

REQUEST TO ESTABLISH DOCKET
(PLEASE TYPE)

Date: February 26, 1996

Docket No. 96 0233-T1

1. Division Name/Staff Name: Communications/T. Williams 

2. OPR: T. Williams

3. OCR: _____

4. Suggested Docket Title: Request for approval of the reorganizational structure of EXCEL TELECOMMUNICATIONS, INC. (T1922)

5. Suggested Docket Mailing List (attach separate sheet if necessary)

- A. Provide NAMES ONLY for regulated companies or ACRONYMS ONLY regulated industries, as shown in Rule 25-22.104, F.A.C.
- B. Provide COMPLETE name and address for all others. (Match representatives to clients.)

1. Parties and their representatives (if any)

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

2. Interested Persons and their representatives (if any)

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

6. Check one:

Documentation is attached.

Documentation will be provided with the recommendation.

WIGGINS & VILLACORTA, P.A.

ATTORNEYS AT LAW

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February 5, 1996

Mr. Walter D'Haeseleer
Director, Communications Division
Florida Public Service Commission
Division of Communications
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Reorganization of Excel Telecommunications, Inc.

Dear Walter:

On December 28, 1995, Excel Telecommunications, Inc. ("Excel") filed a letter with the Florida Public Service Commission ("Commission") requesting approval -- to the extent approval was necessary -- of Excel's proposed corporate reorganization. Subsequently, on January 2, 1996, Commission staff ("staff") confirmed that this letter would be sufficient. Thereafter, however, Commission legal counsel requested that Excel complete the enclosed Application Form for Authority to Provide Interexchange Telecommunication Service within the state of Florida ("Application"). The complete Application is included herewith as Exhibit A.

Excel is certificated to provide intrastate interexchange communications services in Florida pursuant to Order 22611 (issued March 21, 1990). Excel developed plans for the instant reorganization to be implemented vis-a-vis Excel's operations in all 48 states in which Excel is authorized to operate.

On January 1, 1996, Excel took preliminary steps to prepare for the planned reorganization. Specifically, Excel took steps leading to the incorporation of a series of new companies, starting with the creation of Excel Communications, Inc. ("ECI").¹ Excel

¹ In Excel's December 28 letter, Excel referred to the parent holding company that would be formed in the reorganization as "Excel Communications Holdings, Inc." Subsequently, for strategic reasons, Excel decided to change the parent company's name to



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transferred a cash dividend of \$9000 to ECI in exchange for ECI stock. ECI then formed seven subsidiaries and made capital contributions of \$1000 to each, in exchange for stock in each subsidiary. The shares of existing Excel shareholders were converted so that the former shareholders of Excel became the new shareholders of ECI and ECI owned all of the stock of each subsidiary, including Excel. ECI then contributed all of the stock it owned in Excel to Excel Telephone, Inc. ("ETI"), one of the seven wholly-owned subsidiaries of ECI, causing Excel to become a second-tier and wholly-owned subsidiary of ETI. An updated chart showing Excel's proposed post-reorganization structure, the original of which was attached to the December 28, 1995 letter to the Commission, is included as Exhibit B.

While the preliminary and necessary step of setting up the corporate entities under which the reorganized structure will be implemented has taken place, the reorganization itself has not yet occurred. Excel continues to operate on a non-reorganized basis as it did before January 1, 1996. At present, Excel has not yet assigned employees, transferred furniture or working assets, secured new corporate letterhead or marketing materials for the subsidiaries, nor completed the required financial arrangements. In other words, from an operational standpoint, Excel's new structure has not been implemented, and virtually all of the assets transfers are still incomplete. Excel does not plan to consummate the reorganization until after it has gained approval of this Commission and appropriate regulatory authorities in other states.

Several points regarding the reorganization must be stressed. First, the transaction does not involve an assignment of Excel's certification to provide interexchange services. Excel is, and will remain after the reorganization, the operating entity providing intrastate resold interexchange telecommunications services. Second, the transaction does not involve a transfer of control in ultimate ownership. The seven shareholders of Excel prior to the reorganization will retain equity ownership of Excel in exactly the same percentages, albeit through intermediary subsidiaries, after the reorganization. Furthermore, the officers and directors will not change -- the current officers and directors of Excel will remain the officers and directors of both ECI, ETI and Excel itself. Thus, to the extent any transfer of control may have occurred, it was in form only.²

"Excel Communications, Inc."

² It is for this reason that the accompanying Application is ill-suited to the instant reorganization. The Application does not contemplate a pro forma transfer, which is what the instant reorganization presents (to the extent that it is a transfer at all). Nonetheless, in response to staff request, Excel is submitting the enclosed application (with appropriate annotations) to reflect the subject transaction. Specifically, several questions and

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Walter, I believe that Commission approval of the above changes in corporate organizational structure is not required under Section 364.33, Florida Statutes. That section provides in pertinent part as follows:

A person may not begin the construction or operation of any telecommunications facility, or any extension thereof for the purpose of providing telecommunications services to the public, or acquire ownership or control thereof, in whatever manner, including the acquisition, transfer, or assignment of majority organizational control or controlling stock ownership, without prior approval. . .

To recap, in this situation there will be no acquisition, transfer, or assignment of majority organizational control of the entity currently authorized to provide service in Florida; rather there will be a change only in organizational structure, which does not require Commission approval.

As evidence by the enclosed application, Excel is happy to comply with the request of staff legal counsel that it file for approval. Nevertheless, at the risk of creating more work for all of us, I would request that the Commission revisit this interpretation of Section 364.33, which appears to only increase the Commission's workload without delivering any public benefit. If there is anything I can do to help get clarification on this interpretation, including raising the issue at agenda, please let me know.

If you have any questions about the reorganization or need any additional information, please let me know.

Sincerely,

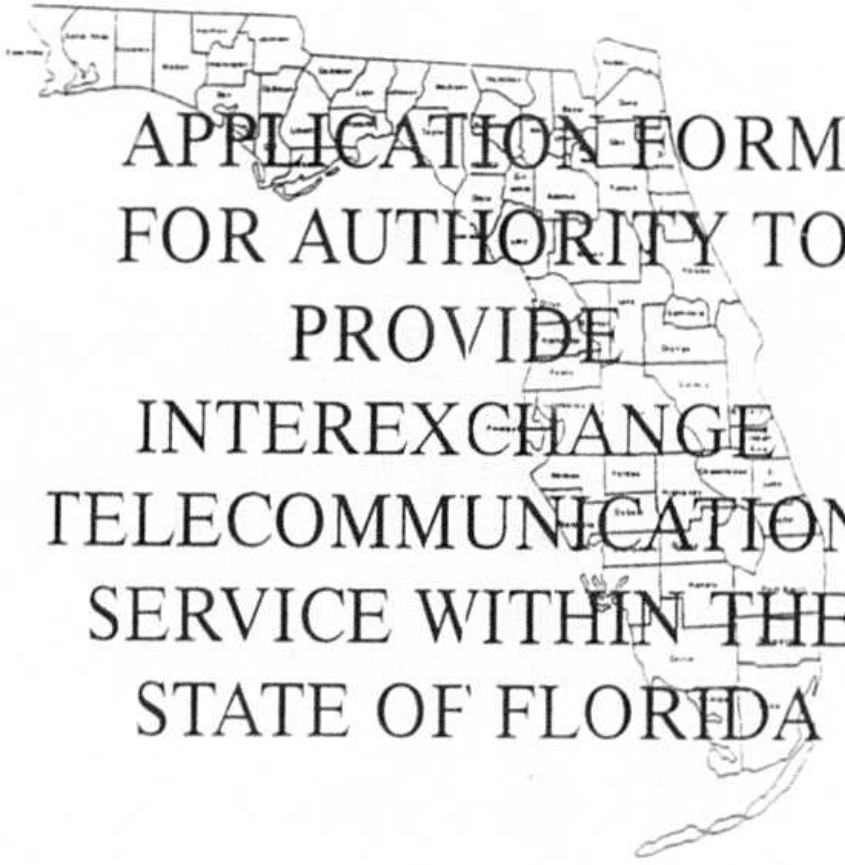


Patrick K. Wiggins

Enclosures

Appendices B, C and D are not applicable to this current transaction.

EXHIBIT A



APPLICATION FORM
FOR AUTHORITY TO
PROVIDE
INTEREXCHANGE
TELECOMMUNICATION
SERVICE WITHIN THE
STATE OF FLORIDA

**** FLORIDA PUBLIC SERVICE COMMISSION ***

DIVISION OF COMMUNICATIONS
BUREAU OF SERVICE EVALUATION

APPLICATION FORM
for
AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICE
WITHIN THE STATE OF FLORIDA

Instructions

- A. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee (See Appendix A).
- B. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.
- C. Use a separate sheet for each answer which will not fit the allotted space.
- D. If you have questions about completing the form, contact:
- E. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of \$250.00 to:

Florida Public Service Commission
Division of Communications
Bureau of Service Evaluation
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, Florida 32399-0850
(904) 413-6600

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, Florida 32399-0850
(904) 413-6251

1. This is an application for (check one):
- Original Authority (New company).
 - Approval of Transfer (To another certificated company).
 - Approval of Assignment of existing certificate (To an uncertificated company).
 - Approval for transfer of control (~~To another certificated company~~).*
2. Select what type of business your company will be conducting (check all that apply):
- Facilities based carrier - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.
 - Operator Service Provider - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.
 - Reseller - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.
 - Switchless Rebiller - company has no switch or transmission facilities but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.
 - Multi-Location Discount Aggregator - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers. Then offers the resold service by enrolling unaffiliated customers.

FORM PSC/CMU 31 (11/95)

Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

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* However, the transfer is pro forma only, as discussed in accompanying transmittal letter. The original shareholders/officers of Excel Telecommunications, Inc. will remain shareholders/officers of transferee.

3. Name of corporation, partnership, cooperative, joint venture or sole proprietorship:
 Excel Telephone, Inc.*
4. Name under which the applicant will do business (fictitious name, etc.):
 Excel Telecommunications, Inc.
5. National address (including street name & number, post office box, city, state and zip code).
 9101 LBJ Freeway, Suite 800, Dallas, TX 75243
6. Florida address (including street name & number, post office box, city, state and zip code):
 Not Applicable
7. Structure of organization;
- Individual Corporation
 Foreign Corporation Foreign Partnership
 General Partnership Limited Partnership
 Other, _____

8. If applicant is an individual or partnership, please give name, title and address of sole proprietor or partners.

Not Applicable

- (a) Provide proof of compliance with the foreign limited partnership statute (Chapter 620.169 FS), if applicable.

- (b) Indicate if the individual or any of the partners have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

(2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

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Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

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* A subsidiary owned and controlled by the current shareholders of Excel Telecommunications, Inc.

9. If incorporated, please give:

- (a) Proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: 2240 Dated 3/21/90

- (b) Name and address of the company's Florida registered agent.
CT Corporation c/o CT Corporation System
1200 South Pine Island Rd., Plantation, FL 33324
- (c) Provide proof of compliance with the fictitious name statute (Chapter 865.09 FS), if applicable.

Not Applicable

Fictitious name registration number: _____

- (c) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

NO

(2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

NO

10. Who will serve as liaison with the Commission in regard to (please give name, title, address and telephone number):

Please see Attachment 1

- (a) The application;
- (b) Official Point of Contact for the ongoing operations of the company;
- (c) Tariff;

(d) Complaints/Inquiries from customers;

11. List the states in which the applicant:

(a) Has operated as an interexchange carrier.

Please see Attachment 2

(b) Has applications pending to be certificated as an interexchange carrier.

Please see Attachment 2

(c) Is certificated to operate as an interexchange carrier.

Please see Attachment 2

(d) Has been denied authority to operate as an interexchange carrier and the circumstances involved.

Please see Attachment 2

(e) Has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

Please see Attachment 2

(f) Has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

Please see Attachment 2

12. What services will the applicant offer to other certificated telephone companies:

Not Applicable

- () Facilities. () Operators.
() Billing and Collection. () Sales.
() Maintenance.
() Other: _____

13. Do you have a marketing program? Yes

14. Will your marketing program:

- Pay commissions?
- Offer sales franchises?
- Offer multi-level sales incentives?
- Offer other sales incentives?

15. Explain any of the offers checked in question 14 (To whom, what amount, type of franchise, etc.).

Please see Attachment 3

16. Who will receive the bills for your service (Check all that apply)?

- Residential customers. Business customers.
- PATS providers. PATS station end-users.
- Hotels & motels. Hotel & motel guests.
- Universities. Univ. dormitory residents.
- Other: (specify) _____.

17. Please provide the following (if applicable):

- (a) Will the name of your company appear on the bill for your services, and if not who will the billed party contact to ask questions about the bill (provide name and phone number) and how is this information provided?

YES. Excel's name appears on the bill.

- (b) Name and address of the firm who will bill for your service.

In some cases, the applicable local exchange carrier will provide billing services.

18. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide interexchange telecommunications service in Florida.

Please see Attachment 4

A. Financial capability.

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements, including:

1. the balance sheet Please see Attachment 4
2. income statement Please see Attachment 4
3. statement of retained earnings for the most recent 3 years.
Please see Attachment 4

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should affirm that the financial statements are true and correct.

B. Managerial capability.

Please see Attachment 5

C. Technical capability.

Please see Attachment 5

19. Please submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

Not Applicable

20. The applicant ~~will~~^{does} provide the following interexchange carrier services (Check all that apply):

MTS with distance sensitive per minute rates
 Method of access is FGA
 Method of access is FGB
 Method of access is FGD
 Method of access is 800

MTS with route specific rates per minute
 Method of access is FGA
 Method of access is FGB
 Method of access is FGD
 Method of access is 800

MTS with statewide flat rates per minute (i.e. not distance sensitive)
 Method of access is FGA
 Method of access is FGB
 Method of access is FGD
 Method of access is 800

MTS for pay telephone service providers

Block-of-time calling plan (Reach out Florida, Ring America, etc.).

800 Service (Toll free)

WATS type service (Bulk or volume discount)
 Method of access is via dedicated facilities
 Method of access is via switched facilities

Private Line services (Channel Services)
(For ex. 1.544 mbs., DS-3, etc.)

Travel Service (Calling Card)
 Method of access is 950
 Method of access is 800

900 service

Operator Services
 Available to presubscribed customers
 Available to non presubscribed customers (for
example to patrons of hotels, students in
universities, patients in hospitals.
 Available to inmates

Services included are:

Station assistance
 Person to Person assistance
 Directory assistance
 Operator verify and interrupt
 Conference Calling

21. What does the end user dial for each of the interexchange carrier services that were checked in services included (above).

MTS: 1+

22. **Other:**

800/WATS: 1+800

Travel Card: 1+800

Directory Assistance: 1+555-1212
1+(xxx) 555-1212

**** APPLICANT ACKNOWLEDGEMENT STATEMENT ****

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.
3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.
4. **APPLICATION FEE:** A non-refundable application fee of \$250.00 must be submitted with the application.
5. **RECEIPT AND UNDERSTANDING OF RULES:** I acknowledge receipt and understanding of the Florida Public Service Commission's Rules and Orders relating to my provision of interexchange telephone service in Florida. I also understand that it is my responsibility to comply with all current and future Commission requirements regarding interexchange service.
6. **ACCURACY OF APPLICATION:** By my signature below, I the undersigned owner or officer of the named utility in the application, attest to the accuracy of the information contained in this application and associated attachments. I have read the foregoing and declare that to the best of my knowledge and belief, the information is a true and correct statement.
Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083".

UTILITY OFFICIAL:

Kenny A. Trout
Signature

January 30, 1996
Date

Kenny A. Troutt

President
Title

(214) 705-5500
Telephone No.

FORM PSC/CMU 31 (11/95)

Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

**** APPENDIX A ****

CERTIFICATE TRANSFER STATEMENT

I, (TYPE NAME) Kenny Troutt,
(TITLE) Chairman, President, CEO, of (NAME OF COMPANY)
Excel Telecommunications, Inc., and current
holder of certificate number 22611, have reviewed
this application and join in the petitioner's request for a
transfer of the above-mention certificate.*

UTILITY OFFICIAL:

Kenny A. Troutt
Signature

January 30, 1996
Date

Kenny A. Troutt

President

Title

(214) 705-5500
Telephone No.

FORM PSC/CMU 31 (11/95)

Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

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* However, the transfer is pro forma only, as discussed in accompanying transmittal letter. The original shareholders/officers of Excel Telecommunications, Inc. will remain shareholders/officers of transferee.

**** APPENDIX B ****

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be responded to in one of the following ways (applicant please check one):

Not Applicable

- (X) The applicant will not collect deposits nor will it collect payments for service more than one month in advance.
- () The applicant will file with the Commission and maintain a surety bond in an amount equal to the current balance of deposits and advance payments in excess of one month. (Bond must accompany application.)

UTILITY OFFICIAL:

Kenny A. Troutt
Signature

January 30, 1996
Date

Kenny A. Troutt
President
Title

(214) 705-5500
Telephone No.

**** APPENDIX C ****

INTRASTATE NETWORK

1. POP: Addresses where located, and indicate if owned or leased.

Not Applicable

1) 2)

3) 4)

2. SWITCHES: Address where located, by type of switch, and indicate if owned or leased.

Not Applicable

1) 2)

3) 4)

3. TRANSMISSION FACILITIES: Pop-to-Pop facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

Not Applicable

1) POP-to-POP TYPE OWNERSHIP

2)

4. ORIGINATING SERVICE: Please provide the list of exchanges where you are proposing to provide originating service within thirty (30) days after the effective date of the certificate (Appendix D).

Not Applicable

FORM PSC/CMU 31 (11/95)

Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

5. **TRAFFIC RESTRICTIONS:** Please explain how the applicant will comply with the EAEA requirements contained in Commission Rule 25-24.471 (4) (a) (copy enclosed).

Not Applicable

6. **CURRENT FLORIDA INTRASTATE SERVICES:** Applicant has () or has not () previously provided intrastate telecommunications in Florida. If the answer is has, fully describe the following:

Not Applicable

- a) What services have been provided and when did these services begin?
- b) If the services are not currently offered, when were they discontinued?

UTILITY OFFICIAL:

Signature

Date

Title

Telephone No.

** APPENDIX D **

FLORIDA TELEPHONE EXCHANGES

AND

EAS ROUTES

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate. Not Applicable

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

** FLORIDA EAS FOR MAJOR EXCHANGES **

<u>Extended Service Area</u>	<u>with</u>	<u>These Exchanges</u>
PENSACOLA:		Cantonment, Gulf Breeze Pace, Milton Holley-Navarre.
PANAMA CITY:		Lynn Haven, Panama City Beach, Youngstown-Fountain and Tyndall AFB.
TALLAHASSEE:		Crawfordville, Havana, Monticello, Panacea, Sopchoppy and St. Marks.
JACKSONVILLE:		Baldwin, Ft. George, Jacksonville Beach, Callahan, Maxville, Middleburg Orange Park, Ponte Vedra and Julington.
GAINESVILLE:		Alachua, Archer, Brooker, Hawthorne, High Springs, Melrose, Micanopy, Newberry and Waldo.
Ocala:		Belleview, Citra, Dunnellon,

FORM PSC/CMU 31 (11/95)

Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

Forest Lady Lake (B21),
McIntosh, Oklawaha,
Orange Springs, Salt Springs and
Silver Springs Shores.

DAYTONA BEACH:

New Smyrna Beach.

TAMPA:

Central	None
East	Plant City
North	Zephyrhills
South	Palmetto
West	Clearwater

CLEARWATER:

St. Petersburg, Tampa-West and
Tarpon Springs.

ST. PETERSBURG:

Clearwater.

LAKELAND:

Bartow, Mulberry, Plant City,
Polk City and Winter Haven.

ORLANDO:

Apopka, East Orange, Lake Buena
Vista, Oviedo, Windermere,
Winter Garden,
Winter Park, Montverde, Reedy
Creek, and Oviedo-Winter
Springs.

WINTER PARK:

Apopka, East Orange, Lake Buena Vista,
Orlando, Oviedo, Sanford, Windermere,
Winter Garden, Oviedo-Winter Springs
Reedy Creek, Geneva and Montverde.

TITUSVILLE:

Cocoa and Cocoa Beach.

COCOA:

Cocoa Beach, Eau Gallie,
Melbourne and Titusville.

MELBOURNE:

Cocoa, Cocoa Beach, Eau Gallie
and Sebastian.

SARASOTA:

Bradenton, Myakka and Venice.

FT. MYERS:

Cape Coral, Ft. Myers Beach, North Cape
Coral, North Ft. Myers, Pine Island, Lehigh
Acres and Sanibel-Captiva Islands.

NAPLES:

Marco Island and North Naples.

WEST PALM BEACH:

Boynton Beach and Jupiter.

POMPANO BEACH:

Boca Raton, Coral Springs,
Deerfield Beach and Ft.
Lauderdale.

FT. LAUDERDALE:

Coral Springs, Deerfield Beach,
Hollywood and Pompano Beach.

HOLLYWOOD:

Ft. Lauderdale and North Dade.

NORTH DADE:

Hollywood, Miami and Perrine.

MIAMI:

Homestead, North Dade and
Perrine

**** APPENDIX E ****

**** GLOSSARY ****

ACCESS CODE: The term denotes a uniform four or seven digit code assigned to an individual IXC. The five digit code has the form 10XXX and the seven digit code has the form 950-XXXX.

BYPASS: Transmission facilities that go direct from the local exchange end user to an IXC point of presence, thus bypassing the local exchange company.

CARRIERS CARRIER: An IXC that provides telecommunications service, mainly bulk transmission service, to other IXC only.

CENTRAL OFFICE: A local operating unit by means of which connections are established between subscribers' lines and trunk or toll lines to other central offices within the same exchange or other exchanges. Each three (3) digit central office code (NXX) used shall be considered a separate central office unit.

CENTRAL OFFICE CODE: The term denotes the first three digits (NXX) of the seven (7) digit telephone number assigned to a customer's telephone exchange service.

COMMISSION: The Florida Public Service Commission.

COMPANY, TELEPHONE COMPANY, UTILITY: These terms may be used interchangeably herein and shall mean any person, firm, partnership or corporation engaged in the business of furnishing communication service to the public under the jurisdiction of the Commission.

DEDICATED FACILITY: The term denotes a transmission circuit which is permanently for the exclusive use of a customer or a pair of customers.

END USER: The term denotes any individual, partnership, association, corporation, governmental agency or any other entity which (A) obtains a common line, uses a pay telephone or obtains interstate service arrangements in the operating territory of the company or (B) subscribes to interstate services provided by an IXC or uses the services of the IXC when the IXC provides interstate service for its own use.

EQUAL ACCESS EXCHANGE AREAS: EAEA means a geographic area, configured based on 1987 planned toll center/access tandem areas, in which local exchange companies are responsible for providing equal access to both carriers and customers of carriers in the most economically efficient manner.

EXCHANGE: The entire telephone plant and facilities used in providing telephone service to subscribers located in an exchange area. An exchange may include more than one central office unit.

EXCHANGE (SERVICE) AREA: The territory, including the base rate suburban and rural areas served by an exchange, within which local telephone service is furnished at the exchange rates applicable within that area.

EXTENDED AREA SERVICE: A type of telephone service furnished under tariff provision whereby subscribers of a given exchange or area may complete calls to, and receive messages from, one or more other contiguous exchanges without toll charges, or complete calls to one or more other exchanges without toll message charges.

FACILITIES BASED: An IXC that has its own transmission and/or switching equipment or other elements of equipment and does not rely on others to provide this service.

FOREIGN EXCHANGE SERVICES: A classification of exchange service furnished under tariff provisions whereby a subscriber may be provided telephone service from an exchange other than the one from which he would normally be served.

FEATURE GROUPS: General categories of unbundled tariffs to stipulate related services.

Feature Group A: Line side connections presently serving specialized common carriers.

Feature Group B: Trunk side connections without equal digit or code dialing.

Feature Group C: Trunk side connections presently serving AT&T-C.

Feature Group D: Equal trunk access with subscription.

INTEREXCHANGE COMPANY: means any telephone company, as defined in Section 364.02(4), F.S. (excluding Payphone Providers), which provides telecommunication service between exchange areas as those areas are described in the approved tariffs of individual local exchange companies.

INTER-OFFICE CALL: A telephone call originating in one central office unit or entity but terminating in another central office unit or entity both of which are in the same designated exchange area.

INTRA-OFFICE CALL: A telephone call originating and terminating within the same central office unit or entity.

INTRASTATE COMMUNICATIONS: The term denotes any communications in Florida subject to oversight by the Florida Public Service Commission as provided by the laws of the State.

INTRA-STATE TOLL MESSAGE: Those toll messages which originate and terminate within the same state.

LOCAL ACCESS AND TRANSPORT AREA: LATA means the geographic area established for the administration of communications service. It encompasses designated exchanges, which are grouped to serve common social, economic and other purposes.

LOCAL EXCHANGE COMPANY (LEC): Means any telephone company, as defined in Section 364.02(4), F.S., which, in addition to any other telephonic communication service, provides telecommunication service within exchange areas as those areas are described in the approved tariffs of the telephone company.

OPTIONAL CALLING PLAN: An optional service furnished under tariff provisions which recognizes a need of some subscribers for extended area calling without imposing the cost on the entire body of subscribers.

900 SERVICE: A service similar to 800 service, except this service is charged back to the customer based on first minute plus additional minute usage.

PIN NUMBER: A group of numbers used by a company to identify their customers.

PAY TELEPHONE SERVICE COMPANY: Means any telephone company, other than a Local Exchange Company, which provides pay telephone service as defined in Section 364.335(4), F.S.

POINT OF PRESENCE (POP): Bell-coined term which designates the

FORM PSC/CMU 31 (11/95)

Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

actual (physical) location of an IXC's facility. Replaces some applications of the term "demarcation point."

PRIMARY SERVICE: Individual line service or party line service.

RESELLER: An IXC that does not have certain facilities but purchases telecommunications service from an IXC and then resells that service to others.

STATION: A telephone instrument consisting of a transmitter, receiver, and associated apparatus so connected as to permit sending and/or receiving telephone messages.

SUBSCRIBER, CUSTOMER: These terms may be used interchangeably herein and shall mean any person, firm, partnership, corporation, municipality, cooperative organization, or governmental agency supplied with communication service by a telephone company.

SUBSCRIBER LINE: The circuit or channel used to connect the subscriber station with the central office equipment.

SWITCHING CENTER: Location at which telephone traffic, either local or toll, is switched or connected from one circuit or line to another. A local switching center may be comprised of several central office units.

TRUNK: A communication channel between central office units or entities, or private branch exchanges.

ATTACHMENTS:

- A - CERTIFICATE TRANSFER STATEMENT
- B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
- C - INTRASTATE NETWORK
- D - FLORIDA TELEPHONE EXCHANGES and EAS ROUTES
- E - GLOSSARY

Attachment 1

(Question 10)

Question 10:

- (a) Mr. Patrick K. Wiggins
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- (b) Mr. Christopher Dance
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- (c) Same as (b) above.
- (d) Same as (b) above.

Attachment 2

(Question 11)

Question 11:

- (a) Excel Telecommunications, Inc. is authorized to operate as an interexchange carrier in every state of the United States except for Connecticut, Hawaii and Rhode Island.
- (b) Excel Telecommunications, Inc. has applications currently pending in Arizona*, Connecticut, Hawaii, Oklahoma* and Rhode Island.
- (c) Excel Telecommunications, Inc. is certified or otherwise authorized to operate in every state except Connecticut, Hawaii and Rhode Island.
- (d) Excel Telecommunications, Inc. has not been denied authority to operate in any state.
- (e) On August 18, 1995, the Federal Communications Commission (F.C.C.) found Excel Telecommunications, Inc. ("Excel") apparently liable for two unauthorized switching incidents and assessed proposed forfeitures against Excel in the amount of \$40,000 for each of the two incidents. On September 6, 1995, in accordance with F.C.C. procedure, Excel filed a Petition for Reconsideration asking the F.C.C. to reconsider its ruling. The F.C.C. is presently reviewing Excel's Petition and is expected to issue a final ruling on the proposed forfeitures in the near future.

On November 28, 1995, the Florida Public Service Commission ("Commission") issued an Order To Show Cause (Order) requiring Excel to respond in writing to customer complaints and explain why it should not be fined \$1,000 for each violation. The Commission has received 35 complaints against Excel from customers alleging unauthorized switching incidents. While 16 of the complaints were still open pending response by Excel as of the issuance of the Order, the Commission determined that 19 of the complaints appeared to have merit warranting further examination. Excel filed its response to the Commissioner's Order on December 18, 1995. Excel is presently in the process of discussing a settlement with the Commission staff regarding this matter.

- (f) Excel Telecommunications, Inc. has not been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity.

* Until recently, these states have not regulated resellers. Due to recent changes in policy, Excel has filed applications with these states. However, Excel's authority to provide service has not been changed.

Attachment 3

(Question 15)

Question 15: Description of Marketing Program Compensation

Excel Telecommunication, Inc.'s (the "Company") services are marketed exclusively through a network of independent representatives ("IR"). All IR compensation is paid directly by the Company and is based on the acquisition of subscribers and their long distance usage. IRs receive subscriber acquisition commissions only after, among other things, subscribers sign up for the Company's long distance service. IRs receive commissions on the long distance usage of subscribers who they have personally signed up and subscriber acquisition commissions and long distance usage commissions for subscribers signed up by certain other IRs they have recruited directly or indirectly. The actual amount of these commissions is more particularly described in the attached Excel Concept Book.

EXCEL CONCEPT BOOK

EXCEL 
TELECOMMUNICATIONS, INC.

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1. OUR COMPANY AND MANAGEMENT TEAM

Our Company

Excel Telecommunications, Inc. of Dallas, Texas, was formed in concept in 1987 and began operations in 1988 providing quality long distance service to Residential, Commercial and Fund Raising groups. The Corporation was originally a regional long distance company operating only in Texas. In April of 1989, the company expanded its customer base using a Network Marketing Plan and added thousands of customers. Excel started a National Expansion Program in late 1989 that has allowed us to sign up customers across the nation. In early 1990, the Stage II Expansion Plan was introduced with an enhanced, perfected marketing plan. October 1992 saw the Stage III Expansion Plan kick into action as the planned result of 5 years of preparation and organization.

The marketing plan has the potential to allow anyone who wants to work the opportunity to earn a solid, sustaining-level income in a short period of time. The goal of most of our Representatives is to establish a long-term residual income which can be accomplished using Excel's customer acquisition programs. Excel is already recognized as a powerful force in the long distance industry through the continued growth exhibited over its history. The stage has been set for an emerging giant—Excel.

Our Management Team

The Excel Management Team represents a seasoned staff of executives with expertise in telecommunications, marketing, administration and finance.



Kenny Troutt

Kenny Troutt is Founder, President and CEO of Excel Telecommunications, Inc. A hands-on and quality-driven executive, Mr. Troutt operates the Excel Corporate Offices in Dallas, Texas.



Steve Smith

Steve Smith is Vice President of Marketing. Mr. Smith is a field-oriented leader and coordinates all Corporate Marketing procedures and programs.

2. OUR PRODUCT AND OPPORTUNITY

Our Product

Excel Long Distance Service—How We Do It.

Excel offers the "finest quality, full digital fiber optic dial 1 plus service," which allows us to provide our customers with "service second to none." Your customers will enjoy crystal clear voice communications as well as FAX and DATA clear lines.

The customer you sign up will be an Excel customer. Excel has billing contracts with over one thousand local telephone operating companies, including Bell and GTE. At its discretion, Excel will bill its customers through their Local Exchange Carrier or by Excel's own fully detailed billing. All billing is clear and easy to understand.

How Our Customers Save Money

As Excel acquires new customers, they are serviced through our professionally staffed Customer Service Center located at the Corporate Office in Dallas, Texas, and available at 1-800-875-9235. Because Excel does not advertise and gathers customers strictly through our unique Network Marketing Plan, we discount our long distance service which allows our customers to save month after month.

Our Opportunity

The Excel financial opportunity has developed as a result of the AT&T break up. The industry as we now know it has just developed in the last few years. The AT&T-Bell System break up did not officially occur until January, 1984. Prior to that, virtually all long distance service was handled by the AT&T - Bell System. Since the break up, the industry has overbuilt its capacity by many thousand percent. This allows us to participate in the best part of the industry: acquiring customers who want a quality long distance service at a discount. Discount quality long distance service is our program—we provide customers with the same product for less money. Excel is a national company that is expanding rapidly across the nation. Long distance service is currently a \$100 billion a year industry that is expected to exceed \$150 billion a year by the turn of the century. You can now participate in this exciting and financially rewarding market. Excel is excited about this opportunity to work with you in developing your share of this growing market.

3. OUR OPTIONAL MANAGEMENT SERVICES PROGRAM

Excel's optional Management Services Program is designed to provide the Managing Representative (MR) with the tools, the training and the support to help assure success and accelerated growth. The major components of this program are as follows:

The Managing Representatives Package (Excelerator Kit)

This complete and comprehensive package of material is designed to inform and instruct in all the significant areas of building an Excel business. Key elements of the Package include applications, forms, reference booklets, prospecting tools, rate descriptions and much more to help you launch your business onto a pathway of success.

The Managing Representative Training Program

Each new Managing Representative is entitled to a thorough two-hour training program conducted by a trainer who has been certified and equipped by Excel. Area Coordinators, Regional Training Directors and National Training Directors and on some occasions, Corporate Trainers conduct these sessions. All Area Coordinators are trained by Regional Training Directors and National Training Directors. National Training Directors receive intensive training by the Corporate Office staff, usually at the Corporate Offices in Dallas, Texas.

A key feature in Excel's training program is that the company pays the trainers separately without regard to any compensation they may receive as an Independent Representative. This means that an Excel organization can be sponsored and built in nearly all major population centers without the necessity of the sponsor traveling great distances to personally provide the training. Because of this system, the Area Coordinators, Regional Training Directors and National Training Directors have an economic interest in all Representatives, not just those who may be in their Independent Representative (IR) downline. This is a break-through concept in Network Marketing.

The Corporate Office Support System

Each Managing Representative also benefits from a wide variety of services provided by the Excel Corporate Office including complete and accurate accounting of commission and bonus payments, availability of computerized downline reports, issuance of monthly newsletters and many other support services. A comprehensive communications system has been established by the Corporate Office to transmit information to and from the field.

4. OUR FIELD SALES TEAM

Independent Representatives

Excel is attracting a very professional group of management-level people known as Independent Representatives (IRs). Independent Representatives are people who gather customers, and recruit and work with other Representatives to develop an organization of customer gatherers. They are paid bonuses and commissions for developing and working with their organization to gather customers. A solid, sustaining-level income is the goal of our Independent Representatives.

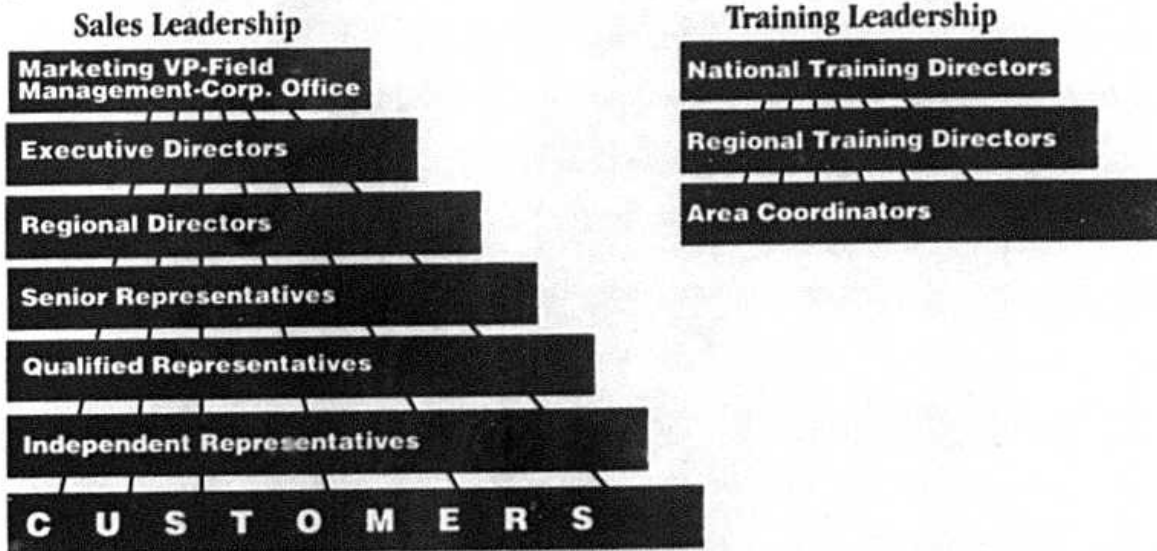
There are several types of Independent Representatives. Managing Representatives enroll in Excel's optional Management Services Program that includes the Managing Representative Package, the MR Training Program and the Corporate Office Support Services. The cost of the optional Management Services Program is \$195.00, with a guaranteed annual renewal of \$180.00. This renewal fee may change, as required, but will remain constant for a particular IR as in effect when the IR joined, as stated on his/her application.

Sales Representatives do not enroll in Excel's optional Management Services Program. They pay a \$50.00 application deposit, except in states where the deposit is waived, that is refundable upon written request if the Sales Representative elects to withdraw from the program for any reason at any time.

Sales Representatives must pay Excel for any services (downline printouts, check processing, newsletter subscription, communications, etc.) provided to them at their request. Current charges for these services are available from the company. A Sales Representative may qualify for income from all levels of the Excel Compensation Plan in the same manner as Managing Representatives. A Sales Representative is not entitled to attend MR Training, does not receive the Managing Representative Package that is a part of Excel's optional Management Services Program, but does receive free literature and sales aids which are necessary to start his or her business.

As a new Independent Representative, you will work closely with your Sponsor, your Trainer, your Area Coordinator, your Regional Director and the entire Field Management Team. Your success is obviously dependent on the amount of effort that you are willing to devote to your "Personal Plan of Action." We are all very interested in your success because Excel is a team.

5. OUR LEADERSHIP TEAMS



Sales Leadership

Qualified Representatives (QRs)

Qualified Representatives are Independent Representatives who have successfully reached the first leadership level in the Excel leadership team.

Senior Representatives (SRs)

Senior Representatives are those Reps who are developing their leadership skills and who have successfully built the beginning framework of their Excel business.

Regional Directors (RDs)

Regional Directors are Reps who have attained a high level of organizational leadership and visibility. Their responsibilities include promoting and conducting various organizational events as well as directing their Area Coordinators. Regional Directors also train Area Coordinators and Managing Representatives.

Executive Directors (EDs)

Executive Directors have promoted themselves to Excel's top position and have proven themselves to be individuals who can lead, motivate and coordinate different sections of the United States.

Training Leadership

Area Coordinators (ACs)

Excel offers the position of Area Coordinator to people interested in training Managing Representatives. Excel trainers are typically people who have a history of success and who have prepared themselves to understand and communicate the Excel program. The tools and literature necessary for this position are purchased by the Area

Coordinator. Area Coordinators are trained to be trainers by a Regional Training Director or National Training Director.

Regional Training Directors (RTDs)

Regional Training Directors train Area Coordinators and Managing Representatives. RTDs must first be RDs and are certified by attending a two-day Regional Training Director School.

National Training Directors (NTDs)

Excel appoints Executive Directors to this position who have attended and have successfully completed all requirements of the National Training Director School. Their responsibilities include training Area Coordinators, being key spokespeople for the Corporate Office, holding regularly scheduled Business Presentations and Training Schools and performing as Excel's primary field training leaders.

Corporate Leadership

Administration

The Corporate Office is dedicated to the service and support of both Excel Representatives and their customers. The Corporate Office is staffed with a seasoned group of professional people who handle Customer Service, provide marketing support, accounting, computer services and complete administration. The President and CEO, Mr. Kenny Troutt, is the principal operations executive and works directly with the Excel Corporate Staff. Effective communication is attained by working through the chains of leadership –Senior Representative communicating with Regional Director and Executive Directors and Area Coordinators communicating with Regional Training Directors and National Training Directors.

6. OUR COMPENSATION PLAN

Customer Acquisition and Usage Compensation

Excel has developed a unique plan to compensate all Representatives based on customer acquisitions. Independent Representatives can earn commissions on customer long distance usage (LDU), Fast Start™ commissions and overrides, Annual Customer Retention Bonuses and Leadership Bonuses.

LDU Commissions

Each Independent Representative earns 2% commission on their personal residential customers' long distance usage (LDU). There is a one-time qualification for each level of compensation (Refer to the Commission Chart on page 10). You must have personally sponsored one MR to be qualified for level one. You must have personally sponsored two MRs and have obtained six accepted customers to be qualified for levels 2-6. Once you have personally sponsored three MRs and have obtained twenty accepted customers you are a Qualified Rep and qualified to be paid through all seven (7) levels of the Marketing Plan. Once you are qualified for a level, you are always qualified and need only to maintain eligibility.

In order to be eligible to receive long distance usage (LDU) commissions from the levels you have qualified for, you must maintain that required number of qualified customers as active/pending as of the last calendar day of the month prior to the month in which LDU commissions are to be paid. In the event of loss of eligibility, however, a one month grace period will apply. This grace month allows you to receive full, originally qualified

for LDU commission levels during the grace month after the month end determination of loss of eligibility.

A new grace month applies (1) if, by the last calendar day of the grace month, the original required number of active/pending customers has been once again achieved or (2) if, during the grace month, your customer count shortage is made up by the shorted number of accepted new customers.

If your customer count shortage is made up by the addition of new customers during the grace month you will receive your next LDU commissions. If you achieve the original required number of active or pending customers by the reactivation of former customers, you must have the required number of qualified customers as active/pending as of the last calendar day of the grace month to be eligible to receive your next LDU commissions. If grace requirements are met using former, reactivated customers, no other customers can cancel during your grace month.

An accepted customer is one who has a signed Service Request Form (SRF), a Social Security Number matching that of the name on the application, a telephone number in a valid exchange area and all blanks accurately completed on the SRF. An active customer is anyone who has been confirmed by the LEC or has long distance usage. A pending customer is one that has been accepted by Excel but hasn't been confirmed by the Local Exchange Carrier (LEC).

Fast Start™ Commissions and Overrides

Fast Start™ "commissions" and "overrides" are two kinds of customer acquisition bonuses paid to IRs when any MR achieves Excel's "Fast Start™" qualification for his or her sponsor and/or upline Representatives by submitting 3 to 6 personally obtained, accepted customers within sixty (60) days of the date of his or her application date. No more than two of these customers may be phone service accounts of the qualifying MR. Three (3) new customers by the MR activates his sponsor's Fast Start™ commission. Six (6) new customers by the MR within sixty (60) days activates the Fast Start™ override to those qualified IRs six (6) levels above his sponsor. There are no eligibility requirements to receive Fast Start commissions or overrides. The same customers act as qualifiers for both Fast Start and LDU commissions.

Annual Customer Retention Bonus

IRs who have twenty (20) active customers earn an Annual Customer Retention Bonus on the anniversary date of each then active MR in their seven level downline who also has twenty (20) active customers.

IR Personal Commissions and Overrides							
Required Number of Personal MRs & Customers	You Are Paid Through Level	Fast Start Commission/ Overrides	Annual Customer Retention Bonus	% of LDU Residential Customers	% of LDU Commercial & Fundraising ¹	% of LDU Sub Customers	
	YOU			2%	5%	1%	
	1	\$100.00	\$50.00	1/4%	1%	1/4%	
	2	\$15.00	\$7.50	1/4%	1/4%	1/4%	
	3	\$5.00	\$2.50	1/4%	1/4%	1/4%	
	4	\$5.00	\$2.50	1/4%	1/4%	1/4%	
	5	\$5.00	\$2.50	1/4%	1/4%	1/4%	
	6	\$5.00	\$2.50	1%	1/4%	1/4%	

These commissions are paid weekly These commissions are paid weekly on renewal date These commissions are paid monthly.

*Only the Fund Raising Organization receives the 5% commission. **Three customers within 60 sixty days are required to receive the first level of \$100 Fast Start commissions.

Customer Acquisition Leadership Bonuses

Coding Explained

A unique aspect of the Excel compensation program is a concept called "Coding". This concept has its first application when an individual achieves Senior Representative status.

Here's how it works. Coding, as it relates to a specific individual, applies only to Independent Representatives personally sponsored and those who result from IRs who are personally sponsored after Senior status is achieved. It has no application to those who result from individuals who were sponsored before the Senior status was attained, since those continue to be coded to the preceding Senior Representative. All new IRs resulting from people personally sponsored after Senior status is attained, regardless of whether they are in the first seven (7) levels or below the seventh level (to an unlimited number of levels), are coded to the new Senior Representative. When each of those "coded" MRs submits their first three (3) accepted Excel Customers within sixty (60) days, a \$90.00 customer acquisition leadership bonus is paid to the Senior Representative to whom the new MR is coded.

While this special customer acquisition leadership bonus can be paid on an unlimited number of levels, it can be paid to only one (1) person. This means that when individuals in a Senior Representative's downline (regardless of what level) themselves become a Senior Representative, all future IRs sponsored by the newly promoted Senior Representative are coded to the new Senior Representative, as are all future IRs resulting from these lines of sponsorship. Of course, as described above, all IRs previously sponsored remain in the coded organization of the preceding Senior Representative. This process repeats when another person in the downline attains Senior Rep status. When a Senior Representative achieves Regional Director status, the Senior Representative coding remains intact and the \$90.00 customer acquisition leadership bonus continues as described above.

Senior Representative – is any Qualified Rep who has developed three (3) personal Area Coordinators (or is an Area Coordinator and develops two (2) personal Area Coordinators) and twelve (12) Managing Representatives anywhere in downline levels one (1) through seven (7). Senior Representatives are paid a \$90.00 customer acquisition leadership bonus for all coded MRs who enter their Senior code and who submit their first three (3) accepted Excel Customers within sixty (60) days.

Independent Representative Leadership Bonuses					
YOU ARE PAID THROUGH LEVEL	SENIOR REP + \$90	RD + \$50	ED + \$25	% OF LDU RESIDENTIAL CUSTOMERS	FAST START™ COMMISSIONS/OVERRIDES
YOU	—	—	—	2%	—
1	—	—	—	1/4%	\$100
2	\$90	\$140	\$165	1/4%	\$15
3	\$90	\$140	\$165	1/4%	\$5
4	\$90	\$140	\$165	1/4%	\$5
5	\$90	\$140	\$165	1/4%	\$5
6	\$90	\$140	\$165	1%	\$5
7	\$90	\$140	\$165		\$15
8	\$90	\$140	\$165		
9	\$90	\$140	\$165		
10	\$90	\$140	\$165		
↓	↓	↓	↓		
Unlimited Bonus Level Depth					

*A Fast Start™ commission is paid when a personally sponsored Managing Representative signs up their first 3 customers within 60 days or when a Managing Representative in your downline (levels 2-7) signs up their first 6 customers within 60 days.

Regional Director (RD)—is a Senior Representative who has developed six (6) personally sponsored Area Coordinators (or personally sponsors five (5) if he/she is an Area Coordinator), and twelve (12) MRs in levels one (1) through seven (7) of his/her Senior Representative coded Organization and has been approved by Excel. Excel Regional Directors are responsible for developing and managing Area Coordinators. An active RD receives a customer acquisition leadership bonus of \$50 for each new Managing Representative in his/her RD coded organization as each new MR submits his/her first three (3) accepted Excel customers within sixty (60) days. These customer acquisition leadership bonuses are paid monthly.

Executive Director (ED)—is an Excel Regional Director who has developed five (5) RDs from anywhere in his/her RD-coded organization and has been approved by Excel. Executive Directors are paid a customer acquisition leadership bonus of \$25 for each new MR in their ED organization as each new MR submits his/her first three (3) accepted Excel customers within sixty (60) days.

Training Compensation

Area Coordinator (AC)—is anyone whose AC application has been accepted by Excel and who has successfully completed AC training. ACs receive a one-time \$40.00 payment for each Managing Representative they personally train. The Area Coordinator training certification fee is \$395.00 (\$295 for residents of the states of Washington

and Louisiana and \$249.00 for residents of the states of Georgia, Oklahoma and South Dakota). Area Coordinators who wish to maintain certified status are charged a \$100 annual renewal fee and must be retrained annually by a Regional Training Director or a National Training Director. ACs are not required to be IRs; however, if an individual joins as an AC and later becomes an IR, that IR position must be under their original AC sponsor.

Qualified Area Coordinator (QAC)—is an Area Coordinator who has also achieved Senior Representative status.

Regional Training Director (RTD)— is a Regional Director who is also an Area Coordinator who has attended and has successfully completed all requirements of Regional Training Director School and has been approved by Excel. An RTD trains Area Coordinators and receives a one time \$80.00 payment for each AC they personally train.

National Training Director (NTD)—is an Executive Director who is also an Area Coordinator who has attended and has successfully completed all requirements of National Training Director School and has been approved by Excel. An NTD is responsible, among other things, for training Area Coordinators and receives a one time \$100 payment for each AC they personally train. Having been accepted and appointed, an NTD must perform the duties and responsibilities of the National Training Director position in order to maintain NTD certification. NTDs receive a one time \$20.00 override bonus on each Area Coordinator trained by an RTD out of their Regional Director Organization.

Training Bonuses

- Senior Reps can earn additional compensation.
- After you become a Senior Rep and then develop one (1) personally sponsored Qualified AC, you will receive a 20% bonus on all AC training fees paid to your personally sponsored ACs every month! Example: You have ten personally sponsored Area Coordinators (one of whom is a QAC) who each average \$1,000 per month training income, or \$10,000 total— You would receive a bonus of \$2,000 or 20%.
- When you develop two (2) personally sponsored QACs, you will receive 25% rather than 20%.
- When you develop five (5) personally sponsored QACs, you will receive 35% rather than 25%. (Note: An Area Coordinator is not required to be an Independent Rep.)

Eligibility for Commissions, Overrides and Bonuses

All active IRs are automatically eligible to receive all "Fast Start™" commissions which have been qualified for in the seven (7) levels of Excel's Marketing Plan. In order to receive "coded" leadership bonuses, training bonuses and long distance usage (LDU) commissions from the levels qualified for, active IRs must also be eligible to receive those bonuses and commissions by maintaining that required number of qualified customers as active/pending as of the last calendar day of the month prior to the month in which bonuses and LDU commissions are to be paid. In the event of loss of eligibility, however, a one month period of "grace" applies so that full originally qualified for bonuses and LDU commission levels are paid in the "grace" month.

POLICIES AND PROCEDURES

Excel Telecommunications, Inc. (ETI), is an Equal Opportunity Company, honoring all rules and regulations governing Network Marketing Corporations, as defined by governmental authorities.

The Policies and Procedures of ETI contained herein were established to explain and define the rights and responsibilities of ETI and its Independent Representatives (IR). These Policies and Procedures are in addition to and an integral part of the Independent Representative Agreement and together with the said Agreement and Marketing Plan, constitute the entire understanding between ETI and the Independent Representative.

DEFINITION OF IR

The Excel Independent Representative: (includes Sales Representatives, Managing Representatives, Senior Representatives, Regional Directors and Executive Directors)

- Must be 18 years of age (if an individual).
- Has executed and signed an ETI Independent Representative Application and Agreement.
- Has been accepted as an IR by ETI.
- Has carefully read and understands the Policies and Procedures and the Marketing Plan.

BUSINESS AND LEGAL ENTITIES AS INDEPENDENT REPRESENTATIVES

A partnership or corporation organized and filed under state law may become an IR subject to review and approval by ETI. No individual, however, may own, operate or have an interest in more than one (1) IR and/or AC position in any form. The entity, if not an individual, must have a separate federal tax ID number, and a copy of the entity's SS-4 must accompany the IR and/or AC agreement. All owners of the entity must be 18 years of age.

A. Partnerships: To become a new IR as a partnership or to change status, one must notify ETI in writing. The notice submitted must provide details of all partners in the partnership, including each partner's Social Security Number and the Federal Employer's Identification Number (FEIN) of the partnership as well as a listing of each partner's percentage of ownership. The partner who submits the form must be authorized to enter into binding contracts on behalf of the partnership. It is not permissible for any partner applying as an IR partnership to have been an IR as an individual or as a member of another IR partnership or as a member of an IR corporation within six (6) calendar months preceding the execution of this Agreement. If an active IR desires to change status from that of an individual IR to that of a partnership IR, this policy does not apply, providing there is no change in sponsorship resulting for any partner.

B. Corporations: To become a new IR as a corporation or to change status, one must notify ETI in writing. The application or notice submitted must provide details of all stockholders, officers and directors of the corporation, including the Social Security Numbers of all corporate principals and the Federal Employer's Identification Number (FEIN) of the corporation. A file-stamped copy of the Articles of Incorporation must be attached to the application or notice. The officer who submits the form must be authorized to enter into binding contracts on behalf of the corporation. It is not permissible for stockholders, officers and directors of the corporation applying as an IR corporation to have been ETI IRs as individuals or as members of another IR partnership or as members of an IR corporation within six (6) calendar months preceding the execution of the IR Agreement. If an active IR desires to change status from that of an individual IR to that of a corporate IR, the notice also requires that the corporation designate one (1) individual as the responsible party for the corpora-

tion's operations and sales.

C. Marriage: ETI encourages married couples to operate as a single IR. Either spouse may operate independently, but must have the same sponsor if either has become a Representative during their marriage. When two ETI IRs subsequently marry, each may maintain their separate IR status. Should a husband/wife IR divorce, they must notify the Company as to how the business is to be managed thereafter. Otherwise, ETI will consider the individual who was originally listed as IR on the Application to continue as an IR. ETI considers husbands and wives jointly bound by the terms of the IR Application and Agreement and these Policies and Procedures even though only one spouse is designated as a Representative; if the spouse of an IR acts in a manner which would be a violation of the Representative Agreement and/or these Policies and Procedures, such violation will be attributed to the IR.

D. Conflicts of Interest: Partners in IR partnerships may not apply to become individual IRs. Members of corporations as well as shareholders, officers and directors in IR corporations may not apply to become individual IRs, until six months after they have divested such interest in such IR.

IDENTIFICATION NUMBERS (ETI CODE)

The Social Security Number of an individual IR will become his/her ETI Identification Number (code). Partnerships or Corporate IRs must supply ETI with their Federal Employer's Identification Number (FEIN) which will become their Identification Number and will be used in all correspondence. All Identification Numbers will be kept strictly confidential, except where properly and legally required for submission to governmental agencies.

STATUS AS AN INDEPENDENT CONTRACTOR

A. Claims of Employment: IRs are of legal age in the state of their residency. IRs are Independent Contractors, responsible for their own business activities and are not agents, employees or legal representatives of the Company. IRs will not represent in any manner that they are an agent, employee, or legal representative of the Company. IRs have no authority to legally bind ETI.

B. Contractual Obligations: As Independent Contractors, IRs are responsible for their own activities and choice of time and effort spent without direction or control by ETI, and for any expenses which result from their business operations. These expenses include, but are not limited to: licenses or permits required to operate a business, legal fees connected with the use of a fictitious business name, telephone expenses, product advertising, etc. No IR shall involve ETI in any contractual relationships relative to their business. IRs cannot and will not sign any contract, rent or lease office space or equipment, open any bank account, secure credit, cash any negotiable instrument, make purchases or enter into agreements of any kind in the name of or on behalf of ETI. Each IR shall hold harmless ETI from any claims, damages or liabilities arising out of said IR's business practices.

C. Reporting of Taxes: IRs are responsible for the payment of all federal and state self-employment taxes and any other tax required under any federal, state or regulatory or taxing agency. IRs will remit applicable sales taxes with each order where applicable.

IR RIGHTS AND OBLIGATIONS

A. Behavior: IRs will operate in a lawful, ethical and moral manner and will use their best efforts to promote the sale and use of the services and/or products offered by ETI to the general public within the areas and parameters designated by ETI. IR's conduct must be consistent with public interest and they shall avoid all discourteous, deceptive, misleading or unethical practices. IRs are encouraged to keep accurate records and are to conduct themselves in a business-like manner at all times. Additionally, IRs agree to abide by all federal, state and local legal statutes governing the sale or solicitation of the products or services marketed by ETI, including but not limited to occupational licenses, solicitation licenses, business licenses, merchant licenses or permits that may be required to perform under this Agreement.

B. Territorial Rights: ETI imposes no franchise or territorial restrictions on IRs with regard to sales, promotion and sponsoring efforts, and each IR shall have the right to conduct business anywhere in the United States that Excel offers its services to consumers without exclusivity. Presubscription to Excel long distance service may not be available in certain non-equal access areas.

C. Eligibility: An IR is not required to subscribe to Excel's Long Distance Service in order to participate in the Excel Program. However, if he designates Excel as his primary long distance carrier, long distance billing must be paid when due. If an IR becomes sixty (60) days past due in paying an Excel bill, he may be terminated as an IR.

D. Refunds: No MR or AC fee is refundable. Stating or inferring to a prospective MR or AC that any of these payments is or may be refundable is grounds for termination of the IR.

E. MR Renewal: MR renewal as to the optional Management Services Program will occur thirty (30) days prior to the expiration of the applicable current twelve (12) month period, and shall be the sum of \$180.00. MRs not making timely renewal of the optional Management Services Program will automatically revert to Sales Representative status and will be billed a \$50.00 refundable deposit, refundable upon written request and termination of the Sales Representative Agreement. Failure of a Sales Representative to pay the refundable deposit within thirty (30) days of billing receipt will result in termination of Sales Rep status.

F. Unauthorized Contact: Under no circumstances will an IR directly contact any supplier of long distance service to Excel customers without receiving prior written authorization from the Excel Corporate Office.

G. Additional Costs: As an enrollee in Excel's optional Management Services Program (in addition to the literature, sales aids and training as described above), certain services are provided at the the discretion of the Corporate Office at no additional cost such as subscription to the company newsletter, downline reports, weekly and monthly commission and override checks. A check charge will be deducted from each commission or

bonus check to the IR for only the first year of participation in the program. IRs understand and agree that the annual renewal fee for the optional Management Services Program is \$180.00. IRs understand and agree that if IRs have not enrolled in Excel's Management Services Program, they will be charged for these services when and if they are requested by the IR.

H. Deposits and Sales Aids Refunds: Sales Representative's application deposit is refundable upon written request upon termination of the IR Agreement. Representatives may return literature and sales aids (except for that literature and sales aids furnished with the Area Coordinator Certification package or the optional Management Services Program) in reusable and resalable condition at any time within sixty (60) days of purchase and receive 100% refund on literature and sales aids returns. Shipping costs for returned items shall be borne by the Representative. Payment will be made within sixty (60) days of actual receipt of returned items. Request for refund may cancel this Agreement at the option of the Company. The Company will honor refund policies provided by any state or federal law applicable to the Representative (New Mexico - one year; Georgia - no time limitation).

I. Sponsor Support: IRs understand they are responsible for training (if also an Area Coordinator) and supporting Representatives they sponsor into the program and agree to maintain monthly communication and support to those Representatives in their commissionable downline by way of any of the following or combination thereof: personal contact, telephone communication, written communication and attendance at Representative meetings.

J. Sponsor Disputes - Member of Same Household: ETI will not mediate disputes involving sponsor designations. ETI recognizes, as sponsor, the person whose name appears on the Independent Representative Application and Agreement postmarked at the earliest date. ETI reserves the right to review sponsoring practices. IRs who are members of the same household at time of being sponsored must have the same sponsor.

K. Transfer/Disposition of IR Business: An IR's distributorship can be inherited or bequeathed. An IR may sell or transfer his/her Representative position at any time by written notification to Excel, subject to the receipt by Excel of written certification by the buyer that the following are true and accurate:

- a.) That as a result of the sale, the buyer will have no other IR position with Excel and no financial interest in another Excel IR position.
- b.) That the buyer has completed and attached to the certification his/her application to become an Excel IR, fully completed in all respects. Note: In order to be accepted as a new IR, the buyer must not have been an Excel Representative within the previous six months.
- c.) That all persons owning an interest in the transferred position immediately after the sale are listed in the certification form by name, address and Social Security Number/ FEIN number, together with an accurate descriptions of the actual interest of each such person in and to the sold position.
- d.) That the transferor has provided the transferee adequate training and materials to conduct his or her business.

An AC, RTD or NTD position cannot be transferred because such positions require that individuals be specially trained.

L. Transfers of Sponsorship: Due to the complex nature of, and difficulties caused by, making sponsor changes in the organization, ETI does not allow transfers from one sponsor to another under any circumstances. The only action an IR may take is to voluntarily terminate his/her position and then re-apply as a new IR in six (6) months.

M. Approved Literature/Sales Aids: IRs understand and agree that they will not use the Company name, or the trade names, logos, copyrighted material, trademarks or service marks of Excel Telecommunications, Inc., except in materials provided by the Company. Unauthorized use or duplication of trademarks or copyrighted materials is a violation of federal law. For those Representatives who do not purchase the optional Management Services Program, a starter kit including necessary literature and sales aids to commence the IR's business is provided without cost.

N. Soliciting IRs from the Organizations of Other ETI Representatives: ETI strictly prohibits the solicitation of IRs already sponsored by another individual in the ETI program. ETI also strictly prohibits IRs from knowingly sponsoring, or directly or indirectly helping others to sponsor into any other sales organization, any IR not personally sponsored. IRs may not be involved directly or indirectly in the solicitation of long distance service ballots to any other long distance service company.

O. Slamming: Slamming is the unauthorized conversion of a customer's long distance phone service from their current carrier to a new long distance carrier. The slamming of a customer to Excel Telecommunications long distance service is prohibited by Excel's Policies and Procedures as set forth in every Excel Independent Representative's Application and Agreement, and will result in the immediate termination of Representative status and forfeiture of all commissions. Slamming is illegal under Federal law and in every state and may carry criminal penalties. Excel will refer Representatives who slam customers for criminal prosecution.

P. Change of Address: IRs must report any change of address by sending written notice to the ETI Marketing Department. When mail is returned to the company because Excel has not been informed of an address change, the IR is placed on inactive status.

Q. Purchase Limitations: IRs agree and understand that as an Excel Representative, they shall place primary emphasis upon the obtaining of long distance service ballots for ETI from non-Representative consumers as a condition of receipt of commissions. IR's resident in the states of Georgia, North Dakota, Indiana, Michigan and West Virginia are limited to \$495.00 in IR purchases of all types from the Company during the first six months of IR status. Permissible IR purchases shall be automatically modified to comply with the exemption requirements set forth in any states' laws regulating business opportunities.

R. Second Party Purchase of Optional MS Program: ETI strictly prohibits the purchase of the optional Management Service Program by anyone other than the new IR receiving that package. Purchase of the optional

MS Program for a new IR by a second party (including his sponsor or any other IR) may result in termination of either or both parties from Excel's program. No IR may loan or advance money to a prospect in order to pay for the optional MS Program or to get his/her business started.

S. Vesting: An IR who became an Excel Representative on or before 1-31-95 may become vested to receive all applicable commissions and bonuses while an IR in good standing by having 20 or more active bona fide customers at the end of each of 24 months. Qualifying customers cancelling with less than 60 days of long distance activity do not apply to qualification under this vesting method. This vesting method ends 2-28-97. (The 24 months of having maintained 20 active customers must have been accomplished by 2-28-97).

Upon attaining the age of 65 years or older, or upon permanent disability demonstrated to the satisfaction of Excel, an IR who has achieved Senior Rep status, and who has been an IR in good standing in excess of 365 days, may become permanently vested upon written request to Excel and verification of their qualification.

T. Charges To Other Representatives: No IR or AC may charge (or request) a fee or payment from another IR or AC, or prospective IR or AC or customer, for services, literature or any other reason related to Excel, except Excel sales kits and sales aids sold at cost to another Representative. An IR may require that other IRs attending his/her Business Presentation contribute not more than \$5.00 toward the meeting expenses. Any other charge by an Excel IR or AC to any other Excel IR or customer or prospective IR or customer, for any reason related to Excel, requires the prior written consent of Excel.

U. Purchase and Sale of Customers: No IR may purchase or sell an Excel customer or prospective customer.

V. Training Managing Representatives: Each AC shall completely and thoroughly train every MR trained by him/her. Failure to provide complete and accurate corporate-approved training may result in the termination of the AC as an AC and/or as an IR as well as in the charging back to the AC of previously paid training fees.

W. Solicitation By Prize or Drawing, Non-ETI Sales Programs: IRs may not solicit, train, instruct or obtain new or existing customers or IRs by means of or in connection with any lottery, drawing, or prize, nor by means of or in connection with any non-ETI product or service or compensation plan.

X. Endorsement of Special Interest Groups, Organizations: ETI does not endorse, promote, assist or support any special interest group, organization or cause. ETI Representatives are free to endorse, support and participate in any lawful group, cause or organization of their choosing, but may not do so in connection with their Excel business.

REPRESENTATIONS

All IRs begin with an equal opportunity for income. IRs will not make false or misleading statements about the Excel Telecommunications, Inc. and/or the IR opportunity. In presenting the Excel Telecommunications IR opportunity to potential Representatives, only those figures published by Excel Telecommunications, Inc. may be utilized, no exceptions. The use of other written or verbal income projections, actual IR commission checks and

all other income potential presentations, whatsoever, are strictly prohibited. IR shall present the Excel Telecommunications opportunities of Representative, Area Coordinator and Subscriber as separate relationships to Excel, so that each prospect shall choose only those relationships with Excel Telecommunications which he or she truly desires. No guarantees of any income nor assurances of any profits or success are made by ETI. Furthermore, any profits or success resulting from activities as an IR will only occur in relation to products or services offered by ETI, and any success achieved will be based completely upon the IR's efforts, commitment and skill.

IRs understand that only corporate materials will be used in all training sessions and Business Presentations. Trainers violating this policy will not have any training invoices paid for 30 days. If a trainer violates this policy a second time, that trainer will be prohibited from ever training again. IRs violating this policy in Business Presentations will have one month's pay suspended. If an IR violates this policy a second time, that IR's position will be terminated.

IRs understand that Excel Telecommunications, Inc., provides the following fulfillment to its IRs: a packet of sales literature whether or not the optional Management Services Program is purchased; shipment of ordered sales aids within five (5) days of receipt of the order and clearance of funds subject to availability of material ordered; calculation and payment of Representative's commission. Payment terms on Representative purchases: cash, check, money order or credit card with order. No credit purchases or C.O.D.s available. Representative commissions are paid monthly pursuant to the Excel Telecommunications, Inc., Compensation Plan, which is incorporated herein by reference.

IRs understand that no Attorney General or other regulatory authority ever reviews, endorses, or approves any product, membership, compensation program or company and will make no such claim to others. If a question arises concerning legal compliance by ETI, such shall be submitted to ETI in writing.

Excel is not an affiliate nor agent of any long distance vendor. The long distance customers signed up will be Excel customers, and will be billed at Excel rates. IRs shall make no false or misleading statements concerning these relationships or they will be subject to termination.

IR agrees to indemnify and to hold ETI harmless from any and all claims, damages and expenses, including attorney fees arising out of actions or conduct in violation of this Agreement.

COMMISSIONS

A. Payment: ETI will pay a monthly commission on the long distance billing of an IR's personally sold customer, for as long as that customer remains on Excel's service and other commissions in accordance with the current ETI Marketing Plan. Said commissions are based on the sales volume of ETI products and services to subscribers.

Definition of Billing or LDU: Commissions related to "long distance usage" ("LDU") are based on the amount Excel has billed to the customer less the percentage amount charged back to Excel by the LEC or by Excel's own billing department for uncollectible accounts. This percentage may change as each LEC changes the discount percentage on Excel's billing.

B. Problems That Can Delay Commissions and/or Transfer of Telephone Service: ETI will not be responsible for loss of commissions or delay in transfer of service due to the following errors:

1. No IR Agreement on file with ETI.
2. Incorrect IR identification and sponsor numbers on Service Request Form and/or IR Agreement.
3. No signatures on IR Agreement or Service Request Form.
4. Improper notification of change of address.
5. Phone number is not in ETI service or billing area.
6. Incomplete or incorrectly filled out Service Request Form.

C. Organization Reports: A monthly organizational summary report is included with the optional Management Services Program and shows the number of Independent Representatives in the organization as well as the total number of Excel customers. A charge per page of twenty cents (\$0.20) may be deducted from the IR's commission for each page exceeding twenty (20) pages. The IR agrees and acknowledges such information is proprietary and confidential to ETI and is transmitted to the IR in strictest confidence. IR agrees he/she will not use the information to compete with ETI directly or indirectly. The IR and ETI agree that, but for this agreement of confidentiality, ETI would not provide the above confidential information to the IR.

D. Eligibility For Commissions: All active IRs are automatically eligible to receive commissions on their personal customers. Independent Representative qualifications and eligibility requirements to receive override commissions are found in the current Marketing Plan. All IRs must be active in order to be eligible to receive any commissions, bonuses or overrides.

E. Weekly Commission Checks: Independent Representatives' (IR) commissions and overrides, and Area Coordinators' training fees generated from paperwork received at Excel by 5:00 p.m. (CST) Friday will be paid on the second Friday after the week in which received. Except in the case of Managing Representatives in their second year and beyond, three (\$3.00) will be deducted from each commission check as a check-processing and handling fee. Second year and older MRs are provided this and other Management Services without additional cost as a result of renewing their optional Management Services Program. Any commission discrepancy should be reported to Excel in writing in order to have the proper research performed. All lost or missing checks that you wish to have reissued by Excel must be requested in writing and will take ninety (90) days to be reissued.

F. Monthly Commission Checks: Commission Checks for Long Distance Usage (LDU) are paid monthly, and checks are issued on the 15th of the month following the month in which the customer was billed. (The second month after actual usage.) Training bonuses and Senior Representative, Regional Director and Executive Director customer acquisition leadership bonuses are paid monthly and checks are cut on the 15th of the month following the month in which the leadership bonus is earned (subject to meeting all qualifications). Except in the case of second year and older Managing Representatives, three (\$3.00) dollars will be deducted from each commission check as a check-processing and handling fee. Any commission discrepancy should be reported to Excel in writing in order to have the proper research performed. All lost or missing checks that you wish to have reissued by Excel must be requested in writing and will take ninety (90) days to be reissued. LDU commissions must be \$13 or greater before a check will be issued to Independent Representatives. LDU commissions must be \$10 or greater for MRs who have paid their Management Services renewal fee before a check will be issued. All

commissions for a month are accumulated and, if less than the amount required to issue a check, automatically added to the next month's commissions.

G. Active Status: An active IR is one who has paid the optional Management Services renewal fee no later than the anniversary date of his application to become an Excel Independent Representative or has paid the refundable application deposit. IRs residing in the states of Alabama, Kentucky, Louisiana, Nebraska, North Dakota and West Virginia or where prohibited by law are exempt from paying the refundable application deposit. Loss of active status under this provision may result in cessation of commission and bonus payment but does not terminate the Representative. An IR may return to active status at any time within six months by paying the applicable fee/deposit.

H. Termination of Representative and/or IR status: An IR may be terminated by ETI should any of the following occur:

- a.) Failure to renew Representative status (Paragraph G, above) for six months.
- b.) A material breach of an IR or AC agreement, including a breach of any policy contained in this Concept Book.
- c.) Non-receipt of a commission check for a period of 12 or more consecutive months.

I. Returned Check Charge: There will be a fifteen (\$15.00) dollars per check charge for all returned checks. ETI may require that any IR who has given Excel a check that has been returned unpaid, pay all further transactions with Excel by cashier's check and money order.

J. Check Processing Fee: ETI will deduct three (\$3.00) dollars from each commission check issued to a Sales Representative and a Managing Representative in the first year as a check processing and handling fee.

K. Downline Printout Fee: Any Sales Representative wishing to receive a downline printout for organization or commission purposes, must pay Excel five (\$5.00) dollars at the time the request is placed for the printout. Please allow five (5) working days for processing.

ADVERTISING AND PROMOTION

ETI actively encourages its IRs to promote their independent businesses. The following rules, however, provide a positive guide for all IRs to promote ethical marketing practices and to avoid jeopardizing the integrity and reputation of ETI and its IRs.

A. Use of ETI and/or its Suppliers' Names, Logos or Trademarks: ETI reserves the sole right to use the Company name, logo and trademarks or those of its supplier(s). IRs are prohibited from using the ETI name,

logo and trademarks or those of its supplier(s) in any form, except in advertisements or other promotional matter which have been provided by ETI. Approval to use the official Independent Representative logo is given to IRs only on business cards, letterhead, envelopes, flyers and print, radio, television or multi-media advertising ("Advertising Materials"). All Advertising Materials, whether Excel is mentioned or not, relating to an Excel meeting or connected to the Excel Opportunity, must be approved by ETI prior to use. Criteria for approval of these materials will include a judgment of the aesthetic quality and professionalism of the materials, as well as ensuring that they have properly set forth the independent status of the IR. ETI reserves the right to reject such Advertising Materials for any reason in its sole discretion. IRs may not create or use any sales aids, ad specialty, novelty items or promotional materials (such as T-shirts, key chains, coffee mugs, pens or any other similar type items) in connection with their Excel business except those provided by ETI.

B. Media Inquiries and Personal Appearances by Independent Representatives and Contribution to Uncompensated Media: On occasion, IRs may be contacted by members of the media. When this occurs, the IR must immediately refer such inquiries directly to the Marketing Department. IRs are strictly prohibited from representing ETI in any public media arena and from using uncompensated media form (including, but not limited to news releases, articles and television, cable or radio talk show appearances) to promote or publicize ETI or its products. Such a policy is necessary to ensure an accurate and consistent public image. Accordingly, no IR shall develop, promote or participate in any uncompensated print, audio or visual media presentation concerning or referring to Excel.

C. Electronic Media: Radio, television and/or cable advertising is not permitted without prior review, approval and written consent of ETI. Criteria for approval of these materials will include a judgment of the aesthetic quality and professionalism of the materials, as well as ensuring that they have properly set forth the independent status of the IR. ETI reserves the right to reject such Advertising Materials for any reason in its sole discretion.

D. Telephone Procedures: ETI prohibits IRs from answering the telephone in any manner that may give callers a reason to believe that they have reached the Corporate offices of ETI. Specifically, IRs are prohibited from answering the telephone by responding "Excel Telecommunications, Inc.," or by using any other form of the ETI name. Use of EXCEL's name in telephone number listings is also prohibited, unless the title "Independent Representative" accompanies the IR name in the listing.

E. Conventions and Trade Shows: IRs may promote their businesses at conventions and trade shows provided they have received from ETI, prior to commencement of the said show, approval to use the ETI corporate name, logo and/or trademarks or those of its supplier(s) on signs, banners or any other promotional material.

F. Telemarketing and Mail Solicitations: The obtaining of customers and/or Representatives by means of telemarketing or the obtaining of customers by use of blind mailing lists is strictly prohibited and will result in the termination of Representative status.

COMPLIANCE

These Policies and Procedures were created as a guideline for ETI and all IRs and serve to protect the rights of both parties. The Policies and Procedures ensure proper functioning of daily business operations. Any IR who violates any provision of the IR agreement, which includes all Policies and Procedures itemized herein, may be promptly terminated by ETI. A termination cancels any and all rights and will be effective upon verification of the said violation(s) and notification of the offending IR by ETI. IRs understand this Agreement is governed under the laws of the State of Texas. The parties agree that any claim, dispute or other difference between them shall be exclusively resolved by binding arbitration pursuant to the Commercial Arbitration Rules of the American Arbitration Association with arbitration to occur at Dallas, Texas. For Louisiana residents, Representative arbitration is held in New Orleans, Louisiana. The arbitrator may award, in addition to declaratory relief, preliminary and permanent injunctive relief and compensatory damages, and shall award reasonable attorney's fees and costs to the prevailing party. The decision of the arbitrator will be entitled to enforcement in any court of competent jurisdiction. This provision shall not be construed so as to prohibit ETI from obtaining preliminary and permanent injunctive relief in any court of competent jurisdiction.

TERMINATION PROCEDURES

A. Voluntary Termination Procedure: This Agreement may be voluntarily terminated, at any time, for any reason, by submitting a personally signed letter stating resignation to the ETI Marketing Department. Said termination will become effective upon receipt by ETI. The resigning IR may re-apply after six (6) months from effective date of resignation.

B. Involuntary Termination Procedure: IRs may be suspended or terminated immediately if they discredit the names of ETI or any of its suppliers, violate any terms of their Representative Agreement (including these Policies and Procedures), or misrepresent ETI by making claims contrary to ETI literature, or for any other material cause at the discretion of ETI. When a decision is made to suspend or terminate an IR, ETI will inform the IR in writing that he/she is suspended or terminated immediately, effective as of the date of the written notification. The IR will have ten (10) days from the date of mailing of the letter in which to respond to and thereby appeal the suspension or termination in writing. The IR's appeal correspondence must be received or postmarked within ten (10) days of the Company's suspension/termination letter. If the appeal is not received or postmarked within the ten (10) day period, this failure to respond in a timely fashion will be considered acceptance of the suspension/termination. If an IR files a timely appeal of suspension/termination, ETI will review and consider the suspension/termination, consider any other appropriate information and notify the IR of its decision. The decision of the Company will be final and subject to no further review. In the event the suspension/termination is not rescinded, suspension/termination will be effective as of the date of the Company's original suspension/termination notice.

C. Effect of Suspension or Termination: In the event of suspension or termination, all commissions will cease being paid to the terminated IR.

AMENDMENTS

IRs understand that in order to maintain a viable Marketing Program and to comply with changes in federal, state or local laws or economic conditions, Excel Telecommunications, Inc., may modify existing Policies and Procedures and provide Policies and Procedures and Rules and Regulations for Representatives from time to time, as well as modify its Representatives Compensation Program, customer services and charges. Such modifications to the Policies and Procedures, the Rules and Regulations, the Compensation Plan or any customer services, and all charges thereto, shall, upon notice to Representative or by publication in the ETI monthly newsletter, become a binding part of this Agreement.

WAIVER

No term or condition shall be deemed to have been waived nor shall there be any estoppel to enforce any of the terms or provisions of this agreement except by written instrument of the authorized party charged with such waiver or estoppel. It is further understood that a waiver at any time of any of the terms or provisions of this agreement shall not be construed as a waiver of any of the other terms or provisions of this agreement and that a waiver any time of the terms or provisions of this agreement shall not be construed as waiver at any subsequent time of the same terms or provisions.

SEVERABILITY

Should any portion of these Policies and Procedures or the IR Application and Agreement, or of any other instruments referred to herein or issued by the Company be declared invalid by a court of competent jurisdiction, the balance of such policies, application or instruments shall remain in full force and effect.

ORDERING AND SHIPPING INFORMATION

A. Payment: ETI will not accept orders for sales or marketing aids on a C.O.D. (cash on delivery) basis. All orders must be prepaid with cash, cashier's check, personal check, money order or an approved credit card including VISA, MasterCard, American Express or Discover.

B. Processing Deadline: The Excel Shipping Department will strive to process and ship all mail and fax orders received on a given day prior to 5:00 p.m. Central Standard Time (CST) the following day. Express orders phoned in by 5:00 p.m. (CST) will also be processed and shipped the next business day.

C. Supply Orders: Ordering is accomplished through the mail, by telephone or by fax. Please allow adequate travel time for orders sent by mail, or request a guaranteed overnight service.

D. Fax Orders: This is the most effective way to place an order. FAX toll free: 1-800-705-5480. Be sure and completely fill out all information on the Sales Aids Order Form or your fax will be returned.

E. Telephone Orders: Excel offers you the ease of ordering supplies via telephone at 1-214-705-5556 if payment is being made with a credit card. Ensure sufficient credit is available on your credit card prior to ordering.

To expedite each order, please follow this telephone ordering procedure:

1. Before calling in an order, completely fill out an order form.
2. Be prepared to give:
 - (a) Your name and Excel identification number.
 - (b) VISA, American Express, MasterCard or Discover number, expiration date and name on the card.
 - (c) All pertinent shipping information, including the address the order is to be sent to.
 - (d) Telephone number.
 - (e) Exactly what your order is.
3. To avoid duplication, please don't mail or fax a follow-up order form to Excel.

F. Shipping Address: Shipments are made only to street addresses. Deliveries cannot be made to a P.O. Box or General Delivery, and Excel assumes no liability for the non-receipt of such materials if a P.O. Box is the only available alternative.

G. Hawaii Residents: Any materials sent to Hawaii residents will be sent Next-Day Air and applicable charges will be added to the order.

H. Normal Shipping: Normal shipment is by UPS ground service. Orders placed on Monday will be processed and shipped on Tuesday. A 5.5% (\$5.50 minimum) shipping charge is added to all ground shipments. All Hawaii customers will be sent materials Next-Day Air and appropriate charges will be added.

I. Express Shipping: Express orders received one business day will be processed and shipped the following business day. Distributors may have their orders shipped Next-Day Air, 2nd-Day Air or 3-Day Select, but must understand that the higher cost of express shipping charges must be paid by credit card when placing the order. A \$3.00 handling charge will be added to all express orders except 3-Day Select. Unless specifically requested that delivery be made on Saturday, Next-Day Air orders placed on Thursday will be shipped Friday for delivery the following Monday. Saturday deliveries cost extra.

J. Back Orders: If you have sent an order in accompanied by a check and Excel is temporarily out of stock on an item you ordered, you'll receive a "credit" notice with your shipment. Your account will be credited for the amount of the item not received. You may then request the item with your next order. If you ordered with a credit card, the amount of the item not included will be deducted from your final amount charged to the credit card.

ABBREVIATIONS

AC	-	Area Coordinator	MS	-	Management Services
ANI	-	Automatic Number Identification	NPO	-	Non-Profit Organization
BP	-	Business Presentation	NTD	-	National Training Director
ED	-	Executive Director	QAC	-	Qualified Area Coordinator
IR	-	Independent Representative	QR	-	Qualified Representative
LDU	-	Long Distance Usage	RD	-	Regional Director
LEC	-	Local Exchange Carrier	RTD	-	Regional Training Director
LOA	-	Letter Of Authorization	SR	-	Senior Representative
LOC	-	Local Operating Company (Bell, GTE, etc.)	SRF	-	Service Request Form
MR	-	Managing Representative	1 on 1	-	A Representative explaining our opportunity to a prospect



P.O. Box 650582, Dallas, Texas 75265-0582
Phone (214) 705-5500 • Fax (214) 705-5501

Attachment 5

(Question Number 18¹)

¹ Financial statement for the year ending 1995 is not yet available.

QUESTION 18 A(3)

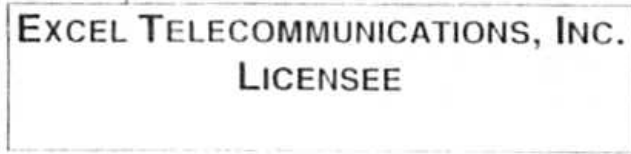
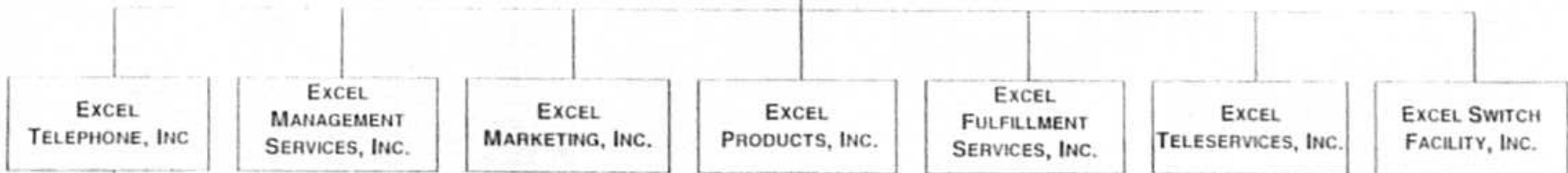
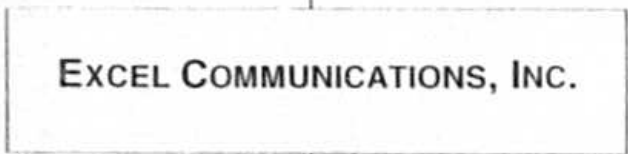
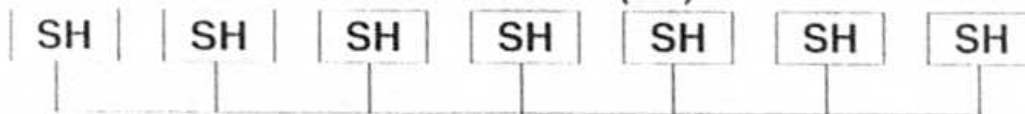
STATEMENT OF RETAINED EARNINGS
(in thousands)

Balance 1992	\$ (536)
Balance 1993	\$ (94)
Balance 1994	\$ 7,045

REORGANIZED STRUCTURE

CURRENT EXCEL TELECOMMUNICATIONS, INC.

SHAREHOLDERS (SH)



Officers and Directors:

Kenny A. Troutt
Chairman, President, CEO

Founded Excel Telecommunications, Inc., in 1988. Previously served as founder and President of SunTex Resources, Dallas, Texas, an oil and gas exploration company from 1982 to 1988. From 1970 to 1982, founded and managed Kenny Troutt Construction in Omaha, Nebraska. Kenny is a 1970 graduate of Southern Illinois University.

Stephen R. Smith
Executive Vice President, Sales and Marketing

Joined Excel in January, 1989. Has developed and managed Excel's marketing plan and all sales and marketing functions. From 1984 through 1988, worked as an independent representative and consultant for various network marketing organizations, including Coastal Telephone, a regional long-distance company, and Netcom Information Systems, a voice mail company. From 1982 through 1984, served as founder and president of AmeriTex Coatings Corporation, a technical coatings brokerage firm. Prior to 1982, vice president of marketing for Chemtrex Coatings Corporation of El Paso, Texas. Steve is a graduate of the University of Texas.

John J. McLaine
Vice President, Chief Financial Officer

In present position since August, 1994. From 1990 through August 1994, served as founder and president of MAI, Inc., a consulting firm engaged in mergers and acquisitions and business turnarounds. Prior to founding MAI, employed as chief financial officer and president of international operations for Pearle Vision, Inc., a retail optical chain, and vice president finance and control of American National Can Company, a \$1.1 Billion manufacturer of packaging products. Jack has an MBA degree from DePaul University, a B.S. degree from the University of Scranton, and is a Certified Public Accountant.

EXHIBIT B

Attachment 4

(Question Number 18¹)

¹ Financial statement for the year ending 1995 is not yet available.

EXCEL TELECOMMUNICATIONS, INC.

BALANCE SHEET--DECEMBER 31, 1994

(In thousands)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 6,545
Accounts receivable, net	28,591
Inventories	1,077
Other current assets	<u>876</u>
Total current assets	37,089
PROPERTY AND EQUIPMENT:	
Furniture and equipment	2,610
Leasehold improvements	611
Less- Accumulated depreciation	<u>(745)</u>
	2,476
OTHER ASSETS	<u>618</u>
	<u>\$40,183</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	\$14,029
Commissions payable	4,717
Dividends payable	3,000
Federal income tax payable	2,083
Accrued liabilities	4,850
Current portion of long-term debt	<u>518</u>
Total current liabilities	29,197
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	3,369
DEFERRED TAX LIABILITY	140
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common stock, no par value, 100,000 shares authorized and issued	257
Additional paid-in capital	188
Retained earnings	7,045
Less- Treasury stock, 1,000 shares at cost	<u>(13)</u>
	<u>7,477</u>
	<u>\$40,183</u>

The accompanying notes are an integral part of this statement.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Excel Telecommunications, Inc.:

We have audited the accompanying balance sheet of Excel Telecommunications, Inc. as of December 31, 1994, and the related statements of operations, stockholders' equity, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Excel Telecommunications, Inc. as of December 31, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Dallas, Texas,
February 15, 1995

EXCEL TELECOMMUNICATIONS, INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1994

(In thousands)

REVENUES:	
Long distance service	\$108,068
Fees and other income	<u>48,033</u>
	156,101
OPERATING EXPENSES:	
Transmission charges	58,925
Selling, general, and administrative	78,639
Depreciation	<u>346</u>
	137,910
INCOME FROM OPERATIONS	18,191
INTEREST INCOME (EXPENSE):	
Interest expense	(295)
Interest income	<u>83</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	17,979
PROVISION FOR INCOME TAXES	<u>(6,390)</u>
NET INCOME	<u>\$ 11,589</u>

The accompanying notes are an integral part of this statement.

EXCEL TELECOMMUNICATIONS, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 1994

(In thousands, except share and per share amounts)

	<u>Common Stock</u> <u>No Par Value</u> <u>Shares</u>	<u>\$</u>	<u>Additional</u> <u>Paid-in</u> <u>Capital</u>	<u>Retained</u> <u>Earnings</u> <u>(Deficit)</u>	<u>Treasury</u> <u>Stock</u>	<u>Total</u> <u>Stockholders'</u> <u>Equity</u>
BALANCE, December 31, 1993	100,000	\$257	\$ 67	\$ (94)	\$ (112)	\$ 118
Net income	-	-	-	11,589	-	11,589
Dividends declared	-	-	-	(4,450)	-	(4,450)
Purchase of treasury stock	-	-	-	-	(30)	(30)
Issuance of treasury stock	-	-	121	-	129	250
BALANCE, December 31, 1994	<u>100,000</u>	<u>\$257</u>	<u>\$188</u>	<u>\$ 7,045</u>	<u>\$ (12)</u>	<u>\$ 7,477</u>

The accompanying notes are an integral part of this statement.

EXCEL TELECOMMUNICATIONS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1994

1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

Description of Business and Operations

Excel Telecommunications, Inc. (the "Company" or "Excel") was incorporated in the state of Texas in December 1988. Excel is a switchless reseller of long distance telephone service. The Company primarily utilizes independent sales representatives to market its long distance service to residential and commercial subscribers throughout the United States. The Company completes subscriber calls to all directly dialable locations worldwide. Since its formation, the Company has utilized network switching and transmission facilities provided primarily by one supplier. During 1994, the Company invested in a joint venture which will begin providing the Company's network switching and transmission services during 1995.

Substantially all of the Company's long distance service was provided by one supplier (the "Supplier") during 1994. Under the agreement with the Supplier (the "Supplier Agreement"), the Company purchases long distance service at certain per-minute rates which vary depending on the time and distance of the call. Under the Supplier Agreement, the Company is required to purchase \$1.1 million of long distance service per month. The Supplier Agreement is collateralized by a security interest in the Company's receivables. The Supplier Agreement expires on March 31, 1995, and may be renewed monthly at the option of both the Supplier and the Company. The Company believes that the Supplier Agreement will be renewed on a monthly basis until the Company is able to obtain switching and transmission services from its joint venture. The Company has met all of its obligations under the Supplier Agreement.

During 1994, the Company made an initial capital contribution of \$245,000 to obtain a 49% interest in a joint venture by the name of Switched Services Communications, L.L.C. (SSC). In January 1995, the Company made an additional capital contribution of \$490,000. The 1994 contribution is included in other assets on the accompanying balance sheet. SSC's results of operations during 1994 were insignificant. SSC was formed for the purpose of obtaining and operating digital switches to provide telecommunications services to the Company and other long distance providers. Under the terms of the joint venture agreements, the Company is required to purchase a minimum number of minutes per month from SSC at specified rates for a period of five years, beginning in 1996. The remaining 51% of SSC is owned by a third party which is committed to operate SSC and provide marketing and certain back-office support. Usage of SSC's network facilities is also being marketed to other long distance companies. The Company intends to make additional capital contributions to SSC and intends to guarantee certain of SSC's obligations.

Marketing Activities

Excel's long distance service is sold primarily by independent sales representatives. These representatives are located throughout the United States. Sales representatives, upon registration, are required to make a \$50 refundable application deposit with Excel as an expression of commitment. Sales representatives have an option to purchase a start-up package which includes training, a starter kit of forms and sales aids, support services, and monthly reports for \$195. If the start-up package is purchased, the \$50 deposit requirement is waived.

3. INCOME TAXES:

The components of the provision for income taxes are as follows for the year ended December 31, 1994 (in thousands):

Current	\$6,681
Deferred	(441)
State	<u>150</u>
Provision for income taxes	<u>\$6,390</u>

Temporary differences which give rise to the net deferred income tax asset at December 31, 1994, are as follows (in thousands):

Deferred income tax asset:	
Allowance for doubtful accounts	5581
Deferred income tax liability:	
Depreciation	<u>(140)</u>
Net deferred income tax asset	<u>\$441</u>

The provision for income taxes was different than the amount computed using the statutory income tax rate for the reasons set forth in the following table (in thousands):

Tax computed at statutory rate	\$6,293
State income tax	150
Other	<u>(53)</u>
	<u>\$6,390</u>

4. STOCKHOLDERS' EQUITY:

During 1994, the Company purchased 1,000 shares of treasury stock for \$30,000. Also during 1994, the Company issued 10,000 shares of treasury stock to a shareholder of the Company in return for personally guarantying the Company's revolving credit line.

5. COMMITMENTS AND CONTINGENCIES:

The Company leases certain office equipment and office space under operating leases. Total rental expense for the year ended December 31, 1994, was approximately \$762,000.

Future minimum rents due under operating leases with initial or remaining terms greater than 12 months are as follows (in thousands):

1995	5930
1996	910
1997	981
1998	772
1999	13
Thereafter	-

In addition to selling Excel's products, certain representatives also provide training for new recruits. Commissions are paid to Excel representatives for selling the Company's products, recruiting other sales representatives, and training sales representatives. Fees received by Excel from sales representatives and revenues from the sale of related sales aids are included in fees and other income in the accompanying statement of operations. Commissions paid to sales representatives and the cost of sales aids sold are included in selling, general, and administrative expense.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

Accounts receivable are net of allowance for doubtful accounts of approximately \$1.7 million as of December 31, 1994.

Revenue Recognition

Long distance service revenues are recognized as service is provided to customers. Direct selling revenues are recognized when fees are received or sales aids are shipped.

Concentrations of Credit Risk

The Company's customers are primarily residential customers and are not concentrated in any specific geographic region. The Company has agreements with local telephone exchange companies (LECs) which provide billing and collection services to the majority of the Company's customers. As of December 31, 1994, approximately 79% of the Company's accounts receivable were due from LECs. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market and are comprised primarily of marketing materials.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

<u>Asset Classification</u>	<u>Estimated Useful Life</u>
Furniture and equipment	5 years
Leasehold improvements	Life of lease

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes."

2. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:

Long-term debt and capital lease obligations consisted of the following at December 31, 1994 (in thousands):

Revolving credit line	\$2,500
Capital lease obligations (see Note 5)	<u>1,387</u>
	3,887
Less- Current portion	<u>(518)</u>
Long-term debt and capital leases	<u>\$3,369</u>

As of December 31, 1994, the Company had a revolving credit line agreement (the "Agreement") with a bank. The amount available under the Agreement is limited to the lesser of \$6 million or the borrowing base, as defined in the Agreement, minus any letters of credit outstanding. The Company had additional available borrowing capacity of approximately \$1.9 million under the Agreement at December 31, 1994. A commitment fee is payable monthly on the unused portion of the credit line at 0.5% per annum. Commitment fees related to the unused portion of the line of credit during the year ended December 31, 1994, were insignificant. A minimum borrowing fee is payable monthly at an amount equal to the prime rate multiplied by the excess of \$2.5 million over the outstanding loan amount. Commitment and borrowing fees are included as components of interest expense in the accompanying financial statements.

Interest is payable monthly at an annual rate of prime plus 1.5% (10% at December 31, 1994) and the interest rates for the year ended December 31, 1994, ranged from 8.75% to 10%. The facility will mature on May 26, 1997, with a one-year renewal at the option of the bank, and is secured by accounts receivable, inventories, and property and equipment. The Agreement contains limitations on incurring additional indebtedness and requires the maintenance of certain financial ratios and covenants. The Agreement is personally guaranteed by a shareholder of the Company.

Future maturities of long-term debt and capital leases are as follows (in thousands):

1995	\$ 518
1996	523
1997	2,747
1998	64
1999	35
Thereafter	<u>-</u>
Total	<u>\$3,887</u>

EXCEL TELECOMMUNICATIONS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1994
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$11,589
Adjustments to reconcile net income to net cash provided by operating activities-	
Depreciation	346
Deferred income tax benefit	(441)
Changes in current assets and liabilities:	
Accounts receivable	(23,727)
Inventories	(889)
Other current assets	12
Accounts payable	11,386
Commissions payable	3,417
Accrued liabilities	<u>6,646</u>
Net cash provided by operating activities	8,339
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(811)
Release of long-term security deposits	764
Investment in joint venture	<u>(245)</u>
Net cash used in investing activities	(292)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase in credit line	2,500
Payments of other debt and capital lease obligations	(2,928)
Purchase of treasury stock	(30)
Payments of dividends	<u>(1,450)</u>
Net cash used in financing activities	<u>(1,908)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,139
CASH AND CASH EQUIVALENTS, beginning of year	<u>406</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,545</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for-	
Interest	\$ 295
Income taxes	4,469
Non-cash financing activities-	
Financing of property and equipment purchases	\$ 1,349

The accompanying notes are an integral part of this statement.

The Company has also entered into various capital lease agreements for certain furniture and equipment. Future minimum payments for these leases at December 31, 1994, are as follows (in thousands):

1995	\$ 665
1996	600
1997	272
1998	70
1999	34
Thereafter	<u> </u>
Total future minimum lease payments	1,641
Less- Interest	<u>254</u>
Present value of future minimum lease payments (including maturities of \$518 in 1995)	<u>\$1,387</u>

Assets recorded under capital leases are included in property and equipment and consisted of the following at December 31, 1994 (in thousands):

Furniture and equipment	\$1,945
Accumulated depreciation	<u>(558)</u>
	<u>\$1,387</u>

The Company had approximately \$1.6 million in outstanding letters of credit at December 31, 1994, in connection with certain transmission purchases. A fee of 1.75% per annum is payable monthly on the letters of credit outstanding.

The Company's long distance and marketing activities are subject to certain federal and state regulations. The Company is involved in various regulatory matters as well as lawsuits incidental to its business. In the opinion of management, these regulatory matters and lawsuits in the aggregate will not have a material adverse effect on the Company's financial position or the results of operations of future periods.

6. RELATED-PARTY TRANSACTIONS:

In 1993, the Company entered into an agreement with Tobor Technologies, Inc. ("Tobor") to obtain data processing and related services. The Company's president and the Company own a 22% and a 21% interest, respectively, in this affiliated company. For the year ended December 31, 1994, Excel paid Tobor approximately \$596,000 for data processing and related services. During 1994, data processing and related services were transitioned from Tobor to the Company's internal information systems department. The Company's equity in earnings and net investment in Tobor were insignificant during 1994. As of December 31, 1994, the Company's relationship with Tobor terminated and Tobor has no significant operations.

7. EMPLOYEE BENEFIT PLANS:

The Company provides a 401(k) Plan (the "Plan") to substantially all eligible employees of the Company, as defined. Discretionary profit sharing contributions may be made by the Company to employees in an amount equal to 4% of their respective compensation. Company contributions to the Plan for the year ended December 31, 1994, were insignificant.