer on the service order. Individual services utilizing these facilities may be installed coincident with the installation of the facility to the hub, or may be ordered and/or installed at a later date, at the option of the customer. The customer will be billed for the appropriate Network Access Channel, Channel Performance, Transport Mileage (when applicable), and the multiplexer at the time the facility is installed. Individual service rates (by service type) will apply for a Network Access Channel, Channel Performance and additional Transport Mileage (as required) for each channelized service. These will be billed to the customer as each individual service is installed.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Cascading multiplexing occurs when a digital channel is de-multiplexed to provide channels with a lower capacity and one of the lesser capacity channels is further de-multiplexed. For example, a DS1 facility is demultiplexed to twenty-three DS0 facilities and then one of the DS0 facilities is further demultiplexed to sub-rate (e.g., ten 4.8 kbit/s).

When cascading multiplexing is performed whether in the same or a different hub, a charge for the additional multiplexing unit also applies. When cascading multiplexing is performed at different building locations, Transport Mileage charges also apply between the hubs.

Shared Use occurs when Private Line Transport Service and Switched Access Service are provided over the same DS1 facilities through a common interface. The facility will be ordered, provided and rated as Private Line Transport Service. The nonrecurring charge that applies when the Shared Use Facility is installed will be the nonrecurring charge associated with the appropriate Private Line Transport DS1 Channel. Rating as Private Line Transport will continue until such time as the customer chooses to use a portion of the available capacity for providing Switched Access Service. As each individual channel is activated for Switched Access Service, the Private Line Transport rates will be reduced accordingly (e.g., 1/24th for a DS1 service, etc.). The customer must place an order for each individual Switched Access or Private Line Transport Service utilizing the Shared Use Facilities and specify the channel assignment for each such service.

Switched Access Service rates and charges will apply for each channel of the Shared Use Facility that is used to provide Switched Access Service. Where Private Line Transport Service is provided utilizing a channel of the Shared Use Facility to the hub, DS1 rates and charges will apply for the facility to the hub and individual service rates and charges will apply from the hub to the customer designated premises. The rates and charges that will apply to the portion from the hub to the customer designated premises will be dependent on the specific type of Private Line Transport Service that is provided (e.g., Voice Grade, etc.).

	USOC	NONRECURRING CHARGE	MONTHLY RATE
2. LOW SPEED DATA SERVICE			
a. Service Provisioning Charge			
Initial	SCH	$255.00	-
Subsequent	SCHAX	100.00	-
Same Wire Center, Initial and Subsequent: Applies only to MT3 and 1331 DC Channel	SCHXX	100.00	-

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
b. Network Access Channel (NAC), per termination			
2-wire	IDC2X	-	$ 15.00
4-wire	IDC4X	-	30.00
c. Channel Performance (CP)			
End-Link or Mid-Link, per termination			
C3	PCW3X	$30.00	$12.00
C4	PCW4X	30.00	15.00
MT1	PJWAX	30.00	8.00
C5	PCW5X	30.00	25.00
C6	PCW6X	30.00	17.25
Custom	Pip++	ICB	ICB
End-to-End, per termination			
1931 Control Status Channel	PCWSX	30.00	12.00
1931 McCulloh Alarm-Type	PCWTX	30.00	10.00
1931 DC Channel	PCWWX	30.00	8.00
1931 Telegraph			
- 0 to 75 baud	PCWUX	30.00	18.50
- 0 to 150 baud	PCWVX	30.00	17.25
Custom	Pip++	ICB	ICB
d. Transport Mileage (TM) Mileage Bands			
Over 0 to 8			
- Fixed	FQYXI	30.00	$22.50
- Per mile	3LBXA	-	1.25
Over 8 to 25			
- Fixed	FQYX2	30.00	22.50
- Per mile	3LBXB	-	1.35

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Over 25 to 50			
- Fixed	FQYX3	$30.00	22.50
- Per mile	3LBXC	-	1.45
Over 50			
- Fixed	FQYX4	30.00	22.50
- Per mile	3LBXD	-	1.55
e. Optional Features and Functions			
Bridging			
McCulloh Bridging, per port	B5NHF	10.00	5.00
Telegraph Bridging, per port			
- 0 to 75 baud	B5NJF	10.00	15.00
- 0 to 150 baud	B5NKF	10.00	55.00
Direct Bridging, per port	BMW	10.00	5.00

2. Voice Grade Service

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. Service Provisioning Charge			
Initial	SCH	$255.00	-
Subsequent	SCHAX	100.00	-
Same Wire Center, Initial and Subsequent [1]	SCHXX	100.00	-
b. Network Access Channel (NAC), per termination			
2-wire	IDC2X	-	15.00
4-wire	IDC4X	-	30.00

[1] Applicable to Voice Grade Basic only.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
6. Channel Performance (CP)			
(1) End-Link or Mid-Link, per termination			
Voice Grade 1			
No Signaling	PCWEX	$30.00	$ 9.50
Loop-start Signaling	PCWYX	30.00	12.50
Ground-start Signaling	PCWJX	30.00	13.25
Voice Grade 2			
No Signaling	PCWEX	30.00	15.00
Loop-Start Signaling			
Type -LA	PCWAX	30.00	21.00
Type -LB	PCWBX	30.00	18.50
Type - LC	PCWCX	30.00	18.50
Type -LO	PJWCX	30.00	11.50
Type -LS	PJWHX	30.00	18.50
SF Signaling	PCWZX	30.00	14.00
Manual ringdown	PCWFX	30.00	37.50
Auto ringdown	PCWGX	30.00	39.00
Code-select ringdown	PCWHX	30.00	28.50
Voice Grade 3			
- No Signaling	PCWEX	30.00	9.50
- Loop-Start Signaling	PCWYX	30.00	20.50
- Ground-Start Signaling	PCWJX	30.00	20.50
- E & M Signaling	PCWKX	30.00	23.50
- SF Signaling	PCWZX	30.00	25.50
- Reverse Battery Signaling	PCWIX	30.00	10.00
- Duplex Signaling			
- Type -DX	PJWOX	30.00	16.00
- Type - DY	PJWPX	30.00	16.00
Voice Grade 5			
No Signaling	PCWEX	30.00	14.00
Data Stream	PCWLX	30.00	20.00
Voice Grade 6			
No Signaling	PCWEX	30.00	13.75
Data Stream	PCWLX	30.00	13.75

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Voice Grade 7			
No Signaling	PCWEX	30.00	12.00
Loop-Start Signaling			
Type -LA	PCWAX	30.00	22.00
Type -LB	PCWBX	30.00	20.50
Type - LC	PCWCX	30.00	16.00
Type -LO	PJWCX	30.00	12.75
Type -LS	PJWHX	30.00	16.75
Ground-Start Signaling	PCWJX	30.00	12.00
E & M Signaling	PCWKX	30.00	22.50
SF Signaling	PCWZX	30.00	22.50
Duplex Signaling			
Type -DX	PJWOX	30.00	18.00
Type - DY	PJWPX	30.00	18.00
Voice Grade 8			
Loop-Start Signaling	PCWYX	30.00	30.00
E & M Signaling	PCWKX	30.00	25.00
SF Signaling	PCWZX	30.00	21.00
Voice Grade 9			
No Signaling	PCWEX	30.00	15.00
E & M Signaling	PCWKX	30.00	25.00
SF Signaling	PCWZX	30.00	22.50
Voice Grade 10			
No Signaling	PCWEX	30.00	10.50
Data Stream	PCWLX	30.00	25.00
Voice Grade 12			
Data Stream	PCWLX	30.00	20.50
Custom	PJP++	ICB	ICB

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
(2) End-To-End, per termination			
Voice Grade 32			
- No Signaling	PCWEX	30.00	9.00
- Loop-Start Signaling			
- Type - LA	PCWAX	30.00	12.00
- Type - LB	PCWBX	30.00	11.00
- Type - LC	PCWCX	30.00	10.25
- Type - LG	PCW8X	30.00	18.50
- Type - LO	PJWCX	30.00	10.00
- Type - LS	PJWHX	30.00	11.00
- Manual ringdown	PCWFX	30.00	18.00
- Auto ringdown	PCWGX	30.00	9.50
- Code-select ringdown	PCWHX	30.00	13.50
Voice Grade 33			
- No Signaling	PCWEX	30.00	11.00
- Ground-Start Signaling	PCWJX	30.00	11.00
- E&M Signaling	PCWKX	30.00	17.25
- Reverse Battery Signaling (1)	PCWIX	30.00	10.00
Voice Grade 36 - Data Stream	PCWLX	30.00	15.50
Voice Grade Bas' - No Signaling	PCWEX	30.00	10.00
Custom	PJP++	ICB	ICB

(1) Available to Radio Common Carriers within the same wire center only.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
d. Transport Mileage (TM) Mileage Bands			
Over 0 to 8			
- Fixed	FQYXI	$30.00	22.50
- Per mile	3LBXA	-	1.25
Over 8 to 25			
- Fixed	FQYX2	30.00	22.50
- Per mile	3LBXB	-	1.35
Over 25 to 50			
- Fixed	FQYX3	30.00	22.50
- Per mile	3LBXC	-	1.45
Over 50			
- Fixed	FQYX4	30.00	22.50
- Per mile	3LBXD	-	1.55
e. Optional Features and Functions			
(1) Bridging			
Resistive Bridging (Voice/Data), per port			
- Two-wire	B5NA2	10.00	10.00
- Four-wire	B5NA4	10.00	10.00
Bridge Lifter, per port	BLBV2	10.00	10.00
Split Frequency Bridging, per port			
- Two-wire	B5NVB	10.00	10.00
- Four-wire	B5NVC	10.00	10.00
Passive Bridging, per port	B5NVP	10.00	10.00
Summation Bridging, per port	B5NVS	10.00	10.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		USOC	NONRECURRING CHARGE	MONTHLY RATE
(2)	Transfer Arrangement, per port			
	Two-wire	USY2X	10.00	5.00
	Four-wire	USY4X	10.00	5.00
(3)	Conditioning, per NAC			
End-Link or Mid-Link Application				
C Conditioning		XICPT	20.00	3.00
Data Capability		XDCPT	20.00	3.00
Improved Attenuation Distortion		UHW	20.00	3.00
Improved Envelope Delay Distortion		UHY	20.00	8.00
End-to-End Application				
C1 Conditioning		O1B	20.00	4.00
C2 Conditioning		O2B	20.00	4.00
C4 Conditioning		O4B	20.00	4.00
D1 Conditioning		O1D	20.00	4.00
(4)	Data Enhancement (End to End Application), per NAC	3BE	20.00	3.00
(5)	Effective Four-Wire Transmission per NAC (at the two-wire interface)	HBD	20.00	8.00
(6)	Equal Level Echo Path Loss, per NAC	ORP	20.00	3.00
(7)	Improved Return Loss, per NAC	IQA2W	20.00	5.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		USOC	NONRECURRING CHARGE	MONTHLY RATE
(8)	Improved Termination, per NAC	CP6	20.00	5.00
(9)	Data Channel Terminating Equipment, per NAC [1]			
	Option 1			
	Central Office Powered Data Equalization with 2713 Hz tone	LBA	20.00	3.00
	Option 2			
	Customer Powered DTMF, addressable loop back	LBJ	20.00	3.00
	Option 3			
	Customer Powered Data Equalization with Customer Selectable Tone	LBD	20.00	3.00
(10)	Customer Specified Levels, per NAC	RLS	20.00	3.00

[1] The nonrecurring charge applies when adding this feature on subsequent order activity only.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

3. Audio Service

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. Service Provisioning Charge			
Initial	SCH	255.00	-
Subsequent	SCHAX	100.00	-
b. Network Access Channel (NAC), per termination			
2-wire	1DC2X	-	15.00
c. Channel Performance (CP)			
(1) End-Link or Mid-Link, per termination			
- AP1 (3.5 kHz)	PJW1X	30.00	12.00
- AP2 (5.0 kHz)	PJW2X	30.00	15.00
- AP3 (8.0 kHz)	PJW3X	30.00	20.00
- AP4 (15.0 kHz)	PJWBX	30.00	25.00
- Custom	PIP++	ICB	ICB
(2) End-To-End, per termination			
- AP31 (3.0 kHz) non-equalized	PCWNX	30.00	12.00
- AP32 (5.0 kHz) equalized	PCWOX	30.00	15.00
- AP33 (8.0 kHz) equalized	PCWQX	30.00	20.00
- AP34 (15.0 kHz) equalized	PJW5X	30.00	25.00
- Custom	PIP++	ICB	ICB

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

d. Transport Mileage (TM)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
AP1 or AP31 Mileage Bands			
Over 0 to 8			
Fixed	FQYX1	30.00	22.50
Per mile	3LBXA	-	1.25
Over 8 to 25			
Fixed	FQYX2	30.00	22.50
Per mile	3LBXB	-	1.35
Over 25 to 50			
Fixed	FQYX3	30.00	22.50
Per mile	3LBXC	-	1.45
Over 50			
Fixed	FQYX4	30.00	22.50
Per mile	3LBXD	-	1.55
AP2 or AP32 Mileage Bands			
Over 0 to 8			
Fixed	FQYX1	30.00	45.00
Per mile	3LBXA	-	2.50
Over 8 to 25			
Fixed	FQYX2	30.00	45.00
Per mile	3LBXB	-	2.70
Over 25 to 50			
Fixed	FQYX3	30.00	45.00
Per mile	3LBXC	-	2.90
Over 30			
Fixed	FQYX4	30.00	45.00
Per mile	3LBXD	-	3.10

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
AP3 or AP33 Mileage Bands			
Over 0 to 8			
Fixed	FQYX1	30.00	67.50
Per mile	3LBXA	-	3.75
Over 8 to 25			
Fixed	FQYX2	30.00	67.50
Per mile	3LBXB	-	4.05
Over 25 to 50			
Fixed	FQYX3	30.00	67.50
Per mile	3LBXC	-	4.35
Over 50			
Fixed	FQYX4	30.00	67.50
Per mile	3LBXD	-	4.65
AP4 or AP34 Mileage Bands			
Over 0 to 8			
Fixed	FQYX1	30.00	126.00
Per mile	3LBXA	-	5.00
Over 8 to 25			
Fixed	FQYX2	30.00	126.00
Per mile	3LBXB	-	5.40
Over 25 to 50			
Fixed	FQYX3	30.00	126.00
Per mile	3LBXC	-	5.80
Over 50			
Fixed	FQYX4	30.00	126.00
Per mile	3LBXD	-	6.20

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
e. Optional Features and Functions			
Bridging, per port			
AP1/AP31 - 1.5/3.0 kHz	BCNPT	10.00	7.00
AP2/AP32 - 5.0 kHz	BCNPT	10.00	10.00
AP3/AP33 - 8.0 kHz	BCNPT	10.00	13.00
AP4/AP34 - 15.0 kHz	BCNPT	10.00	18.00

4. Foreign Exchange Service

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. Service Provisioning			
Initial	SCH	255.00	-
Subsequent	SCHAX	100.00	-
b. Network Access Channel (NAC), per termination			
Zone	1DC2X	-	15.00
c. Channel Performance (CP), per termination			
Loop-Start Signaling	PJWEX	30.00	18.00
Ground-Start Signaling	PJWKX	30.00	18.00
Reverse Battery Signaling	PJWLX	30.00	18.00
d. Transport Mileage (TM) Mileage Bands			
Over 0 to 8			
Fixed	FQYX1	30.00	22.50
Per mile	3LBXA	-	1.25
Over 8 to 25			
Fixed	FQYX2	30.00	22.50
Per mile	3LBXB	-	1.35

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Over 25 to 50			
Fixed	FQYX3	30.00	22.50
Per mile	3LBXC	-	1.45
Over 50			
Fixed	FQYX4	30.00	22.50
Per mile	3LBXD	-	1.55

5. Foreign Central Office Service

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. Service Provisioning			
Initial	SCH	255.00	-
Subsequent	SCHAX	100.00	-
b. Network Access Channel (NAC), per termination			
2-wire	1DC2X	-	15.00
c. Channel Performance (CP), per termination			
Loop-Start Signaling	PJWFX	30.00	16.00
Ground-Start Signaling	PJWMX	30.00	16.00
Reverse Battery Signaling	PJWZX	30.00	16.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
d. Transport Mileage (TM) Mileage Bands			
Over 0 to 8			
Fixed	FQYX1	30.00	22.50
Per mile	3LBXA	-	1.25
Over 8 to 25			
Fixed	FQYX2	30.00	22.50
Per mile	3LBXB	-	1.35
Over 25 to 50			
Fixed	FQYX3	30.00	22.50
Per mile	3LBXC	-	1.45
Over 50			
Fixed	FQYX4	30.00	22.50
Per mile	3LBXD	-	1.55

5. Exchange Service Extensions (Non-PBX)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. Service Provisioning			
Initial	SCH	255.00	-
Subsequent	SCHAX	100.00	-
Some Wire Center, initial and subsequent	SCHXX	100.00	-
b. Network Access Channel (NAC), per termination			
2-wire	1DC2X	-	15.00
c. Channel Performance (CP), per termination			
Different wire center	PJWGX	30.00	12.00
Same wire center	PMWBX	30.00	12.00

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
d. Transport Mileage (TM) Mileage Bands			
Over 0 to 8			
Fixed	FQYX1	30.00	22.50
Per mile	3LBXA	-	1.25
Over 8 to 25			
Fixed	FQYX2	30.00	22.50
Per mile	3LBXB	-	1.35
Over 25 to 50			
Fixed	FQYX3	30.00	22.50
Per mile	3LBXC	-	1.45
Over 50			
Fixed	FQYX4	30.00	22.50
Per mile	3LBXD	-	1.55

6. Digital Data Service

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. Service Provisioning Charge			
Initial	SCH	140.00	-
Subsequent	SCHAX	90.00	-
b. Network Access Channel (NAC), per termination			
4-wire	1DC4X	-	50.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
c. Channel Performance (CP),			
(1) End-Link or Mid-Link, per termination			
2.4 kbit/s	PJWQX	40.00	20.00
4.8 kbit/s	PJWRX	40.00	20.00
9.6 kbit/s	PJWSX	40.00	25.00
19.2 kbit/s	PMW7X	40.00	25.00
56 kbit/s	PJWTX	40.00	40.00
64 kb t/s	PM2LX	40.00	40.00
Custom	PIP+ +	ICB	ICB
(2) End-to-End, per termination			
2.4 kbit/s	PJWUX	40.00	20.00
4.8 kbit/s	PJWVX	40.00	20.00
9.6 kbit/s	PJWWX	40.00	25.00
19.2 kbit/s	PMW8X	40.00	25.00
56 kbit/s	PJWYX	40.00	40.00
64 kbit/s	PM2KX	40.00	40.00
Custom	PIP+ +	ICB	ICB
d. Transport Mileage (TM) Mileage Bands			
Over 0 to 8			
Fixed	FQYX1	35.00	50.00
Per mile	3LBXA	-	0.60
Over 8 to 25			
Fixed	FQYX2	35.00	50.00
Per mile	3LBXB	-	0.60
Over 25 to 50			
Fixed	FQYX3	35.00	50.00
Per mile	3LBXC	-	0.60
Over 50			
Fixed	FQYX4	35.00	50.00

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Per mile	3LBXD	-	0.60
	USOC	NONRECURRING CHARGE	MONTHLY RATE

B. Optional Features and Functions

(1) Bridging, per port	BCNDA	15.00	15.00
(2) Secondary Channel per point of termination [1]	SCA	120.00	15.00

(M) The nonrecurring charge applies when adding this feature on subsequent order activity only.

(3) Central Office Multiplexing, per arrangement [1]

DS0 to Subrates			
- Up to twenty 2.4 kbit/s services	QSU24	100.00	90.00
- Up to ten 4.8 kbit/s services	QSU48	90.00	80.00
- Up to five 9.6 kbit/s services	QSU96	80.00	70.00

(4) Central Office Multiplexer to Multiplexer Connecting Arrangement, per arrangement

Subrate to Subrate	PYVD5	12.00	10.00
Subrate to Subrate with Secondary Channel	PYVD7	12.00	10.00
DS0 to DS0	PYVD4	12.00	10.00
DS0 to DS0 with Secondary Channel	PYVD6	12.00	10.00

(M) The nonrecurring charge applies when the Multiplexer is not installed at the same time as a DDS Network Access Channel

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

7. Simultaneous Voice Data Service

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. Service Provisioning Charge			
Initial	SCH	140.00	-
Subsequent	SCHAX	90.00	-
b. Network Access Channel - Derived (NAC), per termination			
Two-wire	IRSAT	-	-
c. Channel Performance (CP)			
(1) End-Link or Mid-Link, per termination			
2.4 kbit/s			
Month-to-month	PMWMX	40.00	20.00
36-59 months	PM27X	40.00	19.00
60-84 months	PM28X	40.00	18.00
4.8 kbit/s			
Month-to-month	PMWNX	40.00	23.00
36-59 months	PMWSX	40.00	21.00
60-84 months	PMWTX	40.00	19.00
9.6 kbit/s			
Month-to-month	PMWOX	40.00	26.00
36-59 months	PMWUX	40.00	23.00
60-84 months	PMWWX	40.00	20.00
19.2 kbit/s			
Month-to-month	PMWPX	40.00	32.00
36-59 months	PMWYX	40.00	28.00
60-84 months	PMWZX	40.00	24.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
(2) End-To-End, per termination			
2.4 kbit/s			
- Month-to-month	PMWHX	40.00	20.00
- 36-59 months	PM25X	40.00	19.00
- 60-84 months	PM26X	40.00	18.00
4.8 kbit/s			
- Month-to-month	PMWJX	40.00	23.00
- 36-59 months	PMWIX	40.00	21.00
- 60-84 months	PMW2X	40.00	19.00
9.6 kbit/s			
- Month-to-month	PMWKX	40.00	26.00
- 36-59 months	PMW3X	40.00	23.00
- 60-84 months	PMW4X	40.00	20.00
19.2 kbit/s			
- Month-to-month	PMWLX	40.00	32.00
- 36-59 months	PMW5X	40.00	28.00
- 60-84 months	PMW6X	40.00	24.00

	USOC	NONRECURRING CHARGE	MONTHLY RATE
(3) Transport Mileage (TM)			
Month-to-Month Mileage Bands			
Over 0 to 8			
Fixed	FQYV1	35.00	50.00
Per mile	JZ3VA	-	0.60
Over 8 to 35			
Fixed	FQYV2	35.00	50.00
Per mile	JZ3VB	-	0.60

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Over 25 to 50			
Fixed	FQYV3	35.00	50.00
Per mile	JZ3VC	-	0.60
Over 50			
Fixed	FQYV4	35.00	50.00
Per mile	JZ3VD	-	0.60
36 - 59 months			
Mileage Bands			
Over 0 to 8			
Fixed	FQYW1	35.00	47.50
Per mile	JZ3WA	-	0.57
Over 8 to 25			
Fixed	FQYW2	35.00	47.50
Per mile	JZ3WB	-	0.57
Over 25 to 50			
Fixed	FQYW3	35.00	47.50
Per mile	J23WC	-	0.57
Over 50			
Fixed	FQYW4	35.00	47.50
Per mile	JZ3WD	-	0.57

	USOC	NONRECURRING CHARGE	MONTHLY RATE
60 & 1 months			
Mileage Bands			
Over 0 to 8			
Fixed	FQYY1	35.00	45.00
Per mile	JZ3YA	-	0.54
Over 8 to 25			
Fixed	FQYY2	35.00	45.00
Per mile	JZ3YB	-	0.54

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Over 25 to 50			
Fixed	FQYY3	35.00	45.00
Per mile	JZ3YC	-	0.54
Over 50			
Fixed	FQYY4	35.00	45.50
Per mile	JZ3YD	-	0.54

(C) Optional Features and Functions

(1) Bridging, per port

Month-to-month	B5NAF	-	6.00
36-59 months	B5NBF	-	5.50
60-84 months	B5NCF	-	5.00

(2) Central Office Multiplexing, per Arrangement

DS0 to Subrates

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Month-to-Month			
- Up to 20 2.4 kbit/s services	QSU24	100.00	90.00
- Up to 10 4.8 kbit/s services	QSU48	90.00	80.00
- Up to 5 9.6 kbit/s services	QSU96	80.00	70.00
36 to 59 Months			
- Up to 20 2.4 kbit/s services	MX-N2A	100.00	85.00
- Up to 10 4.8 kbit/s services	MX-N4A	90.00	75.00
- Up to 5 9.6 kbit/s services	MXN9A	80.00	65.00
60-84 Months			
- Up to 20 2.4 kbit/s services	MX-N2B	100.00	80.00
- Up to 10 4.8 kbit/s services	MX-N4B	90.00	70.00
- Up to 5 9.6 kbit/s services	MX-N9B	80.00	60.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

[1] Central Office Multiplexer to Multiplexer Connecting Arrangement, per Arrangement

Subrate to Subrate	PYVD5	[1]	[1]
DS0 to DS0	PYVD4	[1]	[1]

[1] Rates and charges are specified in "Digital Data Service" Section herein.

4. DS1 Service

The rates and charges for DS1 Service and Optional Features and Functions will be developed on an Individual Case Basis (ICB).

5. ADVANCED SERVICES - FRAME RELAY SERVICE

Employing digital technology, Frame Relay Service ("FRS") provides high speed access and throughput to and among local Area Networks ("LANs"), as well as computers. Utilizing statistical multiplexing, FRS enables users to allocate access bandwidth to applications as needed, up to the maximum bandwidth purchased, rather than assigning fixed channels to specific applications. FRS supports transmission speeds up to 44.736 Mbps.

FRS requires the use of customer terminal equipment that functions as a multiplexer/bridge/router. The terminal equipment must be purchased separately from the FRS and must conform to CCITT and ANSI standards set forth in technical publications listed in this Catalog under Reference to Technical Publications. The terminal equipment accumulates customer data and puts it into a frame relay format suitable for transmission over the ACS network.

SERVICE ELEMENTS FOR FRAME RELAY

1. Network Interface

The point at which a customer's data transmissions first enter the network supporting FRS is the network interface. It is the point of interconnection between Company communications facilities and customer terminal equipment.

2. Access Link

For 56 kbps through 1.544 Mbps FRS Access Links provide access to the ACS Frame Relay Network, connecting customer facilities at the network interface, or connecting other frame relay networks' facilities at the network interface with an Information Transfer service element. The 56 or 64 kbps Access Link utilizes the 56 or 64 kbps Information Transfer service element, and the 1.544 Mbps Access Link utilizes 56 kbps through 1.544 Mbps Information Transfer service elements.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Frame Relay unidirectional polling is required on the Access Link when used in conjunction with User-To-Network information Transfer. Frame Relay bidirectional polling is required on the Access Link when used in conjunction with the Network-To-Network Information Transfer.

Company-provided, private line transport facilities or other compatible facilities provided by another company, which has a point-of-presence in the Company provided central office from which FRS is provided, must be used to access 44.736 Mbps FRS.

4. Stand-Alone Access Link

Connects customer facilities to frame relay service networks provided by service providers other than the Company. It does not connect to an ACS Frame Relay Network. A Stand-Alone Access Link requires uni-direction polling. Private Line transport mileage may be required in conjunction with a Stand-Alone Access Link in order to connect the customer serving wire center, or node, with the serving wire center, or node, of another frame relay service provider.

5. Port

In the ACS network, ports are the physical entry points for Access Links and the originating and terminating points for Permanent Virtual Connections. Ports include the electronic equipment used in connecting these service elements to the ACS network. On each port, a customer may allocate bandwidth to applications at customer-designated transmission speeds up to 56 or 64, 112 or 128, 224 or 256, 336 or 384, 448 or 512, 672 or 768 kbps, 1.544 Mbps, or 44.736 Mbps.

6. Service Point

Geographic locations designated by the Company where the ACS Network Ports are located and the ACS network is to be accessed.

7. User-To-Network Information Transfer ("UNIT")

A service element that transfers information between the User-To-Network Interface ("UNI") and the ACS Frame Relay Service Network.

User-To-Network Information Transfer provides the physical entry point into the ACS Network for Access Links. The UNIT includes the associated port, unidirectional Permanent Virtual Connections ("PVCs") and ACS Frame Relay switching equipment. UNIT PVCs are provisioned at customer-selected Committed Information Rates ("CIRs"), and at port speeds, dependent upon the customer's data networking requirements. UNIT provides unidirectional polling between the customer's facilities and the ACS FRS Network.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

3. Network-To-Network Information Transfer ("NNIT")

A service element that transfers information between the ACS Frame Relay Service Network and another frame relay service network.

Network-To-Network Information Transfer provides the physical entry point into the ACS Network for Access Links. The NNIT includes the associated port, unidirectional Permanent Virtual Connections (PVCs) and ACS Frame Relay switching equipment. If the other frame relay service network's switch or facility is not in a location served by a Company serving wire center where an ACS FRS switch is located, private line transport charges will apply, at rates set forth in Section 6 of the Private Line Transport Services Catalog. NNIT PVCs are provisioned at customer selected Committed Information Rates (CIRs), and at port speeds, dependent upon the customer's data networking requirements. Detailed CIR information is set forth in technical publications listed in this Catalog under Reference to Technical Publications.

NNIT provides bidirectional polling between the ACS FRS Network and another frame relay service network.

4. Permanent Virtual Connection ("PVC")

A unidirectional logical channel from one Frame Relay Port to another Frame Relay Port within the ACS Network. PVCs are provisioned, at customer selected port speeds, with customer selected Committed Information Rates (CIRs), depending on the customer's data networking requirements.

Although higher numbers of PVCs may be provided, depending on an individual customer's traffic characteristics, the following are the recommended maximum numbers of PVCs for designated FRS port speeds:

FRS PORT SPEEDS	RECOMMENDED NUMBER OF PVCS
[redacted]	30
[redacted]	40
[redacted]	80
[redacted]	120
[redacted]	125
[redacted]	125
[redacted]	125
[redacted]	

The maximum number of PVCs which may be associated with 44.736 Mbps FRS is 500.

[redacted]

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

9 Central Office Connecting Channel ("COCC")

When a customer accesses FRS via a private line transport facility which requires multiplexing to be compatible with FRS transmission speeds or requires port to port connectivity, the COCC provides the ongoing interconnection from the multiplexer or other facility port to an FRS port.

An FRS Level One COCC provides connectivity at speeds up to 1.544 Mbps.
An FRS Level Two COCC provides connectivity at speeds up to 44.736 Mbps.

OPTIONAL FEATURES AND FUNCTIONS FOR FRAME RELAY SERVICE

1. Customer Network Management

The Customer Network Management (CNM) feature provides the customer with read-only access to information related to service faults, usage and Frame Relay Service configurations. Utilizing Simple Network Management Protocol (SNMP), customer-provided network management workstations access CNM and receive solicited and unsolicited service information. CNM includes a PVC which is dedicated to the feature. This CNM-dedicated PVC does not affect the total number of PVCs available to the customer per port. The furnishing of Customer Network Management requires certain technical capabilities of the Frame Relay switch and is therefore available only where switches are so equipped.

2. Multicast

The Multicast feature allows an FRS customer to send the same data message simultaneously to multiple, predefined destinations within the customer's FRS configuration. The customer identifies or orders a Multicast-dedicated PVC and identifies destination PVCs that will comprise the Multicast arrangement. A Multicast-dedicated PVC cannot also serve as a destination PVC.

The FRS Multicast feature is provided only over a User-to-Network Interface and is available only within the ACS Network.

3. Priority PVC

The Priority PVC optional feature assigns a higher transit priority (priority 1) to a customer's PVCs. During periods of network congestion, frames with priority PVC designation will move ahead of non-priority frames.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Video PVC

A video PVC is a unidirectional logical channel that supports packetized video conferencing over a 1.544 Mbps Frame Relay UNIT, at Committed Information Rates (CIR) of 384 or 512 kbps. Point-to-point conferencing is available at 384 or 512 kbps CIR, and Multipoint conferencing is available only at 384 kbps CIR. The Video PVC feature utilizes high-speed digital facilities between FRS Service Points to minimize video delay or frame loss and improve transmission quality. The Video PVC feature includes PVC prioritization. Within one 1.544 Mbps Frame Relay UNIT, at a CIR of 384 kbps, the customer may designate up to three PVCs as Video PVCs; at a CIR of 512 kbps, the customer may designate up to two PVCs as Video PVCs.

5. Fault Tolerant Service

Fault Tolerant Service reroutes the customer's PVCs in the event of a service interruption at the customer's primary location. Upon notification by the customer that a service interruption has occurred, the PVCs will be rerouted to a backup UNIT. Upon notification by the customer that the service has been restored, the Company will reroute the customer's PVCs back to the primary service. Fault Tolerant Service can be used to back up one or more primary location(s), however, only one activation can occur at a time. The backup UNIT speed must be equal to or greater than the highest UNIT speed of the designated primary connection. Fault Tolerant Service is only available on speeds of 56/64 kbps, 1.544 Mbps, and/or 44.736 Mbps.

OBLIGATIONS OF THE CUSTOMER SUBSCRIBING TO FRAME RELAY SERVICE

Error correction is the responsibility of the customer's Frame Relay-compatible terminal equipment. FRS nodes may discard frames with errors and may discard frames when the network supporting FRS is in a state of congestion. Congestion control and recovery mechanisms are as set forth in technical documents listed in this Catalog under Reference to Technical Publications.

RATE REGULATIONS FOR FRAME RELAY SERVICE

1. Frame Relay Service may be ordered on a month-to-month basis or for fixed periods of one, two, three, four, five, six or seven years, as set forth in 2.4.5.

2. A subsequent order to add FRS Access Link(s) to an existing fixed-period service pricing plan must be for a fixed-period of one, two, three, four, five, six or seven years, or for the remainder of the existing fixed-period service pricing plan, provided the remainder of the existing plan is at least the minimum period for that plan, as set forth in 2.4.3. If the remaining term is less than the associated minimum period, the minimum term for the added Access Link(s) shall be the associated minimum period.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

3. An FRS Access Link is available as a component of FRS or as a stand-alone offering. When a Stand-Alone Access Link is ordered, transport mileage may apply, at rates set forth in Section 6 of the Private Line Transport Services Catalog.

4. A customer may access 56 kbps through 1.544 Mbps Frame Relay Service via an FRS Access Link or via Company-provided, digital, private line facilities. When a customer's serving wire center is not an FRS Service Point, the customer may utilize a combination of an FRS Access Link and Company-provided, digital, service Point. If a private line transport facilities to reach the nearest FRS Service Point. If a customer utilizes private line facilities, or private line transport with an FRS customer Access Link, to access FRS, the associated regulations, rates and charges for such private line facilities shall apply in addition to the rates and charges associated with the Frame Relay service elements.

5. Company-provided, private line transport facilities or other compatible facilities provided by another company, which has a point-of-presence in the Company central office from which FRS is provided, must be used to access 44.736 Mbps FRS.

6. A customer utilizing private line facilities to access FRS would not incur a nonrecurring charge or monthly rate for a Frame Relay Access Link, but would incur all other monthly rates and nonrecurring charges normally associated with the ordering, installation and provisioning of FRS, as set forth herein.

7. When a customer orders a Frame Relay PVC, Multicast, or Customer Network Management (CNM) after Frame Relay Service (FRS) is established, or a customer orders a change to an established FRS PVC or Multicast assignment or Committed Information Rate, a nonrecurring, subsequent order charge applies in addition to the nonrecurring charge for the element or feature ordered or changed. However, when FRS PVCS, Multicast, or CNM are ordered or changed on the same customer service configuration at the same time, only one subsequent order charge applies.

RATE ELEMENTS FOR FRAME RELAY SERVICE

1. Access Link

A nonrecurring charge and monthly rate, both based on the speed of the Access Link, e.g. 56/64 kbps or 1.544 Mbps, apply per Access Link for each physical connection to the ACS FRS Network.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Stand-Alone Access Link

A nonrecurring charge and a monthly rate, based on the speed of the Stand-Alone Access Link, apply per Stand-Alone Access Link for the physical connection between a customer's facilities and a frame relay service network provided by a service provider other than the Company. In addition to this rate element, transport mileage may apply, at rates set forth herein.

5. Information Transfer (UNIT or NNIT)

A monthly rate, based on the speed of the port and the number of PVCs assigned to the port, applies per port for each FRS Access Link or digital private line connection to the network supporting FRS. A "First PVC" nonrecurring charge applies for the first unidirectional PVC ordered on an FRS Port. An "Each Additional PVC" nonrecurring charge applies for each additional unidirectional PVC ordered on the same FRS Port as the first PVC. For subsequent installations (order request after initial installations), a subsequent nonrecurring order charge applies, in addition to the "Each Additional PVC" nonrecurring charge, when PVCs are added, PVC assignments are changed, or CIR is changed on an existing PVC. In addition, private line transport charges may apply for NNIT, as set forth in 5.1.2. G.

6. Central Office Connecting Channel (COCC)

A nonrecurring charge and a monthly rate apply per COCC.

7. Change of Jurisdiction

A nonrecurring charge applies per port.

8. Customer Network Management (CNM)

A nonrecurring charge and monthly rate apply per customer-provided network management workstation which accesses CNM.

9. Subsequent Customer Network Management Order

A nonrecurring charge applies per order to add Customer Network Management or to add access of a customer-provided network management workstation to an existing Frame Relay Service. This charge applies in addition to the nonrecurring charge associated with the Customer Network Management feature.

10. Multicast

A nonrecurring charge applies per port to establish each Multicast-dedicated PVC. This charge is in addition to other nonrecurring charges and monthly rates associated with the PVC.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

9. Priority PVC

A nonrecurring charge and a monthly rate apply per PVC, based on the speed of the associated UNIT, to add the Priority PVC feature to customer-designated PVC(s). This rate and charge are in addition to the basic FRS PVC rates and charges for the designated PVC(s).

10. Video PVC

A nonrecurring charge and a monthly rate, based on the Committed Information Rate of the Video PVC, apply, per PVC, to add the Video PVC feature to customer-designated PVC(s). This rate and charge are in addition to the basic FRS PVC rates and charges for the designated PVC(s).

11. Fault Tolerant Service

A Frame Relay UNIT Initial Service Establishment nonrecurring charge applies to establish Fault Tolerant Service. The UNIT speed must be equal to or greater than the highest UNIT speed of the designated primary connection (e.g., if the interruption occurs on a 1.544 Mbps UNIT, the backup UNIT must be 1.544 Mbps or greater). A Subsequent Service Establishment nonrecurring charge applies to add primary site(s) to a previously established Fault Tolerant backup. In addition, the applicable Fault Tolerant Service UNIT rate applies. A customer must also purchase access to the Frame Relay UNIT (e.g., an Access Link). When a customer request is received to activate the Fault Tolerant Service to reroute the customer's primary PVC(S) to the backup, an Activation and Restoral nonrecurring charge applies.

Fault Tolerant Service will be activated within 30 minutes of notification by the appropriate customer representative. If the service is not switched from the designated primary to the backup within that allotted time frame, the customer will pay one half of the normal activation fee for Fault Tolerant Service.

RATES AND CHARGES FOR FRAME RELAY SERVICE

1. Access Link

	USOC	NONRECURRING CHARGE	MONTHLY RATE
1. 56 or 64 kbps, per Access Link			
Month-to-Month	L7AXM	$450.00	$51.00
1-Year	L7AX1	450.00	48.45
2-Year	L7AX2	450.00	47.81
3-Year	L7AX3	450.00	47.18
4-Year	L7AX4	450.00	46.54
5-Year	L7AX5	450.00	45.90

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

6 Year	L7AX6	450.00	45.90
7 Year	L7AX7	450.00	45.90

B. 1.544 Mbps, per Access Link

Month to Month	L7AXM	$600.00	$150.00
1 Year	L7AX1	600.00	142.50
2 Year	L7AX2	600.00	140.63
3 Year	L7AX3	600.00	138.75
4 Year	L7AX4	600.00	136.88
5 Year	L7AX5	600.00	135.00
6 Year	L7AX6	600.00	135.00
7 Year	L7AX7	600.00	135.00

3. Stand-Alone Access Link

	USOC	NONRECURRING CHARGE	MONTHLY RATE
A. 56 or 64 Kbps, per Access Link			
Month to Month	NNLXM	$450.00	$51.00
1 Year	NNLX1	450.00	48.45
2 Year	NNLX2	450.00	47.81
3 Year	NNLX3	450.00	47.18
4 Year	NNLX4	450.00	46.54
5 Year	NNLX5	450.00	45.90
6 Year	NNLX6	450.00	45.90
7 Year	NNLX7	450.00	45.90

B. 1.544 Mbps, per Access Link

Month to Month	NNLXM	$600.00	$150.00
1 Year	NNLX1	600.00	142.50
2 Year	NNLX2	600.00	140.63
3 Year	NNLX3	600.00	138.75
4 Year	NNLX4	600.00	136.88
5 Year	NNLX5	600.00	135.00
6 Year	NNLX6	600.00	135.00
7 Year	NNLX7	600.00	135.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Digital Network Information Transfer (UNIT)

4.1 56 or 64 Kbps - UNIT

	USOC	NONRECURRING CHARGE
Each PVC	NRBF1	$50.00
Each additional PVC	NRBF2	20.00
Subsequent PVC Order charge, per order (1)	NRBFO	75.00

MONTHLY RATES

	MONTH-TO-MONTH USOC	RATE	1-YEAR USOC	RATE
Per port (2)				
1 PVC	17TAM	$ 66.93	17TA1	$62.63
2 PVCs	17TBM	124.00	17TBI	117.80
5 PVCs	17TCM	159.29	17TCI	151.33
14 PVCs	17TDM	187.75	17TDI	178.36
24 PVCs	17TEM	212.80	17TEI	202.16
6 through 14 PVCs (3)	17TGM	6.27	17TGI	5.96
15 through 24 PVCs (4)	17THM	3.13	17THI	2.97
Each additional PVC (5)	17TJM	1.56	17TJI	1.48

(1) When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

(2) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(3) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(4) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

	2-YEAR USOC	RATE	3-YEAR USOC	RATE
Per port with:				
1 PVC	17TA2	$ 61.81	17TA3	$ 60.99
2 PVCs	17TB2	116.25	17TB3	114.70
3 PVCs	17TC2	149.33	17TC3	147.34
4 PVCs	17TD2	176.02	17TD3	173.67
5 PVCs	17TE2	199.50	17TE3	196.84
6 through 14 PVCs[1]	17TG2	5.88	17TG3	5.80
15 through 24 PVCs[2]	17TH2	2.93	17TH3	2.90
Each additional PVC over 24[3]	17TJ2	1.46	17TJ3	1.44

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	4-YEAR USOC	RATE	5-YEAR USOC	RATE
Per port with:				
1 PVC	17TA4	$ 60.16	17TA5	$ 59.34
2 PVCs	17TB4	113.15	17TB5	111.60
3 PVCs	17TC4	145.35	17TC5	143.36
4 PVCs	17TD4	171.32	17TD5	168.98
5 PVCs	17TE4	194.18	17TE5	191.52
6 through 14 PVCs [1]	17TG4	5.72	17TG5	5.64
15 through 24 PVCs[2]	17TH4	2.86	17TH5	2.82
Each additional PVC over 24[3]	17TJ4	1.42	17,TJ5	1.40

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

[redacted] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	USOC	6-YEAR RATE	USOC	7-YEAR RATE
[redacted]				
[redacted]	17TA6	$ 59.34	17TA7	$ 59.34
[redacted]	17TB6	111.60	17TB7	111.60
[redacted]	17TC6	143.36	17TC7	143.36
[redacted]	17TD6	168.98	17TD7	168.98
[redacted]	17TE6	191.52	17TE7	191.52
[redacted]	17TG6	5.64	17TG7	5.64
[redacted]	17TH6	2.82	17TH7	2.82
[redacted]	17TJ6	1.40	17TJ7	1.40

[redacted] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[redacted] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[redacted] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

[redacted] 1.5 or 1.54 Mbps - UNIT

	USOC	NONRECURRING CHARGE
[redacted]	NRBF1	$250.00
[redacted]	NRBF2	20.00
[redacted]	NRBFO	75.00

[redacted]

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	MONTHLY RATES			
	MONTH-TO-MONTH		1-YEAR	
	USOC	RATE	USOC	RATE
[redacted]				
1 PVC	17TAM	$135.00	17TA1	$128.25
5 PVCs	17TBM	141.00	17TB1	133.95
14 PVCs	17TCM	147.00	17TC1	139.65
24 PVCs	17TDM	153.00	17TD1	145.35
5 PVCs	17TEM	159.00	17TE1	151.05
Each additional PVC over 5 (1)	17TGM	4.00	17TG1	3.80
Each additional PVC over 14 (2)	17THM	2.75	17TH1	2.61
Each additional PVC over 24 (3)	17TJM	1.55	17TJ1	1.47

(1) When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

(2) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(3) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(4) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

	MONTHLY RATES			
	2-YEAR		3-YEAR	
	USOC	RATE	USOC	RATE
[redacted]				
1 PVC	17TA2	$126.56	17TA3	$124.88
5 PVCs	17TB2	132.19	17TB3	130.43
14 PVCs	17TC2	137.81	17TC3	135.98
24 PVCs	17TD2	143.44	17TD3	141.53
5 PVCs	17TE2	149.06	17TE3	147.08
Each additional PVC over 5 (1)	17TG2	3.75	17TG3	3.70
Each additional PVC over 14 (2)	17TH2	2.58	17TH3	2.54
Each additional PVC over 24 (3)	17TJ2	1.45	17TJ3	1.43

(1) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.
(2) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.
(3) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

	4-YEAR		5-YEAR	
	USOC	RATE	USOC	RATE
[redacted]				
[redacted]	1FTA4	$123.1917TA5		$121.50
[redacted]	1FTB4	128.6617TB5		126.90
[redacted]	1FTC4	134.1417TC5		132.30
[redacted]	1FTD4	139.6117TD5	137.70	
[redacted]	1FTE4	145.0917TE5		143.10
[redacted]	1FTG4	3.6517TG5	3.60	
[redacted]	1FTH4	2.5117TH5	2.48	
[redacted]				
[redacted]	1FTJ4	1.4117TJ5		1.40

(5) [redacted] PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(14) [redacted] PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(24) [redacted] PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	6-YEAR		7-YEAR	
	USOC	RATE	USOC	RATE
[redacted]				
[redacted]	1FTA6	$121.5617TA7		$121.50
[redacted]	1FTB6	126.9017TB7		126.90
[redacted]	1FTC6	132.3017TC7		132.30
[redacted]	1FTD6	137.7017TD7	137.70	
[redacted]	1FTE6	143.1017TE7		143.10
[redacted]	1FTG6	3.6017TG7	3.60	
[redacted]	1FTH6	2.4817TH7	2.48	
[redacted]				
[redacted]	1FTJ6	1.4017TJ7		1.40

(5) [redacted] PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.
(14) [redacted] PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.
(24) [redacted] PVC over 24 add this rate to the total monthly rate for 24 PVCS.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. [redacted] 224 or 256 Kbps - UNIT

	USOC	NONRECURRING CHARGE
[redacted] First PVC	NRBF1	$250.00
[redacted] Each additional PVC	NRBF2	20.00
[redacted] Subsequent PVCs order charge, per order[1]	NRBFO	75.00

MONTHLY RATES

	MONTH-TO-MONTH		1-YEAR	
	USOC	RATE	USOC	RATE
[redacted] Per port with				
[redacted] 1 PVC	17TAM	$180.00	17TA1	$171.00
[redacted] 2 PVCs	17TBM	190.00	17TB1	180.50
[redacted] 3 PVC	17TCM	200.00	17TC1	190.00
[redacted] 4 PVC	17TDM	210.00	17TD1	199.50
[redacted] 5 PVC	17TEM	220.00	17TE1	209.00
[redacted] 6 through 14 PVCs[2]	17TGM	7.00	17TG1	6.65
[redacted] 15 through 24 PVCs[3]	17THM	3.50	17TH1	3.33
[redacted] Each additional PVC over 24[4]	17TJM	1.60	17TJ1	1.52

[redacted] (1) When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

[redacted] (2) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[redacted] (3) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[redacted] (4) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

	2-YEAR			3-YEAR	
	USOC	RATE		USOC	RATE
For port with:					
1 PVC	17TA2	$168.75	17TA3	$166.50	
2 PVCs	17TB2	178.13	17TB3		175.75
5 PVCs	17TC2	187.50	17TC3		185.00
6 PVCs	17TD2	196.88	17TD3	194.25	
14 PVCs	17TE2	206.25	17TE3		203.50
6 through 14 PVCs[1]	17TG2	6.56	17TG3	6.48	
15 through 24 PVCs[2]	17TH2	3.28	17TH3	3.24	
Each additional PVC over 24[3]	17TJ2	1.50	17TJ3		1.48

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	4-YEAR			5-YEAR	
	USOC	RATE		USOC	RATE
For port with:					
1 PVC	17TA4	$164.25	17TA5	$162.00	
2 PVCs	17TB4	173.38	17TB5		171.00
5 PVCs	17TC4	182.50	17TC5		180.00
6 PVCs	17TD4	191.63	17TD5	189.00	
14 PVCs	17TE4	200.75	17TE5		198.00
6 through 14 PVCs[1]	17TG4	6.39	17TG5	6.30	
15 through 24 PVCs[2]	17TH4	3.19	17TH5	3.15	
Each additional PVC over 24[3]	17TJ4	1.46	17TJ5		1.44

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.
[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.
[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATES 6-YEAR		7-YEAR	
	USOC	RATE		USOC	RATE
Per port with:					
1 PVC	17TA6	$162.00	17TA7	$162.00	
2 PVCs	17TB6	171.00	17TrB7	171.00	
3 PVCs	17TC6	180.00	17TC7		180.00
4 PVCs	17TD6	189.00	17TD7	189.00	
5 PVCs	17TE6	198.00	17TE7		198.00
6 through 14 PVCs[1]	17TG6	6.30	17TG7	6.30	
15 through 24 PVCs[2]	17TH6	3.15	17TH7	3.15	
Each additional PVC over 24[3]	17TJ6	1.44	17TJ7		1.44

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

4. 136 or 384 kbps - UNIT

	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$250.00
Each additional PVC Subsequent PVC(S) order charge, per order [1]	NRBF2	20.00
	NRBFO	75.00

Effective:

Issued:

Issued by:
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Order #

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	MONTHLY RATES			
	MONTH-TO-MONTH		1-YEAR	
	USOC	RATE	USOC	RATE
For port with:				
1 PVC	17TAM	$230.00	17TAI	$218.50
2 PVCs	17TBM	248.00	17TBI	235.60
3 PVCs	17TCM	266.00	17TCI	252.70
4 PVCs	17TDM	284.00	17TDI	269.80
5 PVCs	17TEM	302.00	17TEI	286.90
6 through 14 PVCs[2]	17TGM	9.50	17TGI	9.03
15 through 24 PVCs[3]	17THM	3.75	17THI	3.56
Each additional PVC over 24[4]	17TJM	1.85	17TJI	1.76

(1) When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".
(2) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.
(3) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.
(4) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

	MONTHLY RATES			
	2-YEAR		3-YEAR	
	USOC	RATE	USOC	RATE
For port with:				
1 PVC	17TA2	$215.63	17TA3	$212.75
2 PVCs	17TB2	232.50	17TB3	229.40
3 PVCs	17TC2	249.38	17TC3	246.05
4 PVCs	17TD2	266.25	17TD3	262.70
5 PVCs	17TE2	283.13	17TE3	279.35
6 through 14 PVCs[1]	17TG2	8.91	17TG3	8.79
15 through 24 PVCs[2]	17TH2	3.52	17TH3	3.47
Each additional PVC over 24[3]	17TJ2	1.73	17TJ3	1.71

(1) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.
(2) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.
(3) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

	4-YEAR USOC	RATE	5-YEAR USOC	RATE
Per port with:				
1 PVC	17TA4	$209.88	17TA5	$207.00
2 PVCs	17TB4	226.30	17TB5	223.20
3 PVCs	17TC4	242.73	17TC5	239.40
4 PVCs	17TD4	259.15	17TD5	255.60
5 PVCs	17TE4	275.58	17TE5	271.80
6 through 14 PVCs [1]	17TG4	8.67	17TG5	8.55
15 through 24 PVCs[2]	17TH4	3.42	17TH5	3.38
Each additional PVC over 24[3]	17TJ4	1.69	17TJ5	1.67

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	6-YEAR USOC	RATE	7-YEAR USOC	RATE
Per port with:				
1 PVC	17TA6	$207.00	17TA7	$207.00
2 PVCs	17TB6	223.20	17TB7	223.20
3 PVCs	17TC6	239.40	17TC7	239.40
4 PVCs	17TD6	255.60	17'FD7	255.60
5 PVCs	17TE6	271.80	17TE7	271.80
6 through 14 PVCs[1]	17TG6	8.55	17TG7	8.55
15 through 24 PVCs[2]	17TH6	3.38	17TH7	3.38
Each additional PVC over 24[3]	17TJ6	1.67	17TJ7	1.67

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.
[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.
[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

e. 448 or 512 kbps - UNIT

	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$250.00
Each additional PVC	NRBF2	20.00
Subsequent PVC(S) order charge, per order[1]	NRBFO	75.00

	MONTHLY RATES					
	USOC	MONTH-TO-MONTH RATE		1-YEAR USOC	RATE	
For port with:						
1 PVC	17TAM	$270.00		17TA1	$256.50	
2 PVCs	17TBM	295.00		17TB1	280.25	
3 PVCs	17TCM	320.00		17TC1	304.00	
4 PVCs	17TDM	345.00		17TD1	327.75	
5 PVCs	17TEM	370.00		17TE1	351.50	
6 through 14 PVCs[2]	17TGM	12.35		17TG1	11.73	
15 through 24 PVCs[3]	17THM	4.00		17TH1	3.80	
Each additional PVC over 24[4]	17TJM	2.10		17TJ1	2.00	

[1] When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

[2] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[3] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[4] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	MONTHLY RATES			
	2-YEAR		3-YEAR	
	USOC	RATE	USOC	RATE
Per port with:				
1 PVC	17TA2	$253.13	17TA3	$249.75
2 PVCs	17TB2	276.56	17TB3	272.88
3 PVCs	17TC2	300.00	17TC3	296.00
4 PVCs	17TD2	323.44	17TD3	319.13
5 PVCs	17TE2	346.88	17TE3	342.25
6 through 14 PVCs[1]	17TG2	11.58	17TG3	11.42
15 through 24 PVCs[2]	17TH2	3.75	17TH3	3.70
Each additional PVC over 24[3]	17TJ2	1.97	17TJ3	1.94

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

	MONTHLY RATES			
	4-YEAR		5-YEAR	
	USOC	RATE	USOC	RATE
Per port with:				
1 PVC	17TA4	$246.38	17TA5	$243.00
2 PVCs	17TB4	269.19	17TB5	265.50
3 PVCs	17TC4	292.00	17TC5	288.00
4 PVCs	17TD4	314.81	17TD5	310.50
5 PVCs	17TE4	337.63	17TE5	333.00
6 through 14 PVCs[1]	17TG4	11.27	17TG5	11.12
15 through 24 PVCs[2]	17TH4	3.65	17TH5	3.60
Each additional PVC over 24[3]	17TJ4	1.92	17TJ5	1.89

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.
[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.
[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

	6-YEAR USOC	6-YEAR RATE	7-YEAR USOC	7-YEAR RATE
Per port with:				
1 PVC	17TA6	$243.00	17TA7	$243.00
2 PVCs	17TB6	265.50	17TB7	265.50
3 PVCs	17TC6	288.00	17TC7	288.00
4 PVCs	17TD6	310.50	17TD7	310.50
5 PVCs	17TE6	333.00	17TE7	333.00
6 through 14 PVCs[1]	17TG6	11.12	17TG7	11.12
15 through 24 PVCs[2]	17TH6	3.60	17TH7	3.60
Each additional PVC over 24[3]	17TJ6	1.89	17TJ7	1.89

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

I. 672 or 768 kbps - UNIT

	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$250.00
Each additional PVC	NRBF2	20.00
Subsequent PVC(S) order charge, per order[1]	NRBFO	75.00

MONTHLY RATES

	MONTH-TO-MONTH USOC	MONTH-TO-MONTH RATE	1-YEAR USOC	1-YEAR RATE
Per port with:				
1 PVC	17TAM	$355.00	17TA1	$337.25
2 PVCs	17TBM	393.55	17TB1	373.87
3 PVCs	17TCM	432.10	17TC1	410.50
4 PVCs	17TDM	470.65	17TD1	47.12

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

5 PVCs		17TEM	509.20		17TE1		483.74
6 through 14 PVCs[2]	17TGM	19.45		17TG1	18.48		
15 through 24 PVCs[3]		17THM	6.35		17TH1	6.03	
Each additional PVC over 24[4]		17TJM		3.15		17TJ1	2.99

[1] When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

[2] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[3] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[4] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

		MONTHLY RATES			
		2-YEAR		3-YEAR	
	USOC	RATE		USOC	RATE
Per port with:					
1 PVC	17TA2	$332.81	17TA3	$328.38	
2 PVCs	17TB2	368.95	17TB3		364.03
3 PVCs	17TC2	405.09	17TC3		399.69
4 PVCs	17TD2	441.23	17TD3	435.35	
5 PVCs	17TE2	477.38	17TE3		471.01
6 through 14 PVCs [1]	17TG2	18.23	17TG3	17.99	
15 through 24 PVCs[2]	17TH2	5.95	17TH3	5.87	
Each additional PVC over 24[3]	17TJ2	2.95	17TJ3		2.91

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATES			
		4-YEAR		5-YEAR	
	USOC		RATE	USOC	RATE
Per port with:					
1 PVC	17TA4		$323.94	17TA5	$319.50
2 PVCs		17TB4	359.11	17TB5	354.20
3 PVCs		17TC4	394.29	17TC5	388.89
4 PVCs		17TD4	429.47	17TD5	423.59
5 PVCs		17TE4	464.65	17TE5	458.28
6 through 14 PVCs[1]	17TG4		17.75	17TG5	17.51
15 through 24 PVCs[2]	17TH4		5.79	17TH5	5.72
Each additional PVC over 24[3]		17TJ4		17TJ5	2.84

(1) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(2) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(3) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

		MONTHLY RATES			
		6-YEAR		7-YEAR	
	USOC		RATE	USOC	RATE
Per port with:					
1 PVC	17TA6		$319.50	17TA7	$319.50
2 PVCs		17TB6	354.20	17TB7	354.20
3 PVCs		17TC6	388.89	17TC7	388.89
4 PVCs		17TD6	423.59	17TD7	423.59
5 PVCs		17TE6	458.28	17TE7	458.28
6 through 14 PVCs[1]	17TG6		17.51	17TG7	17.51
15 through 24 PVCs[2]	17TH6		5.72	17TH7	5.72
Each additional PVC over 24[3]		17TJ6		17TJ7	2.84

(1) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.
(2) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.
(3) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. 1.544 Mbps - UNIT

	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$50.00
Each additional PVC	NRBF2	20.00
Subsequent PVC(S) order charge, per order[1]	NRBFO	75.00

	MONTH-TO-MONTH USOC	MONTH-TO-MONTH RATE	1-YEAR USOC	1-YEAR RATE
MONTHLY RATES				
Per port with:				
1 PVC	17TAM	$270.00	17TA1	$256.50
2 PVCs	17TBM	389.75	17TB1	370.26
3 PVCs	17TCM	509.50	17TC1	484.03
4 PVCs	17TDM	629.25	17TD1	597.79
5 PVCs	17TEM	749.00	17TE1	711.55
6 through 14 PVCs[2]	17TGM	43.90	17TG1	41.71
15 through 24 PVCs[3]	17THM	9.60	17TH1	9.12
Each additional PVC over 24[4]	17TJM	3.55	17TJI	3.37

[1] When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

[2] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[3] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[4] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATES			
		2-YEAR		3-YEAR	
	USOC	RATE	USOC	RATE	
Per port with:					
1 PVC	17TA2	$253.13	17TA3	$249.75	
2 PVCs	17TB2	365.39	17TB3	360.52	
3 PVCs	17TC2	477.66	17TC3	471.29	
4 PVCs	17TD2	589.92	17TD3	582.06	
5 PVCs	17TE2	702.19	17TE3	692.83	
6 through 14 PVCs [1]	17TG2	41.16	17TG3	40.61	
15 through 24 PVCs[2]	17TH2	9.00	17TH3	8.88	
Each additional PVC over 24[3]	17TJ2	3.33	17TJ3	3.28	

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

		MONTHLY RATES			
		4-YEAR		5-YEAR	
	USOC	RATE	USOC	RATE	
Per port with:					
1 PVC	17TA4	$246.38	17TA5	$243.00	
2 PVCs	17TB4	355.65	17TB5	350.78	
3 PVCs	17TC4	464.92	17TC5	458.55	
4 PVCs	17TD4	574.19	17TD5	566.33	
5 PVCs	17TE4	683.46	17TE5	674.10	
6 through 14 PVCs[1]	17TG4	40.06	17TG5	39.51	
15 through 24 PVCs[2]	17TH4	8.76	17TH5	8.64	
Each additional PVC over 24[3]	17TJ4	3.24	17TJ5	3.20	

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

Effective:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	MONTHLY RATES			
	6-YEAR		7-YEAR	
	USOC	RATE	USOC	RATE
Per port with:				
1 PVC	17TA6	$243.00	17TA7	$243.00
2 PVCs	17TB6	350.78	17TB7	350.78
3 PVCs	17TC6	458.55	17TC7	458.55
4 PVCs	17TD6	566.33	17TD7	566.33
5 PVCs	17TE6	674.10	17TE7	674.10
6 through 14 PVCs[1]	17TG6	39.51	17TG7	39.51
15 through 24 PVCs[2]	17TH6	8.64	17TH7	8.64
Each additional PVC over 24[3]	17TJ6	3.20	17TJ7	3.20

(1) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(2) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(3) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

b. 44.736 Mbps - UNIT

	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$250.00
Each additional PVC	NRBF2	50.00
Subsequent PVC(S) order charge, per order[1]	NRBFO	75.00

Effective:

Issued:

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATES			
		MONTH-TO-MONTH		1-YEAR	
	USOC		RATE	USOC	RATE
Per port with:					
1 PVC	17TUM	$3,800.00		17TU1	$3,610.00
2 through 50 PVCs[2]	17TVM	30.00		17TV1	28.50
51 through 140 PVCs[3]	17TWM	8.00		17TW1	7.60
141 through 240 PVCs[4]	17TYM	4.00		17TY1	3.80
241 through 500 PVCs[5]	17TZM	2.00		17TZ1	1.90

(1) When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

(2) For each PVC over 1, up to and including 50, add this rate to the monthly rate for 1 PVC.

(3) For each PVC over 50, up to and including 140, add this rate to the total monthly rate for 50 PVCS.

(4) For each PVC over 140, up to and including 240, add this rate to the total monthly rate for 140 PVCS.

(5) For each PVC over 240, up to and including 500, add this rate to the total monthly rate for 240 PVCS.

		MONTHLY RATES			
		2-YEAR		3-YEAR	
	USOC		RATE	USOC	RATE
Per port with:					
1 PVC	17TU2	$3,562.50		17TU3	$3,515.00
2 through 50 PVCs[1]	17TV2	28.13		17TV3	27.75
51 through 140 PVCs[2]	17TW2	7.50		17TW3	7.40
141 through 240 PVCs[3]	17TY2	3.75		17TY3	3.70
241 through 500 PVCs[4]	17TZ2	1.88		17TZ3	1.85

(1) For each PVC over 1, up to and including 50, add this rate to the monthly rate for 1 PVC.
(2) For each PVC over 50, up to and including 140, add this rate to the total monthly rate for 50 PVCS.
(3) For each PVC over 140, up to and including 240, add this rate to the total monthly rate for 140 PVCS.
(4) For each PVC over 240, up to and including 500, add this rate to the total monthly rate for 240 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	MONTHLY RATES			
	4-YEAR		5-YEAR	
	USOC	RATE	USOC	RATE
For port with:				
1 PVC	17TU4	$3,467.50	17TU5	$3,420.00
2 through 50 PVCs[1]	17TV4	27.38	17TV5	27.00
51 through 140 PVCs[2]	17TW4	7.30	17TW5	7.20
141 through 240 PVCs[3]	17TY4	3.65	17TY5	3.60
241 through 500 PVCs[4]	17TZ4	1.83	17TZ5	1.80

[1] for each PVC over 1, up to and including 50, add this rate to the monthly rate for 1 PVC.

[2] for each PVC over 50, up to and including 140, add this rate to the total monthly rate for 50 PVCS.

[3] for each PVC over 140, up to and including 240, add this rate to the total monthly rate for 140 PVCS.

[4] for each PVC over 240, up to and including 500, add this rate to the total monthly rate for 240 PVCS.

e. 56 or 64 kbps - NNI

	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$50.00
Each additional PVC	NRBF2	20.00
Subsequent PVCS order charge, per order[1]	NRBFO	75.00

	MONTHLY RATES			
	MONTH-TO-MONTH		1-YEAR	
	USOC	RATE	USOC	RATE
For port with:				
1 PVC	17TAM	$ 39.56	17TA1	$37.58
2 PVCs	17TBM	74.40	17TB1	70.68
3 PVCs	17TCM	93.18	17TC1	88.52
4 PVCs	17TDM	96.66	17TD1	91.83

Effective:

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

1 PVC	17TEM	100.10	17TE1	95.10	
6 through 14 PVCs[2]	17TGM	1.18	17TG1	1.12	
15 through 24 PVCs[3]	17THM	0.25	17TH1	0.24	
Each additional PVC over 24[4]	17TJM		0.20	17TJ1	0.19

[1] Where appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

[2] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[3] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[4] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	2-YEAR		3-YEAR	
	USOC	RATE	USOC	RATE
Per port with:				
1 PVC	17TA2	$37.09	17TA3	$36.59
3 PVCs	17TB2	69.75	17TB3	68.82
5 PVCs	17TC2	87.36	17TC3	86.19
6 PVCs	17TD2	90.62	17TD3	89.41
9 PVCs	17TE2	93.84	17TE3	92.59
6 through 14 PVCs[1]	17TG2	1.11	17TG3	1.09
15 through 24 PVCs[2]	17TH2	0.23	17TH3	0.23
Each additional PVC Over 24[3]	17TJ2	0.19	17TJ3	0.19

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	4-YEAR		5-YEAR	
	USOC	RATE	USOC	RATE

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Per port with:

1 PVC	17TA4	$36.10	17TA5		$35.60		
2 PVC	17TB4	67.89	17TB5		66.96		
3 PVCs		17TC4	85.03	17TC5		83.86	
4 PVCs		17TD4	88.20	17TD5		86.99	
5 PVCs		17TE4	91.34	17TE5		90.09	
6 through 14 PVCs[1]	17TG4	1.08		17TG5	1.06		
15 through 24 PVCs[2]	17TH4	0.23	17TH5	0.23			
Each additional PVC over 24[3]		17TJ4		0.18	17TJ5		0.18

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 24 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	USOC	6-YEAR RATE		USOC	7-YEAR RATE
Per port with:					
1 PVC	17TA6	$35.60	17TA7	$35.60	
2 PVCs	17TB6	66.96	17TB7		66.96
3 PVCs	17TC6	83.86	17TC7		83.86
4 PVCs	17TD6	86.99	17TD7	86.99	
5 PVCs	17TE6	90.09	17TE7		90.09
6 through 14 PVCs [1]	17TG6	1.06	17TG7	1.06	
15 through 24 PVCs[2]	17TH6	0.23	17TH7	0.23	
Each additional PVC over 24[3]	17TJ6	0.18	17TJ7		0.18

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

b. 112 or 128 kbps - NNIT

NONRECURRING

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	CHARGE
[redacted]	NRBF1	$250.00
[redacted]	NRBF2	20.00
[redacted]	NRBFO	75.00

MONTHLY RATES

	MONTH-TO-MONTH USOC	RATE	1-YEAR USOC	RATE
[redacted]				
[redacted]	17TAM	$100.00	17TA1	$ 95.00
[redacted]	17TBM	105.50	17TB1	100.23
[redacted]	17TCM	111.00	17TC1	105.45
[redacted]	17TDM	116.50	17TD1	110.68
[redacted]	17TEM	122.00	17TE1	115.90
[redacted]	17TGM	2.50	17TG1	2.38
[redacted]	17THM	1.50	17TH1	1.43
[redacted]	17TJM	0.60	17TJ1	0.57

(1) [redacted] the "Each Additional PVC" nonrecurring charge applies in addition to the [redacted].

(2) [redacted]

(3) [redacted]

(4) [redacted]

MONTHLY RATES

	2-YEAR USOC	RATE	3-YEAR USOC	RATE
[redacted]				
[redacted]	17TA2	$93.75	17TA3	$92.50

[redacted]

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[redacted]

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

2 PVCs	17TB2	98.91	17TB3	97.59	
3 PVCs	17TC2	104.06	17TC3	102.68	
4 PVCs	17TD2	109.22	17TD3	107.76	
5 PVCs	17TE2	114.38	17TE3	112.85	
6 through 14 PVCs[1]	17TG2	2.34	17TG3	2.31	
15 through 24 PVCs[2]	17TH2	1.41	17TH3	2.31	
Each additional PVC					
Over 24[3]	17TJ2	0.56	17TJ3	0.56	

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

	MONTHLY RATES			
	4-YEAR		5-YEAR	
	USOC	RATE	USOC	RATE
For port with				
1 PVC	17TA4	$91.25	17TA5	$90.00
2 PVC	17TB4	96.27	17TB5	94.95
3 PVCs	17TC4	101.29	17TC5	99.90
4 PVCs	17TD4	106.31	17TD5	104.85
5 PVCs	17TE4	111.33	17TE5	109.80
6 through 14 PVCs[1]	17TG4	2.28	17TG5	2.25
15 through 24 PVCs[2]	17TH4	1.37	17TH5	1.35
Each additional PVC				
Over 24[3]	17TJ4	0.55	17TJ5	0.54

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 24 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

	6-YEAR USOC	6-YEAR RATE	7-YEAR USOC	7-YEAR RATE
[redacted]				
1 PVC	17TA6	$90.00	17TA7	$90.00
2 PVCs	17TB6	94.95	17TB7	94.95
3 PVCs	17TC6	99.90	17TC7	99.90
4 PVCs	17TD6	104.85	17TD7	104.85
5 PVCs	17TE6	109.80	17TE7	109.80
[redacted]	17TG6	2.25	17TG7	2.25
[redacted]	17TH6	1.35	17TH7	1.35
[redacted]				
[redacted]	17TJ6	0.54	17TJ7	0.54

(15) For each PVC over 1, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(24) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(25) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

6. [redacted]

	USOC	NONRECURRING CHARGE
[redacted]		
First PVC	NRBF1	$250.00
Each additional PVC	NRBF2	20.00
Subsequent PVCs order charge, per order	NRBFO	75.00

MONTHLY RATES

	MONTH-TO-MONTH USOC	MONTH-TO-MONTH RATE	1-YEAR USOC	1-YEAR RATE
[redacted]				
1 PVC	17TAM	$145.00	17TA1	$137.75
2 PVCs	17TBM	154.50	17TB1	146.78

[redacted]

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4 PVCs	17TDM		173.50	17TD1		164.83
5 PVCs	17TEM		183.00	17TE1	173.85	
6 through 14 PVCs[2]	17TGM	6.50	17TG1		6.18	
15 through 24 PVCs[3]	17THM		2.15	17TH1		2.04
Each additional PVC over 24[4]	17TJM			1.05	17TJ1	1.00

[2] When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

[3] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[4] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[5] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	2-YEAR			3-YEAR	
	USOC	RATE		USOC	RATE
For port with:					
1 PVC	17TA2	$135.94	17TA3		$134.13
2 PVCs	17TB2	144.84	17TB3		142.91
3 PVCs	17TC2	153.75	17TC3		151.70
4 PVCs	17TD2	162.66	17TD3	160.49	
5 PVCs	17TE2	171.56	17TE3		169.28
6 through 14 PVCs[1]	17TG2	6.09	17TG3	6.01	
15 through 24 PVCs[2]	17TH2	2.02	17TH3	1.99	
Each additional PVC Over 24[3]	17TJ2		0.98	17TJ3	0.97

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATES			
		4-YEAR		5-YEAR	
	USOC	RATE	USOC	RATE	
Per port with:					
1 PVC	17TA4	$132.31	17TA5	$130.50	
2 PVC	17TB4	140.98	17TB5	139.05	
3 PVCs	17TC4	149.65	17TC5	147.60	
4 PVCs	17TD4	158.32	17TD5	156.15	
5 PVCs	17TE4	166.99	17TE5	164.70	
6 through 14 PVCs[1]	17TG4	5.93	17TG5	5.85	
15 through 24 PVCs[2]	17TH4	1.96	17TH5	1.94	
Each additional PVC over 24[3]	17TJ4	0.96	17TJ5	0.95	

(1) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

(2) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 24 PVCS.

(3) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

		MONTHLY RATES			
		6-YEAR		7-YEAR	
	USOC	RATE	USOC	RATE	
Per port with:					
1 PVC	17TA6	$130.50	17TA7	$130.50	
2 PVCs	17TB6	139.05	17TB7	139.05	
3 PVCs	17TC6	147.60	17TC7	147.60	
4 PVCs	17TD6	156.15	17TD7	156.15	
5 PVCs	17TE6	164.70	17TE7	164.70	
6 through 14 PVCs [1]	17TG6	5.85	17TG7	5.85	
15 through 24 PVCs[2]	17TH6	1.94	17TH7	1.94	
Each additional PVC over 24[3]	17TJ6	0.95	17TJ7	0.95	

(1) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(2) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 24 PVCS.

(3) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

5. DS0 or 64 kbps - NNTI

	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$250.00
Each additional PVC	NRBF2	20.00
Subsequent PVC(S) order charge, per order[1]	NRBFO	75.00

MONTHLY RATES

	MONTH-TO-MONTH USOC	RATE	1-YEAR USOC	RATE
Per port with:				
1 PVC	17TAM	$195.00	17TA1	$137.75
2 PVCs	17TBM	212.50	17TB1	201.88
3 PVCs	17TCM	230.00	17TC1	218.50
4 PVCs	17TDM	247.50	17TD1	235.13
5 PVCs	17TEM	265.00	17TE1	251.75
5 through 14 PVCs[2]	17TGM	9.00	17TG1	8.55
14 through 24 PVCs[3]	17THM	2.40	17TH1	2.28
Each additional PVC over 24[4]	17TJM	1.20	17TJ1	1.14

[1] When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

[2] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[3] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[4] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

	2-YEAR USOC	2-YEAR RATE	3-YEAR USOC	3-YEAR RATE
Per port with:				
1 PVC	17TA2	$182.81	17TA3	$180.38
2 PVCs	17TB2	199.22	17TB3	196.56
3 PVCs	17TC2	215.63	17TC3	212.75
4 PVCs	17TD2	232.03	17TD3	228.94
5 PVCs	17TE2	248.44	17TE3	245.13
6 through 14 PVCs[1]	17TG2	8.44	17TG3	8.33
15 through 24 PVCs[2]	17TH2	2.25	17TH3	2.22
Each additional PVC Over 24[3]	17TJ2	1.13	17TJ3	1.11

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	4-YEAR USOC	4-YEAR RATE	5-YEAR USOC	5-YEAR RATE
Per port with:				
1 PVC	17TA4	$177.94	17TA5	$175.50
2 PVC	17TB4	193.91	17TB5	191.25
3 PVCs	17TC4	209.88	17TC5	207.00
4 PVCs	17TD4	225.84	17TD5	222.75
5 PVCs	17TE4	241.81	17TE5	238.50
6 through 14 PVCs[1]	17TG4	8.21	17TG5	8.10
15 through 24 PVCs[2]	17TH4	2.19	17TH5	2.16
Each additional PVC Over 24[3]	17TJ4	1.10	17TJ5	1.08

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 24 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

[redacted]	6-YEAR USOC	6-YEAR RATE	7-YEAR USOC	7-YEAR RATE
1 PVC	17TA6	$175.50	17TA7	$175.50
2 PVCs	17TB6	191.25	17TB7	191.25
3 PVCs	17TC6	207.00	17TC7	207.00
4 PVCs	17TD6	222.75	17TD7	222.75
5 through 14 PVCs [1]	17TE6	238.50	17TE7	238.50
15 through 24 PVCs[2]	17TG6	8.10	17TG7	8.10
Each additional PVC over 24[3]	17TH6	2.16	17TH7	2.16
	17TJ6	1.08	17TJ7	1.08

[1] For each PVC over 2, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

[redacted] 448 or 512 kbps - NewIT

[redacted]	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$250.00
Each additional PVC	NRBF2	20.00
Subsequent PVC (s) order charge, per order[1]	NRBFO	75.00

MONTHLY RATES

[redacted]	MONTH-TO-MONTH USOC	MONTH-TO-MONTH RATE	1-YEAR USOC	1-YEAR RATE
1 PVC	17TAM	$235.00	17TA1	$223.25
2 PVCs	17TBM	260.00	17TB1	247.00
3 PVCs	17TCM	285.00	17TC1	270.75
4 PVCs	17TDM	310.00	17TD1	294.50
5 PVCs	17TEM	335.00	17TE1	318.25

[redacted]

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

[redacted]	17TGM	12.35	17TG1	11.73		
[redacted]	17THM	2.85	17TH1	2.71		
[redacted]	17TJM	1.30	17TJ1	1.24		

(1) When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

(2) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(3) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(4) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

	2-YEAR		3-YEAR	
	USOC	RATE	USOC	RATE
[redacted]				
[redacted]	17TA2	$220.31	17TA3	$217.38
[redacted]	17TB2	243.75	17TB3	240.50
[redacted]	17TC2	267.19	17TC3	263.63
[redacted]	17TD2	290.63	17TD3	286.75
[redacted]	17TE2	314.06	17TE3	309.88
[redacted]	17TG2	11.58	17TG3	11.42
[redacted]	17TH2	2.67	17TH3	2.64
[redacted]	17TJ2	1.22	17TJ3	1.20

(1) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

(2) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(3) For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATES			
		4-YEAR		5-YEAR	
	USOC	RATE	USOC	RATE	
For port with:					
1 PVC	17TA4	$214.44	17TA5	$211.50	
2 PVC	17TB4	237.25	17TB5	234.00	
3 PVC	17TC4	260.06	17TC5	256.50	
4 PVC	17TD4	282.88	17TD5	279.00	
5 PVC	17TE4	305.69	17TE5	301.50	
6 through 14 PVCs[1]	17TG4	11.27	17TG5	11.12	
15 through 24 PVCs[2]	17TH4	2.60	17TH5	2.57	
Each additional PVC over 24[3]	17TJ4	1.19	17TJ5	1.17	

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 24 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

		MONTHLY RATES			
		6-YEAR		7-YEAR	
	USOC	RATE	USOC	RATE	
For port with:					
1 PVC	17TA6	$211.50	17TA7	$211.50	
2 PVC	17TB6	234.00	17TB7	234.00	
3 PVC	17TC6	256.50	17TC7	256.50	
4 PVC	17TD6	279.00	17TD7	279.00	
5 PVC	17TE6	301.50	17TE7	301.50	
6 through 14 PVCs [1]	17TG6	11.12	17TG7	11.12	
15 through 24 PVCs[2]	17TH6	2.57	17TH7	2.57	
Each additional PVC over 24[3]	17TJ6	1.17	17TJ7	1.17	

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. 64 or 768 Kbps - NNIT

	USOC	NONRECURRING CHARGE
First PVC	NRBF1	$250.00
Each additional PVC	NRBF2	20.00
Subsequent PVC(S) order charge, per order[1]	NRBFO	75.00

MONTHLY RATES

	MONTH-TO-MONTH USOC	RATE	1-YEAR USOC	RATE
For port with:				
1 PVC	17TAM	$325.00	17TA1	$308.75
2 PVCs	17TBM	363.55	17TB1	345.37
3 PVCs	17TCM	402.10	17TC1	382.00
4 PVCs	17TDM	440.65	17TD1	418.62
5 PVCs	17TEM	479.20	17TE1	455.24
6 through 14 PVCs[2]	17TGM	19.45	17TG1	18.48
15 through 24 PVCs[3]	17THM	4.25	17TH1	4.04
Each additional PVC over 24[4]	17TJM	1.90	17TJ1	1.81

[1] When appropriate, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

[2] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[3] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[4] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

MONTHLY RATES

For port with:	2-YEAR USOC	2-YEAR RATE	3-YEAR USOC	3-YEAR RATE
1 PVC	17TA2	$304.69	17TA3	$300.63
2 PVCs	17TB2	340.83	17TB3	336.28
3 PVCs	17TC2	376.97	17TC3	371.94
4 PVCs	17TD2	413.11	17TD3	407.60
5 PVCs	17TE2	449.25	17TE3	443.26
6 through 14 PVCs[1]	17TG2	18.23	17TG3	17.99
15 through 24 PVCs[2]	17TH2	3.98	17TH3	3.93
Each additional PVC Over 24[3]	17TJ2	1.78	17TJ3	1.76

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

MONTHLY RATES

For port with:	4-YEAR USOC	4-YEAR RATE	5-YEAR USOC	5-YEAR RATE
1 PVC	17TA4	$296.56	17TA5	$292.50
2 PVC	17TB4	331.74	17TB5	327.20
3 PVCs	17TC4	366.92	17TC5	361.89
4 PVCs	17TD4	402.09	17TD5	396.59
5 PVCs	17TE4	437.27	17TE5	431.28
6 through 14 PVCs[1]	17TG4	17.75	17TG5	17.51
15 through 24 PVCs[2]	17TH4	3.88	17TH5	3.83
Each additional PVC Over 24[3]	17TJ4	1.73	17TJ5	1.71

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 24 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

		MONTHLY RATES			
		6-YEAR		7-YEAR	
	USOC	RATE	USOC	RATE	
For port with:					
1 PVC	17TA6	$292.50	17TA7	$292.50	
2 PVCs	17TB6	327.20	17TB7	327.20	
3 PVCs	17TC6	361.89	17TC7	361.89	
4 PVCs	17TD6	396.59	17TD7	396.59	
5 PVCs	17TE6	431.28	17TE7	431.28	
6 through 14 PVCs [1]	17TG6	17.51	17TG7	17.51	
15 through 24 PVCs[2]	17TH6	3.83	17TH7	3.83	
Each additional PVC over 24[3]	17TJ6	1.71	17TJ7	1.71	

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

c. 1.544 Mbps - NNI

	NONRECURRING		MONTHLY RATES			
	USOC	CHARGE	MONTH-TO-MONTH		1-YEAR	
			USOC	RATE	USOC	RATE
First PVC	NRBF1	$50.00				
Each additional PVC	NRBF2	20.00				
Subsequent PVC(s) order charge, per order[1]	NRBFO	75.00				
For port with:						
1 PVC			17TAM	$240.00	17TA1	$228.00
2 PVCs			17TBM	359.75	17TB1	341.76
3 PVCs			17TCM	479.50	17TC1	455.53

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MONTHLY RATES

	2-YEAR USOC	RATE	3-YEAR USOC	RATE
[redacted]				
1 PVC	17TA2	$225.00	17TA3	$222.00
2 PVCs	17TB2	337.27	17TB3	332.77
3 PVCs	17TC2	449.53	17TC3	443.54
4 PVCs	17TD2	561.80	17TD3	554.31
5 PVCs	17TE2	674.06	17TE3	665.08
6 through 14 PVCs[1]	17TG2	41.16	17TG3	40.61
15 through 24 PVCs[2]	17TH2	9.00	17TH3	8.88
Each additional PVC Over 24[3]	17TJ2	0.47	17TJ3	0.46

[redacted] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[redacted] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[redacted] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

[redacted]

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[redacted]

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

[redacted] PVCs	17TDM		599.25	17TD1		569.29
[redacted] PVCs	17TEM		719.00	17TE1	683.05	
[redacted] 14 PVCs[2]	17TGM	43.90	17TG1		1.71	
[redacted] 24 PVCs[3]	17THM		9.60	17TH1		9.12
[redacted] additional PVC over 24[4]	17TJM			0.50	17TJ1	0.48

(1) When applicable, the "Each Additional PVC" nonrecurring charge applies in addition to the "Subsequent PVC Order Charge".

(2) For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

(3) For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

(4) For each PVC over 24 add this rate to the total monthly rate for 24 PVCs

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Per port with:	MONTHLY RATES 4-YEAR USOC	4-YEAR RATE	USOC	5-YEAR RATE
1 PVC	17TA4	$219.00	17TA5	$216.00
2 PVC	17TB4	328.27	17TB5	328.78
3 PVC		17TC4	437.54	17TC5 431.55
4 PVC		17TD4	546.82	17TD5 539.33
5 PVC		17TE4	656.09	17TE5 647.10
6 through 14 PVCs[1]	17TG4	40.06	17TG5	39.51
15 through 24 PVCs[2]	17TH4	8.76	17TH5	8.64
Each additional PVC over 24[3]	17TJ4	0.46	17TJ5	0.45

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVC.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 24 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

Per port with:	MONTHLY RATES 6-YEAR USOC	6-YEAR RATE	USOC	7-YEAR RATE
1 PVC	17TA6	$216.00	17TA7	$216.00
2 PVC		17TB6	323.78	17TB7 323.78
3 PVC		17TC6	431.55	17TC7 431.55
4 PVC		17TD6	539.33	17TD7 539.33
5 PVC		17TE6	647.10	17TE7 647.10
6 through 14 PVCs [1]	17TG6	39.51	17TG7	39.51
15 through 24 PVCs[2]	17TH6	8.64	17TH7	8.64
Each additional PVC over 24[3]	17TJ6	0.45	17TJ7	0.45

[1] For each PVC over 5, up to and including 14, add this rate to the monthly rate for 5 PVCs.

[2] For each PVC over 14, up to and including 24, add this rate to the total monthly rate for 14 PVCS.

[3] For each PVC over 24 add this rate to the total monthly rate for 24 PVCS.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Central Office Connecting Channel (COCC)

a. FRS Level One COCC (56/64 kbps and 1.544 Mbps)[1]

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Per COCC			
Month-to-Month	CU5RR	$25.00	$0.65
1-Year	CU5SR	25.00	0.62
2-Year	CU5TR	25.00	0.62
3-Year	CU5UR	25.00	0.60
4-Year	CU5VR	25.00	0.60
5-Year	CU5WR	25.00	0.59
6-Year	CU8AR	25.00	0.59
7-Year	CU8BR	25.00	0.59

[1] The COCC rate and charge are the same for 56/64 kbps and 1.544 Mbps applications.

b. FRS Level One COCC (44.736 Mbps)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Per COCC			
Month-to-Month	CU5RR	$50.00	$10.00
1-Year	CU5SR	50.00	9.50
3-Year	CU5TR	50.00	9.38
3-Year	CU5UR	50.00	9.25
4-Year	CU5VR	50.00	9.13
5-Year	CU5WR	50.00	9.00

c. Change of Jurisdiction

	USOC	NONRECURRING CHARGE
Per FRS Port	NRBJC	$75.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

3. Customer Network Management

Per workstation access	USOC	NONRECURRING CHARGE	MONTHLY RATE
Month-to-Month	NM6XM	$14.00	$67.00
1-Year	NM6X1	14.00	63.65
2-Year	NM6X2	14.00	62.81
3-Year	NM6X3	14.00	61.98
4-Year	NM6X4	14.00	61.14
5-Year	NM6X5	14.00	60.30
6-Year	NM6X6	14.00	60.30
7-Year	NM6X7	14.00	60.30

4. Subsequent Customer Network Management Order

	USOC	NONRECURRING CHARGE
Per subsequent CNM order on existing service	NR9FM	$35.00

7. Multicast

	USOC	NONRECURRING CHARGE	MONTHLY RATE
1st Multicast-dedicated PVC, per port	L8GMX	$40.00	—
Each additional Multicast-dedicated PVC, per port	L8GNX	20.00	—

(Cancel)

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

B. Priority PVC

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Per Priority PVC			
56/64 kbps UNIT			
Month-to-Month	PV7XM	$ 50.00	$5.00
1-Year	PV7X1	50.00	4.75
2-Year	PV7X2	50.00	4.69
3-Year	PV7X3	50.00	4.63
4-Year	PV7X4	50.00	4.56
5-Year	PV7X5	50.00	4.50
6-Year	PV7X6	50.00	4.50
7-Year	PV7X7	50.00	4.50
112/128 kbps UNIT			
Month-to-Month	PV7XM	$50.00	$5.83
1-Year	PV7X1	50.00	5.54
2-Year	PV7X2	50.00	5.47
3-Year	PV7X3	50.00	5.39
4-Year	PV7X4	50.00	5.32
5-Year	PV7X5	50.00	5.25
6-Year	PV7X6	50.00	5.25
7-Year	PV7X7	50.00	5.25
224/256 kbps UNIT			
Month-to-Month	PV7XM	$50.00	$6.67
1-Year	PV7X1	50.00	6.34
2-Year	PV7X2	50.00	6.25
3-Year	PV7X3	50.00	6.17
4-Year	PV7X4	50.00	6.09
5-Year	PV7X5	50.00	6.00
6-Year	PV7X6	50.00	6.00
7-Year	PV7X7	50.00	6.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

336/384 kbps UNIT

Month-to-Month	PV7XM	$50.00	$7.50
1-Year	PV7X1	50.00	7.13
2-Year	PV7X2	50.00	7.03
3-Year	PV7X3	50.00	6.94
4-Year	PV7X4	50.00	6.84
5-Year	PV7X5	50.00	6.75
6-Year	PV7X6	50.00	6.75
7-Year	PV7X7	50.00	6.75

448/512 kbps UNIT

Month-to-Month	PV7XM	$50.00	$8.33
1-Year	PV7X1	50.00	7.91
2-Year	PV7X2	50.00	7.81
3-Year	PV7X3	50.00	7.71
4-Year	PV7X4	50.00	7.60
5-Year	PV7X5	50.00	7.50
6-Year	PV7X6	50.00	7.50
7-Year	PV7X7	50.00	7.50

672/768 kbps UNIT

Month-to-Month	PV7XM	$50.00	$9.17
1-Year	PV7X1	50.00	8.71
2-Year	PV7X2	50.00	8.60
3-Year	PV7X3	50.00	8.48
4-Year	PV7X4	50.00	8.37
5-Year	PV7X5	50.00	8.25
6-Year	PV7X6	50.00	8.25
7-Year	PV7X7	50.00	8.25

1.544 Mbps UNIT

Month-to-Month	PV7XM	$50.00	$10.00
1-Year	PV7X1	50.00	9.50
2-Year	PV7X2	50.00	9.38
3-Year	PV7X3	50.00	9.25
4-Year	PV7X4	50.00	9.13
5-Year	PV7X5	50.00	9.00
6-Year	PV7X6	50.00	9.00
7-Year	PV7X7	50.00	9.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Per Video PVC

384 kbps CIR

Month-to-Month	PVUEM	$700.00	$20.00
1 -Year	PVUE1	700.00	19.00
2-Year	PVUE2	700.00	18.75
3-Year	PVUE3	700.00	18.50
4-Year	PVUE4	700.00	18.25
5-Year	PVUE5	700.00	18.00
6-Year	PVUE6	700.00	18.00
7-Year	PVUE7	700.00	18.00

Per Video PVC

512 kbps CIR

Month-to-Month	PVUFM	$700.00	$30.00
1 -Year	PVUF1	700.00	28.50
2-Year	PVUF2	700.00	28.13
3-Year	PVUF3	700.00	27.75
4-Year	PVUF4	700.00	27.38
5-Year	PVUF5	700.00	27.00
6-Year	PVUF6	700.00	27.00
7-Year	PVUF7	700.00	27.00

9. Fault Tolerant Service

	USOC	NONRECURRING CHARGE
Initial Service Establishment Per backup Access Link	NRBF4	$500.00
Subsequent Service Establishment, Per Service Order	NRBF5	50.00
Activation and Restoral, Per Service Activation and Restoral	NRBF4	500.00

	USOC	MONTHLY RATE
Per 56/64 kbps UNIT		

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Month-to-Month	17T9M	$35.00
1 -Year	17T91	33.25
2-Year	17T92	32.81
3-Year	17T93	32.38
4-Year	17T94	31.94
5-Year	17T95	31.50
6-Year	17T96	31.50
7-Year	17T97	31.50

Per 1.544 Mbps UNIT

Month-to-Month	17T9M	$ 215.00
1 -Year	17T91	204.25
2-Year	17T92	201.56
3-Year	17T93	198.88
4-Year	17T94	196.19
5-Year	17T95	193.50
6-Year	17T96	193.50
7-Year	17T97	193.50

Per 44.736 Mbps UNIT

Month-to-Month	17T9M	$1,500.00
1 -Year	17T91	1,425.00
2-Year	17T92	1,381.25
3-Year	17T93	1,337.50
4-Year	17T94	1,293.75
5-Year	17T95	1,250.00
6-Year	17T96	1,250.00
7-Year	17T97	1,250.00

J. ADVANCED SERVICES - ATM CELL RELAY SERVICE

ATM Cell Relay Service ("ATM CRS") is a connection-oriented communications service that uses Asynchronous Transfer Mode ("ATM") technology. The service provides customers with high-speed, low-delay information transfer capacity, which supports applications that require near real-time mixed media (data, video, image, voice) communications among multiple locations. ATM CRS supports transmission speeds of up to 1.544 Mbps, 45 Mbps, or 155 Mbps.

ATM CRS requires the use of customer terminal equipment that functions as a multiplexer/router, hub or ATM switch. This terminal equipment must be purchased separately from the ATM CRS and must conform to standards

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

set forth in technical publications listed herein. The terminal equipment accumulates customer traffic and puts it into a cell relay format suitable for transmission over the ATM CRS Network.

ATM CRS conforms to standards set forth in technical publications listed herein and is only provided over fiber optic facilities.

A customer may request that the facilities used to provide ATM CRS be specially routed. The regulations, rates and charges for Special Facilities Routing (i.e., Diversity) are set forth in the "Private Line Transport Services" section herein.

ATM connectivity between two separate LSS networks and/or between LSS and ATM CRS locations can be used for LSS provisioning. The connection between the LSS/LSS or LSS/ATM CRS locations can be an ATM CRS virtual channel connection (VCC). VCCs for the LSS/LSS or LSS to ATM CRS option are only available as Unspecified Bit Rate Service (UBRS) for Monthly or fixed period service rate plans of 12, 36 and 60 Months.

SERVICE ELEMENTS FOR ATM CELL RELAY SERVICE

1. Network Interface

   The network interface is the point at which a customer's data transmissions first enter the network supporting ATM CRS. It is the point of interconnection between Company communication facilities and customer terminal equipment.

2. Optical Access Link (OAL)

   An ATM CRS Optical Access Link provides access to the ATM CRS Network, connecting customer facilities at the network interface with a corresponding ATM CRS Cell Transfer element. An ATM CRS Optical Access Link is only available at ATM CRS Service Points. In lieu of an Optical Access Link, a Private Line Transport Service DS1I Channel Termination (CT) with Clear Channel Capability, provided by the Company on an individual case basis, is used to provide access to a 1.544 Mbps Cell Transfer. The DS1 CT provides access to the Company ATM CRS Network switch via a connection between customer facilities at the network interface and a Cell Transfer service element. At the customer's option, an ATM CRS Optical Access Link may be ordered with 45 or 155 Mbps OAL Protection.

3. Stand-Alone Optical Access Link (SAOAL)

   An ATM CRS Stand-Alone Optical Access Link connects customer facilities to cell relay networks provided by service providers other than the Company. Private line transport mileage and/or a Central Office Connecting Channel (COCC) may be required in conjunction with a Stand-Alone Optical Access Link in order to connect the customer's serving wire center, or node, with the serving wire center, or node of another ATM CRS provider. At the customer's

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

option, a Stand-Alone Optical Access Link may be ordered with 45 or 155 Mbps SONET Protection.

4. Port

ATM CRS ports are the physical entry points into the ATM CRS Network for Optical Access Links or other compatible private line facilities, such as DS1 Service. They are the originating and terminating points for Virtual Path Connections and Virtual Channel Connections. Ports include the electronic equipment used in connecting these service elements to the ATM CRS Network. They enable customers to allocate bandwidth to applications at customer-designated transmission speeds up to 1.544 Mbps, 45 Mbps, or 155 Mbps.

5. Service Points

Service Points are geographic locations designated by the Company where the ATM CRS Network can be accessed and where ATM CRS Network ports are located. The ATM CRS Service Points are listed in the National Exchange Carrier Association FCC Tariff No. 4.

6. Logical Connections

ATM CRS logical connections function as bidirectional Permanent Virtual Connections (PVC), but they are priced as unidirectional PVCS. ATM CRS will support a point-to-point logical connection configuration between two ports. Logical Connections may be any of three service types: Peak Cell Rate Service, Sustained Cell Rate Service or Unspecified Bit Rate Service.

Logical connections are available at base speeds determined by the speed of the ATM CRS Port (1.544 Mbps, 45 Mbps, or 155 Mbps). The customer selects a base speed, which includes appropriate overheads, for each VCC or VPC they purchase.

A VCC is a logical connection from one ATM CRS Port to another CRS Port within the ATM CRS Network. VCCs are available as Peak Cell Rate Service and/or Sustained Cell Rate Service at customer-selected Cell Transfer speed(s), depending on the customer's networking requirements. VCCs are also available as Unspecified Bit Rate Service. A VPC is a collection of VCCs routed together as one unit, for which the customer has the ability to manage the speeds of the individual VCCs within the customer-designated Cell Transfer element. VPCs are available as Peak Cell Rate Service, at customer-selected Cell Transfer speed(s), depending on the customer's networking requirements.

The bandwidth for each VCC or VPC is determined by multiplying the base speed by the number of increments of that base speed selected by the customer. The maximum bandwidth for multiple logical connections on an ATM CRS Port is determined by the customer selected service types.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Logical connections are available at the following incremental base speeds:

On a 1.544 Mbps Port:

Increments of 64 kbps
Increments of 75 kbps
Increments of 1Mbps

On a 45 Mbps Port:

Increments of 64 kbps
Increments of 75 kbps
Increments of 1 Mbps
Increments of 1.544 Mbps
Increments of 1.787 Mbps
Increments of 40.7 Mbps

On a 155 Mbps Port:

Increments of 64 kbps
Increments of 75 kbps
Increments of 1 Mbps
Increments of 1.544 Mbps
Increments of 1.787 Mbps
Increments of 40.7 Mbps
Increments of 149 Mbps

Unspecified Bit Rate Service offers bandwidth increments of 64 kbps and 1 Mbps.

A customer may select multiple logical connections of different service classes on an ATM CRS Port. The speed of a Peak Cell Rate Service logical connection may not exceed the maximum speed associated with its customer-selected incremental base speed, which includes appropriate overheads. The speed of a Sustained Cell Rate Service logical connection may not exceed 80 percent of the maximum speed associated with its incremental base speed; e.g., if a customer selects a base speed of 10 Mbps for a Sustained Cell Rate Service logical connection on a 45 Mbps port, the maximum speed for that logical connection may not exceed 80 percent of 10 Mbps, or 8 Mbps.

The logical connection of an Unspecified Bit Rate Service may not exceed the maximum speed associated with its customer-selected incremental base speed, which includes appropriate overhead. The maximum subscription bandwidth allowed is limited by the number of increments of the base speed selected by the customer. For the 64 kbps service increment, the maximum subscription bandwidth allowed is 23 x 64 kbps, regardless of port speeds. For the

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

1 Mbps service increment, the maximum subscription bandwidths allowed are: 1 Mbps for the 1.544 Mbps port, 40 Mbps for the 45 Mbps port and 149 Mbps for the 155 Mbps port.

For Peak Cell Rate Service, a single logical connection configuration is also available. A customer may choose a single 40.7 Mbps logical connection on a 45 Mbps port or a single 149 Mbps logical connection on a 155 Mbps port.

ATM CRS logical connections are provided as Peak Cell Rate Service, Sustained Cell Rate Service or Unspecified Bit Rate Service. The industry standard designation for Peak Cell Rate Service is Service Class A; for Sustained Cell Rate Service it is Service Class C.

a. Peak Cell Rate Service (PCRS)

PCRS supports VCCs and VPCs carrying a constant flow of information (Constant Bit Rate traffic). The Peak Cell Rate, which includes appropriate overheads, is the customer-selected, upper limit for cell traffic on a logical connection. When cells exceed the Peak Cell Rate for PCRS logical connections, the cells are discarded upon entry into the ATM CRS Network. The Peak Cell Rate of a PCRS logical connection must be less than the speed of the associated port.

b. Sustained Cell Rate Service (SCRS)

SCRS supports VCCs carrying information at variable rates (Variable Bit Rate traffic). The Sustained Cell Rate is the average cell rate, including bursts above the average, that can be sustained over an SCRS logical connection. The customer selects the bandwidth characteristics of an SCRS logical connection by choosing the appropriate Sustained Cell Rate, which includes appropriate overheads. A customer may also select maximum burst size levels of 32 cells, 100 cells or 200 cells over a SCRS logical connection at a rate equal to a Peak Cell Rate chosen by the customer, or the port speed when no Peak Cell Rate is chosen; however, the average cell rate transmitted for that logical connection must equal the chosen Sustained Cell Rate. The Peak Cell Rate of an SCRS logical connection may equal, but not exceed, the speed of the associated port.

5. Maximum Burst Size

The Maximum Burst Size (MBS) is the maximum number of cells that can be sent at the Peak Cell Rate on a SCRS connection at one time. Sending a burst at MBS will require the connection to reduce its data rate below the SCR for a fixed period of time before the next burst can be sent. The maximum burst size levels available are: 32 Cells (accommodating one Ethernet Frame); 100 Cells (accommodating one Token Ring Frame); and 200 Cells (accommodating one FDDI Frame). The 32 cell burst size will be assigned unless the customer requests a different level.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

The MBS of 200 Cells will require the customer to purchase a minimum of 4 Mbps of SCRS service for each VCC.

9. Unspecified Bit Rate Service ("UBRS")

UBRS is a best-effort service designed to support a connection carrying information at variable rates, over VCCS. The UBR Service does not provide traffic related service guarantees, specifically, per-connection bandwidth, cell loss, cell transfer delay and cell delay variation. The Peak Cell Rate, which includes appropriate overheads, is the customer-selected, upper limit of cell traffic on a logical connection. The Peak Cell Rate specifies the highest cell rate that will be allowed on a connection, but not guaranteed. When cells exceed the Peak Cell Rate for UBRS logical connections, the cells are discarded upon entry into the ATM CRS Network. The Peak Cell Rate of a UBRS logical connection, may equal but not exceed the speed of the associated port.

10. Cell Transfer

The Cell Transfer service element transfers information between Network Interfaces connected to the ATM CRS network at speed(s) selected by the customer for VCCs or VPCS. The customer must designate whether the Cell Transfer for each logical connection is PCRS, SCRS or UBRS.

The total speed of Cell Transfer elements on a customer's ATM CRS configuration may not exceed the associated Cell Transfer port speed (1.544 Mbps, 45 Mbps, or 155 Mbps).

"First" nonrecurring charge applies for the first logical connection VCC on an LSS/LSS or LSS/ATM CRS configuration. "Each Additional" nonrecurring charge applies for each additional logical connection ordered on the same LSS/LSS or LSS/ATM CRS configuration, installed at the same time (same due date) for the same customer of record as the first logical connection. A nonrecurring charge applies for each subsequent order to add or to change logical connections on an existing LSS/LSS or LSS/ATM CRS configuration, in addition to the "First" and "Each Additional" nonrecurring charges for the logical connections in the subsequent order.

11. Central Office Connecting Channel (COCC)

A COCC provides the ongoing interconnection from the multiplexer or other Company facility used to an ATM CRS port when a customer accesses ATM CRS via a private line transport facility which requires multiplexing to be compatible with ATM CRS transmission speeds or requires port-to-port connectivity. A COCC may be used to connect a Stand Alone Optical Access Link to a private line transport facility. The COCC provides connectivity up to 1.544 Mbps, or up to 45 Mbps, or up to 155 Mbps.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

12. 45 or 155 Mbps OAL Protection Option

45 or 155 Mbps OAL Protection provides added reliability to ATM CRS transported over fiber optic facilities. This feature provides a separate facility path within the same conduit, cable, sheath, etc. for the protection system between the Serving Wire Center and the network interface. The 45 or 155 Mbps OAL Protection does not provide for diverse facilities into the building. A customer may request that the facilities used to provide ATM CRS be specially routed. The regulations, rates and charges for Special Facilities Routing (i.e., Diversity) are set forth in the "Private Line Transport Services" section herein.

The added protection is provided by ensuring that backup electronics and two logically separate facility paths are used in the provisioning of the service. One primary (or working) service path is established between the Serving Wire Center and the customer designated premises. In addition, a protect path is provisioned between the customer designated premises and the Serving Wire Center. In the event that the working facility or electronics fail, or the service performance becomes impaired; i.e., the bit error rate degenerates to less than or equal to 10 to the minus 6, the facility automatically switches to the service protect path in order to maintain a near continuous flow of information between locations.

The offering of 45 or 155 Mbps OAL Protection contemplates the use of existing facilities. Facilities requiring Special Construction will be provided as set forth herein.

RATE REGULATIONS FOR ATM CELL RELAY SERVICE

1. The customer is responsible for providing compatible terminal equipment capable of shaping cell transmissions to the parameters associated with the ATM CRS service types.

2. The initial order for ATM CRS must be for a fixed period of one, two, three, four, five, six or seven years, as set forth herein. At the end of the initial service period, the service may be obtained on a month-to-month basis or for any of the specified fixed service periods.

3. A subsequent order to add ATM CRS Optical Access Links and/or logical connections to an existing fixed-period service pricing plan must be for a fixed period of one, two, three, four, five, six or seven years, or for the remainder of the existing fixed-period service pricing plan, provided the remainder of the existing plan is at least the minimum period for that plan, as set forth herein. If the remaining term is less than the associated minimum period, the minimum term for the added Access Link and/or logical connections shall be the associated minimum period.

4. ATM CRS rate elements may be ordered under any combination of optional pricing plans. For example, the customer may order the Access Link under the three-year fixed period service pricing plan and the Cell Transfer under the five-year fixed period service pricing plan.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

5. A customer may access ATM CRS via an Optical Access Link or via Company provided, digital private line services. A customer utilizing private line services to access ATM CRS does not incur a nonrecurring charge or monthly rate for an ATM CRS Optical Access Link, but does incur a monthly rate and a nonrecurring charge for a Central Office Connecting Channel and all other monthly rates and nonrecurring charges normally associated with the ordering, installation and provisioning of ATM CRS, as set forth herein.

6. Optical Access Link (OAL)

A nonrecurring charge and monthly rate, both based on the speed of the OAL (45 Mbps or 155 Mbps), apply per OAL for each physical connection to the ATM CRS Network. When a customer accesses a 1.544 Mbps ATM CRS via a Private Line Transport Service DS1 Channel Termination (CT) with Clear Channel Capability, rates and charges are established on an individual case basis. At the customer's option, an ATM CRS Optical Access Link may be ordered with 45 or 155 Mbps OAL Protection.

7. Stand-Alone Optical Access Link (SAOAL)

A nonrecurring charge and monthly rate, both based on the speed of the SAOAL (45 Mbps or 155 Mbps), apply per SAOAL. At the customer's option, a Stand-Alone Optical Access Link may be ordered with 45 or 155 Mbps OAL Protection.

8. Cell Transfer

A "First" nonrecurring charge per port applies for the first logical connection (VCC or VPC) on an ATM CRS configuration. An "Each Additional" nonrecurring charge applies for each additional logical connection ordered on the same ATM CRS Port, installed at the same time same due date for the same customer of record as the first logical connection. A Cell Transfer fixed nonrecurring charge also applies per port, based on the port speed. A Cell Transfer fixed monthly rate applies, based on the port speed, for each ATM CRS OAL or DS3 connection to the network supporting ATM CRS. A variable, or incremental, monthly rate applies per port for the total bandwidth of all logical connections, based on the service type (PCRS, SCRS or UBRS) of the connections, the speed of the port and the number of 64 kbps, 75 kbps, 1 Mbps, 1.544 Mbps, 1.787 Mbps, 40.7 Mbps or 149 Mbps increments of bandwidth, or fraction thereof, provided on the connections.

Bandwidth increments of 75 kbps, 1.787 Mbps, 40.7 Mbps, and 149 Mbps are not available with SCRS. Bandwidth increments of 75 kbps, 1.544 Mbps, 1.787 Mbps, 40.7 Mbps and 149 Mbps are not available with UBRS.

A SCRS Maximum Burst Size monthly rate applies per VCC, based on the cell level of 100 or 200. In addition, the Maximum Burst Size of 200 Cells requires the customer to purchase a minimum of 4 Mbps of SCRS for each VCC.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

A nonrecurring charge applies for each subsequent order to add or to change logical connections on an existing ATM CRS configuration, in addition to the "First" and "Each Additional" nonrecurring charges for the logical connections in the subsequent order.

B. Central Office Connecting Channel (COCC)

A nonrecurring charge and a monthly rate apply per COCC, based on the connectivity speed of the COCC.

RATES AND CHARGES FOR ATM CELL RELAY SERVICE

1. Optical Access Link

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. 45 Mbps, per Access Link			
Month-to-Month	N7AXM	$ 840.27	$ 710.00
1-Year	N7AX1	840.27	674.50
2-Year	N7AX2	840.27	665.63
3-Year	N7AX3	840.27	656.75
4-Year	N7AX4	840.27	647.88
5-Year	N7AX5	840.27	639.00
6-Year	N7AX6	840.27	639.00
7-Year	N7AX7	840.27	639.00
b. 45 Mbps optioned with protection, per Access Link			
Month-to-Month	N7ARM	1,320.00	1,200.00
1-Year	N7AR1	1,320.00	1,140.00
2-Year	N7AR2	1,320.00	1,125.00
3-Year	N7AR3	1,320.00	1,110.00
4-Year	N7AR4	1,320.00	1,095.00
5-Year	N7AR5	1,320.00	1,080.00
6-Year	N7AR6	1,320.00	1,080.00
7-Year	N7AR7	1,320.00	1,080.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	NONRECURRING CHARGE	MONTHLY RATE
A. [redacted] per Access Link			
[redacted]	N7AXM	$ 860.24	$1,060.00
[redacted]	N7AX1	860.24	1,007.00
[redacted]	N7AX2	860.24	993.75
[redacted]	N7AX3	860.24	980.50
[redacted]	N7AX4	860.24	967.25
[redacted]	N7AX5	860.24	954.00
[redacted]	N7AX6	860.24	954.00
[redacted]	N7AX7	860.24	954.00
B. [redacted] per Access Link			
[redacted]	N7ARM	1,380.00	2,800.00
[redacted]	N7AR1	1,380.00	2,660.00
[redacted]	N7AR2	1,380.00	2,625.00
[redacted]	N7AR3	1,380.00	2,590.00
[redacted]	N7AR4	1,380.00	2,555.00
[redacted]	N7AR5	1,380.00	2,520.00
[redacted]	N7AR6	1,380.00	2,520.00
[redacted]	N7AR7	1;380.00	2,520.00

3. [redacted] Optical Access Link

	USOC	NONRECURRING CHARGE	MONTHLY RATE
A. [redacted] per Access Link			
[redacted]	N1AXM	$ 840.27	$ 710.00
[redacted]	N1AX1	840.27	674.50
[redacted]	N1AX2	840.27	665.63
[redacted]	N1AX3	840.27	656.75
[redacted]	N1AX4	840.27	647.88
[redacted]	N1AX5	840.27	639.00
[redacted]	N1AX6	840.27	639.00
[redacted]	N1AX7	840.27	639.00

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. 45 Mbps optioned with protection, per Access Link

Month-to-Month	N1ARM	1,320.00	1,200.00
1-Year	N1AR	1,320.00	1,140.00
2-Year	N1AR2	1,320.00	1,125.00
3-Year	N1AR3	1,320.00	1,110.00
4-Year	N1AR4	1,320.00	1,095.00
5-Year	N1AR5	1,320.00	1,080.00
6-Year	N1AR6	1,320.00	1,080.00
7-Year	N1AR7	1,320.00	1,080.00

	USOC	NONRECURRING CHARGE	MONTHLY RATE

c. 155 Mbps, per Access Link

Month-to-Month	N1AXM	$ 860.24	$1,060.00
1-Year	N1AX1	860.24	1,007.00
2-Year	N1AX2	860.24	993.75
3-Year	N1AX3	860.24	980.50
4-Year	N1AX4	860.24	967.25
5-Year	N1AX5	860.24	954.00
6-Year	N1AX6	860.24	954.00
7-Year	N1AX7	860.24	954.00

d. 155 Mbps optioned with protection, per Access Link

Month-to-Month	N1ARM	1,380.00	2,800.00
1-Year	N1AR1	1,380.00	2,660.00
2-Year	N1AR2	1,380.00	2,625.00
3-Year	N1AR3	1,380.00	2,590.00
4-Year	N1AR4	1,380.00	2,555.00
5-Year	N1AR5	1,380.00	2,520.00
6-Year	N1AR6	1,380.00	2,520.00
7-Year	N1AR7	1,380.00	2,520.00

3. Cell Transfer

	USOC	NONRECURRING CHARGE
First VCC	NR9AV	$150.00
Each Additional VCC	NR9AW	50.00
First VPC	NR9AX	150.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Each Additional VPC Per Subsequent VCC or VPC Order	NR9AY		50.00
	NR9AZ		160.00

	USOC	NONRECURRING CHARGE	MONTHLY RATE
a. 1.544 Mbps Fixed Rate, per port			
Month-to-Month	C3TXM	$161.45	$280.00
1-Year	C3TX1	161.45	266.00
2-Year	C3TX2	161.45	262.50
3-Year	C3TX3	161.45	259.00
4-Year	C3TX4	161.45	255.50
5-Year	C3TX5	161.45	252.00
6-Year	C3TX6	161.45	252.00
7-Year	C3TX7	161.45	252.00

	USOC	NONRECURRING CHARGE	MONTHLY RATE
b. 45 Mbps Fixed Rate, per port			
Month-to-Month	C3TXM	$161.45	$440.00
1-Year	C3TX1	161.45	418.00
2-Year	C3TX2	161.45	412.50
3-Year	C3TX3	161.45	407.00
4-Year	C3TX4	161.45	401.50
5-Year	C3TX5	161.45	396.00
6-Year	C3TX6	161.45	396.00
7-Year	C3TX7	161.45	396.00
c. 155 Mbps Fixed Rate, per port			
Month-to-Month	C3TXM	161.45	800.00
1-Year	C3TX1	161.45	760.00
2-Year	C3TX2	161.45	750.00
3-Year	C3TX3	161.45	740.00
4-Year	C3TX4	161.45	730.00
5-Year	C3TX5	161.45	720.00
6-Year	C3TX6	161.45	720.00
7-Year	C3TX7	161.45	720.00

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	MONTHLY RATE
d. Peak Cell Rate Service (PCRS) Incremental Cell Transfer on a 1.544 Mbps port		
i. Per 64 kbps increment of bandwidth		
Month-to-Month	CTNBM	$ 2.00
1-Year	CTNB1	1.90
2-Year	CTNB2	1.88
3-Year	CTNB3	1.85
4-Year	CTNB4	1.83
5-Year	CTNB5	1.80
6-Year	CTNB6	1.80
7-Year	CTNB7	1.80
ii. Per 75 kbps increment of bandwidth		
Month-to-Month	CTNJM	2.30
1-Year	CTNJ1	2.19
2-Year	CTNJ2	2.16
3-Year	CTNJ3	2.13
4-Year	CTNJ4	2.10
5-Year	CTNJ5	2.07
6-Year	CTNJ6	2.07
7-Year	CTNJ7	2.07
iii. Per 1 Mbps increment of bandwidth		
Month-to-Month	CTNAM	30.00
1-Year	CTNA1	28.50
2-Year	CTNA2	28.13
3-Year	CTNA3	27.75
4-Year	CTNA4	27.38
5-Year	CTNA5	27.00
6-Year	CTNA6	27.00
7-Year	CTNA7	27.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	MONTHLY RATE
e. Peak Cell Rate Service (PCRS) Incremental Cell Transfer on a 45 Mbps port		
i. Per 64 kbps increment of bandwidth		
Month-to-Month	CTNBM	$ 2.00
1-Year	CTNB1	1.90
2-Year	CTNB2	1.88
3-Year	CTNB3	1.85
4-Year	CTNB4	1.83
5-Year	CTNB5	1.80
6-Year	CTNB6	1.80
7-Year	CTNB7	1.80
ii. Per 75 kbps increment of bandwidth		
Month-to-Month	CTNJM	2.30
1-Year	CTNJ1	2.19
2-Year	CTNJ2	2.16
3-Year	CTNJ3	2.13
4-Year	CTNJ4	2.10
5-Year	CTNJ5	2.07
6-Year	CTNJ6	2.07
7-Year	CTNJ7	2.07
iii. Per 1 Mbps increment of bandwidth		
Month-to-Month	CTNAM	30.00
1-Year	CTNA1	28.50
2-Year	CTNA2	28.13
3-Year	CTNA3	27.75
4-Year	CTNA4	27.38
5-Year	CTNA5	27.00
6-Year	CTNA6	27.00
7-Year	CTNA7	27.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	MONTHLY RATE
f. Peak Cell Rate Service (PCRS) Incremental Cell Transfer on a 45 Mbps port		
i. Per 1.544 Mbps increment of bandwidth		
Month-to-Month	CTNDM	$ 40.00
1-Year	CTND1	38.00
2-Year	CTND2	37.50
3-Year	CTND3	37.00
4-Year	CTND4	36.50
5-Year	CTND5	36.00
6-Year	CTND6	36.00
7-Year	CTND7	36.00
ii. Per 1.787 Mbps increment of bandwidth		
Month-to-Month	CTNKM	46.50
1-Year	CTNK1	44.18
2-Year	CTNK2	43.59
3-Year	CTNK3	43.01
4-Year	CTNK4	42.43
5-Year	CTNK5	41.85
6-Year	CTNK6	41.85
7-Year	CTNK7	41.85
iii. Per 40.7 Mbps increment of bandwidth [1]		
Month-to-Month	CTNGM	1,050.00
1-Year	CTNG1	997.50
2-Year	CTNG2	984.38
3-Year	CTNG3	971.25
4-Year	CTNG4	958.13
5-Year	CTNG5	945.00
6-Year	CTNG6	945.00
7-Year	CTNG7	945.00

[1] Only one increment applies on a 45 Mbps port.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	MONTHLY RATE
g. Peak Cell Rate Service (PCRS) Incremental Cell Transfer on a 155 Mbps port		
i. Per 64 kbps increment of bandwidth		
Month-to-Month	CTNBM	$2.00
1-Year	CTNB1	1.90
2-Year	CTNB2	1.88
3-Year	CTNB3	1.85
4-Year	CTNB4	1.83
5-Year	CTNB5	1.80
6-Year	CTNB6	1.80
7-Year	CTNB7	1.80
ii. Per 75 kbps increment of bandwidth		
Month-to-Month	CTNJM	2.30
1-Year	CTNJ1	2.19
2-Year	CTNJ2	2.16
3-Year	CTNJ3	2.13
4-Year	CTNJ4	2.10
5-Year	CTNJ5	2.07
6-Year	CTNJ6	2.07
7-Year	CTNJ7	2.07

	USOC	MONTHLY RATE
h. Peak Cell Rate Service (PCRS) Incremental Cell Transfer on a 155 Mbps port		
i. Per 1 Mbps increment of bandwidth		
Month-to-Month	CTNAM	$ 30.00
1-Year	CTNA1	28.50
2-Year	CTNA2	28.13
3-Year	CTNA3	27.75
4-Year	CTNA4	27.38

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

5-Year	CTNA5	27.00
6-Year	CTNA6	27.00
7-Year	CTNA7	27.00

ii. Per 1.544 Mbps increment of bandwidth

Month-to-Month	CTNDM	40.00
1-Year	CTND1	38.00
2-Year	CTND2	37.50
3-Year	CTND3	37.00
4-Year	CTND4	36.50
5-Year	CTND5	36.00
6-Year	CTND6	36.00
7-Year	CTND7	36.00

	USOC	MONTHLY RATE

i. Peak Cell Rate Service (PCRS)
Incremental Cell Transfer
on a 155 Mbps port

i. Per 1.787 Mbps increment of bandwidth

Month-to-Month	CTNKM	$ 46.50
1-Year	CTNK1	44.18
2-Year	CTNK2	43.59
3-Year	CTNK3	43.01
4-Year	CTNK4	42.43
5-Year	CTNK5	41.85
6-Year	CTNK6	41.85
7-Year	CTNK7	41.85

ii. Per 40.7 Mbps increment of bandwidth

Month-to-Month	CTNGM	1,050.00
1-Year	CTNG1	997.50
2-Year	CTNG2	984.38
3-Year	CTNG3	971.25
4-Year	CTNG4	958.13
5-Year	CTNG5	945.00
6-Year	CTNG6	945.00
7-Year	CTNG7	945.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

iii. Per 149 Mbps increment of bandwidth [1]

	USOC	MONTHLY RATE
Month-to-Month	CTNHM	3,800.00
1-Year	CTNHI	3,610.00
2-Year	CTNH2	3,562.50
3-Year	CTNH3	3,515.00
4-Year	CTNH4	3,467.50
5-Year	CTNH5	3,420.00
6-Year	CTNH6	3,420.00
7-Year	CTNH7	3,420.00

[1] Only on increment applies on a 155 Mbps port.

	USOC	MONTHLY RATE
f. Sustained Cell Rate Service (SCRS) Incremental Cell Transfer on a 1.544 Mbps port		
i. Per 64 kbps increment of bandwidth		
Month-to-Month	CTNEM	$ 2.50
1-Year	CTNE1	2.38
2-Year	CTNE2	2.34
3-Year	CTNE3	2.31
4-Year	CTNE4	2.28
5-Year	CTNE5	2.25
6-Year	CTNE6	2.25
7-Year	CTNE7	2.25
ii. Per 1 Mbps increment of bandwidth		
Month-to-Month	CTNCM	37.50
1-Year	CTNC1	35.63
2-Year	CTNC2	35.16
3-Year	CTNC3	34.69
4-Year	CTNC4	34.22
5-Year	CTNC5	33.75
6-Year	CTNC6	33.75
7-Year	CTNC7	33.75

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	MONTHLY RATE
k. Sustained Cell Rate Service (SCRS) Incremental Cell Transfer on a 45 Mbps port		
i. Per 64 kbps increment of bandwidth		
Month-to-Month	CTNEM	$ 2.50
1-Year	CTNE1	2.38
2-Year	CTNE2	2.34
3-Year	CTNE3	2.31
4-Year	CTNE4	2.28
5-Year	CTNE5	2.25
6-Year	CTNE6	2.25
7-Year	CTNE7	2.25
ii. Per 1 Mbps increment of bandwidth		
Month-to-Month	CTNCM	37.50
1-Year	CTNC1	35.63
2-Year	CTNC2	35.16
3-Year	CTNC3	34.69
4-Year	CTNC4	34.22
5-Year	CTNC5	33.75
6-Year	CTNC6	33.75
7-Year	CTNC7	33.75

	USOC	MONTHLY RATE
iii. Per 1.544 Mbps increment of bandwidth		
Month-to-Month	CTNFM	$ 45.00
1-Year	CTNF1	42.75
2-Year	CTNF2	42.19
3-Year	CTNF3	41.63
4-Year	CTNF4	41.06
5-Year	CTNF5	40.50
6-Year	CTNF6	40.50
7-Year	CTNF7	40.50

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

L. Switched Cell Rate Service (SCRS)
Incremental Cell Transfer
on a 155 Mbps port

i. Per 64 kbps increment of bandwidth

Month-to-Month	CTNEM	2.50
1-Year	CTNE1	2.38
2-Year	CTNE2	2.34
3-Year	CTNE3	2.31
4-Year	CTNE4	2.28
5-Year	CTNE5	2.25
6-Year	CTNE6	2.25
7-Year	CTNE7	2.25

ii. Per 1 Mbps increment of bandwidth

Month-to-Month	CTNCM	$ 37.50
1-Year	CTNC1	35.63
2-Year	CTNC2	35.16
3-Year	CTNC3	34.69
4-Year	CTNC4	34.22
5-Year	CTNC5	33.75
6-Year	CTNC6	33.75
7-Year	CTNC7	33.75

iii. Per 1.544 Mbps increment of bandwidth

Month-to-Month	CTNFM	45.00
1-Year	CTNF1	42.75
2-Year	CTNF2	42.19
3-Year	CTNF3	41.63
4-Year	CTNF4	41.06
5-Year	CTNF5	40.50
6-Year	CTNF6	40.50
7-Year	CTNF7	40.50

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	MONTHLY RATE
m. Sustained Cell Rate Service (SCRS), Maximum Burst Size - Per VCC		
i. 32 Cells		
Month-to-Month	CTSAM	-
1-Year	CTSA1	-
2-Year	CTSA2	-
3-Year	CTSA3	-
4-Year	CTSA4	-
5-Year	CTSA5	-
6-Year	CTSA6	-
7-Year	CTSA7	-
ii. 100 Cells		
Month-to-Month	CTSBM	$100.00
1-Year	CTSB1	95.00
2-Year	CTSB2	93.75
3-Year	CTSB3	92.50
4-Year	CTSB4	91.25
5-Year	CTSB5	90.00
6-Year	CTSB6	90.00
7-Year	CTSB7	90.00
iii. 200 Cells [1]		
Month-to-Month	CTSCM	200.00
1-Year	CTSC1	190.00
2-Year	CTSC2	187.50
3-Year	CTSC3	185.00
4-Year	CTSC4	182.50
5-Year	CTSC5	180.00
6-Year	CTSC6	180.00
7-Year	CTSC7	180.00

[1] A Maximum Burst Size of 200 Cells requires the customer to purchase a minimum of 4 Mbps of Sustained Cell Rate Service for each VCC.

MONTHLY

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SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	RATE
B. Unspecified Bit Rate Service (UBRS), Incremental Cell Transfer on a 1.544 Mbps port		
i. Per 64 kbps increment of bandwidth		
Month-To-Month	CTUEM	$ 0.80
1-Year	CTUE1	0.76
2-Year	CTUE2	0.75
3-Year	CTUE3	0.74
4-Year	CTUE4	0.73
5-Year	CTUE5	0.72
6-Year	CTUE6	0.72
7-Year	CTUE7	0.72
ii. Per 1 Mbps increment of bandwidth		
Month-To-Month	CTUCM	12.00
1-Year	CTUC1	11.40
2-Year	CTUC2	11.25
3-Year	CTUC3	11.10
4-Year	CTUC4	10.95
5-Year	CTUC5	10.80
6-Year	CTUC6	10.80
7-Year	CTUC7	10.80

	USOC	MONTHLY RATE
C. Unspecified Bit Rate Service (UBRS), Incremental Cell Transfer on a 45 Mbps port		
i. Per 64 kbps increment of bandwidth		
Month-To-Month	CTUEM	$ 0.80
1-Year	CTUE1	0.76
2-Year	CTUE2	0.75
3-Year	CTUE3	0.74
4-Year	CTUE4	0.73
5-Year	CTUE5	0.72
6-Year	CTUE6	0.72
7-Year	CTUE7	0.72

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

ii. Per 1 Mbps increment of bandwidth

Month-To-Month	CTUCM	12.00
1-Year	CTUC1	11.40
2-Year	CTUC2	11.25
3-Year	CTUC3	11.10
4-Year	CTUC4	10.95
5-Year	CTUC5	10.80
6-Year	CTUC6	10.80
7-Year	CTUC7	10.80

	USOC	MONTHLY RATE

g. Unspecified Bit Rate Service (UBRS), Incremental Cell Transfer on a 155 Mbps port

i. Per 64 kbps increment of bandwidth

Month-To-Month	CTUEM	$ 0.80
1-Year	CTUE1	0.76
2-Year	CTUE2	0.75
3-Year	CTUE3	0.74
4-Year	CTUE4	0.73
5-Year	CTUE5	0.72
6-Year	CTUE6	0.72
7-Year	CTUE7	0.72

ii. Per 1 Mbps increment of bandwidth

Month-To-Month	CTUCM	12.00
1-Year	CTUC1	11.40
2-Year	CTUC2	11.25
3-Year	CTUC3	11.10
4-Year	CTUC4	10.95
5-Year	CTUC5	10.80
6-Year	CTUC6	10.80
7-Year	CTUC7	10.80

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. Central Office Connecting Channel (COCC)

a. ATM CRS Level One COCC (up to 1.544 Mbps)

Per COCC	USOC	NONRECURRING CHARGE	MONTHLY RATE
Month-to-Month	CFNXM	$ 25.00	$0.65
1-Year	CFNX1	25.00	0.62
2-Year	CFNX2	25.00	0.61
3-Year	CFNX3	25.00	0.60
4-Year	CFNX4	25.00	0.59
5-Year	CFNX5	25.00	0.59
6-Year	CFNX6	25.00	0.59
7-Year	CFNX7	25.00	0.59

b. ATM CRS Level Two COCC (up to 45 Mbps, or up to 155 Mbps)

Per COCC	USOC	NONRECURRING CHARGE	MONTHLY RATE
Month-to-Month	CFNXM	$ 30.00	$12.50
1-Year	CFNX1	30.00	11.88
2-Year	CFNX2	30.00	11.72
3-Year	CFNX3	30.00	11.56
4-Year	CFNX4	30.00	11.41
5-Year	CFNX5	30.00	11.25
6-Year	CFNX6	30.00	11.25
7-Year	CFNX7	30.00	11.25

K. ADVANCED SERVICES - MEGABIT SERVICES

1. MegaBit Services utilize Asynchronous Transfer Mode (ATM) technology over dedicated transport facilities, and Digital Subscriber Line (DSL) technology over metallic local loop facilities to provide customers with highspeed data services (MegaCentral) or high-speed data services which utilize the bandwidth of an existing voice line (MegaSubscriber).

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

2. MegaSubscriber Services utilize customer-provided equipment, located at the customer's premises, and Company-provided equipment, at Company Central Offices, to allow the Company to accept traffic from the customer and then separate and send bidirectional voice and data transmissions to the appropriate, separate voice and data networks. The voice traffic benefits by avoiding extended hold times which may be caused by data transmissions on voice switches. The data traffic benefits by avoiding the bandwidth limitations of voice switches. Each MegaSubscriber Service must be connected to a MegaCentral Service.

3. MegaCentral Services aggregate the data transmissions of multiple MegaSubscriber customers onto high-speed facilities and switches for bidirectional transmission between a MegaCentral host and MegaSubscriber customer locations.

4. MegaBit Services conform to standards set forth in technical publications listed in this document under Reference to Technical Publications.

5. The furnishing of MegaBit Services requires certain physical arrangements of the facilities of the Company and is subject to the availability of such facilities. Data speeds set forth herein are peak speeds. Actual speeds may be affected by loop length and other technical factors. Data speeds are therefore not guaranteed or warranted.

6. Not all wire center locations are equipped with MegaBit Services. The deployment is based on the Company's assessment of customer satisfaction, and other market, cost and technical considerations.

7. MegaSubscriber Services

Applying DSL technology to local loop metallic facilities, MegaSubscriber Services enable home and business customers to retain their analog voice channels while providing the following peak data transmission and reception speeds:

- 256 kbps bidirectional
- 512 kbps bidirectional
- 768 kbps bidirectional

- 1 Mbps receive, 1 Mbps send
- 4 Mbps receive, 1 Mbps send
- 7 Mbps receive, 1 Mbps send

8. MegaCentral Service

MegaCentral Service is a Hub and Spoke Arrangement, in which the customer's host, or central location, is the "hub," and the associated MegaSubscriber Services are the "spokes." In this arrangement, MegaCentral Service connects multiple MegaSubscriber locations, providing the

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

end users with high-speed host and Local Area Network (LAN) interconnections. MegaCentral Service supports bidirectional peak speeds of 1.5 Mbps and 3 Mbps up through 45 Mbps, in 3 Mbps increments, through the "hub" portions of the Hub and Spoke arrangements. MegaCentral Service does not support voice.

SERVICE ELEMENTS FOR MEGABIT SERVICES

1. MegaSubscriber Service

   c. MegaSubscriber Access Link: a Company-provided, flat-rated residence and business telephone lines serve as the access facilities for MegaSubscriber Services from the customer's home or remote location to their serving wire center. A Megabit Service customer may use their existing voice channels, or additional voice channels may be purchased by the customer, as set forth herein.

   d. MegaSubscriber Termination Equipment:

      (i) MegaSubscriber Compatible Modem: Provided and installed by the customer at the customer's MegaSubscriber site, the MegaSubscriber compatible modem must support customer-selected MegaSubscriber speeds. The MegaSubscriber modem must conform to standards set forth in technical publications listed herein under Reference to Technical Publications.

      (ii) MegaSubscriber Compatible Microfilter: Used in conjunction with a MegaSubscriber compatible modem, the MegaSubscriber compatible microfilter is provided and installed by the customer on each analog line associated with the service at the customer's MegaSubscriber site. The MegaSubscriber compatible microfilter allows the customer to use any analog phone jack for either data or voice traffic. The MegaSubscriber microfilter must conform to standards set forth in technical publications listed herein.

   e. Destination Channel: a logical link between a customer's MegaSubscriber location and their designated MegaCentral location.

2. MegaCentral Service

   a. MegaCentral Access Link: a Company-provided physical connection between a disclosed ATM Central Office or MegaCentral Service Point, and the MegaCentral customer premises. The MegaCentral Access Link transmits data from the customer's host, or central location, to the Company ATM Network. If the Company Central Office which serves the customer's host site or location is not collocated with the ATM Switch or a MegaCentral Service Point, appropriate Company-provided Private Line

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Transport Service Transport Mileage applies between the customer's serving Central Office and the ATM Switch or MegaCentral Service Point, whichever is closer.

Types of MegaCentral Access Links:

(i) A 1.544 Mbps, Clear Channel DS1 Private Line Transport Channel Termination. A MegaCentral Port and a Central Office Connecting Channel ("COCC") apply in addition to this Access Link.

(ii) A 45 Mbps DS3 Private Line Transport Channel Termination. A MegaCentral Port and a COCC apply in addition to this Access Link.

(iii) A 45 Mbps or 155 Mbps ATM Cell Relay Optical Access Link ("OAL") for customers within the optical reach limits of the ATM serving wire center, as specified in Technical Publication 77378. A MegaCentral Port or an existing ATM Cell Relay Port applies in addition to this Access Link.

The 45 Mbps and 155 Mbps MegaCentral Access Links support the bidirectional speeds of 3 Mbps up to 45 Mbps, in 3 Mbps increments.

b. MegaCentral Termination Equipment: a MegaCentral customer must purchase and install a MegaCentral Link Termination Device at the customer's host location. The MegaCentral Link Termination Device provides ports for the associated MegaCentral Access Links.

c. Central Office Connecting Channel ("COCC"): a COCC provides the ongoing interconnection from a MegaCentral Access Link to a MegaCentral port. The COCC will match the speed of the MegaCentral Access Link selected. A Level One COCC provides MegaCentral connectivity for 1.544 Mbps (DS 1) MegaCentral Access Link. A Level Two COCC provides MegaCentral connectivity for the 45 Mbps DS 3 MegaCentral Access Link.

d. MegaCentral Port: the MegaCentral Port is a port on the ATM switching system at the serving wire center or MegaCentral Service Point. This element applies in conjunction with the 1.544 or 45 Mbps Private Line Transport MegaCentral Access Links, and the 45 Mbps or 155 Mbps ATM Cell Relay Optical Access Links. The types of ports which may be used with MegaCentral Service are:

(i) 1.5 Mbps MegaCentral Port
(ii) 45 Mbps MegaCentral Port. This port is capable of terminating MegaCentral Access Links from 3 Mbps up through 45 Mbps, in 3 Mbps increments.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

(iii) A 45 Mbps or 155 Mbps ATM Cell Relay Port may be used by customers with existing ATM Cell Relay Service, in lieu of a MegaCentral Port.

A minimum of one 3 Mbps Bandwidth increment applies for each 45 Mbps MegaCentral Port, and for each 45 Mbps or 155 Mbps ATM Cell Relay Port.

e. Bandwidth: transports MegaCentral data transmission through the ATM Network, at rates from 3 Mbps to 45 Mbps, in 3 Mbps increments. A minimum of one 3 Mbps increment of Bandwidth applies for each 45 Mbps MegaCentral Port, and for each 45 Mbps or 155 Mbps ATM Cell Relay Port.

f. MegaCentral Service Point: a geographic location designated by the Company, where a MegaCentral Port can be accessed. The MegaCentral Port utilizes the ATM MegaCentral Service Points, which are listed in the National Exchange Carrier Association Tariff, F.C.C. No. 4.

In addition to the terms and conditions contained elsewhere herein, the terms and conditions in this section also apply for MegaBit Services.

The furnishing of MegaBit Services requires certain physical arrangements of facilities of the Company and is subject to the availability of such facilities, as set forth in 2.1.2. In addition to the limitations set forth in 2.1.2, preceding, availability of MegaBit Services is restricted by special plant configuration and material specifications that will not permit deployment to all customers at all locations.

The Company's deployment of MegaBit Services will be limited to wire centers where, in the Company's determination, sufficient market demand exists, coupled with an adequate level of loops suitable to meet that demand. Deployment will be limited to customers served by loops, which in the Company's judgment, are suitable for use with this new technology.

The specific limitations applicable to MegaSubscriber Service are as follows:

- The loop between the customer premises and the serving wire center can be no longer than 15,000 feet of 26 gauge copper or 18,000 feet of 24 gauge copper.
- The loop must be directly fed by copper from the serving wire center. The loop cannot be provided by a Subscriber Loop Carrier (SLC) or Digital Loop Carrier (DLC) system.
- The loop must not have any load coils on it.
- All bridge taps must be counted in the total loop length.
- The maximum length of any bridge tap cannot exceed 2,000 feet.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

- Total bridge tap length on Revised Resistance Design Loop cannot exceed 6,000 feet.

- Total bridge tap length on Carrier Serving Area Design Loop cannot exceed 2,500 feet.

MegaSubscriber Services may be ordered on a month-to-month basis or for fixed periods of one, three, or five years, as set forth herein.

The initial order of a MegaCentral Service must be for either a one, three or five year fixed service period; however, at the completion of the initial fixed period, the customer may elect the month-to-month option for that service configuration, or may elect any of the fixed service periods.

RATE ELEMENTS FOR MEGABIT SERVICES

1. MegaSubscriber Services

   a. MegaSubscriber Service Charge: a nonrecurring charge and monthly rate, both based on the customer-selected peak data transmission and reception speeds, apply per MegaSubscriber Access Link. These charges include the related use of all Company provided Central Office equipment for the customer-selected peak bandwidth. The establishment of a Destination Channel is included in the nonrecurring portion of the MegaSubscriber Service Charge.

   b. Access Link: the rates and charges for Company-provided, flat-rated residence and business telephone lines used as access links for MegaSubscriber Services are in addition to the rates and charges for the other elements of a customer's MegaBit Service. These access elements are purchased by the customer, as set forth in the Exchange and Network Services Catalog. The USOCs for the flat-rated residence and business lines, when used as the Access Link for MegaSubscriber Services, are HFR and HFB, respectively.

   c. MegaSubscriber Change Charge: a nonrecurring charge applies when a MegaSubscriber customer changes a peak data transmission or reception speed, or a Destination Channel after MegaSubscriber Service is established.

   d. MegaCentral Service: if a Company-provided Private Line Transport 1.544 Mbps (DS1) or 45 Mbps (DS3) is required, it will be ordered and billed separately.

   e. Central Office Connecting Channel ("COCC"): a nonrecurring charge and a monthly rate apply, based on the connectivity speed of the MegaCentral Access Link. A COCC charge applies for each Private Line Transport 1.544 Mbps DS1, or 45 Mbps DS3 MegaCentral Access connection. This charge is in addition to all other MegaCentral charges, unless otherwise specified.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

f. MegaCentral Port Charge: a nonrecurring charge and a monthly rate apply, based on the customer-selected bandwidth of the MegaCentral Port. A MegaCentral Port Charge applies for each MegaCentral Access Link terminated into the ATM Network. A minimum of one 3 Mbps increment of Bandwidth applies for each 45 Mbps MegaCentral Port.

g. Bandwidth: a monthly rate applies for each 3 Mbps increment of Bandwidth, up through 45 Mbps. A minimum of one 3 Mbps increment of Bandwidth applies for each 45 Mbps MegaCentral Port, and for each 45 Mbps or 155 Mbps ATM Cell Relay Port.

h. MegaCentral Change Charge: a nonrecurring charge applies when a MegaCentral customer changes bandwidth on a 3 through 45 Mbps service. A nonrecurring charge also applies when adding MegaCentral Bandwidth increment(s) to an existing 45 Mbps or 155 Mbps ATM Cell Relay Service. A change from 1.5 Mbps MegaCentral service to 3 Mbps or higher MegaCentral service will be treated as a disconnection of existing service and establishment of a new service, and charges will be assessed as set forth herein.

RATES AND CHARGES FOR MEGABIT SERVICES

1. MegaSubscriber Services

a. MegaSubscriber Service Charge, per Access Link

	USOC	NONRECURRING CHARGE	MONTHLY RATE
256 Kbps, bidirectional			
Month-to-Month	H2LAM	$110.00	$40.00
1-Year	H2LA1	110.00	40.00
3-Year	H2LA3	110.00	40.00
5-Year	H2LA5	110.00	40.00
512 Kbps, bidirectional			
Month-to-Month	H2LBM	$110.00	65.00
1-Year	H2LB1	110.00	62.40
3-Year	H2LB3	110.00	59.80
5-Year	H2LB5	110.00	57.20
768 Kbps, bidirectional			
Month-to-Month	H2LCM	$110.00	80.00
1-Year	H2LC1	110.00	76.80
3-Year	H2LC3	110.00	73.60
5-Year	H2LC5	110.00	70.40

Issued:

Effective:

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

1 Mbps, bidirectional			
Month-to-Month	H2LDM	$110.00	$125.00
1 -Year	H2LDI	110.00	120.00
3-Year	H2LD3	110.00	115.00
5-Year	H2LD5	110.00	110.00
4 Mbps receive, 1 Mbps send			
Month-to-Month	H2LEM	$110.00	500.00
1 -Year	H2LE1	110.00	480.00
3-Year	H2LE3	110.00	460.00
5-Year	H2LE5	110.00	440.00
7 Mbps receive, 1 Mbps send			
Month-to-Month	H2LFM	$110.00	875.00
1 -Year	H2LF1	110.00	840.00
3-Year	H2LF3	110.00	805.00
5-Year	H2LF5	110.00	770.00

b. Access Link, per line

	USOC	NONRECURRING CHARGE	MONTHLY RATE
Residence Line (IFR)	HFR	[1]	[1]
Business Line (IFB)	HFB	[2]	[2]

c. MegaSubscriber Change Charge

	USOC	NONRECURRING CHARGE
Per Service Change	REAKM	$45.00

[1] Same rates and charges as for a 1FR line, as set forth herein.
[2] Same rates and charges as for a 1FB line herein.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

2. MegaCentral Service

a. Central Office Connecting Channel, ("COCC")[1]

	USOC	NONRECURRING CHARGE	MONTHLY RATE
MegaCentral Level One COCC			
1.5 Mbps, per COCC			
Month-To-Month	CU8MY	$20.00	$ 5.00
1-Year	CU8NY	20.00	2.50
3-Year	CU80Y	20.00	2.25
0 5-Year	CU8PY	20.00	2.00
MegaCentral Level Two COCC			
2 to 45 Mbps, per COCC			
Month-To-Month	CU8TY	$20.00	$10.00
1-Year	CU8UY	20.00	5.00
3-Year	CU8VY	20.00	4.50
5-Year	CU8WY	20.00	4.00

[1] Applies only when Private Line Transport 1.544 Mbps DS1and 45 Mbps DS3 are used as MegaCentral Access Links.

b. MegaCentral Port, per port

	USOC	NONRECURRING CHARGE	MONTHLY RATE
1.5 Mbps, per port			
Month-To-Month	HPRGM	$500.00	$ 910.00
1-Year	HPRGI	500.00	455.00
3-Year	HPRG3	500.00	409.50
5-Year	HPRG5	500.00	364.00
45 Mbps, per port[1,2]			
Month-To-Month	HPRKM	500.00	1,456.00
1-Year	HPRKI	500.00	728.00
3-Year	HPRK3	500.00	706.00
5-Year	HPRK5	500.00	692.00

[1] A minimum of one 3 Mbps increment of Bandwidth applies for each 45 Mbps MegaCentral Port.

[2] The nonrecurring charge includes the installation of the Bandwidth increment(s), which are installed at the same time as the MegaCentral Port.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. Bandwidth[1]

	USOC	MONTHLY RATE
Each 1 Mbps increment, up to 45 Mbps, per increment		
Month-to-Month	HB1HM	$478.00
1-Year	HB1H1	239.00
3-Year	HB1H3	232.00
5-Year	HB1H5	227.00

d. MegaCentral Change Charge

	USOC	NONRECURRING CHARGE
Per Bandwidth Addition or Change	REAKN	$100.00

[1] Applicable to 45 Mbps MegaCentral Ports, and to 45 Mbps and 155 Mbps ATM Cell Relay Ports. A minimum of one increment applies for each 45 Mbps MegaCentral Port, and for each 45 Mbps or 155 Mbps ATM Cell Relay Port.

L. **ADVANCED SERVICES - LAN SWITCHING SERVICE**

1. LAN Switching Service ("LSS") is a metropolitan-area and wide-area LAN interconnection service, which utilizes Asynchronous Transfer Mode (ATM) technology to provide customers with native speed LAN interconnection. LSS provides a specific amount of bandwidth, and supports both point-to-point and multipoint connectivity of Ethernet connections at 10 Mbps, Fast Ethernet Lite at 45 Mbps, and Fast Ethernet at 100 Mbps. LSS also provides Token Ring LAN interconnection at 16 Mbps.

2. LSS is a fully managed service that includes Company bridging equipment located on the customer site. LSS is provided over 45 Mbps and 155 Mbps fiber optic facilities.

3. LSS requires the deployment of the Company's ATM Cell Relay Service (CRS). The wire center locations equipped with ATM CRS are published in the Network Disclosure Announcement. Access options available include unprotected and protected LAN links and digital private line transport service. An LSS customer may request Special Facilities Routing (i.e., Diversity) as set forth in the "Private Line Transport Services" section herein.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

4. End-to-end connectivity is accomplished by establishing virtual circuits between customer sites within the ATM CRS network.

5. LSS conforms to standards set forth in LAN Switching Service PUB 77396, listed in this catalog under Reference to Technical Publications.

6. LSS also supports the provisioning of ATM connectivity between two separate LSS networks and/or between LSS and ATM CRS locations. The connection between the LSS/LSS or LSS/ATM CRS locations can be an ATM CRS virtual channel connection (VCC). VCCs for the LSS/LSS or LSS to ATM CRS option are only available as Unspecified Bit Rate Service (UBRS) for Monthly or fixed period service rate plans of 12, 36 and 60 Months.

SERVICE ELEMENTS FOR LAN SWITCHING SERVICE

1. Network Interface (NI)

A network interface is the point of interconnection on a customer's premises between Company communications facilities and customer terminal equipment. The NI includes a piece of electronic equipment that serves as a bridge and converts the electrical signal presented by the customer's LAN to optical signals.

2. LAN Link

The LAN Link provides the customer access to the Company's network supporting LSS. A LAN Link includes a NI and the related fiber optic facility. A customer may select a 16 Mbps LAN Link for Token Ring, or a 10 Mbps Ethernet, 45Mbps Fast Ethernet Lite, or 100 Mbps Fast Ethernet LAN Links. A customer may order Unprotected or Protected LAN Links. Unprotected and Protected LAN Links both provide a dedicated fiber path between the Network Interface and the Company's network. Unprotected LAN Links provide a single fiber path, while protected LAN Links provide a standby fiber path that is automatically activated if the first fiber path fails. Protected LAN Links do not provide for diverse facilities into the building. A customer may request that the facilities used to provide Protected LAN Link be Special Facilities Routed (i.e., Loop Diversity) as set forth in the :Private Line Transport Services" section herein. An LSS LAN Link is only available at ATM CRS Service Points.

In lieu of a LAN Link, a Remote LAN Link may be used to access LSS. The Remote LAN Link is a Company-provided 45 Mbps digital facility, which provides access to the Company network. A Remote LAN Link is used for LSS access where ATM CRS is unavailable.

LAN Links and Remote LAN Links are provisioned using network access links as defined in the Technical Publication. LAN Links use Unprotected Optical Access Links (OALS) and Protected OALS. Remote LAN Links are technically the same as a DS3 private line transport service.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

3. Virtual Circuits

End-to-end connectivity is accomplished by establishing virtual circuits between LSS NI's within ATM CRS network. ATM CRS network uses a connection-oriented, cell-based technology. A full mesh of Virtual Circuits between customer locations is provisioned during implementation.

4. ATM CRS Network

LSS uses ATM CRS network to transport data from one customer NI to another.

5. Service Point

Service Points are geographic locations designated by the Company where the ATM CRS network can be accessed. The ATM Service Points are listed in the National Exchange Carrier Association Tariff, F.C.C. No. 4.

6. LSS is available 24 hours per day, seven days per week.

7. LSS can be provided where Company facilities and equipment are available. Where suitable facilities are unavailable for provision of the service, special construction of the facilities may be necessary and will be charged for as specified above.

8. For LSS, the Company will secure equipment space furnished by the customer under the terms stated herein. This space must be accessible exclusively to the Company, as if the Company is the lessee.

9. The initial order for LSS must be for a fixed service period of one, three, or five years as set forth herein. At the end of the initial service period, a customer may elect the month-to-month option or any of the specified fixed service periods.

10. A subsequent order to add LSS LAN Links and/or Remote LAN Links to an existing fixed-period service pricing plan must be for a fixed period of one, three, or five years, or for the remainder of the existing fixed-period service pricing plan, provided the remainder of the existing plan is at least the minimum period for that plan, as set forth herein. If the remaining term is less than the associated minimum period, the minimum term for the added LAN Link and/or Remote LAN Link shall be the associated minimum period.

11. A customer may access LSS via a Company-provided LAN link or Remote LAN Link. A customer utilizing a Remote LAN Link to access LSS will incur a monthly rate and a nonrecurring charge for a Remote LAN Link, in addition to the applicable monthly rates for Transport Mileage.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

RATE ELEMENTS FOR LAN SWITCHING SERVICE

1. LAN Link

A nonrecurring charge applies per LAN Link for each physical connection to the ATM CRS Network. A monthly rate, based on the speed of the LAN Link (10 Mbps, 16 Mbps, 45 Mbps or 100 Mbps) also applies. At the customer's option an LSS LAN Link may be ordered with LAN Link Protection.

2. Remote LAN Link

When a customer accesses LSS via a Remote LAN Link, a nonrecurring charge and monthly rate, both based on the speed of the Remote LAN Link (10 Mbps, 16 Mbps or 45 Mbps), apply per Remote LAN Link for each physical connection to the LSS Network. When a customer accesses LSS via a Remote LAN Link, Transport Mileage also applies.

3. Transport Mileage

Transport Mileage provides for the transmission facilities between a non-ATM equipped Serving Wire Center associated with a customer location and the ATM CRS network. Transport Mileage is portrayed in mileage bands. There are two elements that apply for each band i.e., a fixed rate and a per mile rate. Transport mileage is measured by airline miles between Serving Wire Centers via the V and H Coordinates Method, as set forth in the National Exchange Carrier Association Tariff, F.C.C. No. 4.

RATES AND CHARGES FOR LAN SWITCHING SERVICE

	USOC	NONRECURRING CHARGE
1. LAN Links, per LAN Link	NRBL8	$1,500.00
	USOC	MONTHLY RATE
4. Token Ring, 16 Mbps, without protection, per LAN Link		
Month-to-Month	D5LBX	$1,400.00
1 Year	DLUBI	1,330.00
3 Year	DLUB3	1,190.00
5 Year	DLUB5	1,120.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Token Ring, 16 Mbps, with protection, per LAN Link

Month-to-Month	D5LBP	1,700.00
1-Year	DPUB1	1,615.00
3-Year	DPUB3	1,445.00
5-Year	DPUB5	1,360.00

c. Ethernet, 10 Mbps, without protection, per LAN Link

Month-to-Month	D5LCX	1,400.00
1-Year	DLUC1	1,330.00
3-Year	DLUC3	1,190.00
5-Year	DLUC5	1,120.00

d. Ethernet, 10 Mbps, with protection, per LAN Link

Month-to-Month	D5LCP	1,700.00
1-Year	DPUC1	1,615.00
3-Year	DPUC3	1,445.00
5-Year	DPUC5	1,360.00

e. Fast Ethernet Lite, 45 Mbps, without protection, per LAN Link

Month-to-Month	D5L1X	$1,800.00
1-Year	DLU11	1,710.00
3-Year	DLU13	1,530.00
5-Year	DLU15	1,440.00

f. Fast Ethernet Lite, 45 Mbps, with protection, per LAN Link

Month-to-Month	D5L1P	2,100.00
1-Year	DPU11	1,995.00
3-Year	DPU13	1,785.00
5-Year	DPU15	1,680.00

g. Fast Ethernet, 100 Mbps, without protection, per LAN Link

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Month-to-Month	D5L2X	2,800.00
1 -Year	DLU21	2,660.00
3-Year	DLU23	2,380.00
5-Year	DLU25	2,240.00

b. Fast Ethernet, 100 Mbps, with protection, per LAN Link

Month-to-Month	D5L2P	3,900.00
1 -Year	DPU21	3,700.00
3-Year	DPU23	3,300.00
5-Year	DPU25	3,120.00

	USOC	NONRECURRING CHARGE
2. Remote LAN Links, per Remote LAN Link	NRB6E	$1,700.00

	USOC	MONTHLY RATE
a. Token Ring, 16 Mbps, per Remote LAN Link		
Month-to-Month	RLUBM	$1,700.00
1 -Year	RLUB1	1,615.00
3-Year	RLUB3	1,445.00
5-Year	RLUB5	1,360.00
b. Ethernet, 10 Mbps, per Remote LAN Link		
Month-to-Month	RLUCM	1,700.00
1 -Year	RLUCI	1,615.00
3-Year	RLUC3	1,445.00
5-Year	RLUC5	1,360.00

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

c. Fast Ethernet Lite, 45 Mbps,
per Remote LAN Link

Month-to-Month	RLU1M	2,100.00
1-Year	RLU11	1,995.00
3-Year	RLU13	1,785.00
5-Year	RLU15	1,680.00

d. Transport Mileage

	USOC	MONTHLY RATE
e. Token Ring/ 10 Mbps Ethernet		
i. Month-to-Month		
Mileage Bands		
Over 0 to 8		
- Fixed	JZ3OA	$369.31
- Per mile	JZ30A	32.04
Over 8 to 25		
- Fixed	JZ30B	371.09
- Per mile	JZ30B	21.97
Over 25 to 50		
- Fixed	JZ30C	374.06
- Per mile	JZ30C	31.94
Over 50		
- Fixed	JZ30D	387.13
- Per mile	JZ30D	36.20
ii. 1-Year		
Mileage Bands		
Over 0 to 8		
- Fixed	JZ3XA	$350.85
- Per mile	JZ3XA	30.44

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Over 8 to 25		
- Fixed	JZ3XB	352.54
- Per mile	JZ3XB	20.87
Over 25 to 50		
- Fixed	JZ3XC	355.36
- Per mile	JZ3XC	30.34
Over 50		
- Fixed	JZ3XD	367.77
- Per mile	JZ3XD	34.39

iii. 3-Year

Mileage Bands

Over 0 to 8		
-Fixed	JZ3ZA	$313.92
-Per mile	JZ3ZA	27.34
Over 8 to 25		
- Fixed	JZ3ZB	315.43
- Per mile	JZ3ZB	18.68
Over 25 to 50		
- Fixed	JZ3ZC	317.96
- Per mile	JZ3ZC	27.26
Over 50		
- Fixed	JZ3ZD	329.06
- Per mile	JZ3ZD	30.89

iv. 5-Year

Mileage Bands

Over 0 to 8		
- Fixed	JZ35A	$295.45
- Per mile	JZ35A	25.63

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

Over 8 to 25		
- Fixed	JZ35B	296.88
- Per mile	JZ35B	17.58
Over 25 to 50		
- Fixed	JZ35C	299.25
- Per mile	JZ35C	25.55
Over 50		
- Fixed	JZ35D	309.70
- Per mile	JZ35D	28.96

	USOC	MONTHLY RATE

b. Fast Ethernet Lite, 45 Mbps

i. Month-to-Month

Mileage Bands

Over 0 to 8		
- Fixed	JZ36A	$590.90
- Per mile	JZ36A	51.26
Over 8 to 25		
- Fixed	JZ36B	593.75
- Per mile	JZ36B	35.15
Over 25 to 50		
- Fixed	JZ36C	598.50
- Per mile	JZ36C	51.11
Over 50		
- Fixed	JZ36D	619.40
- Per mile	JZ36D	57.92

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

	USOC	MONTHLY RATE
ii. 1 -Year		
Mileage Bands		
Over 0 to 8		
- Fixed	JZ37A	$561.36
- Per mile	JZ37A	48.70
Over 8 to 25		
- Fixed	JZ37B	564.06
- Per mile	JZ37B	33.39
Over 25 to 50		
- Fixed	JZ37C	568.58
- Per mile	JZ37C	48.55
Over 50		
- Fixed	JZ37D	588.43
- Per mile	JZ37D	55.02
iii. 3-Year		
Mileage Bands		
Over 0 to 8		
- Fixed	JZ39A	$502.27
- Per mile	JZ39A	43.74
Over 8 to 25		
- Fixed	JZ38B	504.69
- Per mile	JZ38B	29.88
Over 25 to 50		
- Fixed	JZ38C	508.73
- Per mile	JZ38C	43.61
Over 50		
- Fixed	JZ38D	526.49
- Per mile	JZ38D	49.42

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

iv. 5-Year

Mileage Bands		
Over 0 to 8		
- Fixed	JZ39A	$472.72
- Per mile	JZ39A	41.00
Over 8 to 25		
- Fixed	JZ39B	475.00
- Per mile	JZ39B	28.12
Over 25 to 50		
- Fixed	JZ39C	478.80
- Per mile	JZ39C	40.88
Over 50		
- Fixed	JZ39D	495.52
- Per mile	JZ39D	46.33

M. TIMING OF USAGE (GENERAL)

Discounts for Local and IntraLATA Toll Service apply based upon the following time periods:

1. Peak Hours: 9:00am - 11:00am, 2:00pm - 8:00pm Monday through Friday

2. Shoulder Peak Hours: 8:00am - 9:00am, 11:00am - 2:00pm, 8:00pm - 9:00pm Monday through Friday.

3. Off Peak Hours: 9:00 pm - 8:00 am Monday through Friday, 9:00 am - 8:00 am Friday through Monday

4. Discounts do not apply to operator service charges at any time.

5. Chargeable time begins when connection is established between the calling station and the called station, and ends when the calling station "hangs up." If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released by automatic timing equipment in the telephone network.

6. The discount applied to a call that begins in one rate period and ends in the next period shall be the discount for the period in which the call began.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

N. DISCOUNT PLANS

1. Term Discount Plan

a.

Annual Term	Percentage Discount
One year	2.5
Two year	5.0
Three year	7.5

b. The Term Discount Plan is available based on Customer election.

c. Customer must sign a non-cancelable contract for the Annual Term to qualify. Penalties for early termination are based on the average usage (where applicable) for the three months previous to termination billed at the discounted rate for the remainder of the respective term.

2. Platinum Discount Plan

a.

Percentage Discount	Annual Usage		
0-5	$ 0.00	to	$ 30,000.00
5.1-10	$ 30,001.00	to	$ 60,000.00
10.1-15	$ 60,001.00	to	$ 90,000.00
15.1-30	$ 90,001.00	to	$200,000.00
30.1-45	$200,001.00	to	$400,000.00
45.1-60		over	$400,001.00

b. Usage discounts will count toward the annual usage based on Customer election of the discount plan for each particular service. In addition, usage discounts of up to ten percent (10%) off of the Underlying Carrier's retail rates will be available.

c. To be eligible, a Customer must sign up as a Platinum Discount Plan member by signing a non-cancelable contract for the Annual Usage commitment to qualify. Penalties for early termination are based on the difference between the actual annual usage and the Annual Usage commitment. In addition, penalties for early termination are based on the Annual Usage commitment for the remainder of the respective term.

4. LD+ Term Discount Plan

a.

Annual Term	Percentage Discount
One year	2.5
Two year	5.0
Three year	7.5

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. The Term Discount Plan is available for the following services based on customer election: Infostar® LD+, Ultrastar LD+, Infostar® 800, Ultrastar 800 Dedicated and Infostar® Calling Card.

c. Customer must sign a non-cancelable contract for the Annual Term to qualify. Customer agrees that damages to Company in the event services are terminated for any reason prior to the end of the term shall be difficult if not impossible to ascertain. Customer, therefore, agrees to pay Company all charges incurred prior to termination and an early termination charge based on the average usage for the three months prior to termination billed at the discounted rate for the remainder of the respective term.

4. Platinum Discount Plan

a.

Percentage Discount	Annual Usage Commitment		
0-5	$0.00	to	$ 30,000.00
5.1-10	$30,001.00	to	$ 60,000.00
10.1-15	$60,001.00	to	$ 90,000.00
15.1-30	$90,001.00	to	$200,001.00
30.1-45	$200,000.00	to	$400,000.00
45.1-60			over $400,001

b. Usage of the following services will count toward the annual usage: Infostar® LD+, Ultrastar LD+, Infostar® 800, Ultrastar 800 Dedicated and Infostar® Calling Card based on Customer election of the Platinum Discount Plan for each particular service.

c. To be eligible, a customer must sign up as a Platinum Discount Plan member. Customer agrees that damages to Company in the event services are terminated for any reason prior to the end of the then current annual term shall be difficult if not impossible to ascertain. Customer, therefore, agrees to pay Company all charges incurred prior to termination and an early termination charge based on the difference between the Annual Usage Commitment and Customer's actual usage.

D. INDIVIDUAL CASE BASIS ("ICB") ARRANGEMENTS

Arrangements will be developed on a case-by-case basis in response to a bona fide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive rates will be offered to the Customer in writing and on a non-discriminatory basis.

ORIGINAL

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RECEIVED
FEB 12 2001
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

February 9, 2001

VIA FEDERAL EXPRESS

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

Re: Application of Claricom Networks, Inc. d/b/a Staples Communications – Networks for Authority to Operate as a Reseller of Local Exchange Telecommunications Services within the State of South Dakota (TC00-189)

Dear Mr. Bullard:

On behalf of Claricom Networks, Inc. d/b/a Staples Communications – Networks ("Claricom"), we hereby submit an original and ten (10) copies of its responses to a follow-up data request dated January 30, 2000 from Mr. Keith Senger of the Commission's staff.

2-1. In order to protect South Dakota consumers, the South Dakota Commission (SD PUC) requires applicants with unknown or marginal financial capabilities to submit a bond naming the SD PUC and the consumers of South Dakota as beneficiaries. The applicant is requesting a waiver from filing financial statements [ARSD 20:10:32:03(11)]; therefore, I am requesting the applicant submit a $25,000 surety bond. The bond requirement will be placed in the Commission order granting authority.

Claricom is in the process of obtaining a $25,000 surety bond in accordance with the Commission's request, however, unforeseen delays in obtaining the bond from the third-party surety prevent with the bond from being submitted as part of the instant response. Claricom will forward the bond as soon as possible, and in any event prior to

providing service in the State of South Dakota. In order to alleviate the Commission's concerns in the interim, Claricom proposes that the Commission include the bond requirement in its order granting authority as a compliance item and condition Claricom's ability to begin providing service in the State on the filing of the bond.

2-2. **Item 6 of Staff's first data request asked the applicant to include a section in the tariff that discusses how the applicant will handle customer disputes. Section 3.J. of the proposed tariff deals with "Customer Inquiries and Complaints" and does not address customer disputes (i.e. disputed bills). Please add a section to the proposed tariff that explains how the applicant will handle customer disputed bills.**

Claricom has revised Section 3.J. of its proposed tariff to include a section that discusses how it will handle customer disputes. A revised version of Section 3.J. attached hereto as Exhibit A.

2-3. **Your application stated that Claricom recently added the "d/b/a" name "Staples Communications – Networks" to its name. Has Claricom filed a Certificate of Assumed or Fictitious Name in accordance with SDCL 37-11-1? Please provide a copy of the certificate.**

Claricom has filed a Certificate of Assumed or Fictitious Name in accordance with SDCL 37-11-1. A copy of the certificate is attached hereto as Exhibit B.

2-4. **Please address ARSD 20:10:32:03(14).**

The rates for all of the price regulated non-competitive or emerging cometitive services contained in Claricom's proposed tariff are identical to the rates contained in US West's tariff for the same services. Because the Commission has approved US West's rates for these services, and Claricom's proposed rates are identical to those charged by US West, Claricom believes that the requisite cost support for such rates has already been provided to the Commission by US West.

2-5. Item 15 of the application states that Claricom has had its local exchnage authority revoked in Wisconsin and Oregon. I will be contacting both Commissions and will be presenting this information at the SD PUC meeting at which time your application will be heard. I suggest that a company representative attend the meeting in person or call-in to answer any questions the Commissioners or Staff may have.

Claricom hereby updates the current status of its authority in Wisconsin and Oregon:

The Wisconsin Commission was scheduled to issue a notice on or about Monday, February 12, 2001 announcing its intent to reinstate the Claricom's authority. At the conclusion of the notice period, the Wisconsin Commission will be issuing an Order reinstating Claricom's authority. The Order will reinstate Claricom's authority retroactive to the date on which its application for reinstatement was filed (which is January 11, 2001).

In working with Mr. Tom Turner of the Oregon Commission's staff regarding reinstatement of its authority, Claricom learned for the first time that it had apparently been transmitting its completed "Oregon Universal Service Identification Worksheet" to Mr. Turner's *telephone* number, rather than his *facsimile* number, and that as a result, Mr. Turner had received neither Claricom's original October 3, 2000 transmission nor its November 10, 2000 re-transmission. Upon learning of its inadvertent error, Claricom promptly re-transmitted its completed worksheet to Mr. Turner's actual facsimile number. On February 1, 2001, Mr. Turner has confirmed to Claricom that he now is in receipt of the completed worksheet, as well as Claricom's request for reinstatement of its certificate. During a follow-up telephone call on February 7, 2001, Mr. Turner informed Claricom that the Commission was currently in the process of drafting a reinstatement Order, and that it was anticipated that the Order would be issued within the next couple of weeks.

2-6. Besides Wisconsin and Oregon, is the applicant "in good standing with the appropriate regulatory agency in the states where it is registered or certified?" [ARSD 20:10:32:03(17)]

To the best of Claricom's knowledge or belief, Claricom is in good standing with the appropriate regulatory agency in the states where it is registered or certified.

2-7. The information provided in response to ARSD 20:10:32:03(19) is unacceptable. Please provide this required information.

Claricom will bill its customers directly as follows. After receiving billing tapes from its underlying carrier on approximately the 15th day of each month reflecting charges for the first through the last day of the previous month, Claricom rates its customers' bills according to Claricom's tariff, including any regulatory fees, taxes and other surcharges applicable to a particular customer's bill. The local dial-tone charge is billed in advance, and usage charges are billed in arrears. This information is placed onto Claricom tapes, which are sent to a third-party vendor for printing and mailing. Claricom's bills are typically mailed between the 15th and the 20th day of each month. Customer's have a minimum of 15 days within which to pay their bills for a given month before the bill is considered past due.

2-8. The application and proposed tariff state that the applicant is requesting authority to provide service in Qwest territory and is not seeking authority to provide service in the service area of a rural telephone company. However, your proposed tariff includes the Sisseton exchange. The Sisseton exchange is in the service territory of a rural telephone company. Please remove all references to the Sisseton exchange and re-file the tariff.

Claricom has revised its proposed tariff to delete all references to the Sisseton exchange. Revised versions of all affected tariff pages are attached hereto as Exhibit C.

* * * * * * * * * * * * *

We have included an extra copy of this filing, marked "Stamp and Return," as well as a self-addressed, pre-paid overnight airbill and delivery envelope. Please stamp and return the extra copy to confirm your receipt.

Please direct any inquiries regarding this filing to the undersigned.

Respectfully submitted,
CLARICOM NETWORKS, INC. D/B/A STAPLES COMMUNICATIONS – NETWORKS

By _____
Valerie M. Furman

VMF/clh
Enclosures

cc: Keith Senger, Utility Analyst

EXHIBIT A

SECTION 3 - TERMS AND CONDITIONS (continued)

J. CUSTOMER INQUIRIES AND COMPLAINTS

Customer inquiries and complaints will be handled by representatives at Claricom's National Customer Service Center, which is staffed 24 hours per day, 7 days per week. Thetoll-free number for Claricom's National Customer Service Center is (800) 678-9866. Customer service matters and complaints may also be directed to Claricom's customer service contact person by writing to:

Thomas Maier
Vice President, Network Division
Claricom Networks, Inc. d/b/a Staples Communications-Networks
4 Research Drive, Suite 500
Shelton, Connecticut 06484

Calls received by Claricom's National Customer Service Center enter a queue in the ACD and are answered in sequence. The Customer Care representative at Claricom's National Customer Service Center will attempt to resolve the Customer's concerns regarding billing, service or related matters immediately. If that is not possible, the Customer Care representative will conductresearch and call the Customer back with an answer to his or her issue. In the event that issues remain unresolved, the outstanding issues are forwarded to the Customer Care Manager who will work directly with the Customer to resolve the outstanding issues. Over 95% of calls received by Claricom's National Customer Service Center are resolved to the Customer's satisfaction without the need for intervention by the Customer Care Manager.

EXHIBIT B

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

EXCHANGE	RATE GROUP	EXCEPTION
Rapid City Hermosa Hill City Keystone	G	2FB and 2FR service is obsolete.
Redfield Doland Tulare	C	2FB and 2FR service is obsolete.
Sioux Falls Baltic Brandon Colton Crooks Dell Rapids Garretson Harrisburg Hartford Tea Valley Springs	I	2FB and 2FR service is obsolete.
Spearfish Deadwood Lead Whitewood W. Spearfish	E	2FB and 2FR service is obsolete. - Also serves rural territory in state of Wyoming.
Sturgis	C	2FB and 2FR service is obsolete.

SECTION 4 - SERVICES, RATES AND CHARGES (continued)

b. Through the enlargement of the local calling area resulting from the consolidation of exchanges.

RATE GROUP	TERMINAL DEVELOPMENT
A and B	1 - 1,000
C and D	1,001 - 5,000
E	5,001 - 20,000
G	20,001 - 45,000
I	45,001 - 60,000

Classification of Exchanges by Rate Groups. All Exchanges have Local Measured Service available.

RATE GROUP	
A	Elk Point
B	Timber Lake
C	Arlington, Belle Fourche, Canton-Fairview, Chamberlain, Colman, DeSmet, Flandreau, Lake Preston, Milbank, Miller, Redfield, Sturgis, Vermillion, Volga-Bruce
D	McIntosh, Morristown
E	Aberdeen, Cavour, Deadwood, Huron, Iroquois, Lead, Madison, Mitchell, Pierre-Ft. Pierre, Spearfish, Watertown, Whitewood, Yankton
G	Hill City, Rapid City
I	Harrisburg, Sioux Falls, Tea

LOCAL SERVICE INCREMENTS

1. Extended Calling Plan

   a. This section contains the rate plan and conditions applicable to the Extended Calling Plan.

   b. The Extended Calling Plan shall be the only method of expanding the local calling service area after November 1, 1977, except for exchange consolidation.

EXHIBIT C

ORIGINAL

DICKSTEIN SHAPIRO MORIN & OSHINSKY LLP

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February 26, 2001

VIA FEDERAL EXPRESS

RECEIVED
FEB 28 2001
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

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

FAX Received FEB 27 2001

Re: Application of Claricom Networks, Inc. d/b/a Staples Communications – Networks for Authority to Operate as a Reseller of Local Exchange Telecommunications Services within the State of South Dakota (TC00-189)

Dear Mr. Bullard:

On behalf of Claricom Networks, Inc. d/b/a Staples Communications – Networks ("Claricom"), we hereby submit an original and ten (10) copies of a request for withdrawal, without prejudice, of its above-captioned application.

At the time it filed its application with the Commission, Claricom had planned to enter the South Dakota local exchange market in mid-2001. As a result of recent revisions to Claricom's business plan, however, the more realistic estimate for Claricom's entry into the South Dakota local exchange market is Second Quarter, 2002, at the earliest. Given the change in Claricom's business plan, Claricom wishes at this time to postpone its pursuit of a certificate of local exchange operating authority for the State of South Dakota. Accordingly, Claricom respectfully requests withdrawal without prejudice of its above-captioned application.

We have included an extra copy of this filing, marked "Stamp and Return," as well as a self-addressed, pre-paid overnight airbill and delivery envelope. Please stamp and return the extra copy to confirm your receipt.

1177 Avenue of the Americas • 41st Floor • New York, New York 10036-2714
Tel (212) 835-1400 • Fax (212) 997-9880
http://www.dsmo.com

Please direct any inquiries regarding this filing to the undersigned.

Respectfully submitted,
CLARICOM NETWORKS, INC. D/B/A STAPLES COMMUNICATIONS – NETWORKS

By _____
Valerie M. Furman

VMF/clh
cc: Keith Senger (via facsimile)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF CLARICOM NETWORKS, INC. D/B/A STAPLES COMMUNICATIONS - NETWORKS FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA	))))))	ORDER PERMITTING WITHDRAWAL OF APPLICATION AND CLOSING DOCKET TC00-189

On November 21, 2000, Claricom Networks, Inc. d/b/a Staples Communications - Networks (Claricom) filed an application with the Public Utilities Commission (Commission) for a certificate of authority to operate as a telecommunications company within the state of South Dakota.

On February 27, 2001, Claricom requested that its application for a certificate of authority be withdrawn.

At its regularly scheduled March 6, 2001, meeting, the Commission considered this matter. The Commission has jurisdiction over this matter pursuant to SDCL 49-31-3 and ARSD Chapter 20:10:32. The Commission found that Claricom's request to withdraw its request for a certificate of authority is reasonable and closed the docket. It is therefore

ORDERED, that Claricom shall be permitted to withdraw its request for a certificate of authority, and it is further

ORDERED, that this docket is closed.

Dated at Pierre, South Dakota, this 9th day of March, 2001.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By Delaine Kolbo

Date 3/12/01

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION

JAMES A. BURG, Chairman

PAM NELSON, Commissioner

State of South Dakota

MICROFILM

CERTIFICATE OF AUTHENTICITY

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Contents: 8-9-00 to 3-9-01

(Inclusive Dates/Alphabetic number)

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