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January 7, 1997 DEPOSIT TREAS. REC. DATE

D435 0000000000 JAN 09 '97

VIA AIRBORNE EXPRESS

Executive Secretary
Florida Public Service Commission
2450 Schumard Oak Boulevard
Tallahassee, Florida 32399-0850

970045-TI

Re: Application of Addtel Communications, Inc.
for Approval of a Stock Purchase Agreement

Dear Sir:

On behalf of Addtel Communications, Inc., enclosed please find an original and thirteen (13) copies of the referenced Application. Also enclosed is a check in the amount of \$250.00 to cover the filing fee.

Please date stamp and return the enclosed extra copy of this letter in the envelope provided.

Please call me should you have any questions concerning this filing. Thank you for your assistance with this matter.

Sincerely,



Edward P. Gothard

EPG/bg

Enclosure

Check received with filing and
forwarded to Fiscal for deposit.
Fiscal to forward a copy of check
to FARR with proof of deposit.

Initials of person who forwarded check
A.G.

DOCUMENT NO.
00219-97
1/9/97

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF FLORIDA

APPLICATION OF ADDTEL
COMMUNICATIONS, INC.,
FOR APPROVAL OF A
STOCK PURCHASE AGREEMENT

CASE NUMBER _____

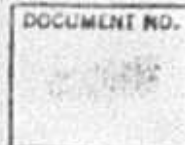
APPLICATION

Addtel Communications, Inc. ("Addtel" or "Applicant"), pursuant to the applicable Statutes of Florida and the Commission's Rules and Regulations currently in effect and/or subsequently enacted, hereby requests Commission approval to consummate a Stock Purchase Agreement (the "Agreement").

As will be described in more detail below, Addtel proposes to enter into a Stock Purchase Agreement¹ between Addtel, SA Telecommunications, Inc. ("SA Telecom") and the individual shareholders of Addtel, whereby SA Telecom will acquire all of the issued and outstanding shares of Addtel. As a result of the Agreement, Addtel will become a wholly owned subsidiary of SA Telecom.

As Addtel is a regulated entity in the State of Florida, Commission approval to consummate the Agreement is requested. The proposed Agreement will result in cost savings because of discounts on quantity ordering of materials and services and will enhance the level of service for all involved customers. At the same time, approval of the proposed Agreement will not in any way be detrimental to the public interests of the State of Florida because the customers of Addtel will continue to receive

¹ A draft copy of the proposed Stock Purchase Agreement is attached as Exhibit "A".



the same high quality service presently rendered to them and no party to the proposed Agreement will be given undue advantage over any other party.

In support of this Application, Applicant shows the following:

I. THE PARTIES

1. Addtel Communications, Inc. is a privately held California corporation with principal offices located at 143 S. Glendale Avenue, Third Floor, Glendale, California 91205. Addtel is a non-dominant carrier that resells domestic and international long distance service purchased from various facilities based carriers pursuant to the FCC's *Competitive Carrier* policies.

2. Addtel is authorized by the FCC to offer domestic interstate and international services in all fifty (50) states and the District of Columbia as a non-dominant carrier. Addtel currently originates interstate traffic in fifty (50) states, and provides intrastate service, pursuant to certification, registration or tariff requirements, or on an unregulated basis, in twelve (12) states. Addtel is a certificated carrier in the State of Florida.²

3. SA Telecommunications, Inc. is a publicly held Delaware corporation with principal offices located at 1600 Promenade Center, 15th Floor, Richardson, Texas 75080. SA Telecom is a non-regulated holding company which does not directly provide long distance service, but rather owns other wholly-owned subsidiary businesses which resell domestic and international long distance service.

² In Florida, Addtel provides intrastate telecommunications services pursuant to Certificate of Public Convenience and Necessity Number 2943 issued in matter bearing Docket Number 911119-TI, Order Number 25616, effective date February 12, 1992.

I. DESIGNATED CONTACT

4. The designated contact for questions concerning this Application is:

Edward P. Gothard, Esquire
(Of Counsel) Nowalsky & Bronston, L.L.P.
3500 North Causeway Boulevard
Suite 1442
Metairie, Louisiana 70002
Telephone: (504) 832-1008
Telecopier: (504) 831-0892

5. Copies of such correspondence should be sent to:

Aviram Lonstein, President
Addtel Communications, Inc.
143 S. Glendale Avenue, Third Floor
Glendale, California 91205
Telecopier: (818) 265-3027

III. THE STOCK PURCHASE AGREEMENT

6. SA Telecom proposes to acquire all of the issued and outstanding shares of Addtel, following which Addtel will become a wholly owned subsidiary of SA Telecom. SA Telecom will continue to operate the acquired entity as an independent, but wholly owned, subsidiary.

7. Addtel will retain its present, distinct corporate structure and identity, and will continue to operate in all material respects as it presently operates, pursuant to operating authority currently in place in the states where Addtel presently conducts business.

8. As a holding company with consolidated operating revenues of approximately twenty-two million two-hundred thousand (\$22,200,000) dollars for the nine (9) months ending September 30, 1996, SA Telecom is well-qualified to consummate the transaction which is the subject of this Application. Current financial information for SA Telecom is attached hereto as Exhibit "B".³

³ Exhibit "B" is SA Telecom's most recent Form 10-QSB filing, for the quarterly period ended September 30, 1996, with the Securities and Exchange Commission.

9. Addtel has annual operating revenues of approximately thirty million (\$30,000,000) dollars. Current financial information for Addtel is attached hereto as Exhibit "C".⁴

10. Applicant proposes a Stock Purchase Agreement as follows:

- (a) SA Telecom shall purchase all of the issued and outstanding shares of stock of Addtel, from the individual shareholders, as set forth in Exhibit "A";⁵
- (b) The individual shareholders of Addtel shall sell and deliver to SA Telecom all of the issued and outstanding shares of the stock of Addtel;
- (c) Addtel will become, by virtue of the stock transfer, a wholly owned subsidiary of SA Telecom; and
- (d) Addtel shall continue to operate as a regulated entity pursuant to its present certifications, registrations, tariff requirements and rate structures, or on an unregulated basis, as provided by and pursuant to applicable law.

11. The technical, managerial and financial personnel of Addtel will remain the same after the transaction, and will continue to serve its respective customers with the present high level of expertise.

12. Thus, the Agreement will only effect a change in ownership of the stock of Addtel. Otherwise, Addtel will continue to operate in all respects as it currently operates.

IV. PUBLIC INTEREST CONSIDERATIONS

13. Critical to the proposed Agreement is the need to ensure the continuation of high quality service to all customers currently served by Addtel. The proposed transaction will serve the public interest for the following reasons:

⁴ Exhibit "C" is Addtel's internally generated unaudited financial statements for the four (4) months ended September 30, 1996.

⁵ Note that the exact financial figures have been redacted from Exhibit "A". Should this Commission desire to review the financial terms of the proposed transaction, such materials will be provided to this Commission for *in camera* inspection.

- (a) It will enable Addtel to operate with a more efficient level of service by affiliating Addtel with a publicly held parent operation. The transaction will enhance the operating efficiencies, including market efficiencies, of Applicant.
- (b) With the access to the larger capital base of SA Telecom, as its parent company, Addtel's operation will more readily increase in size and profitability, due to enhanced economies of scale.
- (c) The transaction will result in cost savings because of discounts on quantity ordering of materials and services.
- (d) Accordingly, the proposed Agreement will serve to create a heightened level of operating efficiency which generally will serve to enhance the overall capacity of Applicant to compete in the marketplace and thus to provide telecommunications services for a greater number of Florida customers at competitive rates.

14. The proposed transaction will be beneficial for the shareholders of SA Telecom, as the stock purchase agreement will add Addtel as a wholly owned subsidiary of SA Telecom.

15. The proposed transaction will be beneficial to the shareholders of Addtel, as the transaction is for fair consideration.

16. Finally, both organizations will benefit from economies of scale, as explained above.

V. CONCLUSION

17. Commission approval is requested for the proposed Agreement between SA Telecom and Addtel. This transaction will result in cost savings because of discounts on quantity ordering of materials and services for both companies, and will enhance the level of service for all involved customers. At the same time, approval of the proposed Agreement will not in any way be detrimental to the public interests of the State of Florida because the customers of Addtel will continue to receive the same high quality service presently rendered to them and no party to the transaction between SA Telecom and Addtel will be given undue advantage over any other party.

18. WHEREFORE, for the reasons stated herein, Applicant respectfully requests that the Commission authorize SA Telecom and Addtel to consummate the Stock Purchase Agreement described above.

DATED this 7th day of January, 1997.

Respectfully submitted,



Edward P. Gothard, Esquire
(Of Counsel) Nowalsky & Bronston, L.L.P.
3500 North Causeway Boulevard
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Telephone: (504) 832-1984
Telecopier: (504) 831-0892


Counsel for Applicant

STATE OF LOUISIANA


PARISH OF ORLEANS

VERIFICATION

I, Aviram Lonstein, am the President of Addtel Communications, Inc., and am authorized to make this verification on its behalf. The statements made in the foregoing Application are true of my own knowledge, except as to those matters which are therein stated on information and belief, and as to those matters I believe them to be true.

By: 
Name: Aviram Lonstein
Title: President

Sworn to and subscribed before me, Notary Public, in and for the State and Parish named above, this 3rd day of January, 1997.



Notary Public

My Commission expires: at death

EXHIBIT "A"

STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT

BY AND AMONG

SA TELECOMMUNICATIONS, INC.,

ADDTEL COMMUNICATIONS, INC.

**AVIRAM LONSTEIN,
CHARLES TONY LONSTEIN,
DANIEL G. LONSTEIN AND
DAVID R. LONSTEIN**

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement ("Agreement") is made as of _____ by and among SA Telecommunications, Inc., a Delaware corporation ("Purchaser"), Addtel Communications, Inc., a California corporation (the "Company"), and Aviram Lonstein, Charles Tony Lonstein, Daniel G. Lonstein, and David R. Lonstein, the holders of an aggregate of 100% of the issued and outstanding shares of capital stock of the Company (individually a "Shareholder" and collectively the "Shareholders").

WHEREAS, pursuant to that certain Letter of Intent dated as of November 27, 1996 by and among the parties hereto (the "Letter of Intent"), the Shareholders contracted to sell and Purchaser contracted to buy, all of the issued and outstanding shares of capital stock of the Company (the "Shares") in accordance with the terms therein expressed and subject to the execution of definitive agreements setting forth such terms; and

WHEREAS, Purchaser desires to purchase, and the Shareholders desire to sell, all of the Shares in accordance with the terms hereof.

NOW, THEREFORE, in consideration of the mutual benefits to be derived and the representations and warranties, conditions and promises herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE 1. GENERAL

Section 1.1 Definitions. Unless otherwise stated in this Agreement, the following terms shall have the following meanings, and other terms shall have the meaning assigned to such terms elsewhere in this Agreement (all such definitions to be equally applicable to both the singular and plural forms of any of the terms herein defined):

Affiliate shall mean any Person that, directly or indirectly, controls, or is controlled by or under common control with, another Person. For the purposes of this definition, "control" (including the terms "controlled by" and "under common control with"), as used with respect to any Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities or by contract or otherwise.

Anniversary Date shall mean _____, **Six Month Anniversary Date** shall mean _____, and **Eighteen Month Anniversary Date** shall mean _____.

Arbitration shall mean a proceeding brought pursuant to Section 9.9 hereof which settles disputes concerning this Agreement.

Audit Bid Amount shall mean \$ _____, such amount being obtained by the Company in good faith as a written quote from a regional CPA firm for a full audit of the Company's financial statements as of and for the year ended May 31, 1996 conducted in accordance with GAAP.

Business shall mean the business of the Company as conducted in the normal course prior to the date hereof, including without limitation the business of marketing, selling and providing long distance telephone service (on a wholesale and retail basis) without limitation, the following additional

Business Day shall mean any day other than a Saturday, Sunday or a day on which the commercial banking institutions in Dallas, Texas are authorized to be closed.

Closing Date shall mean the date on which the Purchaser purchases and receives the Shares (and not the Effective Date), which date shall be the date after which the conditions set forth in Article V hereof are satisfied or such other day prior to _____ as the Company and Purchaser shall mutually agree.

Closing Date Accounts Receivable shall mean billed accounts receivable and properly accrued but unbilled accounts receivable of the Company as of the Closing Date.

Code shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder, all as the same shall be in effect at the time.

Collected Accounts Receivable shall mean net Closing Date Accounts Receivable subsequently collected within (a) 90 days of the Closing Date for accounts receivable of the Company billed as of the Closing Date and (b) 120 days of the Closing Date for properly accrued but unbilled accounts receivable of the Company as of the Closing Date and so reflected on the Settlement Balance Sheet.

Common Stock shall mean the common stock, par value \$0.50 per share of the Company.

Contract or Agreement shall mean any contract, agreement, understanding, lease, sublease, license, sublicense, distribution agreement, promissory note, evidence of indebtedness, indenture, instrument, mortgage, insurance policy, annuity or other binding commitment, whether written or oral, and shall include any proposal or other offer to any Person to enter into any of the foregoing.

Debt Adjustment shall mean a decrease in the Initial Purchase Price in an amount equal to the amount, if any, by which (i) Total Liabilities of the Company as of the Closing Date reduced by _____ exceeds (ii) the sum of cash and Collected Accounts Receivable.

Disclosure Schedule or Schedules shall mean the schedules to this Agreement delivered by the Shareholders and/or the Company to Purchaser which are approved by Purchaser (with

reservation of all rights with respect thereto) and incorporated by reference to the Section of this Agreement to which each such schedule relates.

EBITDA shall mean earnings before interest, taxes, depreciation, amortization, nonrecurring charges and other income (expense) determined in accordance with GAAP.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

Finder's Fee Agreement shall mean the Finder's Fee Agreement in the form of Exhibit D hereto to be executed by Purchaser and each of the Shareholders at the Closing.

GAAP shall mean generally accepted accounting principles applied on a consistent basis.

Indebtedness shall mean with respect to any Person, without duplication, and whether or not contingent, (a) all indebtedness of such Person for borrowed money which is evidenced by a note, bond, debenture or similar instrument, (b) all obligations of such Person in respect of letters of credit or bankers' acceptance issued or created for the account of such Person, (c) all liabilities secured by any consensual Lien (including capital leases and Liens arising in connection with purchase money debt), (d) on any property owned by such Person even if such Person has not assumed or otherwise become liable for the payment thereof to the extent of the lesser of the amount of the debt secured thereby or the value of the property subject to such Lien, (e) any capital stock which, but its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, (f) to the extent not otherwise included, any guarantee of such Person of any other Person's indebtedness or other obligations described in (a) through (d) in this definition; provided, however, that Indebtedness shall not include trade payables incurred in the ordinary course of business and payable in accordance with customary practices.

Investor Notes shall mean those certain promissory notes payable by the Company to _____ and _____ in the original principal amount of \$_____ and _____.

Lien shall mean all mortgages, deeds of trust, claims, liens, security interests, pledges, hypothecations, conditional sale contracts, claims, rights of first refusal, options, charges, liabilities, obligations, agreements, privileges, liberties, easements, rights-of-way, powers of attorney, limitations, reservations, restrictions and other encumbrances of any kind.

Material Adverse Effect shall mean any (a) change, development or effect (individually or in the aggregate) in the general affairs, management, business, goodwill, results of operations, condition (financial or otherwise), assets, liabilities or prospects (whether or not the result thereof would be covered by insurance) that would be material and adverse to the Company (or such other parties as the context requires), or (b) fact or development that would (individually or in the aggregate), after giving effect to the Transactions, impair the Company's (or such other parties, as

the context requires) ability or obligations to perform on a timely basis any obligations such Person has under the Operative Documents or in the ordinary course of its business.

Nonsolicitation Agreements shall mean the Nonsolicitation Agreements in the form of Exhibit A hereto, to be executed by each of the Shareholders at the Closing.

Operative Documents shall mean this Agreement, the Nonsolicitation Agreements, the Pledge Agreement, the Finder's Fee Agreement, and all other Contracts or Agreements, documents, and certificates executed and delivered by or on behalf of the Company, the Shareholders, Purchaser or USC at or before the Closing pursuant to this Agreement.

Order shall mean any order, writ, injunction, decree, judgment, award or determination of any Tribunal.

Permits shall mean all permits, authorizations, certificates, approvals, registrations, variances, exemptions, rights-of-way, franchises, privileges, immunities, grants, ordinances, licenses and other rights of every kind and character (a) under any (1) federal, state, local or foreign statute, ordinance or regulation, (2) Order or (3) contract with any Tribunal or (b) granted by any Tribunal.

Person shall mean an individual, partnership, association, joint venture, limited liability company, corporation, trust, unincorporated organization or Tribunal.

Pledge Agreement shall mean the Pledge Agreement executed between the Shareholder Agent and Purchaser at Closing, in substantially the form of Exhibit B hereto.

Pledged Stock shall mean 500,000 shares of Common Stock, \$.0001 par value, of Purchaser, issued by Purchaser to USC.

Products shall mean all products manufactured, produced, licensed, marketed or distributed by the Company.

Real Property shall mean the real property owned by the Company, if any.

Settlement Date shall mean the later to occur of (a) 160 days after the Closing Date or (b) the date on which Purchaser and the Shareholders reach agreement on the Settlement Balance Sheet in accordance with Section 1.5 hereof.

Shareholder Agent shall mean Aviram Lonstein acting as agent and duly qualified attorney in fact for all such Shareholders for purposes of this Agreement.

Shareholder Percentages shall mean the percentages set forth beside each Shareholder's name as follows: Aviram Lonstein 15%, Charles Tony Lonstein 55%, Daniel R. Lonstein 15%, and David G. Lonstein 15%.

Subsidiary shall mean with respect to any corporation shall mean any other corporation of which at least a majority of the securities having by their terms ordinary voting power to elect a majority of the Board of Directors of such other corporation is at the time directly or indirectly owned or controlled by such first corporation, or by such first corporation and one or more of its Subsidiaries.

Taxes shall mean any federal, state, local, county, or foreign taxes or similar charges imposed by any Tribunal (including without limitation, estimated or actual income, franchise, gross receipts, sales, ad valorem, occupation, windfall profits, environmental, customs duties, social security, unemployment, disability, withholding, excise, use, transfer, payroll, real or personal property, value added, alternative, occupancy or other taxes, assessments, fees, levies, imposts, duties, deductions or other charges of any nature whatsoever (including, without limitation, interest and penalties) imposed by any law, rule or regulation.

Tax Obligations shall mean any Taxes which are attributable or relating to the assets or the Business of the Company for any periods ending on or before the Closing Date or which may be applicable because of the transactions contemplated hereby.

Tax Returns shall mean all reports, elections, declarations, claims for refund, estimates, information statements and returns (including schedules and attachments thereto) relating to or required to be filed in connection with, any Taxes pursuant to statutes, rules, and regulations of any Tribunal.

Total Liabilities shall mean all liabilities of the Company computed in accordance with GAAP (including accrued but unpaid vacation, sick pay and severance pay for employees as of the Closing Date).

Transaction or Transactions shall mean the acquisition of stock, performance of covenants, and transactions contemplated hereby in each case as contemplated by this Agreement.

Tribunal shall mean any government, arbitration panel, court or any federal, state, municipal or other governmental department, commission, board, bureau, agency, authority or instrumentality, domestic or foreign.

Undisputed Escrow Amount shall mean that portion of the Escrow Amount not subject to an unresolved Claimed Amount.

Wholesale Bad Debt shall mean all billed accounts receivable of the Company on the date of this Agreement related to the Company's wholesale long distance business from (a) wholesale account debtors other than the Named Debtors and (b) from the Named Debtors which remain uncollected by the Company on the 61st date after billing.

Section 1.2 Previous Agreement. The parties hereto expressly acknowledge, confirm and agree that the Letter of Intent has been replaced in its entirety by this Agreement and is without any further force or effect whatsoever.

Section 1.3 Agreement to Sell. Subject to the terms and conditions of the Operative Documents, at the Closing, the Shareholders shall sell, transfer and deliver to Purchaser, and Purchaser shall purchase, all of the Shares.

Section 1.4 Purchase Price. The aggregate purchase price for Shares (the "Purchase Price") shall equal (the "Initial Purchase Price"), subject to reduction by the Debt Adjustment. The Initial Purchase Price includes the aggregate consideration of to be received pursuant to the terms of the Nonsolicitation Agreements (the "Nonsolicitation Fee"), with an aggregate of of such Nonsolicitation Fee being payable at Closing, and the remaining to be held in escrow (the "Escrow Amount") pursuant to the escrow provisions specified below, with such amounts being subject to reduction by the Debt Adjustment. The Initial Purchase Price, subject to the Debt Adjustment, shall be allocated among the Shareholders in accordance with the Shareholder Percentages as follows:

| <u>Name of Shareholder</u> | <u>Nonsolicitation Fee</u> | | <u>Remainder of Purchase Price Payable at Closing</u> |
|----------------------------|----------------------------|-----------------------|---|
| | <u>Payable at Closing</u> | <u>Held in Escrow</u> | |
| Aviram Lonstein | \$ | \$ | \$ |
| Charles Tony Lonstein | \$ | \$ | \$ |
| Daniel G. Lonstein | \$ | \$ | \$ |
| David R. Lonstein | \$ | \$ | \$ |
| Total | | | |

Notwithstanding the foregoing, the Initial Purchase Price shall be subject to adjustment in the event that Purchaser's due diligence investigation or audit reveals any material adverse change in the results of operations or financial condition reflected by the such financial statements or reveals any other circumstance that materially affects the value of the Company. However, if the Initial Purchase Price is adjusted as a result of the due diligence carried out by or on behalf of Purchaser results in a reduction of (a) more than , the Company and the Shareholders shall have the right to withdraw from this Agreement without any liability or sums owed to Purchaser, and (b) or less, such reduction shall reduce the Escrow Amount. The Company and the Shareholders agree to advise Purchaser if any "significant events or material changes" with respect to the Company occur which could materially affect the value of the Company. For purposes of this Agreement, "significant events and material changes" shall include without limitation any changes in the Company's assets, liabilities (contingent or otherwise), gross revenue, cost of sales, gross

profit or sales, general and administrative expense ("SG&A Expense") that change more than 5% one monthly or quarterly period measured against any immediately preceding like period, and any 5% change in the wholesale business, agents or subagents during such periods. Any change which exceeds 5% in the wholesale business shall not be a reason to reduce the Initial Purchase Price unless liabilities are incurred in connection with such increase. If such liabilities are incurred, the Initial Purchase Price will be reduced accordingly.

Section 1.5 Debt Adjustment. The Initial Purchase Price shall be decreased by an amount equal to the Debt Adjustment, if any. For purposes of determining the Debt Adjustment, not later than 150 days after the Closing Date, Purchaser shall cause the Company to prepare and deliver to the Shareholders a balance sheet of the Company as of the Closing Date in accordance with GAAP, showing the Total Liabilities, cash and Collected Accounts Receivable as of the Closing Date ("Settlement Balance Sheet"). The parties hereto agree that the Company shall have expensed fully in the month ending October 31, 1996 (i) an amount equal to the aggregate of Wholesale Bad Debt (and the Company's accounts receivable as of October 31, 1996 and thereafter shall not reflect the accounts receivable to which such Wholesale Bad Debt relates), and (ii) the Audit Bid Amount. Within 10 days after the receipt by Shareholders of the Settlement Balance Sheet, the Shareholder Agent shall notify Purchaser and the Company of any objections the Shareholders may have to the Settlement Balance Sheet, and Purchaser and the Shareholder Agent will endeavor promptly to discuss and resolve such objections. In the absence of such objections within such 10 day period, or following resolution of them with Purchaser, the Shareholders shall be deemed to have approved the Settlement Balance Sheet for purposes of the adjustments to be made pursuant to this Section 1.5, but subject to any rights of indemnification which Purchaser may have pursuant hereto with respect to the accuracy or completeness of the information on the basis of which the Settlement Balance Sheet was prepared and any other rights Purchaser may have under this Agreement. In the event Purchaser and the Shareholder Agent cannot agree on any amounts in the Settlement Balance Sheet, such dispute shall be referred promptly to Ernst & Young or such other independent public accounting firm of national stature not used by any of the parties hereto or their respective Affiliates during the prior 2 years as is mutually satisfactory to Purchaser and the Shareholder Agent. The determination of such firm with respect to such dispute shall be conclusive and binding, subject however, to any rights of Purchaser hereunder with respect to the accuracy or completeness of the information on the basis of which such calculation was determined. The fees and expenses of such firm shall be borne equally between Purchaser on the one hand, and the Shareholders on the other hand, in accordance with the Shareholder Percentages.

(a) On the Settlement Date, the Initial Purchase Price and the Escrow Amount shall be decreased by the Debt Adjustment, if any, as follows:

(i) The Debt Adjustment, if any, shall first be applied against the portion of the Initial Purchase Price consisting of the Undisputed Escrow Amount. In the event that the Undisputed Escrow Amount exceeds the Debt Adjustment, the parties hereto agree that Purchaser shall be entitled to reduce the Undisputed Escrow Amount held in escrow by Purchaser pursuant to Section 1.7 by the amount of such Debt Adjustment on the Settlement Date.

(ii) In the event that the Debt Adjustment exceeds the Undisputed Escrow Amount, the Initial Purchase Price shall be reduced by such excess, and each Shareholder shall pay to Purchaser on the Settlement Date a sum ("Debt Adjustment Shortfall") equal to the product of (a) the amount equal to the Debt Adjustment minus the Undisputed Escrow Amount and (b) such Shareholder's Shareholder Percentage; provided, however, that each Shareholder shall be jointly and severally liable for payment of the entire Debt Adjustment Shortfall to Purchaser, which amount shall be due and payable on the Settlement Date.

(b) For purposes of collection of the Company's Closing Date Accounts Receivable from the Closing Date to the Settlement Date (the "Settlement Period"), the following procedures shall apply:

(i) All collections during the Settlement Period received from the account debtors of the Company shall be applied to the invoice intended to be paid by such account debtor if such intent can be determined. If such intent cannot be determined, then payment shall be applied on a "first in, first out" basis.

(ii) The Company will continue to utilize its standard credit and collection policies, procedures and practices, but without responsibility to institute legal or collection proceedings.

(c) Upon the later to occur of (i) receipt of full payment of the Debt Adjustment Shortfall by Purchaser or (ii) the Settlement Date, Purchaser shall transfer to the Shareholders in accordance with the Shareholder Percentages the Company's rights to any Closing Date Accounts Receivable which remain uncollected by the Company on the 151st day after the Closing Date so that each of the Shareholders may then take his own steps, including, without limitation, the use of collection agencies and litigation, to collect the full unpaid balances thereof in due course.

Section 1.6 Closing Deliveries. Without limiting the deliveries at the Closing set forth in Article 6 hereof, at the Closing:

(a) each of the Shareholders shall deliver to Purchaser (i) certificates representing the Shares, endorsed for transfer to Purchaser, which shall transfer to Purchaser good title to the Shares, free and clear of all Liens; and (ii) such other documents, including officer's certificates, opinions of counsel and other Contracts or Agreements as may be required by this Agreement or reasonably requested by Purchaser; and

(b) Purchaser shall deliver to each of the Shareholders a check equal to the sum of the Initial Purchase Price to be paid to such Shareholders at Closing as set forth in Section 1.4 hereof, the Pledged Shares, and if the Alternate Arrangement occurs, the Interest Differential (not to exceed ?

(c) Purchaser shall hold \$ _____ of the Initial Purchase Price in escrow as provided in Section 1.4 pursuant to the terms of Section 1.7 hereof, subject to decrease by the provisions of Sections 1.5 and 1.7 hereof.

Section 1.7 Escrow.

(a) At the Closing, (i) Purchaser shall hold in escrow the Escrow Amount to satisfy any claims made by Purchaser in respect of (A) the Debt Adjustment, and (B) any breach or nonperformance by any of the Shareholders of any representation, warranty, covenant or other obligation of any Shareholder under this Agreement, and Purchaser shall deliver to the Shareholder Agent a stock certificate representing the Pledged Stock issued in the name of the Shareholder Agent to hold only in accordance with the Pledge Agreement. Purchaser shall not be required to segregate the Escrow Amount from any of its other funds and may invest the Escrow Amount in any manner Purchaser may desire.

(b) On the Settlement Date, Purchaser shall reduce the Escrow Amount by the Debt Adjustment, if any, as provided in Section 1.5 hereof, and the remaining balance of the Escrow Amount after such Debt Adjustment and other distributions provided for herein shall be referred to as the Adjusted Escrow Amount.

(c) Subject to rights of Purchaser to continue to hold Claimed Amounts with respect to Contested Claims not yet finally resolved in accordance with Section 1.7(c) hereof, Purchaser shall pay to the Shareholders in accordance with the Shareholder Percentages to the extent such funds have not otherwise been distributed as provided herein: (i) 50% of the Adjusted Escrow Amount on the date which is the later to occur of (A) the Settlement Date or (B) Six Month Anniversary Date; (ii) 25% of the Adjusted Escrow Amount on the date which is the later to occur of (A) the Settlement Date or (B) the Anniversary Date; and (iii) the remainder of the Adjusted Escrow Amount on the date which is the later to occur of (A) the Settlement Date or (B) the Eighteen Month Anniversary Date. Any amounts paid to the Shareholders from the Escrow Amount shall earn interest at the average rate per annum quoted for one year jumbo certificates of deposit by major banks in New York, New York as quoted in the southwest edition of *The Wall Street Journal* on the first and last day of each release period.

(d) At any time on or before the Eighteen Month Anniversary Date, Purchaser may give the Shareholder Agent written notice of a claim (a "Notice of Claim") that any one or more of the Shareholders has breached or not performed any one or more of the representations, warranties, covenants or other obligations contained in this Agreement and the dollar amount of the Escrow Funds claimed as a result of Purchaser's damages thereof (the "Claimed Amount"). Within 10 days after a Notice of Claim is given by Purchaser to the Shareholder Agent, the Shareholder Agent shall have the right to file with the Escrow Agent written notice that the Shareholders intend to contest Purchaser's claim. If, within such 10 day period, Purchaser does not receive such notice from the Shareholder Agent or receives notice from the Shareholder Agent that such claim is uncontested, Purchaser may reduce the Escrow Amount by the Claimed Amount. If, however, within such 10 day period, Purchaser shall receive notice from the Shareholder Agent of the intention of the Shareholders to contest Purchaser's Notice of Claim and the underlying claim with respect to the Escrow Funds (a "Contested Claim"), then Purchaser shall continue to hold the Claimed Amount until the earliest to occur of: (i) receipt of written notice from the Shareholder Agent consenting to the release of the Claimed Amount to Purchaser; (ii) receipt

of a written final decision of the Arbitration Panel... Amount after Arbitration; or (iii) receipt of a certified copy of a final judgment, unappealed or unappealable, of a court of competent jurisdiction; if of the written agreement of the Shareholder Agent and Purchaser, that (A) Purchaser or (B) the Shareholder Agent is entitled to all or part of the Claimed Amount. Thereupon, Purchaser shall deliver to the other party the Claimed Amount in accordance with clause (i), (ii) or (iii) above. Any disputed claim shall be settled by Arbitration if Purchaser and the Shareholder Agent are unable to resolve such dispute within 30 days of the receipt by Purchaser of a Certified Claim.

ARTICLE 2. REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS

Each of the Shareholders, jointly and severally, hereby represents and warrants to Purchaser that the following are true and correct as of the date of this Agreement and will be true and correct (without limitation) through the Closing and as of that date, regardless of what investigations, if any, Purchaser shall have made prior hereto or prior to the Closing:

Section 2.1 Organization; Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of its state of domicile. The Company has the corporate power and authority to own, operate and lease all of the properties and assets it now owns, operates and leases and to carry on its business as now being conducted. The Company is duly qualified as a foreign corporation and is in good standing in its business in each jurisdiction in which the property owned, leased or operated by it or the agents of the business conducted by it makes such qualification necessary. Section 2.1 of the Disclosure Schedule sets forth a true and correct list of each jurisdiction in which the Company is qualified to do business. The Company does not have any employees, maintain any office, or own or lease any real property in any state that is not listed on Section 2.1 of the Disclosure Schedule. The Company has heretofore delivered to Purchaser complete and correct copies of its Certificate of Incorporation (certified by the Secretary of State of California) and Bylaws as such are currently in effect.

Section 2.2 Authority. The Company has the corporate power and authority to execute, deliver and perform the Operative Documents in which it is a party and to consummate the transactions contemplated hereby and thereby. The execution and delivery by the Company and the Shareholders of the Operative Documents, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by the Board of Directors of the Company and no other corporate proceedings on the part of the Company or the Shareholders are necessary with respect thereto. This Agreement has been duly and validly executed and delivered by the Company and the Shareholders, and constitutes a legal, valid and binding obligation of the Company and the Shareholders, enforceable against each of them in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, arrangement or other laws affecting generally the enforcement of creditors' rights and by general principles of equity. The Shareholder who is a party thereto, will constitute a legal, valid and binding obligation of such Shareholder, enforceable against such Shareholder in accordance with its respective terms, except as the same may be limited by bankruptcy, insolvency, reorganization, arrangement or other laws

of the Certificate of Incorporation or Bylaws of the Company, (b) result in a default, or give rise to any right of termination, cancellation or acceleration or loss of any benefit (with or without the giving of notice or lapse of time or both), or require the consent, approval, waiver or other action by any Person under any of the terms, conditions or provisions of Contract or Agreement or obligation to which any Shareholder or the Company is a party or by which any Shareholder or the Company may be bound, (c) result in the creation or imposition of any Lien on any of the property of any Shareholder or the Company, or (d) violate any Order, statute, rule or regulation applicable to any Shareholder or the Company or any of its properties or assets.

Section 2.7 Financial Statements.

(a) The following unaudited financial statements of the Company have heretofore been delivered to Purchaser: (i) the balance sheet of the Company as of May 31, 1996 (the "Annual Balance Sheet") and the statements of operations, of stockholder's equity and of cash flows for each of the one year periods ended December 31, 1994, December 31, 1993 and December 31, 1992 together with any related notes and schedules, (such balance sheets, the related statements of operations, of stockholder's equity and of cash flows, and the related notes and schedules being hereinafter together referred to as the "Annual Financial Statements"); and (ii) the unaudited balance sheet of the Company as of October 31, 1996 (the "Interim Balance Sheet") and the related unaudited statements of operations, of stockholder's equity and of cash flows for the five month period then ended (such balance sheets, the related statements of operations, of stockholder's equity and of cash flows, being hereinafter together referred to as the "Interim Financial Statements").

(b) The Annual Financial Statements and the Interim Financial Statements (collectively, the "Financial Statements"), including the related notes and schedules, have been prepared from the books and records of the Company which accurately reflect the transactions of the Company. The Financial Statements are true, complete and correct, were prepared in accordance with GAAP, subject to normal recurring year-end audit adjustments with respect to the Interim Financial Statements, and except that the Financial Statements do not contain sufficient footnote presentation to comply with GAAP and as otherwise described on Section 2.7(b) of the Disclosure Schedule. The Financial Statements present fairly the financial position of the Company as of the dates of such statements. The trade accounts and other receivables of the Company which are classified as current assets on the Interim Balance Sheet have arisen from bona fide transactions in the ordinary course of business, are true and correct and are valid and enforceable claims subject to no right of offset or counterclaim and are collectible within 120 days following the Closing Date at the face amount thereof. The inventories of the Company reflected on the Interim Balance Sheet are true and correct and are salable in the ordinary course of business, and the value of obsolete materials and materials of below standard quality has been written down or reserved against consistent with the Company's past practice and industry standards. There have been no write-ups of inventories or other assets included in such Financial Statements.

(c) The Company has no liabilities (contingent or otherwise) other than: (i) those set forth or reserved against in the Interim Balance Sheet, and (ii) those incurred since the

date of the Interim Balance Sheet in the ordinary course of business and consistent with past practices. The Company has no indebtedness other than disclosed in the Financial Statements and listed on Section 2.29(d) of the Disclosure Schedule. There are no receivables of the Company owed by Affiliates of the Company which are not disclosed in the Interim Financial Statements and listed on Schedule 2.32 of the Disclosure Schedule.

(d) The Company's books of account have been kept accurately in the ordinary course of business, the transactions entered therein represent bona fide transactions, and the revenues, expenses, assets and liabilities of the Company have been properly recorded in such books. The Company has adequately funded all accrued employee benefit costs and such funding is reflected in the Interim Financial Statements.

Section 2.8 Title to and Condition of Assets and Property. The Company has good and marketable title to any and all assets reflected in the Interim Financial Statements currently owned and used in the operation of its business, and such assets are free and clear of all Liens. Section 2.8 of the Disclosure Schedule further sets forth a true and complete description of all real and tangible personal property currently leased or otherwise occupied or used but not owned by the Company, true, correct and complete copies of which leases and other Contracts or Agreements, including all amendments and modifications thereto have heretofore been delivered to the Company. Each of the leases is a valid and binding obligation of the parties thereto and neither the Company nor the lessor thereunder is in default under, and no condition exists that with notice or lapse of time or both would constitute a default under any such lease. The Company enjoys peaceful and undisturbed possession under all such leases. The Company does not own any Real Property or any interest therein other than the real property leases listed in Schedule 2.8 of the Disclosure Schedule. All personal property not set forth in Section 2.8 of the Disclosure Schedule and reflected on the Financial Statements is owned by the Company. All property owned or leased by the Company and reflected on the Financial Statements or located on the premises of the Company is in good operating condition and repair, ordinary wear and tear excepted, is suitable for the use to which the same is customarily put, is free from defects other than minor defects that do not interfere with or detract from the use or value thereof and is merchantable and not obsolete and is of a quality and quantity presently usable in the ordinary course of the operation of the Business of the Company and is all of the assets currently used or needed in said Business. The buildings, structures, improvements, assets and operations of the Company conform with all applicable restrictive covenants, deeds, leases, and restrictions and all applicable federal, state and local laws, ordinances, rules and regulations, including, but not limited to, those relating to zoning and working conditions.

Section 2.9 Litigation. Except as disclosed in Section 2.9 of the Disclosure Schedule, there is no action, order, claim, suit, proceeding, litigation, investigation, inquiry, review or notice ("Proceeding") pending or threatened against, relating to or affecting the Company or its properties or assets or any officer or director of the Company relating to the Company, at law or in equity, before any Tribunal nor is there any basis for asserting the foregoing. None of the Proceedings listed on Section 2.9 of the Disclosure Schedule would, if determined adversely to the Company, individually or in the aggregate have a Material Adverse Effect. Neither the Company nor any of its properties or assets is specifically by name, subject to any currently existing Order. Except as disclosed in Section 2.9 of the Disclosure Schedule, the Company is not subject to any currently

existing Proceeding by any Tribunal. There is no basis for the assertion of any Proceeding by any Tribunal or any Person regarding any violation of federal or state securities laws.

Section 2.10 Absence of Changes. Except as set forth in Section 2.10 of the Disclosure Schedule, since May 31, 1996, the Business of the Company has been operated in the ordinary course consistent with past practice and there has not been (a) any material adverse change in the Business, operations, properties, condition (financial or otherwise), prospects, assets or liabilities (contingent or otherwise) of the Company; (b) any dividend declared or paid or distribution made on the capital stock of the Company, or any capital stock thereof redeemed or repurchased; (c) any incurrence of long-term Indebtedness or unusual increase in the current liabilities of the Company; (d) any salary, bonus or compensation increases to any officers, employees or agents of the Company; (e) any pending or threatened labor disputes or other labor problems against or affecting the Company; (f) any transaction or Contract or Agreement, or amendment or termination of any transaction or Contract or Agreement by the Company, except normal transactions or Contracts or Agreements consistent in nature and scope with prior practices and entered into in the ordinary course of business consistent with past practices, (g) any mortgage, sale, transfer, distribution or other disposition of any assets by the Company, except in the ordinary course of business consistent with past practices, (h) any theft, damage, destruction or loss by the Company to or of any of its assets except to the extent that any asset damaged, destroyed or lost has been repaired or replaced, (i) any capital expenditures for additions to property, plant or equipment in excess of \$5,000, (j) any grant or credit to any customer or distributor on terms materially more favorable than the terms on which credit has been extended to such customer or distributor in the past nor changed the terms of any credit previously extended, (k) any change in the accounting methods or practices followed by the Company or any change in the depreciation or amortization policies or rates heretofore adopted; or (l) any other change in the nature of, or the manner of conducting, the Business of the Company, other than changes that neither have had, nor reasonably may be expected to have, a Material Adverse Effect on the Business of the Company.

Section 2.11 Undisclosed Liabilities; Commitments. Except as disclosed in the Disclosure Schedule, the Company has no Indebtedness, liabilities or obligations, whether accrued, absolute, contingent or otherwise, and whether due or to become due, and there is no basis for the assertion against the Company of any such Indebtedness, liability or obligation, that were not accrued or reserved against in the Financial Statements. The Company has performed all Contracts or Agreements to which the Company is a party, and there is not under any such Contracts or Agreements any existing default or event of default or event which with notice or lapse of time or both would constitute a default.

Section 2.12 Environmental Matters. The Company has duly complied with, and its Business, operations, assets, equipment, leaseholds and other facilities are in compliance with, the provisions of all federal, state and local environmental, health and safety laws, codes and ordinances and all rules and regulations promulgated thereunder, governing (a) air emissions, (b) discharges to surface water or ground water, (c) solid or liquid waste disposal, (d) the use, storage, generation, handling, transport, discharge, release, or disposal of toxic or hazardous substances or wastes, or (e) other environmental, health or safety matters, including, without limitation, the Comprehensive Environmental Response Compensation and Liability Act of 1980, 42 U.S.C. §§601 et seq., as

EXHIBIT "B"

**SA TELECOMMUNICATIONS, INC.
FINANCIAL INFORMATION**

**FORM 10-QSB, FOR PERIOD
ENDED SEPTEMBER 30, 1996**

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the quarterly period ended September 30, 1996

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____.

Commission File Number 0-18048

SA Telecommunications, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

75-2258519

(IRS Employer Identification Number)

1600 Promenade Center, 15th Floor, Richardson, Texas

(Address of principal executive offices)

75080

(Zip Code)

(972) 690-5888

(Issuer's telephone number)

N/A

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

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

There were 15,620,535 shares of the registrant's common stock outstanding as of November 12, 1996.

Transitional Small Business Disclosure Format (Check One):

Yes No

SA TELECOMMUNICATIONS, INC. AND SUBSIDIARIES

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Part I. Financial Information
Item 1. Financial Statements

SA TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

| | September 30, 1996 | December 31, 1995 |
|--|-----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 12,690,949 | \$ 823,738 |
| Accounts and notes receivable: | | |
| Trade, net of allowance for doubtful accounts of \$398,585 and \$475,845, respectively | 5,338,035 | 4,022,131 |
| Other, net of allowance for doubtful accounts of \$31,479 | 1,435,050 | 407,550 |
| Inventory | 102,671 | 146,037 |
| Prepaid expenses and other | 1,043,467 | 292,439 |
| Total current assets | <u>20,610,172</u> | <u>5,691,895</u> |
| Property and equipment | 8,704,678 | 3,911,652 |
| Less accumulated depreciation and amortization | <u>(1,282,698)</u> | <u>(495,613)</u> |
| Net property and equipment | <u>7,421,980</u> | <u>3,416,039</u> |
| Excess of cost over net assets acquired, net of accumulated amortization of \$1,837,784 and \$1,068,833, respectively | <u>17,720,894</u> | <u>16,369,648</u> |
| Other assets: | | |
| Debt issuance costs | 2,065,068 | - |
| Other | <u>424,568</u> | <u>63,221</u> |
| Total other assets | <u>2,489,636</u> | <u>63,221</u> |
| Total assets | <u>\$ 48,242,682</u> | <u>\$ 26,040,803</u> |

- Continued -

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

SA TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - Continued
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

| | September 30, 1996 | December 31, 1995 |
|--|-----------------------|----------------------|
| Current liabilities: | | |
| Accounts payable - trade | \$ 1,475,812 | \$ 761,880 |
| Accrued telecommunications expenses | 1,821,410 | 2,337,420 |
| Other accrued expenses | 1,337,923 | 1,163,603 |
| Acquisition obligation | 2,070,000 | - |
| Short-term notes payable | 44,429 | 475,610 |
| Current maturities of long-term debt | 528,873 | 3,795,216 |
| Total current liabilities | 7,278,447 | 8,533,729 |
| Long-term obligations, less current maturities | 28,584,844 | 7,398,670 |
| Commitments and contingencies | | |
| Series A redeemable preferred stock, \$.00001 par value, 250,000 shares authorized; 180,000 and 166,667 shares issued, respectively | 1,310,092 | 1,129,459 |
| Shareholders' equity: | | |
| Series B Preferred stock, \$.00001 par value, 12,500,000 shares authorized, 125,000 shares issued in 1995 | - | 575,280 |
| Common Stock, \$.0001 par value, 50,000,000 shares authorized; 16,818,053 and 13,462,120 issued, respectively | 1,682 | 1,346 |
| Additional paid-in capital | 26,478,621 | 20,855,099 |
| Retained deficit | (11,557,089) | (11,996,179) |
| Treasury stock (1,197,518 shares and 240,072 shares, respectively) at cost | (3,853,915) | (456,601) |
| Total shareholders' equity | 11,069,299 | 8,978,945 |
| Total liabilities and shareholders' equity | \$ 48,242,682 | \$ 26,040,803 |

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

SAT TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|--|---|-----------------------|--|-----------------------|
| | 1996 | 1995 | 1996 | 1995 |
| Telecommunications revenues | \$ 7,961,784 | \$ 7,459,367 | \$ 22,199,729 | \$ 13,772,942 |
| Cost of revenue | <u>4,769,107</u> | <u>4,944,734</u> | <u>13,058,866</u> | <u>9,574,931</u> |
| Gross profit | 3,192,677 | 2,514,633 | 9,140,863 | 4,198,011 |
| Operating expenses: | | | | |
| General and administrative | 2,762,803 | 2,547,565 | 7,408,554 | 4,528,945 |
| Depreciation and amortization | 658,924 | 533,213 | 1,606,740 | 909,014 |
| Nonrecurring Russian venture charges | <u>-</u> | <u>143,558</u> | <u>-</u> | <u>143,558</u> |
| Total operating expenses | <u>3,421,727</u> | <u>3,224,336</u> | <u>9,015,294</u> | <u>5,581,517</u> |
| Income (loss) from continuing operations before other income (expense) and extraordinary item | <u>(229,050)</u> | <u>(709,703)</u> | <u>125,569</u> | <u>(1,383,506)</u> |
| Other income (expense): | | | | |
| Interest expense | (658,212) | (253,727) | (1,352,072) | (364,260) |
| Other | <u>51,857</u> | <u>12,465</u> | <u>46,352</u> | <u>9,820</u> |
| Total other income (expense) | <u>(606,355)</u> | <u>(241,262)</u> | <u>(1,305,720)</u> | <u>(354,440)</u> |
| Loss from continuing operations before extraordinary item | (835,405) | (950,965) | (1,180,151) | (1,737,946) |
| Discontinued operations - Provision for operating losses during phase-out period | <u>-</u> | <u>(225,000)</u> | <u>-</u> | <u>(475,000)</u> |
| Loss before extraordinary item | (835,405) | (1,175,965) | (1,180,151) | (2,212,946) |
| Extraordinary item - gain (loss) on extinguishment of debt | <u>(331,813)</u> | <u>-</u> | <u>1,817,378</u> | <u>-</u> |
| Net income (loss) | <u>(1,167,218)</u> | <u>(1,175,965)</u> | <u>637,227</u> | <u>(2,212,946)</u> |
| Preferred dividend requirements, including accretion | <u>(50,211)</u> | <u>(36,667)</u> | <u>(198,137)</u> | <u>(36,667)</u> |
| Net income (loss) applicable to common shareholders | <u>\$ (1,217,429)</u> | <u>\$ (1,212,632)</u> | <u>\$ 439,090</u> | <u>\$ (2,249,613)</u> |
| Income (loss) per common share and common share equivalent: | | | | |
| Continuing operations | \$ (0.05) | \$ (0.08) | \$ (0.07) | \$ (0.16) |
| Discontinued operations | - | (0.02) | - | (0.04) |
| Extraordinary item | <u>(0.02)</u> | <u>-</u> | <u>0.11</u> | <u>-</u> |
| Net income (loss) per share | <u>\$ (0.07)</u> | <u>\$ (0.10)</u> | <u>\$ 0.04</u> | <u>\$ (0.20)</u> |
| Net income (loss) per share applicable to common shareholders | <u>\$ (0.07)</u> | <u>\$ (0.10)</u> | <u>\$ 0.02</u> | <u>\$ (0.20)</u> |
| Weighted average number of common shares & common share equivalents outstanding | <u>16,117,789</u> | <u>11,778,005</u> | <u>16,962,389</u> | <u>11,129,177</u> |
| Income (loss) per common share - assuming full dilution: | | | | |
| Continuing operations | \$ (0.05) | \$ (0.08) | \$ (0.06) | \$ (0.16) |
| Discontinued operations | - | (0.02) | - | (0.04) |
| Extraordinary item | <u>(0.02)</u> | <u>-</u> | <u>0.10</u> | <u>-</u> |
| Net income (loss) per share | <u>\$ (0.07)</u> | <u>\$ (0.10)</u> | <u>\$ 0.04</u> | <u>\$ (0.20)</u> |
| Net income (loss) per share applicable to common shareholders | <u>\$ (0.07)</u> | <u>\$ (0.10)</u> | <u>\$ 0.02</u> | <u>\$ (0.20)</u> |
| Weighted average number of common shares outstanding - assuming full dilution | <u>16,117,789</u> | <u>11,778,005</u> | <u>18,402,389</u> | <u>11,129,177</u> |

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

SA TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

| | Series B Preferred Stock | | Common Stock | | Additional paid-in capital | Retained deficit | Treasury Stock | Total |
|---|-----------------------------|-------------------|-------------------|-----------------|----------------------------------|------------------------|-----------------------|----------------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balances at December 31, 1994 | | | 10,566,139 | \$ 1,057 | \$ 15,629,114 | \$ (5,404,864) | \$ (240,950) | \$ 9,984,357 |
| Private placements of common stock | | | 1,591,459 | 159 | 1,934,337 | | | 1,934,496 |
| Issuance of common stock for exercise of options | | | 829,505 | 83 | 538,420 | | (215,651) | 322,852 |
| Issuance of Series A Redeemable Preferred stock for acquisition of USC | | | | | 261,250 | | | 261,250 |
| Issuance of Series B Preferred Stock for acquisition of USC | 125,000 | \$ 637,874 | | | 612,126 | | | 1,250,000 |
| Issuance of Common Stock Purchase Warrants for acquisition of USC | | | | | 2,303,300 | | | 2,303,300 |
| Net loss for the period | | | | | | (2,249,613) | | (2,249,613) |
| Balances at September 30, 1995 | <u>125,000</u> | <u>\$ 637,874</u> | <u>12,987,103</u> | <u>\$ 1,299</u> | <u>\$ 21,278,547</u> | <u>\$ (7,654,477)</u> | <u>\$ (456,601)</u> | <u>\$ 13,806,642</u> |
| Balances at December 31, 1995 | 125,000 | \$ 575,280 | 13,462,120 | \$ 1,346 | \$ 20,855,099 | \$ (11,996,179) | \$ (456,601) | \$ 8,978,945 |
| Private placements of common stock | | | 251,700 | 25 | 369,975 | | | 370,000 |
| Issuance of common stock for: | | | | | | | | |
| Exercise of options | | | 484,036 | 48 | 540,413 | | (497,314) | 43,147 |
| Exercise of warrants | | | 1,090,000 | 109 | 1,362,391 | | | 1,362,500 |
| Conversion of debt | | | 267,856 | 27 | 449,973 | | | 450,000 |
| Other | | | 419,318 | 42 | 918,614 | | | 918,656 |
| Issuance of common stock for acquisition of USC securities | (125,000) | (575,280) | 843,023 | 85 | 1,613,229 | | (2,900,000) | (1,861,966) |
| Issuance of warrants | | | | | 368,927 | | | 368,927 |
| Preferred dividend requirements, including accretion | | | | | | (198,137) | | (198,137) |
| Net income for the period | | | | | | 637,227 | | 637,227 |
| Balances at September 30, 1996 | <u>-</u> | <u>\$ -</u> | <u>16,818,053</u> | <u>\$ 1,682</u> | <u>\$ 26,478,621</u> | <u>\$ (11,557,089)</u> | <u>\$ (3,853,915)</u> | <u>\$ 11,069,299</u> |

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

SATCOM COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | For the nine months ended September 30, | |
|---|--|--------------------|
| | 1996 | 1995 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 637,227 | \$ (2,249,613) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Loss from discontinued operations | - | 475,000 |
| Extraordinary item - gain on extinguishment of debt | (1,817,378) | - |
| Depreciation and amortization | 1,596,386 | 909,014 |
| Provision for losses on accounts receivable | 718,742 | 312,522 |
| Provision for Russian venture losses | - | 143,558 |
| Cash used for discontinued SATC business | - | (227,482) |
| (Increase) decrease in: | | |
| Accounts and notes receivable | (2,346,652) | (1,042,748) |
| Prepaid expenses and other | (320,624) | 114,555 |
| Other assets | (440,838) | 41,244 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 113,588 | 18,773 |
| Net cash used in operating activities | (1,859,549) | (1,505,177) |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (2,546,914) | (65,792) |
| Purchase of USC, net of cash acquired | - | (6,854,247) |
| Cash used for discontinued SATC business | - | (23,319) |
| Other | - | (30,573) |
| Net cash used in investing activities | (2,546,914) | (6,973,931) |
| Cash flows from financing activities: | | |
| Net changes in short-term loans | (10,571) | (468,028) |
| Increase in long term debt | 29,300,695 | 7,000,000 |
| Principal payments on long-term obligations | (9,519,771) | (1,171,182) |
| Debt issuance cost | (2,156,208) | - |
| Proceeds from private placement of common stock | - | 1,682,503 |
| Proceeds from Series A Preferred Stock | - | 1,000,000 |
| Proceeds from exercise of warrants | 1,359,149 | - |
| Proceeds from exercise of options | 200,380 | 375,459 |
| Purchase of treasury stock | (2,900,000) | - |
| Net cash provided by financing activities | 16,273,674 | 8,418,752 |
| Increase (decrease) in cash and equivalents | 11,867,211 | (60,356) |
| Cash at beginning of period | 823,738 | 331,431 |
| Cash and equivalents at end of period | \$ 12,690,949 | \$ 271,075 |

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

SA TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements are those of SA Telecommunications, Inc. and subsidiaries (the "Company"). These interim consolidated financial statements are prepared pursuant to the requirements for reporting on Form 10-QSB. The December 31, 1995 consolidated balance sheet data was derived from audited consolidated financial statements but does not include all disclosures required by generally accepted accounting principles. The interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated statements and notes included in the Company's latest annual report on Form 10-KSB. In the opinion of management, the interim consolidated financial statements reflect all adjustments (consisting only of a normal recurring nature) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for interim periods. The current period consolidated results of operations are not necessarily indicative of results which ultimately will be reported for the full fiscal year ending December 31, 1996.

All significant intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified for comparative purposes.

NOTE B - ACQUISITION OF FIRST CHOICE LONG DISTANCE, INC.

Effective September 1, 1996, the Company acquired substantially all of the assets of First Choice Long Distance, Inc., a switch-based reseller located in Amarillo, Texas, for a total consideration of \$2,070,000 (including noncompete agreements). The assets acquired included First Choice's customer base of approximately 4,500 customers and two Siemens Stromberg-Carlson DCO Central Office type switches, which will be integrated into the Company's existing network. First Choice has annualized revenues of approximately \$3 million, based on its August 1996 unaudited monthly revenue.

The acquisition was accounted for as a purchase, whereby the excess purchase price over the net assets acquired has been reorded based upon the fair market values of assets acquired. The excess of cost over net assets acquired of \$454,000 and noncompete agreements of \$720,000 are being amortized on a straight-line basis over 25 and 2 years, respectively. This allocation was based on preliminary estimates and may be revised at a later date. The Company's consolidated statements of operations include the results of operations of First Choice since September 1, 1996.

The following unaudited pro forma combined results of operations of the Company assumes that the acquisition of First Choice was completed at the beginning of 1995. These pro forma amounts represent the historical operating results of First Choice combined with those of the Company with appropriate adjustments which give effect to interest expense and amortization expense. These pro forma amounts are not necessarily indicative of consolidated operating results which would have been included in the operations of the Company during the periods presented, or which may result in the future, because these amounts do not reflect full transmission and switched service cost optimization, and the synergistic effect of operating, selling, general and administrative expenses.

| | For the Nine Months | |
|--------------------------------|----------------------------|--------------|
| | Ended September 30 | |
| | <u>1996</u> | <u>1995</u> |
| Revenues | \$24,367,722 | \$16,318,071 |
| Net income (loss) | 318,779 | (2,639,474) |
| Net loss per share outstanding | \$0.02 | \$(0.24) |

SA TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

NOTE C - NOTES PAYABLE AND LONG TERM DEBT

On February 9, 1996, \$450,000 of the Company's 8% Convertible Subordinated Debentures due in June 1996 were converted into 267,856 shares of the Company's Common Stock.

On August 12, 1996, the Company consummated a private placement of \$27,200,000 of its 10% Convertible Notes Due 2006 (the "Notes"). The Notes are currently convertible into the Company's Common Stock at a conversion price of \$2.55 per share. The net proceeds from the sale of the Notes were approximately \$25.4 million after giving effect to the transaction related fees and expenses. The Company used approximately \$12.0 million of the net proceeds from the private placement to repay certain indebtedness, and to repurchase or redeem certain shares of the Company's Common Stock and outstanding debentures. The Company plans to utilize the balance of the proceeds (approximately \$13.4 million) primarily to effect acquisitions and strategic alliances, to make capital expenditures, and for general corporate purposes.

In September 1996, the Company redeemed its \$2,000,000 principal amount of convertible debentures which had been issued in March, April and June of 1996. A \$331,813 loss on extinguishment of debt was recorded on this redemption. This loss was incurred because the debentures had been recorded at less than their principal or face amount due to the valuation of warrants issued in conjunction with these debentures.

NOTE D - STOCK OPTIONS

On March 28, 1996, the Board of Directors granted options under the 1994 Employee Stock Option Plan to purchase up to 607,500 shares of the Company's Common Stock to employees at a price of \$2.03 per share (market value on the date of grant). After a six-month waiting period, the shares acquired upon exercise may not be sold earlier than periods varying from eighteen to thirty months.

NOTE E - COMMON STOCK PURCHASE WARRANTS

On May 7, 1996, six holders of the Common Stock Purchase Warrants issued in the Company's September 20, 1995 private placement exercised such warrants for an aggregate of 1,070,000 shares of Common Stock at an exercise price of \$1.25 per share or \$1,337,500. In connection with such early exercise, the Company issued additional Common Stock Purchase Warrants to such holders exercisable into an aggregate of 1,337,500 shares of Common Stock at an exercise price of \$2.40 per share between November 7, 1996 and May 7, 1998. One of the holders of such warrants exercisable into 750,000 shares of Common Stock has agreed not to exercise such warrants before January 7, 1997.

NOTE F - EARNINGS (LOSS) PER SHARE

Earnings per share were calculated based upon the weighted average number of shares outstanding during the period plus the dilutive effect of stock options, stock warrants, and Series A Preferred Stock using the Modified Treasury Stock method, except where the assumed exercise or conversion of such stock options, stock warrants and Series A Preferred Stock would be anti-dilutive.

SA TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

NOTE F - EARNINGS (LOSS) PER SHARE - Continued

| | <u>For the Three Months</u> <u>Ended September 30</u> | | <u>For the Nine Months</u> <u>Ended September 30</u> | |
|---|--|-------------------|---|-------------------|
| | <u>1996</u> | <u>1995</u> | <u>1996</u> | <u>1995</u> |
| Primary: | | | | |
| Average Shares Outstanding | 16,117,789 | 11,778,005 | 14,972,546 | 11,129,177 |
| Stock Options | - | - | 2,948,023 | - |
| Stock Warrants | - | - | 1,394,907 | - |
| Total | <u>16,117,789</u> | <u>11,778,005</u> | <u>19,315,476</u> | <u>11,129,177</u> |
| Less: Shares purchased under the Treasury Method | <u>-</u> | <u>-</u> | <u>(2,353,087)</u> | <u>-</u> |
| | <u>16,117,789</u> | <u>11,778,005</u> | <u>16,962,389</u> | <u>11,129,177</u> |
| Full Dilution: | | | | |
| Average Shares Outstanding | 16,117,789 | 11,778,005 | 14,972,546 | 11,129,177 |
| Stock Options | - | - | 2,948,023 | - |
| Stock Warrants | - | - | 1,394,907 | - |
| Series A Preferred Stock | - | - | 1,440,000 | - |
| Total | <u>16,117,789</u> | <u>11,778,005</u> | <u>20,755,476</u> | <u>11,129,177</u> |
| Less: Shares purchased under the Treasury Stock Method | <u>-</u> | <u>-</u> | <u>(2,353,087)</u> | <u>-</u> |
| | <u>16,117,789</u> | <u>11,778,005</u> | <u>18,402,389</u> | <u>11,129,177</u> |

NOTE G - PURCHASE OF USC SECURITIES

In 1995, in connection with the acquisition of U.S. Communications, Inc. ("USC"), the Company issued securities ("USC Securities") comprised of (i) the notes having an original principal amount of \$4,250,000 (ii) 125,000 shares of Series B Cumulative Convertible Preferred Stock, and (iii) warrants exercisable into an aggregate of 1,050,000 shares of Common Stock at \$1.25 per share.

On June 21, 1996, the Company completed the acquisition of all of the USC Securities for an aggregate of \$308,500 of cash and the issuance of 843,023 shares of the Company's Common Stock, resulting in an extraordinary gain on early extinguishment of debt in the amount of \$2,149,191. On August 14, 1996, the Company reacquired the 843,023 shares of the Company's Common Stock for \$2,900,000 of cash.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of the consolidated financial condition and results of operations of the Company for the three month and nine month periods ended September 30, 1996 and 1995. It should be read in conjunction with the Company's latest annual report on Form 10-KSB.

General

The Company is a regional interexchange carrier ("IXC") providing a wide range of domestic telecommunications services through its network of owned and leased facilities. The Company's customer base is primarily composed of small and medium sized commercial accounts and residential customers concentrated in secondary and rural markets in the southwestern United States. In addition to providing "1+" domestic long distance services, the Company also offers international long distance services, operator services, paging services, and other products such as voice and data private lines, "800/888" services, travel cards, wholesale long distance services, and local exchange services through an alliance with Southwestern Bell.

The Company entered the telecommunications business in 1991 through the acquisition of North American Telecommunications Corporation ("NATC"), a telecommunications provider offering international long distance service to foreign customers. In 1994 and 1995, the Company acquired two Texas-based switched resellers, Long Distance Network, Inc. ("LDN") of Dallas, Texas and U.S. Communications, Inc. ("USC") of Levelland, Texas. During 1996, the Company completed asset acquisitions of switched resellers of long distance telephone services located in Amarillo and McKinney, Texas, and acquired the stock of Uniquet Communications, Inc., a company engaged in outbound telemarketing and third party customer verification services. Also during 1996, the Company expanded its network through the acquisition of switching equipment in Amarillo and Lubbock, Texas and Phoenix, Arizona and the additions of leased transmission facilities between the Phoenix switch and the Company's switches in Dallas and Levelland, Texas.

The Amarillo, Texas asset acquisition of First Choice Long Distance, Inc. was effective September 1, 1996. The assets acquired included First Choice's customer base of approximately 4,500 customers and two Siemens Stromberg-Carlson DCO Central Office type switches, which will be integrated into the Company's existing network. First Choice has annualized revenues of approximately \$3 million based on its August 1996 monthly revenue.

The Company markets its services in areas in the southwestern United States served by its network primarily under the "USC," "USI," "Southwest Long Distance Network" and "First Choice Long Distance" trade names. The growth of the Company's initial customer base was the result of its acquisition of LDN, USC and First Choice. The Company anticipates future growth will result from sales and marketing efforts of its sales force and from continued acquisitions of telecommunications companies within its market area or adjacent thereto.

On August 12, 1996, the Company consummated a private placement of \$27,200,000 of its 10% Convertible Notes due 2006 (the "Notes"). The Notes are currently convertible into the Company's Common Stock at a conversion price of \$2.55 per share. The net proceeds from the sale of the Notes were approximately \$25.4 million after giving effect to the transaction related fees and expenses. The Company used approximately \$12.0 million of the net proceeds from the private placement to repay certain indebtedness, and to repurchase or redeem certain shares of the Company's Common Stock and outstanding debentures. The Company plans to utilize the balance of the proceeds (approximately \$13.4 million) primarily to effect acquisitions and strategic alliances, to make capital expenditures, and for general corporate purposes.

Forward-Looking Statements

Certain of the statements made in this report are forward-looking. Such statements are based on an assessment of a variety of factors, contingencies and uncertainties deemed relevant to management, including the Company's current negative cash flow position, the Company's historical operating losses, the need for integration of the Company's acquisitions, the regulatory environment, and other risks indicated in this and the other filings with the Securities and Exchange Commission. As a result, the actual results realized by the Company could differ materially from the statements made herein. Readers of this report are cautioned not to place undue reliance on the forward-looking statements made in this report.

Results of Operations

The following table sets forth certain items in the Company's Consolidated Statements of Operations as a percentage of its operating revenues for the three and nine month periods ended September 30, 1996 and 1995.

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|--|-------------------|---|--------------------|
| | 1996 | 1995 | 1996 | 1995 |
| Revenue | 100% | 100% | 100% | 100% |
| Cost of revenue | 60 | 66 | 59 | 70 |
| Gross profit | 40 | 34 | 41 | 30 |
| Operating expenses: | | | | |
| General and administrative | 35 | 34 | 33 | 33 |
| Depreciation and amortization | 8 | 7 | 7 | 6 |
| Nonrecurring Russian venture charge | = | 2 | = | 1 |
| Income (loss) from continuing operations | (3) | (9) | 1 | (10) |
| Other income (expense) | (8) | (3) | (6) | (3) |
| Discontinued operations | - | (3) | - | (3) |
| Extraordinary gain (loss) on extinguishment of debt | (4) | = | 8 | - |
| Net income (loss) | <u>(15)%</u> | <u>(15)%</u> | <u>3%</u> | <u>(16)%</u> |
| EBITDA ⁽¹⁾ (loss), as defined | <u>\$ 429,874</u> | <u>\$(32,932)</u> | <u>\$1,732,309</u> | <u>\$(330,934)</u> |

⁽¹⁾ Earnings (loss) before interest, taxes, depreciation, amortization, nonrecurring charges, and other income (expense) or "EBITDA" (as defined), is a commonly used measure of performance in the telecommunications industry. As used herein, EBITDA is not intended as either a substitute or replacement for operating income (as presented according to GAAP) as a measure of financial results of operations or for cash flows from operations (as presented according to GAAP).

Three Months Ended September 30, 1996 Versus Three Months Ended September 30, 1995

Revenues increased by \$502,417, or 7%, from \$7,459,367 for the three months ended September 30, 1995 to \$7,961,784 for the three months ended September 30, 1996. This \$502,417 net increase in revenues was the result of (i) the First Choice acquisition which contributed \$222,923, (ii) a \$501,570 increase in the Company's "1+" revenue primarily arising from internal growth (excluding the First Choice acquisition), and (iii) a net decline of \$222,076 in revenue relating to certain operator services, and the Company's wholesale and international business which the Company is de-emphasizing. The Company has continued to emphasize the generation of "1+" revenue from internal growth and acquisitions, and to de-emphasize the marketing of its operator service, wholesale and international business because "1+" business carries higher gross profit margins. As a result, the Company expects its operator services, wholesale and international revenues to remain flat or decline in the future, unless an opportunity arises whereby the margins for such lines of business are comparable to the Company's other products.

Gross profit increased by \$645,042 from \$2,547,633 for the three months ended September 30, 1995 to \$3,192,677 for the same quarter in 1996. The gross profit margin increased by 6% from 34% for the three months ended September 30, 1995 to 40% for the three months ended September 30, 1996. This increase was primarily attributable to the integration and operation of the Company's network coupled with an increased number of calls originating and terminating on the network. Additionally, there has been an improved call mix with the lower margin operator service and wholesale traffic declining while being replaced with the higher margin "1+" type traffic.

General and administrative expense increased by \$215,238 from \$2,547,565 for the three months ended September 30, 1995 to \$2,762,803 for the same quarter in 1996, and as a percentage of revenues, increased from 34% in 1995 to 35% in 1996. The increase in total general and administrative expense and small increase as a percentage of revenues is primarily attributable to the gearing up for additional growth and acquisitions in anticipation of an earlier closing date for the Note Offering than the actual closing date in August 1996.

Depreciation and amortization expense increased by \$125,711 from \$533,213 for the three months ended September 30, 1995 to \$658,924 for the same quarter in 1996, and as a percentage of revenues, increased from 7% in 1995 to 8% in 1996. This increase resulted from higher depreciation and amortization charges arising from the acquisition of First Choice and increased depreciation from the acquisition of switching and other network equipment.

During the third quarter of 1995, the Company incurred a \$143,558 nonrecurring charge to operations relating to the discontinuation of its non-telecommunications Russian ventures. This charge was made for costs associated with winding down the affairs of these ventures including termination costs, collectability of receivables, and write-downs of certain assets.

EBITDA increased by \$462,806 from a negative \$32,932 for the three months ended September 30, 1995 to a positive \$429,874 for the same quarter in 1996. This increase is primarily attributable to improved gross profit margins on increased revenues.

The Company incurred a loss from continuing operations of \$709,703 for the three months ended September 30, 1995 versus a loss from continuing operations of \$229,050 for the same quarter in 1996. This improvement was primarily attributable to improved gross profit margins, partially offset by increased depreciation and amortization.

The Company had net other expense of \$241,262 for the three months ended September 30, 1995 compared to net other expense of \$606,355 for the same quarter in 1996. This increase was primarily due to an increase in interest expense from \$253,727 to \$658,212 related to the issuance of the Notes in August 1996.

The Company recorded an additional \$225,000 provision for operating losses during the phase-out period for its discontinued Strategic Abstract and Title Corporation ("SATC") subsidiary for the three months ended September 30, 1995. On February 29, 1996, SATC was sold to a key member of SATC management and an impairment loss was recorded as of December 31, 1995.

The Company incurred a loss on extinguishment of debt of \$331,813 for the three months ended September 30, 1996. This loss relates to the Company's redemption of its \$2 million principal amount of convertible debentures from the proceeds of the Note offering. The convertible debentures had been recorded at less than the principal or face amount due to the valuation of warrants issued in conjunction with these convertible debentures.

The Company incurred a net loss of \$1,175,965 for the three months ended September 30, 1995 as compared to a net loss of \$1,167,218 for the same quarter in 1996. This improvement is primarily attributable to the increased interest expense and the one-time extraordinary loss on extinguishment of debt, partially offset by improved gross profit margins on increased revenues.

Nine Months Ended September 30, 1996 Versus Nine Months Ended September 30, 1995

Revenues increased \$8,426,787, or 61%, from \$13,772,942 for the nine months ended September 30, 1995 to \$22,199,729 for the nine months ended September 30, 1996. This \$8,426,787 net increase in revenues was the result of (i) the customers, net of attrition, obtained in the USC acquisition which contributed \$5,971,677, (ii) the First Choice acquisition which contributed \$222,923, (iii) a \$3,112,283 increase in the Company's "1+" revenue primarily arising from internal growth (excluding the USC and First Choice acquisitions), and (iv) a net decline of \$880,096 in revenue relating to certain operator services, and the Company's wholesale and international business which the Company is de-emphasizing. The Company has continued to emphasize the generation of "1+" revenue from internal growth and acquisitions, and to de-emphasize the marketing of its operator service, wholesale and international business because "1+" business carries a higher gross profit margin. As a result, the Company expects its operator services, wholesale and international revenues to remain flat or decline in the future, unless an opportunity arises whereby the margins for such lines of business are comparable to the Company's other products.

Gross profit increased by \$4,942,853 from \$4,198,011 for the nine months ended September 30, 1995 to \$9,140,863 for the nine months ended September 30, 1996. The gross profit margin increased by 11% from 30% for the nine months ended September 30, 1995 to 41% for the nine months ended September 30, 1996. This increase was primarily attributable to the integration and operation of the Company's network coupled with an increased number of calls originating and terminating on the network. Additionally, there has been an improved call mix with the lower margin operator service and wholesale traffic declining while being replaced with the higher margin "1+" type traffic.

General and administrative expense increased by \$2,879,609 from \$4,528,945 for the nine months ended September 30, 1995 to \$7,408,554 for the nine months ended September 30, 1996, and as a percentage of revenues, remained constant at 33% during each

respective period. The increase in total general and administrative expense is attributable to the gearing up for additional growth and acquisitions in anticipation of an earlier closing date for the Note offering than the actual closing date in August 1996.

Depreciation and amortization expense increased by \$697,726 from \$909,014 for the nine months ended September 30, 1995 to \$1,606,740 for the same nine months ended September 30, 1996, and as a percentage of revenues, increased from 6% in 1995 to 7% in 1996. This increase resulted from higher depreciation and amortization charges arising from the acquisition of First Choice and increased depreciation from the acquisition of switching and other network equipment.

During the third quarter of 1995, the Company incurred a \$143,558 nonrecurring charge to operations related to the discontinuation of its non-telecommunications Russian ventures. This charge was made for costs associated with winding down the affairs of these ventures including termination costs, collectibility of receivables, and write-down of certain assets.

EBITDA increased by \$2,063,243 from a negative \$330,934 for the nine months ended September 30, 1995 to a positive \$1,732,309 for the nine months ended September 30, 1996. This increase is primarily attributable to improved gross profit margins on increased revenues.

The Company incurred a loss from continuing operations of \$1,383,506 for the nine months ended September 30, 1995 versus income from continuing operations of \$125,569 for the same period in 1996. This improvement was primarily attributable to improved gross profit margins.

The Company had net other expense of \$354,440 for the nine months ended September 30, 1995 compared to the net other expense of \$1,305,720 for the same period in 1996. This increase was primarily due to an increase in interest expense from \$364,260 to \$1,352,072 related to the issuance of the Notes in August 1996.

The Company recorded an additional \$475,000 provision for operating losses during the phase-out period for its discontinued SATC subsidiary for the nine months ended September 30, 1995. On February 29, 1996, SATC was sold to a key member of SATC management and an impairment loss was recorded as of December 31, 1995.

The Company recognized a net gain (made up of two components) on extinguishment of debt of \$1,817,378 for the nine months ended September 30, 1996. The first component was a gain on extinguishment of debt of \$2,149,191 relating to the Company's redemption of securities issued in connection with the USC acquisition for an aggregate of 843,023 shares of the Company's Common Stock and \$308,500 of cash. This gain was recognized in the second quarter of 1996. These securities redeemed included (i) notes having an aggregate principal amount of \$3,150,000 and bearing interest at 11% per annum, (ii) an aggregate of 125,000 shares of Series B Cumulative Convertible Preferred Stock, and (iii) a warrant which was exercisable into an aggregate of 1,050,000 shares of the Company's Common Stock at any time prior to July 31, 2000 at a per share price of \$1.25. The second component was a loss on extinguishment of debt of \$331,813 relating to the Company's redemption of its \$2,000,000 principal amount of convertible debentures from the proceeds of the Note offering which was incurred in the third quarter of 1996.

The Company incurred a net loss of \$2,212,946 for the nine months ended September 30, 1995 as compared to net income of \$637,227 for the same period in 1996. This improvement is primarily attributable to the one-time net extraordinary gain on extinguishment of debt and improved profit margins, partially offset by increased interest expense.

Liquidity and Capital Resources

On August 12, 1996, the Company completed a \$27.2 million private placement of the Notes, which are generally convertible at any time after December 10, 1996 at a conversion price of \$2.55 per share, subject to adjustments in certain circumstances. The Notes are redeemable at the option of the Company in whole or in part at any time on or after August 15, 1999 at annual redemption prices starting at 107% of principal, plus accrued interest to the redemption date. Each holder of the Notes has the right to require the Company to repurchase the Notes in the event that all three of the following events occur: (i) the Company incurs certain indebtedness, (ii) the pro-forma interest coverage (as defined) is less than 2.0 to 1, and (iii) the average closing price of the Company's Common Stock is less than \$2.00 per share for the preceding twenty trading days.

The Company has used the net proceeds received from the sale of the Notes of approximately \$25.4 million after deducting estimated transaction related fees and expenses to (i) refinance existing bank debt of approximately \$7 million, (ii) exercise the Company's option to purchase 843,023 shares of the Company's Common Stock from former USC shareholders, (iii) redeem or repurchase certain of the

Company's outstanding debentures for \$2.1 million, with the remaining balance of approximately \$13.4 million earmarked to effect acquisitions and strategic alliances, to make capital expenditures, and for general corporate purposes.

On November 9, 1996, the average closing price of the Company's Common Stock had been less than \$2.00 for the prior twenty trading days and the Company's pro forma interest coverage (as defined) was less than 2.0 to 1. Therefore, if the Company incurs additional indebtedness (other than an accounts receivable and inventory line of credit as permitted under the Note Indenture) then the holder of the Notes would have the right to require the Company to repurchase the Notes. Management currently is of the opinion that this restriction on additional borrowings will have no adverse effect on the Company's operations.

The Company has experienced difficulties in obtaining the necessary circuits from U. S. West Communications ("US West"), the Regional Bell Operating Company ("RBOC") which operates in states such as Arizona, Colorado and New Mexico currently being served by the Company. These circuits, which must be obtained from the local RBOC, enable the Company's network to operate at its optimum efficiency by increasing the number of calls originating and terminating on the network. This problem with the availability of US West circuits is not unique to the Company as other carriers are also experiencing this same difficulty. US West has thus far not installed the necessary equipment in their local central offices to meet the demand for circuits. Should the lack of available US West circuits continue, this condition will have a negative impact on gross profit margin and thus profitability because the Company will be forced to terminate calls off its network at a higher cost than if terminated on its network.

The Company experienced negative cash flow from operating activities of \$1,505,177 for the nine months ended September 30, 1995 as compared to \$1,859,549 for the like period of 1996. The negative cash flow of \$1,859,549 for the nine months ended September 30, 1996 includes approximately \$1,000,000 of claims for transmission and access charges which the Company believes were overbilled by the Company's long line transmission carriers and several local exchange carriers. The Company intends to vigorously pursue settlement of these disputed charges by demanding cash repayment or credit against future billings.

Cash used in investing activities was \$6,854,247 for the nine months ended September 30, 1995 as compared to \$2,546,914 for the like period in 1996. The \$2,546,914 in 1996 was attributable to increases in property and equipment primarily related to switching equipment and network associated costs.

Cash provided by financing activities was \$8,418,752 for the nine months ended September 30, 1995 as compared to \$16,273,674 for the like period of 1996. The majority of the increase is attributable to the issuance of the Notes in August 1996.

At September 30, 1996, the Company had a cash and cash equivalent balance of \$12,690,949 as compared to \$823,738 at December 31, 1995. As of September 30, 1996, working capital was a positive \$13,211,725 as compared to a negative \$2,841,834 at December 31, 1995. This improvement is attributable to the issuance of the Notes in August 1996.

On May 7, 1996, six holders of the Common Stock Purchase Warrants issued in the Company's September 20, 1995 private placement exercised such warrants for an aggregate of 1,070,000 shares of Common Stock at an exercise price of \$1.25 per share or \$1,337,500. In connection with such early exercise, the Company issued additional Common Stock Purchase Warrants to such holders exercisable into an aggregate of 1,337,500 shares of Common Stock at an exercise price of \$2.40 per share between November 7, 1996 and May 7, 1998. One of the holders of such warrants exercisable into 750,000 shares of Common Stock has agreed not to exercise such warrant until January 7, 1997.

Capital Expenditures

Capital expenditures for the nine months ended September 30, 1996 totaled \$4,793,026, of which \$1,346,112 was financed. The majority of these capital expenditures relate to switching equipment acquired by means of capital leases and network costs. Other than additional fixed facilities such as switching equipment requirements as the network expands, future capital expenditures are expected to be minimal. The Company's future capital expenditures related to network expansion will be made primarily to acquire switches and related equipment. Additional switching equipment would require significant capital expenditures by the Company. The Company expects to use part of the proceeds of the Note offering for capital expenditures.

Holiday and Seasonal Variations in Revenues

The Company's revenues, and thus its potential earnings, are affected by holiday and seasonal variations. A substantial portion of the

Company's revenues are generated by direct dial, domestic long distance commercial customers, and, accordingly, the Company experiences decreases in revenues around holidays (both domestic and international) when commercial customers reduce their usage. The Company's fourth fiscal quarter ending December 31, which includes the Thanksgiving, Hanukkah, Christmas and New Year's Eve holidays, and the Company's first fiscal quarter ending March 31, historically have been the slowest revenue periods of the Company's fiscal year. The Company's fixed operating expenses, however, do not decrease during these quarters. Accordingly, the Company will likely experience lower revenues and earnings in its first and fourth fiscal quarters when compared with the other fiscal quarters.

Effect of Inflation

Inflation is not a material factor affecting the Company's business. Historically, transmission and switched service costs per minute have decreased as the volume of minutes increased. General operating expenses such as salaries, employee benefits and occupancy costs are, however, subject to normal inflationary pressures. Management has been able to contain these expenses through cost control measures.

New Accounting Standards

In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" (SFAS 123), was issued. This statement requires the fair value of stock options and other stock-based compensation issued to employees to either be included as compensation expense in the income statement, or the pro forma effect on net income and earnings per share of such compensation expense is to be disclosed in the footnotes to the Company's financial statements commencing with the Company's 1996 fiscal year. The Company expects to adopt SFAS 123 on a disclosure basis only. As such, implementation of SFAS 123 is not expected to impact the Company's consolidated balance sheet or statement of operations.

Part II - Other Information

Item 1. Legal Proceedings

On July 20, 1995, a suit was filed in the 101st Judicial District Court in Dallas, Texas, Cause No. 95-07136-E (*Silvio Avyam v. SA Holdings, Inc. and North American Telecommunications Corporation*), against the Company and its wholly-owned subsidiary North American Telecommunications Corporation ("NATC") in which the plaintiff is seeking damages from the Company and NATC in excess of \$1,500,000 for alleged breach of contract, breach of fiduciary duty, conspiracy and fraud arising out of the termination of the consultant agreement between NATC and plaintiff. The plaintiff is also seeking an accounting with respect to his relationship with NATC, the issuance of shares of the Company's Common Stock allegedly owed to him and exemplary damages and attorney's fees. The Company believes it has meritorious defenses to the alleged claims and intends to vigorously defend such lawsuit. However, if the Company were required to pay the alleged damages in such lawsuit, it could have a material adverse effect on the Company's financial condition and results of operations. On February 5, 1996, the Company and NATC filed a counterclaim against the plaintiff for breach of his consulting agreement and other related claims alleging an unspecified amount of damages. On March 7, 1996, the plaintiff filed a general denial of such counterclaim. A hearing was held on the Company's motion for summary judgment on July 12, 1996 which was later verbally denied and no order was issued. On September 24, 1996 the parties met for a court ordered mandatory but nonbinding mediation which did not result in settlement. A nonjury trial has been scheduled for December 9, 1996, and a joint motion for continuance of this trial date was filed on November 8, 1996.

The Company is a party, from time to time, in routine litigation incident to its business. Management believes that it is unlikely that the final outcome of any of these claims or proceedings to which the Company is currently a party if determined adverse to the Company would have a material adverse effect on the Company's financial position or results of operations.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27.1 Financial Data Schedule*

* Filed herewith

(b) Reports on Form 8-K

The Company filed on July 3, 1996 a Current Report on Form 8-K dated June 24, 1996 announcing the purchase from Howard Maddera, William L. Johnson and Marianne Reed effective as of June 14, 1996 of (1) all 125,000 outstanding shares of the Company's Series B Cumulative Convertible Preferred Stock, (2) warrants to purchase an aggregate of 1,060,000 shares of the Company's Common Stock, (3) and promissory notes in an aggregate principal amount outstanding of \$3,150,000. The consideration for such purchase consisted of an earlier cash payment of \$308,500 and the issuance of an aggregate of 843,023 shares of the Company's Common Stock. No financial statements were filed.

On July 30, 1996, the Company filed a Form 8-K to correct certain exhibits filed with the Company's Form 10-KSB for the fiscal year ended December 31, 1995. No financial statements were filed.

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

Date: November 14, 1996

SA Telecommunications, Inc.

By: Jack W. Matz, Jr.
Jack W. Matz, Jr.
Chief Executive Officer

By: J. David Darnell
J. David Darnell
Vice President, Finance and
Chief Financial Officer

EXHIBIT "C"

**ADDTEL COMMUNICATIONS, INC.
FINANCIAL INFORMATION**

**INCOME STATEMENT
AND BALANCE SHEET (UNAUDITED)
DATED SEPTEMBER 30, 1996**

ADDTEL COMMUNICATIONS, INC

Income Statement

Consolidated

FOR THE 04 PERIODS ENDED SEPTEMBER 30, 1994

| | ----- YEAR TO DATE ----- | |
|--------------------------------|--------------------------|---------------|
| | ACTUAL | % |
| REVENUE | | |
| Gross Phone Revenue | \$9,913,355.44 | 102.34 % |
| Adjustments & Credits | (236,918.76) | (2.43) |
| Income From Investments | .00 | .00 |
| Other Income | 8,585.39 | .09 |
| | ----- | ----- |
| NET REVENUE | 9,684,222.07 | 100.00 |
| COST OF SALES | | |
| Carrier Costs | 7,364,429.95 | 75.01 |
| Switch/Partition Costs | 18,440.00 | .19 |
| Commissions & Verification Fee | 790,379.28 | 8.16 |
| LSC Fees And PIC Charges | 102,574.45 | 1.06 |
| | ----- | ----- |
| TOTAL COST OF SALES | 8,175,843.68 | 84.42 |
| | ----- | ----- |
| GROSS MARGIN | 1,508,378.39 | 15.58 |
| OPERATING EXPENSES | | |
| Accounting | 32,604.29 | .34 |
| Advertising-Personnel Recruit | 8,264.75 | .09 |
| Auto Expenses | 9,461.45 | .10 |
| Bad Debts - Net Of Adjustments | 144,862.16 | 2.83 |
| Bank Charges | 1,532.40 | .02 |
| Billing | 23,193.53 | .24 |
| Board Meeting | 6,342.44 | .07 |
| Calling Cards | 523.80 | .01 |
| Collection | 4,368.29 | .05 |
| Computer Supplies & Expenses | 21,390.15 | .22 |
| Consulting Fees | .00 | .00 |
| Delivery Charges | 8,939.93 | .09 |
| Director Expenses | 6,389.01 | .07 |
| Dues, Fees, And Publications | 12,615.73 | .13 |
| Employee Benefits | 1,734.00 | .03 |
| Employee Mileage Reimbursement | 2,680.33 | .03 |
| Entertainment | 4,071.28 | .04 |
| Equipment Rental | 7,294.24 | .07 |
| Gifts | .00 | .00 |
| Insurance General/Liability | 1,434.97 | .01 |
| Insurance - Workers Comp | .00 | .00 |
| Legal Fees | 24,413.66 | .25 |
| Legal Settlement Payments | .00 | .00 |
| Licenses & Permits | 1,518.00 | .02 |
| Lockbox | 2,550.00 | .03 |
| Miscellaneous | (29,000.00) | (.30) |
| Office Supplies And Expenses | 14,745.45 | .17 |
| Payroll Services | 1,074.22 | .01 |
| Postage | 3,000.00 | .03 |
| Printing Costs | 3,027.85 | .03 |
| Professional Fees | 87,116.13 | .90 |
| Promotional And Marketing | 4,239.36 | .04 |
| Rent | 22,940.00 | .23 |

ADDTEL COMMUNICATIONS, INC

Income Statement

Consolidated

FOR THE 04 PERIODS ENDED SEPTEMBER 30, 1994

| | ----- YEAR TO DATE ----- | |
|---|--------------------------|--------|
| | ACTUAL | % |
| Repair And Maintenance | \$803.00 | .01 % |
| Security Systems | 260.00 | .00 |
| Software Maintenance | .00 | .00 |
| Staff Training | .00 | .00 |
| Taxes - Business And Property | 297.38 | .00 |
| Taxes - Payroll | 82,451.11 | .84 |
| Telephones | 17,240.30 | .38 |
| Travel | 31,248.76 | .33 |
| Utilities | 5,535.04 | .06 |
| Wages - Administrative | 983,372.53 | 6.02 |
| Wages - Sales | 104,535.26 | 1.08 |
| | ----- | ----- |
| TOTAL OPERATING EXPENSES | 1,344,989.31 | 13.89 |
| | ----- | ----- |
| EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION | 163,389.08 | 1.69 |
| | ----- | ----- |
| DEPRECIATION AND AMORTIZATION | | |
| Amortization | 17,638.48 | .18 |
| Depreciation | 34,557.14 | .35 |
| | ----- | ----- |
| TOTAL DEPRECIATION AND AMORTIZATION | 42,192.62 | .44 |
| | ----- | ----- |
| EARNINGS BEFORE INTEREST AND TAXES | 121,196.46 | 1.25 |
| | ----- | ----- |
| INTEREST INCOME AND EXPENSE | | |
| Interest Income | 33,465.63 | .35 |
| Interest Expense | (26,938.92) | (.28) |
| | ----- | ----- |
| NET OF INTEREST INCOME AND EXPENSE | 6,726.71 | .07 |
| | ----- | ----- |
| EARNINGS BEFORE TAXES | 127,923.17 | 1.32 |
| | ----- | ----- |
| PROVISION FOR INCOME TAXES | .00 | .00 |
| | ----- | ----- |
| NET INCOME | \$127,923.17 | 1.32 % |
| | ----- | ----- |

DDTEL COMMUNICATIONS, INC
BALANCE SHEET
SEPTEMBER 30, 1996

ASSETS

CURRENT ASSETS

| | | |
|-------------------------------|--------------|--------------|
| CASH - TAX ACCOUNT | \$15,257.06 | |
| CASH - WELLS FARGO (NEW MAIN) | 46,651.45 | |
| CASH - WELLS FARGO (SAVINGS) | 39,007.00 | |
| CASH - WELLS FARGO (SWEEP AC) | 2,375,066.52 | |
| CASH - WELLS FARGO CD | 19,405.78 | |
| CASH - STATE BANK | 226,176.44 | |
| CASH - WELLS FARGO (AMTEC) | 19,256.10 | |
| CASH ON HAND | 150.00 | |
| ACCOUNTS RECEIVABLE | 4,026,107.80 | |
| USBI RECEIVABLE | 188,602.49 | |
| UNBILLED RECEIVABLES | 1,572,602.95 | |
| UNPOSTED C/R AND ADJUSTMENTS | (173,236.70) | |
| ALLOWANCE FOR BAD DEBTS-RETL | (607,672.53) | |
| ALLOWANCE FOR BAD DEBTS-WHLSL | (38,085.48) | |
| SHAREHOLDER LOANS - AVI L. | 60,796.98 | |
| SHAREHOLDER LOANS - TONY L. | 201,259.54 | |
| SHAREHOLDER LOANS - DAN L. | 45,215.18 | |
| PREPAID EXPENSES | 19,255.65 | |
| | ----- | |
| TOTAL CURRENT ASSETS | | 8,035,816.23 |

FIXED ASSETS

| | | |
|------------------------------|--------------|------------|
| DIALERS | 426,416.36 | |
| CHANNEL BANKS | 41,400.00 | |
| COMPUTER EQUIPMENT | 238,406.64 | |
| SOFTWARE | 60,627.49 | |
| FURNITURE & FIXTURES | 18,580.59 | |
| OFFICE EQUIPMENT | 26,626.01 | |
| ACCUMULATED DEPRECIATION | (234,741.84) | |
| ACCUMUL. DIALER DEPRECIATION | (216,000.00) | |
| | ----- | |
| TOTAL FIXED ASSETS | | 361,315.25 |

OTHER ASSETS

| | | |
|--------------------------------|-------------|----------------|
| DEPOSITS | 2,370.00 | |
| CARRIER DEPOSITS | 6,000.00 | |
| ORGANIZATIONAL COSTS | 2,600.00 | |
| ACCUMULATED AMORTIZATION | (2,469.97) | |
| ROYALTY RIGHTS - ACCUM. AMORT. | (17,462.16) | |
| | ----- | |
| TOTAL OTHER ASSETS | | (8,962.13) |
| | | ----- |
| TOTAL ASSETS | | \$8,388,169.35 |
| | | ----- |

ADDETEL COMMUNICATIONS, INC
BALANCE SHEET
SEPTEMBER 30, 1996

LIABILITIES AND EQUITY

CURRENT LIABILITIES

| | | |
|---------------------------|--------------|--------------|
| PHONE TAX PAYABLE | \$185,195.29 | |
| PHONE TAX ACCRUED | 60,770.41 | |
| PAYROLL TAXES PAYABLE ADP | 2,640.51 | |
| DENTAL PLAN | (469.44) | |
| ACCRUED PAYROLL | 93,646.80 | |
| CARRIER ACCOUNTS PAYABLE | 5,195,897.29 | |
| ACCRUED CARRIER FEES | 1,960,393.35 | |
| ADVANCE PAYMENTS RECEIVED | 5,000.00 | |
| CUSTOMER DEPOSITS | 38,750.00 | |
| ACCOUNTS PAYABLE | 127,152.24 | |
| ACCRUED EXPENSES | 251,124.89 | |
| INCOME TAX PAYABLE | (76,000.00) | |
| LEGAL SETTLEMENTS PAYABLE | 50,000.00 | |
| SUSPENSE | (2,606.84) | |
| | ----- | |
| TOTAL CURRENT LIABILITIES | | 7,891,494.50 |

OTHER LIABILITIES

| | | |
|------------------------------|--------------|--------------|
| INVESTOR NOTES PAYABLE | 4,042.23 | |
| INVESTOR NOTES PAYABLE (NEW) | 655,819.98 | |
| DISCOUNT ON INVESTOR NOTES | (376,000.00) | |
| | ----- | |
| TOTAL OTHER LIABILITIES | | 283,862.21 |
| | | ----- |
| TOTAL LIABILITIES | | 8,175,356.71 |

EQUITY

| | | |
|------------------------------|-------------|----------------|
| COMMON STOCK | 62,500.00 | |
| DISCOUNT ON STOCK | (55,400.00) | |
| RETAINED EARNINGS - PRIOR | 77,789.47 | |
| CURRENT YEAR - NET INCOME | 127,923.17 | |
| | ----- | |
| TOTAL EQUITY | | 212,812.64 |
| | | ----- |
| TOTAL LIABILITIES AND EQUITY | | \$8,388,169.35 |
| | | ***** |

LEON L. NOWALSKY
MONICA R. BORNE

NOWALSKY & BRONSTON, L.L.P.
ATTORNEYS AT LAW

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BENJAMIN W. BRONSTON
EDWARD P. GOTHARD
Of Counsel

Writer's Direct Dial Number
(504) 832-1008

January 7, 1997

DEPOSIT THEAS. REC. 11A11

D435 00000001 JAN 09 '97

VIA AIRBORNE EXPRESS

Executive Secretary
Florida Public Service Commission
2450 Schumard Oak Boulevard
Tallahassee, Florida 32399-0850

970045-TI

Re: Application of Addtel Communications, Inc.
for Approval of a Stock Purchase Agreement

Dear Sir:

On behalf of Addtel Communications, Inc., enclosed please find an original and thirteen (13) copies of the referenced Application. Also enclosed is a check in the amount of \$250.00 to cover the filing fee.

Please date stamp and return the enclosed extra copy of this letter in the envelope provided.

Please call me should you have any questions concerning this filing. Thank you for your assistance with this matter.

Sincerely

amended, the Resource Conservation and Recovery Act, 42 U.S.C. §§6901 *et seq.*, as amended, the Federal Water Pollution Control Act, 33 U.S.C. §§1251 *et seq.*, as amended, the Clean Air Act, 42 U.S.C. §§7401 *et seq.*, as amended, the Occupational Safety and Health Act of 1970, as amended ("OSHA"), the Safe Drinking Water Act, as amended, the Toxic Substances Control Act, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, and other environmental conservation or protection laws. There is no Proceeding pending or threatened against the Company relating to the environment nor is there a basis for the assertion against the Company of any Proceeding. The Company has not received notice of, or knows of, any past, present or future events, conditions, facts, circumstances, activities, practices, incidents, actions or plans that may interfere with or prevent compliance or continued compliance or that might constitute a violation of any federal, state or local environmental, health or safety laws, codes or ordinances, and any rules or regulations promulgated thereunder, which relate to the use, ownership or occupancy of the property or the operation of the Business of the Company.

Section 2.13 Pension Matters. The Company has never maintained or contributed to any defined benefit pension plans (as defined in Section 3(2) of ERISA or any multiemployer plans (as defined in Section 3(37)(A) of ERISA). Each employee benefit plan (as defined in Section 3(3) of ERISA) (each, an "Employee Benefit Plan" or "Plan") maintained for employees of the Company or to which the Company has contributed and any related trust agreement, annuity contract or any other funding or implementing instrument complies currently and has complied in the past, as to form, operation and administration, with the provisions of ERISA, as amended, and all other applicable laws, rules and regulations and with the Code where required in order to be tax-qualified under Section 401(a) or 403(a) and 501(a) of the Code, and no event has occurred that may give rise to disqualification of any such Plan under said Sections. All necessary Tribunal approvals for the Employee Benefit Plans have been obtained. Each Employee Benefit Plan that is subject thereto meets and has met at all times the minimum funding standards of Section 302 of ERISA, Section 412 of the Code and any other applicable law, and no accumulated funding deficiency, whether or not waived, exists with respect to any such Plan. Each Employee Benefit Plan that is an employee pension benefit plan (as defined in Section 3(2)(A) of ERISA) has been duly authorized by the Board of Directors of the Company and a favorable determination as to the qualification under the Code of each such employee pension benefit plan has been made by the Internal Revenue Service. The Company has delivered to Purchaser the following documents as in effect on the date hereof: (A) true, correct and complete copies of each Plan, including all amendments thereto, which is an employee pension benefit or welfare benefit plan (within the meaning of Sections 3(1) or 3(2) of ERISA), and in the case of any unwritten Plans, descriptions thereof, (B) with respect to any Plans or Plan amendments described in the foregoing clause (A), (i) the most recent determination letter issued by the Internal Revenue Service after September 1, 1974, if any, (ii) all trust agreements or other funding Contracts or Agreements, including insurance contracts, and (iii) the most recent actuarial valuations, annual reports, summary plan descriptions, employee handbooks or other descriptive materials supplied and employee or retiree summaries of material modifications and summary annual reports, if any. With respect to any Plan, no prohibited transaction (within the meaning of Section 406 of ERISA and/or Section 4975 of the Code) exists which could subject the Company to any liability or civil penalty assessed pursuant to Section 502(i) of ERISA or a Tax imposed by Section 4975 of the Code. Neither the Company nor any of its Affiliates, nor any administrator or fiduciary of any Plan (or agent of any administrator or fiduciary of any Plan (or

agent of any of the foregoing) has engaged in any transaction or acted or failed to act in a manner which is likely to subject the Company to any liability for a breach of fiduciary or other duty under ERISA or any other applicable law. The transactions contemplated by this Agreement will not be, or cause any, prohibited action or transaction.

There are no pending claims, investigations or causes of action ("Claims") and, to the best of each Shareholder's knowledge, no such Claims are planned or threatened, against any Employee Benefit Plan or fiduciary of any such plan by any participant, beneficiary or Tribunal with respect to the qualification or administration of any such Employee Benefit Plan. Neither the Company nor any of the Shareholders has made, nor will any of them or any of the Company's employees or representatives make prior to the Closing Date, any representation to or Contract or Agreement with, any of the Company, the Company's employees or any of the Shareholders (whether written or oral) with respect to (i) the provisions of any employee benefits other than those provided under any Employee Benefit Plan disclosed to Purchaser on Schedule 2.13 of the Disclosure Schedule, or (ii) the continuation of any benefits beyond the Closing Date under any Employee Benefit Plan. All filings required by ERISA and the Code as to each Plan have been timely filed and all notices and disclosures to participants required by ERISA or the Code have been timely provided. Each Plan to which ERISA Sections 601 through 609 and Section 4980B of the Code apply has been administered in compliance with such Sections. The Company has made or shall make full and timely payment of all amounts which are required under the terms of the Plans to be paid as a contribution to each such Plan with respect to the period from the end of the last plan year ending before the date of this Agreement to the Closing Date. The Company does not have any unfunded obligations with respect to any Plan. All contributions made to or accrued with respect to all Employee Benefit Plans are deductible under Section 404 or 162 of the Code. No amounts, nor any assets or any Employee Benefit Plan are subject to Tax as unrelated business taxable income under Section 511, 512, or 419A of the Code. No facts exist which could result in a material increase in premium costs of Plans for which benefits are insured or a material increase in benefit costs of Plans which provide self insured benefits. No Plan provides (or has any obligation or commitment to provide) health, medical, disability, life or other similar benefits with respect to any current or former employees (or beneficiary thereof) of the Company beyond their retirement or other termination of service (other than coverage mandated by Title I, Subtitle B, Part 6 of ERISA, which coverage is fully paid by the former employee or his dependents). There are no Contracts or Agreements which will provide payments to any officer, employee, shareholder, or highly compensated individual of the Company which will be "parachute payments" under Section 280G of the Code that are nondeductible to the Company or subject to Tax under Section 4999 of the Code. All group health plans of the Company and each of its Affiliates have been operated in compliance with the group health plan continuation coverage requirements of Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code.

Section 2.14 Labor Matters. Except as set forth in Section 2.14 of the Disclosure Schedule, the Company has no obligations, contingent or otherwise, under any employment or consulting Contract or Agreement, or collective bargaining agreement or other Contract or Agreement with a labor union or other labor or employee group. There are no efforts presently being made or threatened by or on behalf of any labor union with respect to the employees of the Company. The Company is in compliance with all federal, state or other applicable laws, domestic or foreign,

regarding employment and employment practices, terms and conditions of employment and wages and hours, and have not and are not engaged in any unfair labor practice. No unfair labor practice complaint against the Company is pending or threatened before the National Labor Relations Board. There is no labor strike, dispute, slowdown or stoppage pending or threatened against or involving the Company. No representation question exists respecting the employees of the Company. No employment-related grievance or internal or informal complaint or liability with respect to the termination of any employee, consultant or agent exists. No arbitration proceeding arising out of or under any collective bargaining agreement is pending and no claim therefor has been asserted. No collective bargaining agreement is currently being negotiated by the Company, and the Company has not experienced any labor difficulty. There has not been and there will not be any adverse change in relations with employees of the Company as a result of any announcement or consummation of the transactions contemplated by this Agreement. No employee of the Company is in violation of any term of any employment contract, or any other Contract or Agreement with or any restrictive covenant or any other common law obligation to a former employer relating to the right of any such employee to be employed by the Company because of the nature of the business conducted or to be conducted by the Company or to the use of trade secrets or proprietary information of others, and the employment of the Company's employees does not subject the Company to liability in connection with such covenants or Contracts or Agreements. There is neither pending nor threatened Proceedings with respect to any Contract or Agreement, covenant or obligation referred to above nor is there any basis for asserting the foregoing.

Section 2.15 Taxes. All Taxes that are due and payable by the Company have been timely paid, and the Company has timely filed (and, through the Closing Date, will timely file) all foreign, federal, state, county, local and other Tax Returns required by law to be filed by the Company. All such Tax Returns are true, complete and correct in all respects for the periods covered thereby. The Company is not delinquent in the payment of any Tax, there is no Tax deficiency asserted against the Company, and there is no unpaid assessment, proposal for additional Taxes, deficiency or delinquency in the payment of any of the Taxes of the Company or any violation of any federal, state, local or foreign law that could be asserted by any Tax Tribunal. There are no Tax liens upon any properties or assets of the Company. Except as set forth on Section 2.15 of the Disclosure Schedule, no Internal Revenue Service, state or local, audit, investigation or Proceeding of the Company is pending or threatened, and the results of any completed audits are properly reflected in the Financial Statements. The Company has not granted any extension to any Tax Tribunal of the limitation period during which any Tax liability may be asserted. The Company has not committed any violation of any federal, state, county, local or foreign Tax laws. All monies required for the payment of Taxes not yet due and payable with respect to the operations of the Company through and including the Closing Date have been approved, reserved against and entered upon the books and Financial Statements. All monies required to be withheld by the Company from employees or collected from customers for Taxes, and the portion of any such Taxes to be paid by the Company to the appropriate Tax Tribunals or set aside in accounts for such purpose have been approved, reserved against and entered upon the books and Financial Statements. The provisions for Taxes shown on the Interim Financial Statements will be adequate to cover the liability of the Company for Tax Obligations to the Closing Date.

Section 2.16 Inventory. No item included in the inventories, materials or supplies of the Company is pledged as collateral or held on consignment from others. All such inventory items are standard quality goods saleable in the ordinary course of business.

Section 2.17 Proprietary Rights. The Company owns or validly licenses the right to use all technology, proprietary information, know-how, ideas (patented or unpatented), data, licenses, customer lists, processes, formulas, trade secrets, telephone numbers, computer software, computer programs, designs, inventions, trademarks, trademark registrations and applications therefor, registered and common law copyrights, and registered copyright applications, trade names (whether or not registered or registrable), service marks, service mark registrations and applications therefor (collectively, the "Proprietary Rights") necessary to conduct the Business of the Company as such Business is presently being conducted, including without limitation the trademarks "international Advantage," "La Conexion Directa" and "1-800 Conexion". Section 2.17(a) of the Disclosure Schedule sets forth a complete and correct list (including without limitation, where applicable, registration numbers and dates of filing, renewal and termination, license and/or royalty Contracts or Agreements) of all Proprietary Rights. No consent or approval of any third party will be required for the use of the Proprietary Rights by the Company after the consummation of the transactions contemplated hereby and the transactions hereunder will not result in any breach of any Contract or Agreement relating to any Proprietary Rights. No claim or opposition has been asserted by any Person to the ownership of or the Company's right to use any of the Proprietary Rights or challenging or questioning the validity or effect of any Contract or Agreement relating thereto, and there is no valid basis for any such claim or assertion. The Company has ownership of, or valid licenses to use all of, the Proprietary Rights. Each of the Proprietary Rights is valid and subsisting, has not been cancelled, abandoned or otherwise terminated and, if applicable, has been duly asserted, registered and filed. The Proprietary Rights owned by the Company are owned free and clear of all Liens. The Company has taken all reasonable steps to establish and preserve its ownership of all Proprietary Rights. (The Company's use of the Proprietary Rights will not, and the conduct of the Business as presently conducted does not, infringe on or violate the rights of any other Person.) No Proceedings have been instituted, are pending or are threatened that challenge or oppose the rights of the Company with respect to any of the Proprietary Rights. The Company has not received any notice or inquiry from any Person of any alleged infringement by the Company. The Company has not given and is not bound by any Contract or Agreement of indemnification in connection with any Proprietary Rights or product or service sold or performed by the Company. Neither the Company nor any Shareholder is aware of any infringement by others of the Company's Proprietary Rights. Set forth in Section 2.17(b) of the Disclosure Schedule is a list of all confidentiality Contracts or Agreements entered into by the Company relating to the Proprietary Rights and all such contracts are in full force and effect. No Person has been or is authorized to use or copy any of the Company's computer software, computer programs, computer systems, mailing or customer lists (or any part thereof), and, to the knowledge of the Company and the Shareholders, no such use or copying has occurred or is occurring. All software owned by the Company is listed in Section 2.17(c) of the Disclosure Schedule, and is free from defects in programming and operation and performs in accordance with all published specifications therefor and in accordance with all technical, promotional, and other written material used or provided to any Person other than the Company in connection with such owned software.

Section 2.18 Surety Obligations. The Company is not obligated as surety or indemnitor under any surety, performance, completion or similar bond or other Contract or Agreement issued and has not entered into any Contract or Agreement to assure payment, performance or completion of performance of any undertaking or obligation of any Person.

Section 2.19 No Brokers. Neither the Company nor any of the Shareholders has employed any broker, agent or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated hereby, except the fees and expenses of Maverick Management Group, which are the sole obligation of the Company.

Section 2.20 Records. The minute books, books of account, stock record books and other records of the Company, all of which have been or will be made available to Purchaser, contain accurate and complete records of all corporate actions of the stockholders and Boards of Directors (and committees thereof) since the incorporation of the Company.

Section 2.21 Compliance With Law; Conduct. The Company has not violated or failed to comply with any statute, law, ordinance, regulation, rule or order of any foreign, federal, state or local government or any other Tribunal or any judgment, order, writ, injunction or decree of any court, applicable to its Business or operation, except where such violations or failure to comply would not have a Material Adverse Effect on the Company. The Company's Business is conducted in conformity with all federal, state and local energy, public utility, health, and OSHA requirements and all other foreign, federal, state and local governmental and regulatory requirements. The Company has all Permits from governmental agencies required to conduct its Business as then and are now contemplated to be conducted.

Section 2.22 Regulatory Compliance. The Company is in compliance with all state and federal rules and regulations applicable to the Business, including, but not limited to, those ~~regulations governing the provision of operator assisted telecommunications services, including, but~~ not limited to, the requirements set forth under 47 C.F.R. §64.703 - 64.707, and the terms and conditions within each order granting jurisdictional authority and all related tariffs.

Section 2.23 Investment Company Act; Etc. The Company is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or an "investment adviser" within the meaning of the Investment Advisers Act of 1940, as amended.

Section 2.24 Public Utility Holding Company Act. The Company is not a "public utility," a "holding company," an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or a "public utility" within the meaning of the Federal Power Act, as amended.

Section 2.25 Insurance. Contained in Section 2.25 of the Disclosure Schedule is a complete and accurate description of all insurance maintained by the Company with respect to the assets, properties and business of the Company. All of the insurable properties of the Company are insured for their benefit under valid and enforceable policies, issued by insurers rated B+ or better. The

insurance maintained by the Company is in amounts and of a nature as is customarily maintained by Persons conducting operations similar to those of the Company. None of such insurance coverage will terminate on consummation of the transactions contemplated hereby.

Section 2.26 Instruments in Full Force and Effect; Possession under Leases. Section 2.26 of the Disclosure Schedule contains a complete and accurate list of all material Contracts or Agreements and obligations (including without limitation agreements with carriers involving long distance services to the Company ("Carrier Agreements"), licenses, royalties, operating and capital leases, assignments and similar Contracts or Agreements) of the Company (the "Material Contracts"). The Material Contracts are valid, binding and in full force and effect against the Company and have not been amended or supplemented in any manner or respect except as disclosed on the Disclosure Schedule. Except as set forth in Section 2.26 of the Disclosure Schedule, there are no defaults by the Company thereunder and neither the Company nor any Shareholder know of no defaults thereunder by any other party thereto, and no event has occurred that with the lapse of time or action or inaction by any party thereto would result in a violation thereof or a default thereunder.

Section 2.27 Receivables. The Section 2.27 of the Disclosure Schedule contains a complete and accurate list of all the Company's accounts receivable (including aged accounts receivable, loan receivables and advances) as of October 31, 1996 and as of November 30, 1996 showing the name of each account debtor and the amount due from each by invoice number and date. All of such accounts receivables and all account receivables since the date thereof have arisen in the ordinary course of business for Products delivered or services rendered. Neither the Company nor any Shareholder is aware of any event or condition with respect to a specific customer that causes it to believe that any such receivable will not be collected in full in due course without resort to litigation and will not be subject to counterclaim or setoff. The write-offs for doubtful accounts reflected on the various Financial Statements were or will be, as the case may be, determined in accordance with GAAP and past practice consistently applied and adequately provide for all uncollectible receivables.

Section 2.28 Accounts Payable. Section 2.28 of the Disclosure Schedule contains a complete and accurate list of all the Company's aged accounts payable at October 31, 1996 and November 30, 1996, showing the name of each account creditor and the amount due to each by invoice number and date.

Section 2.29 Items Reflected in the Disclosure Schedule. Section 2.29 of the Disclosure Schedule contains a complete and accurate list or brief description of (a) all current or pending Contracts or Agreements (of real or personal property), between the Company and any Person that involve, in the aggregate, the payment or receipt by the Company of more than \$5,000, which cannot be cancelled without penalty upon thirty days' notice; (b) all employee benefit programs (including but not limited to medical, profit-sharing or pension plans), employee bonus and incentive compensation arrangements and accrued and unused vacation time as of October 31, 1996, of the Company and through the Closing Date; (c) any compensation, noncompetition, severance, or consulting Contracts or Agreements between the Company or any of the Company's employees, consultants or agents for the last two fiscal years and at present; (d) all Contracts or Agreements relating to the borrowing of money by the Company or the direct or indirect guaranty by the

Company of any third Person, (e) the number and job category of all current employees of the Company, including with respect to key employees, their names, date of employment, current compensation (including sales commissions) and date and amount of last increase in compensation; (f) all capital assets of the Company with a book value greater than \$200, setting forth any Liens or restrictions thereon; (g) federal and state income Tax Returns for the last three fiscal years; (h) a list of all Contracts or Agreements for which consents of any private Persons or public authorities would be required (citing the section(s) thereof requiring such consents) for the consummation of the transactions contemplated hereby, or for the preventing of any termination of any material right, privilege, Contract or Agreement of, or any loss or disadvantage to, the Company or Purchaser upon consummation of the transactions contemplated hereby; (i) all Permits relating to any of the Company's operations and all tariffs filed by the Company; (j) any Contracts or Agreements of the Company with any of its competitors; (k) the ten largest customers of the Company and the ten largest suppliers to the Company for the fiscal year ended May 31, 1996, and for the period from June 1, 1996 to October 31, 1996; (l) all financing statements filed or signed which list the Company as a debtor (naming such secured party, date and place of filing, and identification of the Contract or Agreement to which such financing statement relates); (m) all current lease-out arrangements between the Company and any Person; and (n) the CIC Codes and Access Codes of the Company. The Company has not received notice, or has knowledge or reason to believe, that any customer listed in the Disclosure Schedule is seeking or presently intends to seek to terminate or diminish its relationship with the Company or that any such customer will not renew or continue its existing Contract or Agreement with the Company on the expiration date thereof (or otherwise) on terms at least as favorable to the Company as those currently in effect.

Section 2.30 Bank Accounts; Powers of Attorney. Section 2.30 of the Disclosure Schedule completely and accurately lists the name of each bank, brokerage firm or other financial institution in which the Company has an account or possesses a safe deposit box and sets forth the amount and nature of all cash and cash equivalents contained therein at the Effective Date. Section 2.30 of the Disclosure Schedule also completely and accurately lists the names of all Persons authorized to draw thereon, or to have access thereto or to authorize transactions therein, and the names of all parties, if any, holding powers of attorney from the Company with respect thereto or with respect to any other matter, and the account number of any such account. The Company does not maintain any securities or commodity trading account or other brokerage account.

Section 2.31 Product and Service Warranties. There is no claim against or liability of the Company on account of Product or service warranties or with respect to the manufacture, sale, license or lease of Products or performance of services, and there is no basis for any such claim on account of Products heretofore manufactured, sold or leased or services performed.

Section 2.32 Transactions with Affiliates. Except as set forth in Section 2.32 of the Disclosure Schedule, the Company has not engaged in any loans, Contracts or Agreements, or other transactions with any Shareholder, director, officer or key employee of the Company, or any member of any such individual's immediate family or any other Affiliate of the Company. As of the Closing Date, all advances or loans made by the Company to any stockholder, officer, director, employee, Affiliate or agent of the Company will have been repaid in full, with accrued interest to the date of repayment.

Section 2.33 Corrupt Practices. Since the inception of the Company, there have been no violations of the Foreign Corrupt Practices Act or any similar state or federal statute relating to bribery or similar offenses by the Company or any of their agents. Neither the Company nor any officer, director, employee or agent of the Company (or any Person acting on behalf of any of the foregoing) has since the date of Company's incorporation, given or agreed to give any gift or similar benefit of more than nominal value to any customer, supplier, governmental employee or official, or any other Person who is or may be in a position to help or hinder the Company or assist the Company in connection with any actual or proposed transaction, which gift or similar benefit, if not given in the past, would have a Material Adverse Effect, or which would subject the Company to penalty in any private or governmental litigation or Proceeding.

Section 2.34 Absence of Bad Debt or Uncollectible Accounts. At October 31, 1996 and at the date of each subsequent balance sheet included in the Financial Statements, the Company had no bad debt or uncollectible account which has not been revealed and written off in the Financial Statements.

Section 2.35 No Default. The Company is not in default under, and no condition exists that with notice or lapse of time or both would constitute a default under (a) its respective Certificate of Incorporation or Bylaws; (b) any Contract or Agreement or evidences of Indebtedness for borrowed money to which the Company is a party or by which the Company or any of its assets bound; or (c) any Order of any Tribunal.

Section 2.36 Copies of Documents; Accuracy of Information Furnished. The Company or the Shareholders have delivered or made available to Purchaser complete and accurate copies of all documents listed on the Disclosure Schedule and all other information requested for deciding whether to consummate the transactions hereby. All of the exhibits and schedules provided by the Company or the Shareholders are true, correct and complete in all material respects and no written representation, warranty or statement made by the Company or the Shareholders in or pursuant to this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact to make such representation, warranty or statement not misleading to Purchaser who are seeking complete and accurate information with respect to the Company.

Section 2.37 Title to Shares. The Shareholders are the lawful owners of the number of shares of Company's Common Stock set forth below:

Charles Tony Lonstein
Aviram Lonstein
Daniel G. Lonstein
David R. Lonstein

The Shareholders are the sole holders and owners (beneficially and of record) of all of the Company's Common Stock. Each of the Shareholders holds good, valid and indefeasible title to such Shares. The Shareholders each possess full authority and legal right to sell, transfer and assign the entire legal and beneficial ownership of the Shares issued to each of them, free and clear of all Liens, Contracts or Agreements with respect to voting or the purchase or sale of securities,

preemptive rights, proxies or other interests of any nature of any Person ("Restrictions"). There are no outstanding rights or obligations granted by any of the Shareholders to purchase or acquire any of the Shares except pursuant to this Agreement. Upon the transfer of the Shares to Purchaser hereunder at Closing, Purchaser will own the entire legal and beneficial interest in the Shares free and clear of all Restrictions.

Section 2.38 Disclosure.

(a) No representation or warranty of any of the Shareholders or the Company contained in this Agreement or statement in the Disclosure Schedule contains any untrue statement or omits to state a material fact necessary in order to make the statements herein or therein, in light of the circumstances under which they were made, not misleading.

(b) There is no fact known to Shareholders or the Company which has specific application to the Company and which could have a Material Adverse Effect but which has not been set forth in this Agreement or the Disclosure Schedule hereto.

(c) The disclosures in the Disclosure Schedule attached hereto shall relate only to the representations and warranties in the Section of this Agreement to which they expressly relate and to no other representation or warranty in this Agreement.

(d) In the event of any inconsistency between the statements in the body of this Agreement and those in the Disclosure Schedule attached hereto (other than an exception expressly set forth as such in the Disclosure Schedule in relation to a specifically identified representation or warranty), those in this Agreement shall control.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES OF PURCHASER

Except as set forth in the disclosure schedule delivered to the Company and the Shareholders by Purchaser contemporaneously with the execution hereof (the "Purchaser Disclosure Schedule"), Purchaser hereby represents and warrants to the Company and each of the Shareholders as follows, regardless of what investigations, if any, the Company or the Shareholders shall have made prior hereto:

Section 3.1 Organization; Qualification. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Purchaser has full corporate power and authority to own and lease all of the properties and assets it now owns and leases and to carry on its business as now being conducted.

Section 3.2 Authority Relative to this Agreement. Purchaser has the corporate power and authority to execute, deliver and perform this Agreement and the other Operative Documents to which it is a party and to consummate the transactions contemplated hereby and thereby. USC has the corporate power and authority to execute, deliver and perform the Pledge Agreement and to consummate the transactions contemplated thereby. The execution and delivery by Purchaser and

USC of the Operative Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by the Board of Directors of Purchaser and USC, respectively, and no other corporate proceedings on the part of Purchaser or USC are necessary with respect thereto. This Agreement has been duly and validly executed and delivered by Purchaser and constitutes a legal, valid and binding obligation of Purchaser, enforceable against it in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, fraudulent conveyance, moratorium or other similar laws affecting enforcement of creditors' rights generally. The Pledge Agreement, when executed and delivered by USC, will constitute a legal, valid and binding obligation of USC, enforceable against USC in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, fraudulent conveyance, moratorium or other similar laws affecting enforcement of creditors' rights generally. As of the date hereof, to Purchaser's knowledge and except as contemplated by this Agreement, Purchaser is not prohibited by any Tribunal or Contract or Agreement from acquiring the Company.

Section 3.3 Investment Intent. Purchaser is acquiring the Shares for its own account and not with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended.

ARTICLE 4. ADDITIONAL AGREEMENTS

Section 4.1 Conduct of Business of the Company. Each of the Shareholders and the Company jointly and severally covenant that after the date hereof and prior to the Closing Date, the Company shall conduct its operations according to their normal course of business to preserve intact their business organization, keep available the services of their officers and employees, maintain satisfactory relationships with licensors, suppliers, dealers, agents, customers and all others having business relationships with them and continue to service and maintain all of the Company's assets in a manner consistent with past practice.

Section 4.2 Forbearances by the Company. Each of the Shareholders and the Company jointly and severally covenant and agree that except as contemplated by this Agreement, the Company shall not, after the date hereof and prior to the Closing Date, without the prior written consent of Purchaser:

- (a) issue additional capital stock or any additional securities or obligations convertible into or exchangeable for, or giving any Person any right to acquire, capital stock;
- (b) acquire any shares of its capital stock;
- (c) declare or pay any dividend;
- (d) issue stock options or any stock appreciation rights or enter into any Contract or Agreement providing for compensation or payments to any Person with respect or by reference to the capital stock, capital structure or stockholders' equity account of the Company or pay any amounts with respect to any of them;

- (e) sell any assets not in the ordinary course of business;
- (f) issue or incur additional Indebtedness for borrowed money;
- (g) mortgage, pledge, grant a security interest in, or otherwise encumber any of its properties or assets;
- (h) make any investment in third parties or assets of a capital nature either by purchasing stock, securities or assets, contributing to capital, transferring property or otherwise making any investment;
- (i) make any commitments for capital expenditures or other commitment or transaction other than in the ordinary course of business without the prior written consent of Purchaser;
- (j) increase in any manner the compensation of or pay any bonuses or special awards to any of its directors or officers;
- (k) amend its Charter, Certificate of Incorporation or Bylaws except as may be necessary to facilitate the consummation of the transactions contemplated by this Agreement;
- (l) enter into any employment, consulting, brokerage, agent or commission Contract or Agreement or arrangement;
- (m) take any action, or fail to take any action, the result of which can reasonably be expected to be a termination of or default under any Material Contract;
- (n) amend, modify or terminate, or agree to amend, modify or terminate any Material Contract;
- (o) fail to maintain the confidential treatment or otherwise fail to preserve any of its Proprietary Rights;
- (p) take on any new wholesale business; or
- (p) enter into any Contract or Agreement to do any of the things described in clauses (a) through (p) above.

Section 4.3 No Solicitation. Each of the Shareholders and the Company, jointly and severally, covenant and agree that neither the Company or its officers, directors or Shareholders will, nor permit any of their respective agents or representatives (including, without limitation, investment bankers, attorneys and accountants), directly or indirectly (a) solicit, initiate or encourage submission of proposals or offers by, or (b) furnish any information with respect to or otherwise cooperate in any way with, or participate in any discussions or negotiations with, any Person with respect to any proposal regarding the acquisition or purchase of all or a material portion of the assets

of, or any equity interest in the Company or any business combination with the Company. The Company and the Shareholders shall promptly notify Purchaser if any such proposal or offer, or any inquiry or contract with any Person with respect thereto, is made and shall, in any such notice, indicate in reasonable detail the identity of the offeror and the terms and conditions of any such proposal. As a result of entering into this Agreement, Purchaser has incurred and will continue to incur significant expenses in connection with the transactions contemplated hereby and in the event of any breach of this Section 4.3 or the merger, sale of the Company or its stock or any substantial portion of its assets within 180 days of the date of this Agreement, the Company will reimburse Purchaser for all expenses incurred by or on behalf of Purchaser in connection with the transactions contemplated hereby within ten days of a request for reimbursement by Purchaser.

Section 4.4 Investigation of Business and Properties. Purchaser may make or cause to be made such investigation of the Business and properties of the Company and of its financial and legal condition as appropriate or advisable to familiarize itself therewith. The Company agrees to furnish Purchaser and its employees, offices, agents, investment bankers, potential investors, accountants, counsel and other representatives with all financial, operating and other data and information concerning the Company and commitments of the Company as Purchaser shall from time to time reasonably request and will afford Purchaser and its employees, officers, accountants, attorneys, agents, investment bankers, potential investors and other authorized representatives access to the Company's offices to review such documents and their books and records and will be given opportunity to ask questions of, and receive answers from, representatives of the Company with respect to such matters. No investigations by the Purchaser or its employees, representatives or agents shall reduce or otherwise affect the obligation or liability of the Company or any of the Shareholders with respect to any representations, warranties, covenants or agreements made herein or in an Exhibit, Schedule or other certificate, Contract or Agreement or document (including the Disclosure Schedule), executed or delivered in connection with this Agreement.

Section 4.5 Confidentiality. Each party agrees with respect to all technical, commercial and other information that is furnished or disclosed by the other parties, including, but not limited to, information regarding such party's (and its Subsidiaries' and Affiliates') organization, personnel, business activities, customers, subscribers, policies, assets, finances, costs, sales, revenues, technology, rights, obligations, liabilities and strategies (the "Information"), that, unless and until the transactions contemplated hereby shall have been consummated, (a) such Information is confidential and/or proprietary to the furnishing/disclosing party and entitled to and shall receive treatment as such by the receiving party; (b) the receiving party will hold in confidence and not disclose or use (except in respect of the transactions contemplated hereby) any such Information, treating such Information with the same degree of care and confidentiality as it accords its own confidential and proprietary information; provided, however, that the receiving party shall not have any restrictive obligation with respect to any Information that (i) is contained in a printed publication available to the general public, (ii) is or becomes publicly known through no wrongful act or omission of the receiving party, or (iii) is known by the receiving party without any proprietary restrictions by the furnishing/disclosing party at the time of receipt of such Information; and (c) all such Information furnished to a party by another, unless otherwise specified in writing, shall remain the property of the furnishing/disclosing party and, in the event this Agreement is terminated, shall be returned to it, together with any and all copies made thereof, upon request for such return by it

(except for documents submitted to a governmental agency with the consent of the furnishing/disclosing party or upon subpoena and that cannot be retrieved with reasonable effort), and each party shall confirm in writing to the others compliance with any such request. Each party hereto acknowledges that the remedy at law for any breach by a party of its obligations under this section is inadequate and that the other parties shall be entitled to equitable remedies, including injunctive relief, in the event of breach by any other party.

Section 4.6 Investigation of Financial Statements. The Company agrees to give, and agrees to cause its independent certified public accountants to give, such assistance to the independent certified public accountants of Purchaser, and to employees or representatives of Purchaser as it may reasonably request in connection with their review of the Financial Statements. Such review shall specifically include, without limitation, the right to examine any notes and work papers related thereto.

Section 4.7 Agreement to Consummate. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use commercially reasonable efforts to do all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective, as soon as reasonably practicable, the transactions contemplated by this Agreement, including, but not limited to, the obtaining of all consents, authorizations, orders and approvals of any Tribunal required in connection therewith and initiating or defending any legal action that is necessary or appropriate to permit the transactions contemplated hereby to be consummated. At any time after the Closing Date, if any further action is necessary, proper or advisable to carry out the purposes of this Agreement, then, as soon as is reasonably practicable, each party to this Agreement shall take, or cause its proper officers to take, such action. No party to this Agreement shall take or cause to be taken any action that would cause the representations or warranties expressed herein to be untrue or incorrect on the Closing Date.

Section 4.8 Agreement Regarding Brokers. Each party agrees that such party will pay or dispute, and hold the other parties harmless from, any claims of brokers or others for finder's or brokerage fees asserted as a result of representations by such party to such brokers or others, regardless of whether the existence of such brokers or others are disclosed herein.

Section 4.9 Notice. The Company and the Shareholders shall promptly give notice to Purchaser upon becoming aware of the occurrence or failure to occur, or the impending or threatened occurrence or failure to occur, of any event that would cause or constitute, any of their representations or warranties being or becoming untrue. Purchaser will promptly give notice to the Company and the Shareholders upon becoming aware of the occurrence or failure to occur, of any event that would cause or constitute, any of their representations or warranties being or becoming untrue.

Section 4.10 Public Announcements. Neither the Company nor any of the Shareholders shall issue any press release or make any public statement with respect to this Agreement or the transactions contemplated hereby without prior consent and approval of the content thereof by Purchaser. Purchaser may disclose this transaction at any time.

ARTICLE 5. CONDITIONS PRECEDENT TO CLOSING

Section 5.1 General Conditions. Consummation of the Transactions shall be subject to the fulfillment at the Closing Date of each of the following conditions:

(a) **No Injunction.** No court having jurisdiction shall have issued, to the knowledge of Purchaser, the Company or any Shareholder, an injunction preventing the consummation of the Transaction that shall not have been stayed or dissolved at the Closing Date.

(b) **Proceedings.** All proceedings taken or to be taken in connection with the transactions contemplated hereby, and all documents incident thereto shall be reasonably satisfactory in form and substance to the parties and their counsel, and the parties and their counsel shall have received all such counterpart originals or certified or other copies of such documents as the parties or their counsel may reasonably request.

(c) **Other Agreements.** The appropriate Persons shall have executed the Nonsolicitation Agreements, the Finder's Fee Agreement, and the Pledge Agreement.

Section 5.2 Conditions to Closing in Favor of the Company. Consummation of the Transactions shall be subject to the fulfillment, to the satisfaction of the Company, or written waiver, at or before the Closing Date, of each of the following conditions:

(a) **Representations and Warranties of Purchaser.** The representations, warranties and statements of Purchaser contained in this Agreement, the exhibits hereto and the Purchaser Disclosure Schedule, shall be complete and accurate as of the date of this Agreement and shall also be complete and accurate at and as of the Closing Date, except for changes contemplated by this Agreement, as if made on the Closing Date; and Purchaser shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by them at or prior to the Closing Date.

(b) **Purchaser Officer's Certificates.** Purchaser shall have delivered to the Shareholders a certificate, dated the Closing Date, of a President or Vice President of Purchaser to the effect that (a) such Person is familiar with the provisions of this Agreement and (b) the conditions specified in Section 5.1 and in Section 5.2(a) have been satisfied in all material respects.

(c) **Governmental Consents, Authorizations, Etc.** All material consents, authorizations, orders or approvals of, and filings or registrations with, and any permits, licenses or other authorizations required by, any applicable Tribunal that are required for, or in connection with, the execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby shall have been obtained or made.

(d) Payment on Alternate Arrangement. In the event that an Alternate Arrangement (as defined in Section 5.3(o)) occurs, Purchaser shall have paid an additional aggregate amount ("Interest Differential"), which is not part of the Initial Purchase Price, to the holders of the Investor Notes equal to the difference, if any, between the amount of (i) interest that the holders of the Investor Notes would have received after the Closing Date had the Company not paid such Investor Notes in full and (ii) the amount such holders will receive as interest under the Alternate Arrangement; provided however, in no event shall such Interest Differential exceed [REDACTED]

Section 5.3 Conditions to Closing in Favor of Purchaser. Consummation of the Transactions shall be subject to the fulfillment, to the satisfaction of Purchaser, or its written waiver, at or before the Closing Date of the following conditions:

(a) Copies of Resolutions of the Company. The Company shall have furnished Purchaser with copies of resolutions duly adopted by the Board of Directors and Shareholders approving the execution and delivery of the Operative Documents, and the consummation of the transactions contemplated thereby, certified as of the Closing Date by the Secretary or an Assistant Secretary of the Company.

(b) Opinion of Counsel for the Company and the Shareholders. The Company and the Shareholders shall have furnished Purchaser with an opinion dated the Closing Date of _____, counsel for the Company and Shareholders, in form attached hereto as Exhibit C.

(c) Representations and Warranties of the Company and Shareholders. The representations, warranties and statements of the Company and Shareholders contained in this Agreement, the exhibits hereto and the Disclosure Schedule shall be complete and accurate as of the date of this Agreement and shall also be complete and accurate at and as of the Closing Date, except for changes contemplated by this Agreement, as if made at and as of the Closing Date; and the Company and each of the Shareholders shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by such Person at or prior to the Closing Date.

(d) Officers' and Shareholders' Certificate. The Company and each of the Shareholders shall have delivered to Purchaser a certificate, dated the Closing Date (and, with respect to the Company, signed by the President and Secretary of such entity) to the effect that (a) they are familiar with the provisions of this Agreement and (b) the conditions specified in Section 5.1 and in Section 5.3(c) have been satisfied.

(e) Governmental Consents, Authorizations, Etc. All material consents, authorizations, orders or approvals of, and filings or registrations with, and any permits, licenses or other authorizations required by, any applicable Tribunal that are required for or in connection with, the execution and delivery of this Agreement by Purchaser and the consummation by Purchaser of the transactions contemplated hereby shall have been obtained or made.

(f) **Legislation.** No law or legally binding regulation shall have been enacted that does or would prohibit, restrict or delay consummation of the Transactions or any of the conditions to the consummation of the Transactions or that does or would have a Material Adverse Effect on the Company.

(g) **Litigation.** There shall be no effective injunction, writ or preliminary restraining order or any other Order of any nature issued by a Tribunal of competent jurisdiction restraining or prohibiting consummation or altering the terms of any of the transactions provided for herein, or actions seeking damages based upon the foregoing.

(h) **No Adverse Change.** There shall have occurred no adverse change (whether or not covered by insurance) in the assets or financial condition of the Company since May 31, 1996 or in the information furnished to Purchaser by the Company or the Shareholders with respect to the Company prior to the date hereof.

(i) **Purchaser's Investigation.** The investigations by Purchaser and its representatives in connection with the proposed Transactions shall not have caused Purchaser, or its representatives to become aware of any facts or circumstances (even if such facts or circumstances were previously disclosed to the Purchaser in the Disclosure Schedule or elsewhere in the Operative Documents) which relate to the business, operations, assets, properties, liabilities, financial conditions, results of operation or affairs of the Company that, in the sole judgment of Purchaser make it inadvisable for Purchaser to proceed with the Transactions contemplated by this Agreement.

(j) **Indebtedness.** At Closing, the Company shall have no Indebtedness of any kind or nature except as disclosed in the Financial Statements.

(k) **Audited Financial Statements.** Purchaser shall have received revised Financial Statements which have been audited without qualification and do not show any deviation or departure from GAAP and such revised Financial Statements for the years ended (and as of) May 31, 1994, May 31, 1995 and May 31, 1996. All of the costs associated with the audit shall be borne by Purchaser except as reflected by the Audit Bid Amount previously expensed by the Company. Such revised Financial Statements shall be found to be satisfactory to Purchaser in its sole and absolute discretion.

(l) **Employee Terminations.** At or prior to the Closing, the Company shall have caused those employees listed by Purchaser on Schedule 5.3(k) hereto to be terminated by the Company. All of such employees shall have been employees "at will" under Texas law and shall, in connection with such termination, receive no more than standard severance benefits in connection with such termination. The Disclosure Schedule provides a list of the severance benefits (if any) provided to each such employee.

(m) **Carrier Agreements.** All Carrier Agreements with the Company shall be terminable by the Company upon not more than thirty days written notice without premium or penalty.

(n) CIC Codes and Access Codes. No Person shall have the right to terminate the use by the Company of the CIC Codes and Access Codes upon consummation of the transactions contemplated hereby.

(o) Investor Notes. The Company shall have paid in full the Investor Notes or have made other arrangements satisfactory to Purchaser for the removal of such liabilities from the Company (the "Alternate Arrangements").

(p) Wholesale Bad Debt. The Company shall have expensed fully in the month ended October 31, 1996 an amount equal to the Wholesale Bad Debt.

(q) Lender Consent. Purchaser shall have received the consent of Greyrock Business Credit to consummation of the transactions contemplated by this Agreement, if required.

(r) Other Matters. The Company and Shareholders shall have delivered to Purchaser, in form and substance reasonably satisfactory to counsel for Purchaser, such certificates and other evidence as Purchaser may reasonably request as to the satisfaction of the conditions contained in this Section 5.3.

ARTICLE 6. CLOSING DATE AND TERMINATION OF AGREEMENT

Section 6.1 Closing Date.

(a) Subject to the right of the Purchaser and the Company to terminate this Agreement pursuant to Article 7 hereof, the closing for the consummation of the transactions contemplated by this Agreement (the "Closing") shall, unless another date or place is agreed to in writing by the Company and Purchaser, take place at the offices of Purchaser at 9:00 a.m. or _____ or such later date prior to _____ as the parties may agree upon in writing (the "Closing Date").

(b) At the Closing, the Company and the Shareholders, as applicable, shall deliver, or cause to be delivered to the Purchaser, the following:

(1) the original stock certificates representing the Shares, together with stock powers duly endorsed in blank;

(2) the opinion of counsel for the Company and the Shareholders referred to in Section 5.3(b);

(3) the certificate referred to in Section 5.3(d), dated as of the Closing Date;

(4) resignations of the directors and officers of the Company;

(5) good standing certificates (as to valid existence and franchise tax payments) from the appropriate governmental authorities in California and each other jurisdiction listed on Section 2.1 of the Disclosure Schedule;

(6) the Nonsolicitation Agreements and the Finder's Fee Agreements executed by each of the Shareholders and the Pledge Agreement executed by the Shareholder Agent;

(7) certified copies of the resolutions of the Board of Directors, authorizing the execution, delivery and performance of the Operative Documents;

(8) the Investor Notes marked paid in full or evidence of consummation of the Alternative Arrangement; and

(8) the corporate minute books, stock transfer ledgers, blank certificate books and corporate seal of the Company.

(c) At the Closing, Purchaser shall cause to be delivered to Shareholders the following:

(1) the certificate referred to in Section 5.2(b) dated as of the Closing Date;

(2) the Pledge Agreement executed by USC and the Finder's Agreement executed by Purchaser;

(2) certified copies of the resolutions of the Board of Directors of Purchaser, authorizing the execution, delivery and performance of the Operative Documents.

ARTICLE 7. TERMINATION, AMENDMENT AND WAIVER

Section 7.1 Termination. This Agreement may be terminated at any time prior to the Closing Date:

(a) by mutual consent of the Shareholders and the Boards of Directors of Purchaser and the Company;

(b) by Shareholders if any representation or warranty of Purchaser or by Purchaser if any representation or warranty of the Company or any Shareholder contained herein shall have been incorrect or breached in any material respect, as to which notice shall have been given to such party, and shall not have been cured or otherwise resolved to the reasonable satisfaction of the other party on or before the Closing Date, or by either Shareholders or Purchaser if any condition to the consummation of the transactions contemplated hereunder that must be fulfilled to its satisfaction has (in the good faith judgment of all of the Shareholders or a majority of the Board of Directors of Purchaser) become impractical to be fulfilled;

(c) by either Purchaser or Shareholders if any permanent injunction or other order of a court or other competent authority preventing the consummation of the Transactions shall have become final and non-appealable; or

(d) by Purchaser or Shareholders if the Closing has not occurred on or before January 15, 1997; provided, however, that such date may be extended by written agreement between the parties and provided, further, that no party shall be permitted to terminate hereunder if such party is in violation of this Agreement.

Section 7.2 Effect of Termination. In the event of the termination of this Agreement as provided herein, this Agreement shall become wholly void and have no further force and effect except as hereinafter provided; and there shall be no liability on the part of Shareholders, the Company, Purchaser (or their respective officers or directors) except to pay the expense provisions of Section 4.3 hereof, comply with the confidentiality provisions of Section 4.5 hereof, to pay the fees and expenses as apportioned in Section 9.2 and except as otherwise provided herein. Nothing contained herein shall relieve any party from liability for its breach of this Agreement.

Section 7.3 Amendment. This Agreement and the exhibits and schedules hereto may be amended by the parties hereto at any time prior to the Closing Date; provided, however, that any amendment must be by an instrument or instruments in writing signed and delivered on behalf of each of the parties hereto.

Section 7.4 Extension; Waiver. At any time prior to the Closing Date, any party hereto that is entitled to the benefits hereof (with respect to any such corporate party by action taken by its Board of Directors or a duly authorized officer), may (a) extend the time for the performance of any of the obligations or other acts of any of the other parties hereto, (b) in whole or in part, waive any inaccuracy in the representations and warranties of any of the other parties hereto contained herein or in any exhibit or schedule hereto or in any document delivered pursuant hereto, and (c) in whole or in part, waive compliance with any of the agreements of any of the other parties hereto or conditions contained herein. Any agreement on the part of any party hereto to any such extension or waiver shall be valid as set forth in an instrument in writing signed and delivered on behalf of such party.

ARTICLE 8. INDEMNIFICATION

Section 8.1 Indemnity.

(a) Shareholders jointly and severally agree to indemnify and hold Purchaser, its officers, directors, agents, attorneys and accountants ("Purchaser Indemnitees") harmless from any and all damages, losses which shall include any diminution in value, liabilities (joint or several), payments, obligations, penalties, claims, litigation, demands, defenses, judgments, suits, proceedings, costs, disbursements or expenses (including without limitation, fees, disbursements and expenses of attorneys, accountants and other professional advisors and of expert witnesses and costs of investigation and preparation) of any kind or nature whatsoever (collectively "Damages"), directly or indirectly resulting from, relating to or arising out of:

(i) an actual or alleged breach or nonperformance (partial or total) of or inaccuracy in any representation or warranty or covenant or agreement of any of Shareholders or the Company contained in any Operative Document;

to the Closing from the Company.
 Claim for which Purchaser may seek indemnification except for those defenses raised in response to any claim made by any Person which is a party to this Agreement or an Affiliate thereof.

(b) Subject to Section 8.1(c) hereof, Purchaser shall indemnify and hold the Shareholders and their representatives, officers, directors, agents, attorneys and accountants ("Seller Indemnitees") harmless from, any and all Damages resulting from or arising out of any actual or alleged breach or nonperformance (partial or total) of any representation or warranty, covenant or agreement of Purchaser contained in this Agreement or any other Operative Document.

(c) Each Shareholder shall retain liability, and shall indemnify Purchaser, for the payment of any Tax liabilities of the Company with respect to its assets and the conduct of its Business during all periods ending as of or prior to the Closing.

Section 8.2 Indemnification if Negligence of Indemnitee. The indemnification provided in this Article 8 shall be applicable whether or not negligence of the applicable Purchaser Indemnitee or Seller Indemnitee is alleged or proven.

Section 8.3 No Third Party Beneficiaries. The foregoing indemnification is given solely for the purpose of protecting the parties to this Agreement and the Purchaser Indemnitees and the Seller Indemnitees and shall not be deemed extended to, or interpreted in a manner to confer any benefit, right or cause of action upon, any other Person.

Section 8.4 Remedies of Purchaser. In any proceeding by Purchaser to assert or prosecute any claims under, or to otherwise enforce, this Agreement, the Shareholders covenant and agree that they shall not assert as a defense or bar to recovery by Purchaser, and hereby waive any right to so assert such defense or bar such recovery, that (a) prior to Closing, the Company shall have had knowledge of the circumstances giving rise to the claim being pursued by it; (b) prior to Closing, the Company engaged in conduct or took action that caused or brought about the circumstances giving rise to its claim, or otherwise contributed thereto; (c) the Company is estopped from asserting or recovering upon its claim by reason of having joined in the representations, warranties and covenants made by the parties in this Agreement; or (d) the Shareholders have a right of contribution from the Company to the extent that there is any recovery against them.

ARTICLE 9. GENERAL PROVISIONS AND OTHER AGREEMENTS

Section 9.1 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if and when delivered personally or transmitted by telex, telecopy or telegram, mailed by registered or certified mail (return receipt requested) or sent by a recognized next business day courier to the following Persons at the following addresses (or at such other address for a party as shall be specified by like notice):

- (a) If to Purchaser:

1600 Promenade Center, 15th Floor
Richardson, Texas 75080
Attention: Jack W. Matz, Jr., Chairman and Chief Executive Officer
Telecopy: (972) 889-1543

with a copy to:

Lynn H. Johnson, Vice President and General Counsel at the same address

- (b) If to the Company:

143 S. Glendale Ave., Third Floor
Glendale, California 91205
Attention: Aviram Lonstein, President
Telecopy: (818) 265-3027

with a copy to:

Telecopy: () _____

- (c) If to the Shareholders:

Aviram Lonstein
10985 Bluffside Dr., Apt. 5201
Studio City, California 91604

with copies to:

Charles Tony Lonstein
1714 Gladys Dr.
Glendale, California 91206

Daniel G. Lonstein
414 Piedmont Avenue, #304
Glendale, California 91206

David R. Lonstein
6238 Avra Avenue
Tarzana, California 91335

Section 9.2 Fees and Expenses. The Shareholders shall pay all fees, costs and expenses (including without limitation, those of accountants, appraisers and attorneys) of the Company and their own fees, costs and expenses (including without limitation, those of accountants and attorneys) incurred in connection with or related to the preparation, negotiation, execution, delivery, satisfaction, compliance and consummation of this Agreement and the transactions contemplated hereby and the closing conditions hereunder. Except as provided in Section 4.3 hereof, Purchaser shall pay its own such fees, costs and expenses (including without limitation, those of accountants and attorneys).

Section 9.3 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement. Terms such as "herein," "hereof," "hereinafter" refer to this Agreement as a whole and not to the particular sentence or paragraph where they appear, unless the context otherwise requires. Terms used in the plural include the singular, and vice versa, unless the context otherwise requires.

Section 9.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 9.5 Miscellaneous. This Agreement (a) constitutes the entire agreement and supersedes all other prior Contracts or Agreements, both written and oral, among the parties, or any of them, with respect to the subject matter hereof; (b) is not intended to and shall not confer upon any other Person any rights or remedies hereunder or otherwise with respect to the subject matter hereof, except for rights that may expressly arise as a consequence of the Transaction; (c) shall not be assigned by operation of law or otherwise; (d) has been drafted by all of the parties to this

Agreement and should not be construed against any of the parties hereto; and (e) shall be governed in all respects, including validity, interpretation and effect by the substantive laws of the State of Texas without regard to conflict of law provisions.

Section 9.6 Survival. No investigation by the parties hereto made heretofore or hereafter shall affect the representations and warranties of the parties that are contained herein, and each such representation and warranty shall survive such investigation and the consummation of the transaction contemplated by this Agreement until . . . except (i) as to matters which notice has been given by Purchaser to the Shareholder Agent prior to that date, (ii) as to Tax matters, which shall survive until the running of the applicable statute of limitations, and (iii) with respect to the representations and warranties of the Shareholders in Section 2.38 which shall survive indefinitely.

Section 9.7 Independent Obligations of Shareholders. Each of the Shareholders acknowledges and agrees that such Shareholder's execution hereof constitutes such Shareholder's agreement to be bound irrespective of any other Shareholder's execution hereof. In no event shall Purchaser be bound by the terms hereof unless all Shareholders agree to be bound by the terms hereof. In no event shall any Shareholder who fails to execute this Agreement be entitled to any payment hereunder or under any document or transaction contemplated hereby. The parties acknowledge that the fair value of any shares transferred hereunder may be substantially less in the event such transfer was consummated without the benefit of the terms and conditions hereof.

Section 9.8 Offer of Employment and Salary Reduction. The Company and the Shareholders hereby agree that, in the event the Closing occurs:

(a) the Shareholders shall continue to be employed full-time by the Company for a period of six full months following the Closing (the "Employment Period") at the following monthly salaries with the following titles:

| | |
|-----------------------|----------------|
| Aviram Lonstein | President |
| Charles Tony Lonstein | |
| David G. Lonstein | Vice President |
| Daniel R. Lonstein | Vice President |

and the duties and responsibilities of each such Shareholder shall be decided by the Company's Chairman and Chief Executive Officer.

(b) in the event that EBITDA is not greater or equal to . . . each calendar month during the third through sixth calendar month following the Closing Date, each such Shareholder's salary shall be proportionately reduced (based upon the amount of such Shareholder's monthly salary) by the amount by which the Company's monthly EBITDA is less than . . . provided, however, in no event shall a Shareholder's monthly salary be reduced below 65% of the monthly salary stated above.

(c) if a Shareholder does not maintain full-time employment during the Employment Period for any reason, such Shareholder's salary shall cease on the date of

termination of such employment; provided however, that the Company shall not terminate a Shareholder solely for the purpose of reducing salaries.

Section 9.9. Arbitration. In the event of any dispute, controversy or claim of any kind or nature arising under or in connection with this Agreement (including any adjustment to the Initial Purchase Price), the parties are unable to resolve through informal discussions or negotiations, the parties agree to submit such dispute, controversy or claim to arbitration in accordance with the following procedures:

(a) Either the Shareholder Agent or Purchaser may demand arbitration by giving the other parties written notice to such effect, which notice will (i) describe, in reasonable detail, the nature of the dispute, controversy or claim, the amount, if any, involved and the remedy sought, and (ii) name an independent arbitrator who is experienced in the resolution of disputes, controversies or claims of such a nature. In addition, such party demanding arbitration shall take such steps as are necessary to commence arbitration proceedings under the rules of the American Arbitration Association (including, without limitation, the payment of any administrative fees provided thereunder). Within 10 Business days after the other party's receipt of such demand, such other party will name a second independent arbitrator who is experienced in the resolution of disputes, controversies or claims of such a nature. The two arbitrators so named will promptly select a third neutral arbitrator who is experienced in the resolution of disputes, controversies and claims of such a nature. The arbitration will be heard by a panel of the three arbitrators so chosen (the "Arbitration Panel") in Dallas, Texas, and the resolution of the dispute, controversy or claim will be determined by a majority vote of the Arbitration Panel. The Commercial Arbitration Rules of the American Arbitration Association will govern the conduct of the arbitration.

(b) The Arbitration Panel may apportion between the parties as the Arbitration Panel may deem equitable the fees, costs and expenses of the arbitration incurred by the parties; provided, however that Purchaser and the Shareholders, respectively, shall be responsible for fees and expenses of the arbitrator selected by the Shareholder Agent, and the fees and expenses of the third arbitrator shall be borne equally by Purchaser and the Shareholders, respectively. The Arbitration Panel may not award interest on any awards made by the Arbitration Panel.

(c) Any award rendered by the Arbitration Panel will be final, conclusive and binding upon the parties and any judgment thereon may be entered and enforced in any court of competent jurisdiction. Other than actions for temporary and permanent injunctive relief or specific performance or any action necessary to enforce the award of the Arbitration Panel, the provisions of this Section 9.9 will constitute the exclusive remedy of the parties and a complete defense to any suit, action or other proceeding instituted in any court or before any administrative tribunal with respect to any dispute, controversy or claim arising under or in connection with this Agreement or the other Contracts or Agreements contemplated hereby. Nothing in this Section 9.9 will prevent the parties from exercising their rights to terminate this Agreement in accordance with

Article 7. Notwithstanding any other provision in this Section 9.9 to the contrary, the Arbitration Panel will not have the authority to amend the provisions of this Section 9.9 without obtaining the prior written consent of the Company and Purchaser.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement or have caused this Agreement to be executed by their duly authorized officers.

SA TELECOMMUNICATIONS, INC.

By: _____
John H. Nugent
Vice President

ADDTEL COMMUNICATIONS, INC.

By: _____
Aviram Lonstein, President

SHAREHOLDERS:

Aviram Lonstein

~~Aviram Lonstein~~

Daniel G. Lonstein

David R. Lonstein